Governance, Risk and Best Value Committee

10.00am, Tuesday, 20 March 2018

Annual Treasury Strategy 2018-19 - referral from the City of Edinburgh Council

Item number	7.7
Report number	
Wards	All

Executive summary

The City of Edinburgh Council on 15 March 2018 considered a report on the proposed Treasury Management Strategy for the Council for 2018/19 which included an Annual Investment Strategy and Debt Management Strategy. The report was referred to the Governance, Risk and Best Value Committee for scrutiny.

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Terms of Referral

Annual Treasury Strategy 2018-19

Terms of referral

1.1 The City of Edinburgh Council on 15 March 2018 considered a report on the proposed Treasury Management Strategy for the Council for 2018/19 which included an Annual Investment Strategy and Debt Management Strategy.

1.2 The City of Edinburgh Council agreed:

1) To approve the Treasury Management Strategy for 2018/19.

2) To refer the report to the Governance, Risk and Best Value Committee for scrutiny.

For Decision/Action

2.1 The City of Edinburgh Council has referred the attached report to the Governance, Risk and Best Value Committee for scrutiny.

Background reading / external references

Minute of the City of Edinburgh Council 15 March 2018

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Head of Strategy and Insight

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Links

Appendices	Appendix 1 - report by the Executive Director of Resources

The City of Edinburgh Council

10am, Thursday, 15 March 2018

Annual Treasury Strategy 2018/19

Item number	8.3
Report number	
Executive/routine	
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Executive Summary

The report proposes a Treasury Management Strategy for the Council for 2018/19, comprising an Annual Investment Strategy and a Debt Management Strategy.

Report

Annual Treasury Strategy 2018/19

1. Recommendations

1.1 It is recommended that the Committee:

1.1.1 Approves the report and remits to the Governance, Risk and Best Value Committee for scrutiny.

2. Background

2.1 This report sets out a Treasury Management Strategy for 2018/19 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.

2.4 All committee members were invited to a detailed briefing meeting on the Strategy on 27 February 2018. Six members attended this briefing, as did a range of senior and specialist staff. A full opportunity was given for members to scrutinise the proposals, and officers responded to the issues raised.

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 £1.361bn between 2018/19 and 2022/23;
- The Council's underlying need to borrow at 31 March 2023 is forecast to be £1.828bn
- Between 1 April 2018 and 31 March 2023, £258m 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;
- The opportunity to mitigate future interest rate risk with alternatives to the PWLB will continue to be sought and the risk locked out where appropriate; and
- Investment return is forecast to remain low in absolute terms in 2018/19, but higher than recent years.

3.2 Capital Expenditure

Overview

3.2.1 This section summarises the Council's anticipated capital expenditure in the period to March 2023 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

	Forecast 2017/18 £000	Estimate 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000
General Fund						
Council Wide / Corporate Projects	178	0	0	0	0	0
Unallocated - LDP	0	0	16,682	0	0	0
Communities and Families	38,712	33,253	39,091	21,167	14,207	165
Edinburgh Integration Joint Board	492	2,069	1,528	5,000	5,000	0
Place	85,560	131,848	83,572	101,277	29,535	31,785
Resources	4,761	10,830	0	0	0	0
Resources - Asset Management Works	10,306	18,537	30,000	30,000	25,516	20,450
Safer and Stronger Communities	0	1,125	0	0	0	0
Capital Expenditure as per CIP	140,009	197,662	170,873	157,444	74,258	52,400

Table 1 - Capital Expenditure on General Services

Capital Expenditure - Housing Revenue Account

	Forecast 2017/18 £000	Estimate 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000
Housing Revenue Account Capital Expenditure (Incl Early Action)	69,070	80,934	165,278	144,967	150,617	167,179

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.

	Forecast 2017/18 £000	Estimate 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000
Receipts -:						
Central Government Grants -:						
Government Capital Grants	53,696	49,405	48,264	38,000	38,000	38,000
Cycling, Walking and Safer Streets	683	691	0	0	0	0
Development Funding	29,115	27,950	0	0	0	0
Other Specific Government Grants	6,702	0	0	0	0	0
Total Central Government Grants	90,196	78,046	48,264	38,000	38,000	38,000
Use of Capital Receipts	10,345	16,525	16,318	3,000	3,000	3,000
Use of Capital Receipts - Transfer to Capital fund	-4,750	-809	0	0	0	0
Other Capital Contributions	8,765	40	585	0	0	0
Draw down of capital fund - per budget update	0	15,439	4,561	0	0	0
Capital Grants Unapplied (CGUA)	0	2,504	0	0	0	0
Total Receipts	104,556	111,745	69,728	41,000	41,000	41,000
Balance to be funded	35,453	85,917	101,145	116,444	33,258	11,400

Table 3 - Funding for General Services Capital Expenditure

	Forecast 2017/18 £000	Estimate 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000
Receipts -:						
Central Government Grants -:	10,216	11,349	14,917	15,369	13,447	15,200
Total Central Government Grants	10,216	11,349	14,917	15,369	13,447	15,200
Use of Capital Receipts / Grants	29,535	5,923	4,387	5,720	7,440	6,800
Capital From Current Revenue	0	33,898	45,000	14,000	7,200	3,200
Capital Receipt from LLP	0	13,508	26,378	59,462	77,603	117,879
Total Receipts	39,751	64,678	90,682	94,551	105,690	143,079
Balance to be Funded	29,319	16,256	74,596	50,416	44,927	24,100

Table 4 - Funding for HRA Capital Expenditure

3.2.4 In addition, Table 5 below shows the capital advances in the CIP in relation to the Edinburgh Homes affordable housing project.

Affordable Housing LLPs	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
	£000	**£000**	**£000**	**£000**	**£000**
Advances b/fwd	**0**	**13,508**	**39,730**	**98,726**	**175,205**
Adjustments	0	0	0	0	0
Advances in Year	13,508	26,378	59,462	77,603	117,879
Repayments in Year	0	-156	-467	-1,123	-1,962
Cumulative Advances	**13,508**	**39,730**	**98,726**	**175,205**	**291,121**

Table 5 - Funding for Edinburgh Homes LLPs

3.3 Economic and Market Outlook

Overview

3.3.1 The UK Economy is growing but only modestly, inflation is at the top end of the Bank of England's target range, and wage growth is starting to pick up although still negative in real terms. The major shadow over the UK economy continues to be the Brexit negotiations with the EU. The UK is due to exit the EU on the 29th March 2019 and although negotiations have moved onto the second phase, little has actually been agreed yet other than the need for a transition period.

World Economy

3.3.2 The US and European economies have grown in 2017, Europe growing at its fastest pace in a decade – by 2.5% just ahead of 2.3% in the US with 1.7% in the UK. The IMF has recently upgraded its global growth forecast by 0.2% to 3.9% for the next two years particularly due to the pick-up in Europe and Asia.

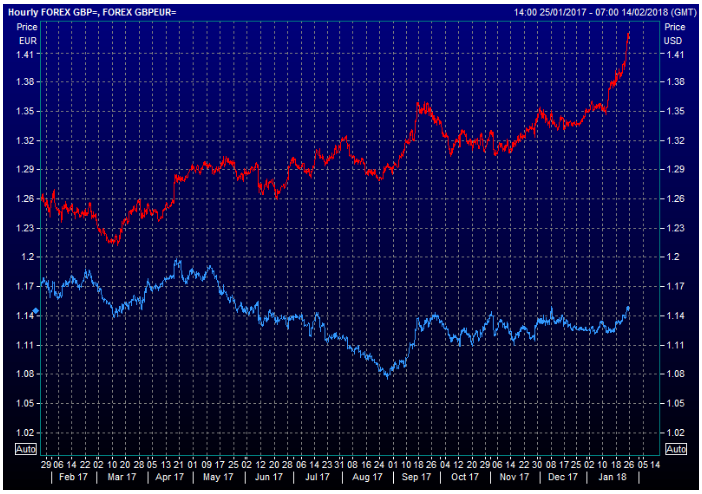

Figure 1 – EUR and USD V GBP - 2016

Source: Reuters

3.3.3 Figure 1 shows the recent appreciation of Sterling against both the US Dollar and more slightly against the Euro. The pound is now at a level against the US Dollar last seen in the run up to the referendum on leaving the EU. The dollar index touched a three-year low at the end of January with the Euro increasing against it by 21% since the start of 2017. This comes after a further fall due to comments made by US Treasury Secretary Steven Mnuchin about dollar weakness being good for US trade. Mnuchin later commented to the contrary that a strong dollar was in the "best interests" of the country.

UK Inflation Outlook

3.3.4 Figure 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.

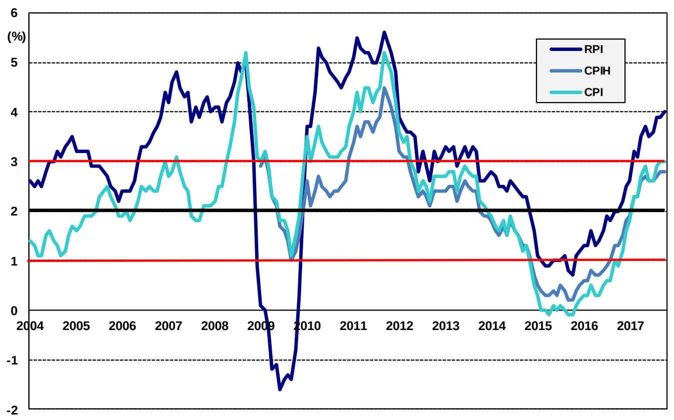

Figure 2 – CPIH, CPI and RPI

Source: ONS

3.3.5 The Government's preferred measure of inflation, CPI, was at 3% in January 2018. January's rate of inflation, unchanged from December, is at the top of the Bank of England's target range of 2% +/- 1 but back within it after a 6-year high of 3.1% in November.

3.3.6 The Bank of England believes that the inflation is expected to remain around 3% in the short term, reflecting higher oil prices but projected to fall back gradually.

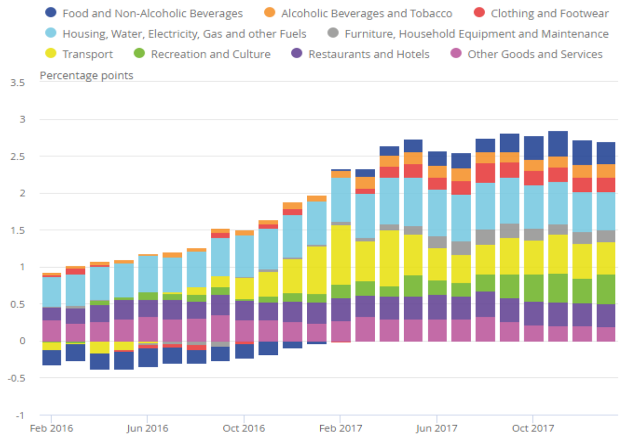

Figure 3 – Contributions to CPIH Jan 16 to Jan 18

Source: ONS

3.3.7 As can be seen in Figure 3 above, transport and food and non-alcoholic beverages have both been important factors to the level of CPIH (CPI including owner occupiers' housing costs).

Interest Rate Outlook

3.3.8 Table 6 below shows the Reuters poll of up to 57 economists, taken 13 February, showing their forecasts for UK Bank Rate until Quarter 3 2019. This indicates most economists polled believe that the UK Bank Rate will increase to 0.75% during Quarter 2 2018 and then two further increases through to Quarter 3 2019.

	Q1/18	Q2/18	Q3/18	Q4/18	Q1/19	Q2/19	Q3/19
Median	0.5	0.75	0.75	0.75	1	1	1
Mean	0.5	0.64	0.71	0.83	0.88	1.02	1.08
Mode	0.5	0.75	0.75	0.75	1	1	1.25
Min	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Max	0.5	0.75	1	1.25	1.25	1.5	1.5
Count	57	57	53	50	40	36	34

Table 6 – Economic Forecasts for UK Bank Rate

Source: Reuters

3.3.9 The Treasury section also held the view that there would be an increase in UK Bank Rate over the summer, and it is looking increasingly likely that the increase might come in May rather than August. This would give the MPC the opportunity to consider a further increase in November if data supports it.

3.3.10 After increasing its interest rate to between 1.25% and 1.50% at its December meeting the US Federal Reserve Board (Fed) voted to keep rates on hold in Janet Yellen's final meeting as Chair in January. US inflation rose faster than expected in January which may increase the expectation of higher interest rates. Monthly inflation rose by 0.5% in January against an expected 0.3% and increased 2.1% year on year – the same as December and above market expectations. It is likely that there will be 3 or quite possibly 4 rate increases in the US over the course of this year.

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 1.4%, down from 1.5% the previous month. Minutes from the ECB monetary policy meeting show there may be a downward impact on the near-term outlook for inflation therefore taking inflation further away from its below, but close to, 2% target. The outcome of the German election has left Angela Merkel having to negotiate a coalition government. Months after the election a coalition seems likely between Merkel's Conservative's and the Social Democrats (SPD). This proposed agreement looks to be heavily pro Europe and involves renewed French-German cooperation.

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 7 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	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000	£000
Borrowing b/fd	1,351,885	1,299,901	1,245,546	1,190,586	1,317,005	1,461,438	1,514,200
Cumulative Capital Expenditure b/fd	1,424,418	1,415,105	1,401,296	1,440,081	1,564,508	1,708,261	1,771,525
Over/underborrowed b/fd	-72,533	-115,204	-155,750	-249,495	-207,503	-206,823	-217,325
GF Capital Financed by borrowing	48,323	35,453	85,917	101,145	116,444	33,258	11,400
HRA Capital Financed by borrowing	20,365	29,319	16,256	74,596	50,416	44,927	24,100
On-Lending to LLPs		0	13,508	26,378	59,462	77,603	117,879
less scheduled repayments by GF	-62,006	-57,810	-55,949	-56,501	-59,826	-67,823	-69,315
less scheduled repayments by HRA	-13,033	-18,290	-19,372	-20,518	-21,733	-23,021	-24,386
less scheduled repayments by Joint Boards	-2,962	-2,481	-1,575	-517	-544	-556	-589
less scheduled repayments by LLPs		0	0	-156	-467	-1,123	-1,962
Underlying Need to Borrow	-9,313	-13,809	38,785	124,427	143,753	63,264	57,127
plus total maturing debt	51,984	54,355	54,960	53,581	55,567	47,238	46,505
Total Borrowing Requirement	42,671	40,546	93,745	178,008	199,319	110,502	103,632
Planned PWLB or short borrowing for year	0	0	0	180,000	200,000	100,000	110,000
Borrowing at end of the year	1,299,901	1,245,546	1,190,586	1,317,005	1,451,438	1,514,200	1,577,695
Cumulative Capital Expenditure	1,415,105	1,401,296	1,440,081	1,564,508	1,708,261	1,771,525	1,828,652
Cumulative Over/Under Borrowed	-115,204	-155,750	-249,495	-247,503	-246,823	-257,325	-250,957

Table 7 - Capital Funding v. External Debt

3.4.3 Table 7 shows that the Council's underlying need to borrow (shown as the Cumulative Capital Expenditure funded by borrowing) projected at 31 March 2023 is £1,829m up £428m from the projected out-turn for the current financial year. Most of this is represented by the anticipated on lending to the LLPs for affordable housing. The on lending will be backed by the income stream to the LLPs from rents as well as surety over the properties. Current projections show that the Council's under-borrowed position is projected to increase from £115m to £156m at the end of the current financial year with the £41m 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 2018/19 by reducing cash deposits further. However, on top of the £428m increase in capital advances, there is a further £258m in debt maturing by 2023 which would require to be funded, giving a substantial borrowing requirement over the next five years.

3.4.4 The Council's last borrowing from the PWLB was undertaken in mid-December 2012. Since then, the Council's strategy has been to reduce its temporary cash deposits to fund capital expenditure in the short term. Figure 4 below shows the interest rates for borrowing new maturity loans from the Government via the Public Works Loans Board since April 2005.

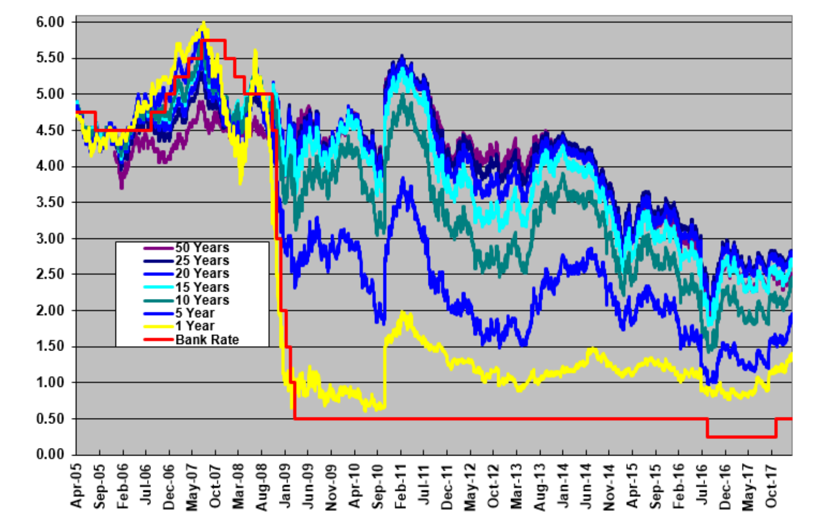

Figure 4 – PWLB Borrowing Rates

Source: PWLB

3.4.5 Figure 4 shows that yields, and therefore the cost of borrowing, have edged higher since the start of 2018, in line with bond yields globally. This has resulted in a flattening of the yield curve, with longer rates not edging up as much as shorter ones. Although the UK economy is only growing moderately and there is a significant risk 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.

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

- Fund the 2018/19 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 the risk on the St James Centre public realm works by locking out the interest rate without taking on a cost of carry; and
- Seek to mitigate risk on other major projects as the requirement becomes more certain.

3.4.7 Appendix 1 lists the maturity of the Council's debt as of January 2018.

Loans Fund Repayment Policy

3.4.8 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.

3.4.9 The Council operates the loans fund to manage historic debt and the balance therefore represents historic borrowing for capital spend. Table 7 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 5 below shows the distribution of Cash Fund deposits since inception.

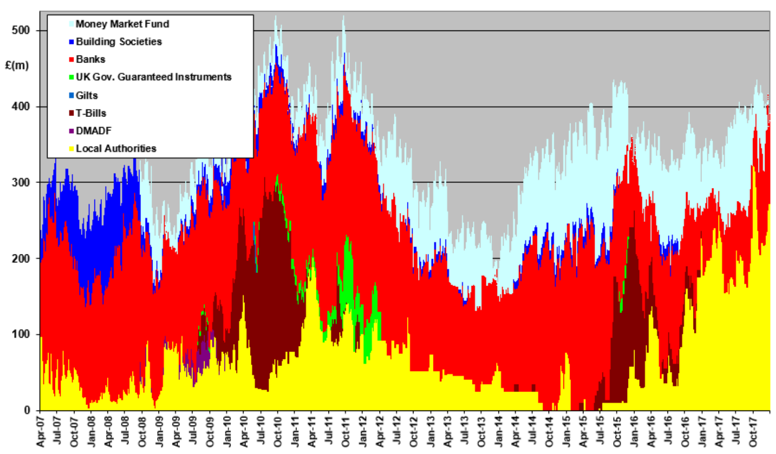

Figure 5 – Counterparty Analysis of Cash Fund Monies

3.5.3 As can be seen in Figure 5 above the bulk of investments within the Cash Fund is currently invested in Local Authority deposits. Yields available on UK Treasury Bills have remained low throughout the year. Figure 6 below shows the lowest and highest accepted yields in the Treasury Bill auctions since 2010. This clearly shows that UK Treasury Bill yields have dipped into negative territory in December 2017.

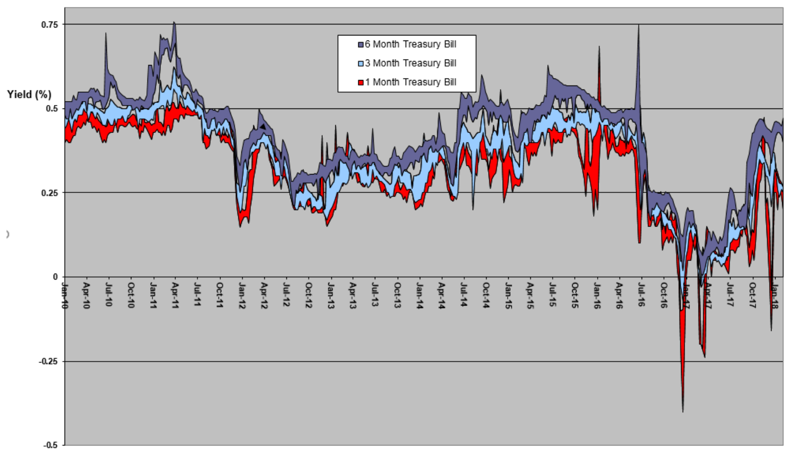

Figure 6 – UK Treasury Bill Yields since 2010

Sou rce: 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

Treasury Management Indictors

3.6.1 Appendix 2 shows the Indicators required by the Prudential Code which were approved by Council on 22 February.

3.6.2 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
	%
under 12 months	25
12 months and within 24 months	25
24 months and within 5 years	50
5 years and within 10 years	75
10 years and above	100

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.

Investments with other Local Authorities

3.6.3 As noted above, the Council currently has the highest proportion of its investments ever held in loans to other local authorities. While the Ministry for Housing, Communities and Local Government (MHCLG) statistics aren't entirely reliable, the inter authority market is somewhere in the region of £8bn to £10bn, which is a significant proportion of all local authority investments. The Council has generally taken the view that investment with another local authority represents pseudo-sovereign investment. The rationale for taking this approach has been that:

- Local Authorities have some statutory tax raising powers;
- No local authority borrowing can be secured against the Authority's assets;
- The bulk of local authority borrowing is taken from the UK Government;
- All local authority borrowing ranks pari-pasu;
- Authorities have access to UK Government funds by virtue of easy access to PWLB borrowing;

Further, if there were to be concerns over the financial management of an authority, the Government has powers to send in inspectors, as the MHCLG did with Northamptonshire in early January, and intervene in the management of the Authority if appropriate. The UK Government also sent financial advisors in to assist some smaller authorities who were suffering liquidity issues following failure of the Icelandic Banks and made significant PWLB borrowing available to Western Isles Council post the collapse of BCCI.

3.6.4 The Treasury section continue to believe that it is extremely unlikely that a local authority would be allowed to fail. However, not withstanding this view, all authorities are facing significant financial pressure. In addition, a number of authorities south of the border are making substantial speculative commercial purchases funded by borrowing and some of these portfolios are disproportionate to the size of the authority. While the Council already had investments in the local authority sector spread over a range of counterparties, it was decided to place some additional restrictions.

3.6.5 Within the permitted investments and their associated investment limits contained in the Cash Fund Treasury Management Policy Statement, the Treasury Management Strategy Panel sets additional Operational Investment Restrictions. In the middle of January, the Panel added a number of additional restrictions in relation to investment with other local authorities. These were to:

- Reduce the total value invested with an individual authority before approval by the Treasury Manager is required for the new investment;
- Set an absolute limit on the total value which can be invested with an individual authority; and
- Introduce a new ‘On Credit Watch’ status for a small number of local authorities.

The new ‘On Credit Watch’ status would be given to an authority when an announcement or other concerning information has been made public regarding the authority’s financial situation, giving time to consider the implications of the announcement. It has the effect that no new investments would be placed with the local authority while it retained the ‘On Credit watch’ status.

MiFID II

3.6.6 In July 2017, the Financial Conduct Authority (FCA) published their second policy statement regarding the implementation of the EU’s MiFID II Directive. This policy statement required that, from 3 January 2018, local authorities be classified by default as retail clients for both MiFID and Non-MiFID business. Therefore, before a local authority can be treated as a professional client, the authority has to seek to elect up to professional client classification with each financial institution. The institution then has to consider whether or not the authority meets the quantitative and qualitative tests set by the FCA. Following the publication of the Policy document by the FCA, the Local Government Association (LGA) produced standard documentation for local authorities and market participants to use when assessing local authorities for opt up to professional status for their Treasury Management activities. The Council has worked through the process of seeking elective professional client status for the Council, using the LGA standard wherever possible, with the full range of market participants. All of the participants with or through whom the Council may trade MIFID eligible instruments have confirmed that the Council meets the requirements to opt up to Professional status.

Review of the Prudential Code

3.6.7 CIPFA has completed a review of both the Prudential Code for Capital Finance in Local Authorities and the Code of Practice for Treasury Management in the Public Service and published new versions of the codes in late December. The review has resulted in a number of changes to the codes, particularly the Prudential Code.

3.6.8 The main changes to the Treasury Management Code relate to extend the definition of “Investments” to include other non-financial assets which the organisation holds primarily for financial return, such as investment property portfolios. In Scotland this is less of an issue than south of the border since investment properties were clearly defined as investments under the 2010 Investment Regulations.

3.6.9 The Prudential Code has been the subject of significant revision, particularly around the commercialisation of local authorities. The Code has also introduced the requirement to produce a new Capital Strategy, although CIPFA has acknowledged that the timing of the release of the new code means that this requirement wouldn't require to be implemented until 2019/20. The new Prudential Code has deleted three Prudential Indicators (incremental impact on Council Tax, adoption of the TM Code and HRA limit on indebtedness), and recommends that another three are included in the Capital Strategy (authorised limit, operational boundary and capital expenditure). The later three indictors have been approved by Council on 22 February along with the Capital Investment Programme and are included in Appendix 2.

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 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

Stephen S. Moir

Executive Director of Resources

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11. Appendices

Appendix 1 – Maturing Debt Profile as at January 2018

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

Appendix 4 – Treasury Management Policy Statement – Treasury Cash Fund

Appendix 1 - Maturing Debt Profile as at January 2018

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	7.34	1,167,383.43
25/02/2011	M	25/02/2060	10,000,000.00	7.34	778,255.62
26/02/2010	M	26/02/2060	5,000,000.00	7.31	385,640.96
26/02/2010	M	26/02/2060	10,000,000.00	7.31	771,281.92
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 £
03/04/1992	M	25/03/2018	30,000,000.00	10.875	3,262,500.00
23/04/2009	M	23/04/2018	15,000,000.00	3.24	486,000.00
17/09/1992	M	15/05/2018	8,496,500.00	9.75	828,408.75
09/06/2009	M	09/06/2018	5,000,000.00	3.75	187,500.00
17/09/1993	M	15/11/2018	5,000,000.00	7.875	393,750.00
23/03/1994	M	15/11/2018	5,000,000.00	8	400,000.00
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	1,076,445.62	3.96	57,745.68
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	1,062,994.17	3.65	52,619.92
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	1,777,198.88	3.09	65,921.74
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

PWLB	contd				
Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
14/12/2009	A	14/12/2024	5,343,622.56	3.66	213,708.47
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	8,574,733.44	3.64	336,986.91
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	3,159.72	3	100.48
14/07/2011	M	14/07/2030	10,000,000.00	4.93	493,000.00
15/06/1951	E	15/05/2031	3,163.83	3	100.19
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

PWLB contd

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
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
02/12/2011	M	02/12/2061	5,000,000.00	3.98	199,000.00
			999,114,780.32		

SALIX

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
07/01/2015	E	01/09/2021	315,828.56	0	0.00
31/03/2015	E	01/04/2023	991,593.57	0	0.00
22/09/2015	E	01/10/2023	263,759.64	0	0.00
			1,571,181.77		

Appendix 2

PRUDENTIAL INDICATORS

Indicator 1 - Estimate of Capital Expenditure

The actual capital expenditure that was incurred in 2016/17 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						
	2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
Rolled Forward Capital Investment Programme							
Council Wide / Corporate Projects	1,184	178	0	0	0	0	0
Chief Executive	838	0	0	0	0	0	0
Communities and Families	41,816	38,712	32,045	17,850	2,485	165	165
Edinburgh Integrated Joint Board	4,527	492	2,069	1,528	0	0	0
Place	90,704	85,560	127,398	76,622	85,277	19,835	19,835
Resources							
General	0	4,761	10,830	0	0	0	0
Asset Management Works	18,908	10,306	14,537	14,000	14,000	19,066	14,000
Safer and Stronger Communities	0	0	1,125	0	0		
Budget Motion Recommendations							
City Deal	0	0	500	2,500	6,000	5,000	7,000
Local Development Plan (LDP)	0	0	688	26,773	3,539	2,000	2,000
Condition Survey Outcomes	0	0	4,470	15,600	30,143	21,742	2,950
Other Capital Infrastructure	0	0	4,000	16,000	16,000	6,450	6,450
Total General Services Capital Expenditure	**157,977**	**140,009**	**197,662**	**170,873**	**157,444**	**74,258**	**52,400**

Note that the 2018-2023 Capital Investment Programme includes slippage / acceleration brought forward based on projected capital expenditure reported at the nine month stage.

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	Capital Expenditure - Housing Revenue Account (HRA)						
	2016/17 Actual £000	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**
Housing Revenue Account	43,627	69,070	80,934	165,278	144,967	150,617	167,179

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 2016/17 are:

	Ratio of Financing Costs to Net Revenue Stream						
	2016/17 Actual %	**2017/18 Estimate** %	**2018/19 Estimate** %	**2019/20 Estimate** %	**2020/21 Estimate** %	**2021/22 Estimate** %	**2022/23 Estimate** %
General Services	11.63	11.72	11.40	11.68	11.71	n/a	n/a
Housing Revenue Account (HRA)	35.21	36.31	39.64	41.76	43.85	45.28	47.53

Note: Figures for 2019/20 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 that extends to 2026/27. HRA figures are based on the business plan which was reported to Finance and Resources Committee on 23 January 2018.

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 2017 are:

	Capital Financing Requirement						
	2016/17 Actual £m	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**

General Services	1,251	1,218	1,239	1,316	1,363	1,319	1,253
Housing Revenue Account (HRA)	365	376	373	427	456	478	477
New Housing Partnerships	-	-	13	40	99	175	291

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

	2016/17 Actual £m	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**
Gross Debt	1,501	1,438	1,415	1,576	1,711	1,755	1,810
Capital Financing Requirements	1,616	1,594	1,625	1,783	1,918	1,972	2,021
(Over) / under limit by:	115	156	210	207	207	217	211

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					
	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	1,704	1,955	1,999	2,054	2,014	1,961
Credit Arrangements	205	196	229	220	210	201
	1,909	2,151	2,228	2,274	2,224	2,162

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					
	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	1,434	1,475	1,599	1,744	1,804	1,861
Credit Arrangements	205	196	229	220	210	201
	1,639	1,671	1,828	1,964	2,014	2,062

The Council's actual external debt at 31 March 2017 was £1,324.924m, comprising borrowing (including sums repayable within 12 months). Of this sum, £15.241m 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 2018/19 (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				
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**
	Estimate	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
Loans Fund Interest Rate 5.05%					
General Services					
Loans Fund Advances in year	85,917	101,145	116,444	33,258	11,400
Year 1 - interest only	2,193	2,582	2,972	849	291
Year 2 - principal and interest	6,952	8,185	9,422	2,691	922
Housing Revenue Account (HRA)					
Loans Fund Advances in year (excluding borrowing for LLP programme **)	9,048	51,829	41,454	49,893	73,693
Year 1 - interest only	231	1,323	1,058	1,274	4,285
Year 2 - Core Programme - principal and interest	732	1,398	1,355	2,236	3,216
Year 2 - House Building Programme - principal and interest	0	2,273	1,625	1,826	2,754

* 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 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
- Loans from the European Community institutions
- Long-Term Market Loans
- Bonds
- Stock Issues
- Negotiable Bonds
- Internal (Capital Receipts and Revenue Balances)
- Commercial Paper
- Medium Term Notes
- Finance and Operating Leases
- Deferred Purchase Covenant Agreements
- Government and European Community Capital Grants
- Lottery Monies
- Public and Private Partnership funding initiatives

Permitted Instruments

Where possible the Chief Financial Officer will manage all of the Council's temporary surplus funds together and invest them using the Council's Treasury Cash Fund. The investment restrictions contained in the Treasury Cash Fund Policy Statement therefore apply to the City of Edinburgh Council's monies.

However small operational balances will need to be retained with the Council's bankers, and in other cases – such as devolved schools – relatively small investment balances may be operated locally. Some allowance for temporary deposits has therefore been made.

In addition, the Council has some non-cash investment types and these are also included in the Policy Statement.

The Head of Finance may invest monies in accordance with the Council's requirements only by using the following instruments:

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

(b) Money Market Funds

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

(d) Investment Properties

(e) Loans to Other Organisations

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

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

(h) Investment in Shared Equity Housing Schemes

(i) Investment in the Subordinated Debt of projects delivered via the "HubCo" model

Approved Organisations for Investment

The approved counterparty limits are as follows:

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

(b) DMO's DMADF with no limit.

(c) AAA Money Market Funds with no limit.

(d) financial institutions on the Bank of England's authorised list 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 Chief Financial Officer who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

The Council nominates the Governance, Risk and Best Value Committee to be responsible for the ensuring effective scrutiny of the treasury management strategy and policies.

Reporting Arrangements

This will include, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in its TMPs. The Head of Finance will report to the Council as follows:

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

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

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

(d) Ad hoc reports according to need.

Type of Investment	Treasury Risks	Mitigating Controls
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
b. Money Market Funds (MMFs) **(low/medium risk)**	Pooled cash investment vehicle which provides short term liquidity. It is difficult to effectively monitor the underlying counterparty exposure, so will be sparingly used.	Funds will only be used where the MMFs are Constant Net Asset Value (CNAV), and the fund has a "AAA" rated status from either Fitch, Moody's or Standard & Poors.
c. Call account deposit accounts with financial institutions (banks and building societies) **(Risk is dependent on credit rating)**	These tend to be moderately low risk investments, but will exhibit higher risks than the category (a) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice. These will be used to provide the primary liquidity source for Cash Management	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence
d. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	The risk on these is determined, but will exhibit higher risks than category (a) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
e. Investment properties	These are non-service properties which are being held solely for a longer term rental income stream or capital appreciation. These are highly illiquid assets with high risk to value (the potential for property prices to fall).	Property holding will be re-valued regularly and reported annually with gross and net rental streams.
f. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit substantial credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.
g. Loans to a local authority company	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit significant credit risk and are likely to be highly illiquid.	Each loan to a local authority company requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.

h.	Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.
i.	Investment in Shared Equity Schemes	These are service investments which exhibit property market risk and are likely to be highly illiquid, with funds tied up for many years.	Each scheme investment requires Member approval and each decision will be supported by the service rational behind the investment and the likelihood of loss.
j.	Investment in the Subordinated Debt of projects delivered via the “Hubco” model	These are investments which are exposed to the success or failure of individual projects and are highly illiquid	The Council and Scottish Government (via the SFT) are participants in and party to the governance and controls within the project structure. As such they are well placed to influence and ensure the successful completion of the project’s term

The City of Edinburgh Council

Treasury Cash Fund

Treasury Management Policy Statement

Summary

The Council operates the Treasury Cash Fund on a low risk low return basis for cash investments on behalf of itself, Lothian Pension Fund and other associated organisations. This Policy Statement covers the type of investments which are permitted for monies held with the Cash Fund and should be read in conjunction with the Treasury Policy Statement for the City of Edinburgh Council.

Approved Activities

The activity undertaken in the management of cash balances and their investment in cash and near cash instruments. In undertaking this activity, the key objective is the security of the monies invested. Accordingly, the investment types and counterparty limits below represent a prudent attitude towards the instruments with which and the institutions with whom investment will be undertaken.

Treasury Management Strategy

The treasury management strategy for the cash fund is to ensure that surplus funds are invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and optimising the return on these funds consistent with those risks

Permitted Instruments

The Chief Financial Officer may invest monies in accordance with the Council's requirements only by using the following instruments:

(a) Temporary deposit, Certificate of Deposit, collaterised deposit, structured deposit, commercial paper, floating rate note or Bonds with an approved institution of the Bank of England or with any other approved organisation for investment (see below)

(b) UK Treasury Bills

(c) Gilt-edged securities

(d) Reverse Repurchase Agreements

(e) Money Market Funds and Bond Funds

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

Limits on Investment

The approved limits on counterparties and investment types are as follows (where money limits and percentages are stated, the greater of the two should be applied):

(a) DMO's DMADF, UK Treasury Bills and UK Gilts with no limit

(b) UK local authorities with no limit.

(c) other public bodies up to a maximum of £20 million per organisation.

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

(e) Money Market Funds with no limit in total but with no more than £30 million or 15% of the funds under management with any one Fund.

(f) Bond Funds with no more than £20 million or 10% of the funds under management.

(g) Supranational Bonds with a limit of £60 million or 20% of the fund in total.

(h) financial institutions where the relevant deposits, CDs or Bonds are guaranteed by a sovereign government of AA or above up to a maximum of £60 million or 20 percent of the fund per institution for the duration of the guarantee in addition to the appropriate counterparty limit for the institution.

(i) Local Authority Collateralised deposits up to a maximum of £30 million or 15 percent of the fund per institution up to a maximum of 5 years in addition to the appropriate counterparty limit for the institution.

(j) Structured deposits up to a maximum of £20 million or 10 percent of the fund, subject to the appropriate counterparty limits for the institution also being applied.

(k) financial institutions included on the Bank of England's authorised list under the following criteria:

Credit Rating	**Banks Unsecured**	**Banks Secured**	**B. Socs. Unsecured**	**B. Socs. Secured**
AAA	20% or £60m	20% or £60m	20% or £60m	20% or £60m
AA+	15% or £30m	20% or £60m	15% or £30m	20% or £60m
AA	15% or £30m	20% or £60m	15% or £30m	15% or £30m
AA-	15% or £30m	20% or £60m	10% or £20m	15% or £30m
A+	10% or £20m	15% or £30m	10% or £20m	10% or £20m
A	10% or £20m	15% or £30m	10% or £20m	10% or £20m
A-	10% or £20m	15% or £30m	5% or £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 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).