

**Mid Term Review – Treasury Management Activity
Annual Investment Strategy**

4 February 2011

1. Introduction

- 1.1 The purpose of this report is to review the investment activity undertaken on behalf of the Board during the first half of the 2010/11 Financial Year and to propose an Investment Strategy for 2011/12.

2. Background

- 2.1 Following the introduction of new Investment Regulations in Scotland the Board adopted the appropriate Codes of Practice and approved an Annual Investment Strategy at its meeting on the 25th June 2010.

3. Mid Term Review - Annual Investment Strategy

- 3.1 The Board's Investment Strategy has been to maintain its bank account as part of the City of Edinburgh Council's group of bank accounts. Any cash balance is effectively lent to the Council, but is offset by expenditure undertaken by the City of Edinburgh Council on behalf of the Board. Interest is given on month end net indebtedness balances between the Council and the Board in accordance with the Local Authority (Scotland) Accounts Advisory Committee's (LASAAC) Guidance Note 2 on Interest on Revenue Balances (IoRB). In line with recent short term interest rates, the investment return continues to be small, but the Board gains security from its counterparty exposure being to the City of Edinburgh Council. Net end of month balances for the first half of the year were:

Opening Balance	£668,857.42
April	£757,536.26
May	£414,613.40
June	£784,718.72
July	£882,040.45
August	£893,304.20
September	£881,721.57

- 3.2 Although interest is not calculated until March, in line with the guidance note, interest rates averaged about 0.42% during the first half of the financial year.

3.3 LASAAC Guidance Note 2 was originally issued in 1991 and LASAAC have been undertaking a review of the guidance. The results of the review will be reported back to the Board once it has been completed.


4. Annual Investment Strategy

4.1 As stated in section 3.1 the Board currently maintains its bank account as part of the City of Edinburgh Council's group of bank accounts. Given administration arrangements with the City of Edinburgh Council and the relatively small investment balances which the Board has, it is recommended that the current arrangements are continued. Although the investment return will be small, the Board will gain security from its counterparty exposure being to the City of Edinburgh Council. The Annual Investment Strategy for the Board is contained in Appendix 1.

5. Recommendations

5.1 It is recommended that the Committee:

- Notes the investment activity undertaken on behalf of the Board.
- Approves the Annual Investment Strategy in Appendix 1.


DONALD McGOUGAN,
Treasurer.
27/01/2011

Appendix Appendix 1 – Annual Investment Strategy

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APPENDIX 1

Annual Investment Strategy

(a) Treasury Management Policy Statement

1. The Board defines its Treasury Management activities as:

The management of the Board's investments, 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.

2. The Board 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 organisation.

3. The Board 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 comprehensive measurement techniques, within the context of effective risk management.

Treasury Management is carried out on behalf of the Board by the City of Edinburgh Council. The Board therefore adopts the Treasury Management Practices of the City of Edinburgh Council. The Board's approach to investment is a low risk one, and its investment arrangements reflect this.

(b) Permitted Investments

The Board will maintain its banking arrangement with the City of Edinburgh Council's group of bank accounts. The Board has no Investment Properties and makes no loans to third parties. As such the Board's only investment / counterparty exposure is to the City of Edinburgh Council.

(c) Prudential Indicators

The Board has no Capital Programme and therefore also has no long term borrowing. The indicators relating to debt are therefore not relevant for the Board. By virtue of the investment arrangements permitted in (b) above, all of the Board's investments are variable rate, and subject to movement in interest rates during the period of the investment.