

Finance & Resources Committee

10:00am, Friday, 6 December 2019

Treasury Management: Mid-Term Report 2019/20

Executive/routine Wards Council Commitments	Executive
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1. Recommendations

- 1.1 It is recommended that the Committee:
 - 1.1.1 notes the mid-term report on Treasury Management for 2019/20; and
 - 1.1.2 refers the report to City of Edinburgh Council for approval and subsequent remit by the City of Edinburgh Council to the Governance Risk and Best Value Committee for scrutiny.

Stephen S. Moir

Executive Director of Resources

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Treasury Management: Mid-Term Report 2019/20

Treasury Management: Mid-Term Report 2019/20

2. Executive Summary

- 2.1 The purpose of this report is to give an update on Treasury Management activity undertaken in the first half of 2019/20.
- 2.2 In accordance with the Strategy set in March 2019 the Council drew down no borrowing during the first half of the financial year apart from one tranche for Edinburgh Living of £1,284,315.00 on the 11th June from the PWLB. The overall approach continues to generate significant short-term savings in Loans Charges for the Council.
- 2.3 The investment return for 2019/20 continues to show out-performance against the Fund's benchmark, although low in absolute terms, while maintaining the security of the investments as a priority.

3. Background

- 3.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Sector, and under the code, the mid-term report has been prepared setting out activity undertaken.

4. Main report

4.1 UK Interest Rates

- 4.1.1 During the last six months of Brexit and Political uncertainty, the Bank of England's (BoE) Monetary Policy Committee (MPC) made no change to monetary policy. The minutes of the September meeting said the response to a no-deal Brexit could be in either direction and sees need for limited rate rise if Brexit is smooth.

4.2 Debt Management

- 4.2.1 The Council continued to fund its borrowing requirement by reducing its investments. At the end of the period, redemption of the Council's Inverse LOBO loans with Nat West Markets was agreed and refinanced with a loan from the PWLB with transactions settled in early October. A report elsewhere in the agenda provides further details.
- 4.2.2 There were two significant events post the end of the half year. Firstly, at the start of October the UK Treasury took a policy decision to increase the margin on PWLB loans by 100bps. Secondly, the Notice to Proceed for the Tram to Newhaven project was issued and as this committed the Council to incurring the capital expenditure, the interest rate risk on the base funding requirement for the project was locked out.

4.3 Investment Outturn

- 4.3.1 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. Appendix 2 provides detail on Council's investments.
- 4.3.2 As can also be seen in Appendix 2 Treasury Cash Fund performance continues to out-perform its benchmark although investment returns remain low.

5. Next Steps

- 5.1 The Treasury team will continue to operate its Treasury Cash Fund with the aim of out-performing its benchmark of 7-day London Interbank Bid Rate (LIBID) and manage the Council's debt portfolio to minimise the cost to the Council while mitigating risk.

6. Financial impact

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

7. Stakeholder/Community Impact

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

8. Background reading/external references

- 8.1 None

9. Appendices

- 9.1 Debt Management Activity
- 9.2 Investment Out-turn
- 9.3 Debt Outstanding 30 September 2019

Appendix 1

Debt Management Activity

Debt Management Strategy for 2019/20 as outlined in the Strategy Report was:

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

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

As previously reported to the Finance and Resources Committee, the Council had been in discussion with RBS / Nat West Markets over the options for restructuring the Council's Inverse LOBO loans. At the end of September the Council repaid the Inverse LOBO loans and refinanced them with a loan from the PWLB. At the same time, an additional £40m loan was taken from the PWLB as part of general interest rate risk management.

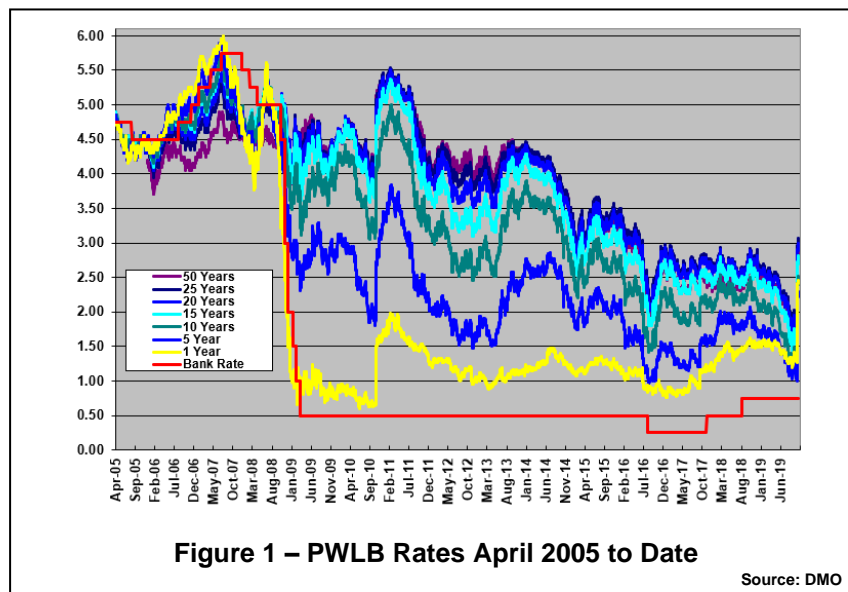
Figure 1 below shows the PWLB borrowing rates since April 2005. Our Treasury Advisors, Arlingclose issued the following update with regards gilt yields:

Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June, the 5-year benchmark gilt yield fell to 0.32% by the end of September. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield curve inversion. Following the sale of 10-year Bunds at -0.24% in June, yields on German government securities continue to remain negative in the secondary market with 2 and 5-year securities currently both trading around -0.77%.

There were 2 very significant events post the half year.

Firstly as can also be seen in Figure 1 below, on the 9th October just after the end of the Mid term period, the UK Treasury increased the margin applied to all PWLB loans by 100 basis points with immediate effect.



The PWLB’s statement included the following point:

Some local authorities have substantially increased their use of the PWLB in recent months, as the cost of borrowing has fallen to record lows. HM Treasury is therefore restoring interest rates to levels available in 2019, by increasing the margin that applies to new loans from the PWLB by 100bps (one percentage point) on top of usual lending terms

Secondly, the Notice to Proceed was issued for the Tram to Newhaven project. With the significant volatility which there had been in in Gilt Yields and significant upside risk in interest rates if the issues around the UK leaving the EU were seen as being resolved, the decision was taken to lock out the interest rate risk on base funding requirement for the project. £150m of PWLB borrowing was completed after the end of the first half of the financial year and has been included as planned in Table 1 below which shows the Council’s borrowing requirement over the next four years.

Capital Funding v. External Debt	2018/19	2019/20	2020/21	2021/22	2022/23
	Outturn	Estimate	Estimate	Estimate	Estimate
	£0	£0	£0	£0	£0
Debt b/fd	1,245,546	1,198,460	1,307,027	1,385,415	1,391,499
Cumulative Capital Expenditure b/fd	1,384,534	1,355,902	1,405,121	1,772,429	1,876,073
Over/underborrowed b/fd	-138,988	-157,442	-98,094	-387,014	-484,574
GF Capital Financed by borrowing	14,196	60,812	306,793	78,810	45,751
HRA Capital Financed by borrowing	16,500	52,618	50,416	44,927	24,100
Lending to LLPs	23,153	28,980	82,774	55,104	76,692
less scheduled repayments by GF	-60,791	-71,000	-49,166	-50,331	-51,409
less scheduled repayments by HRA	-20,115	-21,615	-22,883	-24,226	-25,650
less scheduled repayments by Joint Boards	-1,575	-517	-544	-556	-589
less scheduled repayments by LLPs		-59	-82	-84	-86
Underlying Need to Borrow	-28,632	49,219	367,308	103,644	68,809
plus total maturing debt	49,960	58,628	55,621	49,020	48,334
Total Borrowing Requirement	21,328	107,847	422,929	152,664	117,143
Cumulative Borrowing Requirement		107,847	530,776	683,440	800,583
Committed Market Borrowing			60,000		
Planned PWLB borrowing	2,874	167,195	74,009	55,104	76,692
Debt at end of the year	1,198,460	1,307,027	1,385,415	1,391,499	1,419,857
Cumulative Capital Expenditure	1,355,902	1,405,121	1,772,429	1,876,073	1,944,882
Cumulative Over/Under Borrowed	-157,442	-98,094	-387,014	-484,574	-525,025

Table 1 – Summary of Capital Advances v External Debt

This shows that the Council still has a significant borrowing requirement to fund in the medium term.

It is intended to continue the strategy of using investments to temporarily fund the Council's ongoing borrowing requirement in the short term. However, work will continue to investigate funding sources other than the PWLB which could be used to manage the Council's interest rate risk.

Edinburgh Living LLP's will continue to be considered on a tranche by tranche basis.

Appendix 2

Investment Out-turn

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. Figure 2 below shows the daily investment in the Cash Fund since April 2009. The Treasury Management strategy 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. The Cash Fund's Investment Strategy continues to be based around the security of the investments.

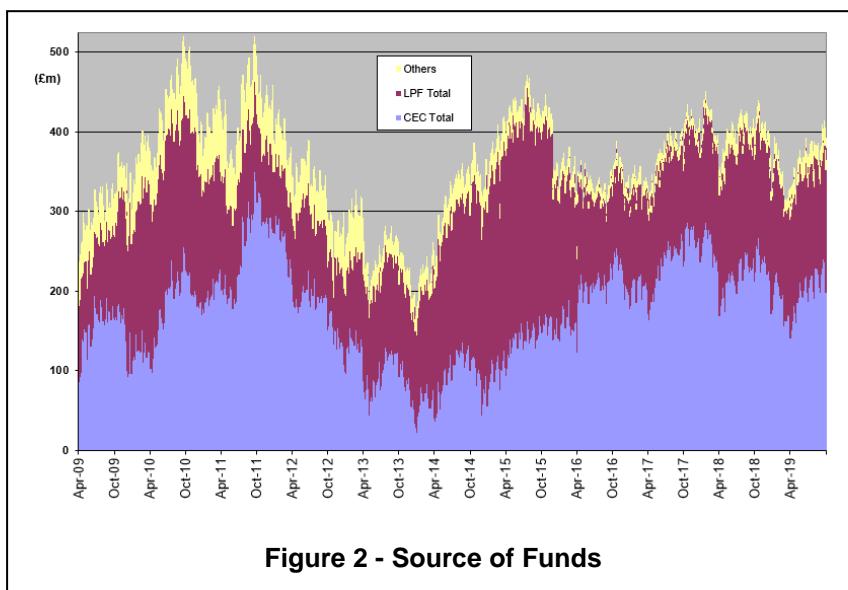


Figure 3 shows the rates achieved in the Friday auctions of UK Treasury Bills. Treasury Bill yields have been above what can be achieved in the inter Local Authority market and have provided a useful uplift in rate. At the end of September, the total of UK Treasury Bills held were £127m at an average rate of 0.747%.

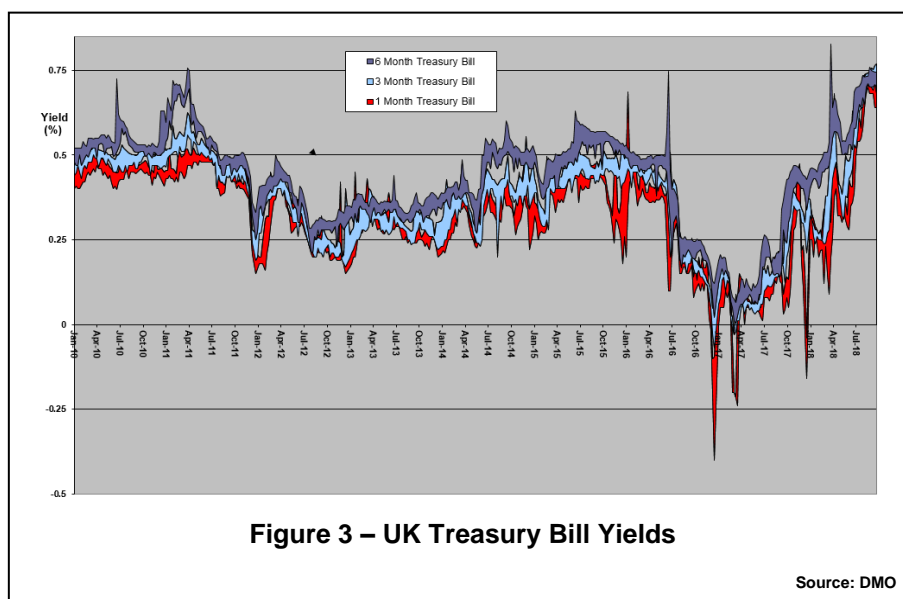
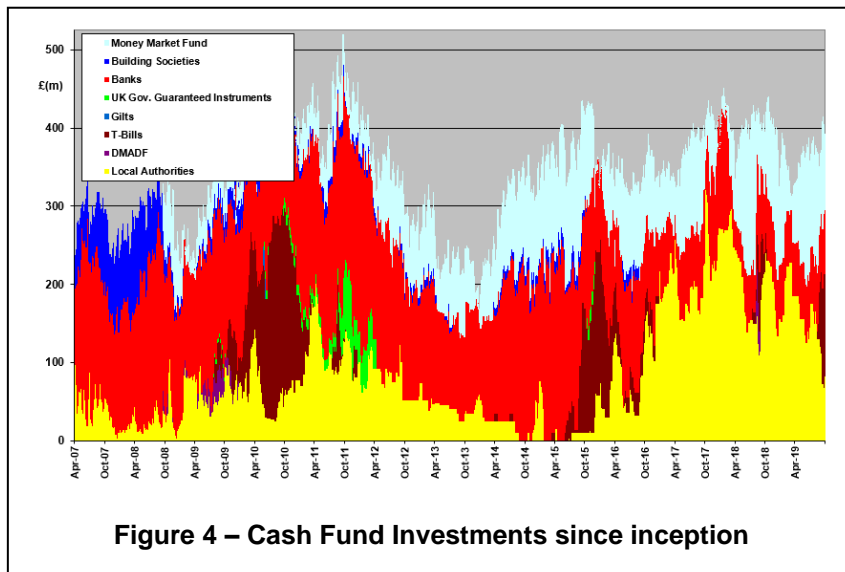
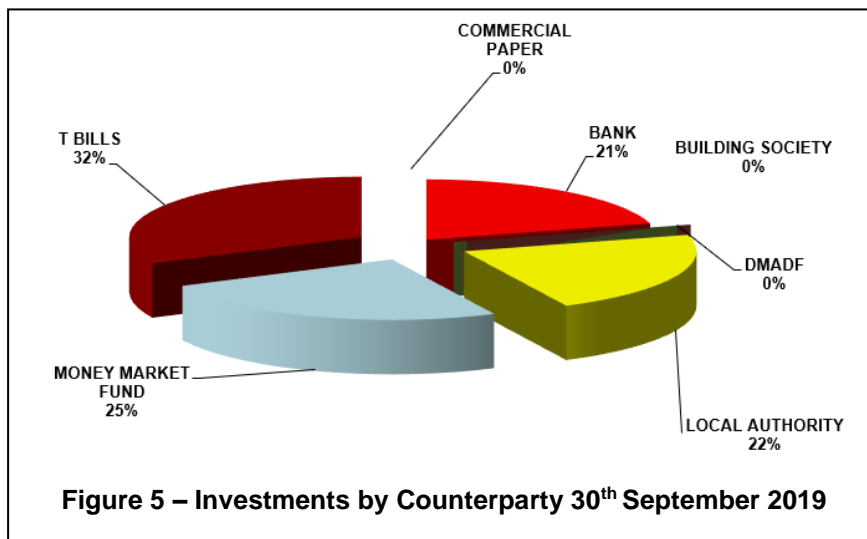


Figure 4 shows in detail the distribution on Cash Fund investments since inception in 2007. This shows the increased investment within UK Treasury Bills but also the continued investment within UK Local Authorities, Money Market Funds and Banks.

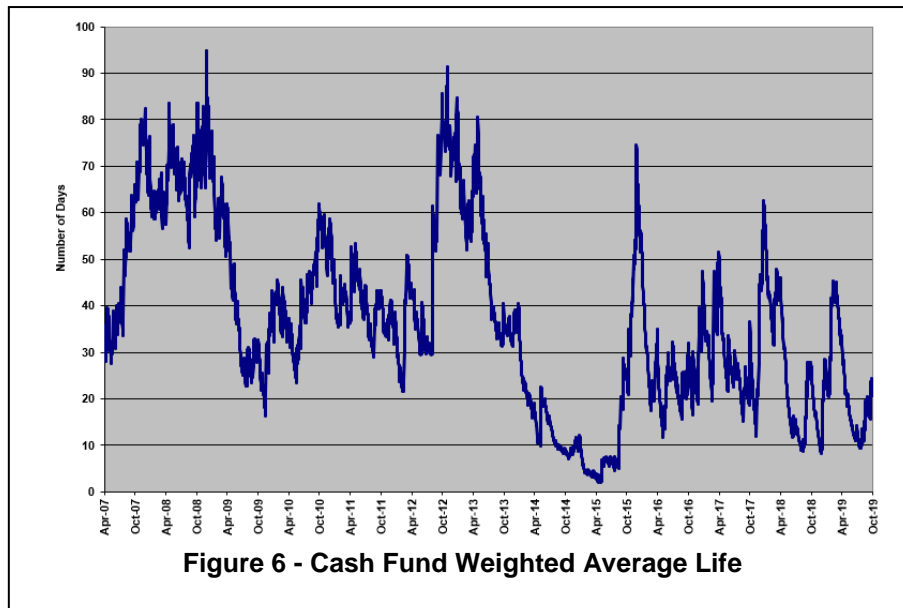


As can be seen in Figure 5 22% of the fund was invested in Local Authority deposits between 8 different authorities, 32% of the fund was held in UK Treasury Bills, 21% was invested with Banks in call accounts split between instant access and 31-day notice with HSBC and 25% on deposit with Money Market Funds.



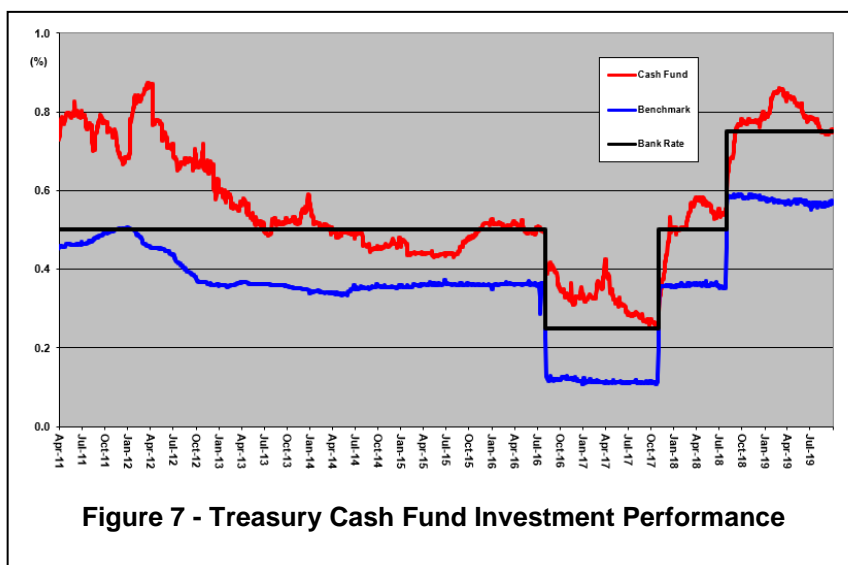
The strategy is to seek Local Authority and UK Treasury Bill trades which add value to relative MMF/Bank rates and make a positive performance contribution. With Gilt Yields being low many Local Authorities have taken advantage of the opportunity to lock out the low interest rates on offer. The resultant liquidity has reduced inter Local Authority market rates further.

As can be seen in Figure 6 the weighted average life of the fund increased slightly to 21 days at the end of September. This is mainly due to maturing Local Authority deposits and call account balances being reinvested with 1 and 3 month UK Treasury Bills.



Cash Fund performance

The annualised rate of return for the Cash Fund for the six months to September 2019 was 0.79% against a benchmark of 0.57%. Figure 7 below shows the daily investment performance of the cash Fund against its benchmark since April 2011. As can be seen, Cash Fund performance has remained above benchmark. The dip in performance is due to reduced rates on offer from Local Authorities as they continued to borrow from PWLB due to low gilt rates before the DMO increased borrowing rates across the board by 100 basis points.



Appendix 3

Debt outstanding 30th September 2019

Market Debt (non LOBO)

Loan Type	Start Date	Maturity Date	Principal Outstanding (£)	Interest Rate (%)	Annual Interest (£)
M	30/06/2005	30/06/2065	5,000,000.00	4.4	220,000.00
M	07/07/2005	07/07/2065	5,000,000.00	4.4	220,000.00
M	21/12/2005	21/12/2065	5,000,000.00	4.99	249,500.00
M	28/12/2005	24/12/2065	12,500,000.00	4.99	623,750.00
M	14/03/2006	15/03/2066	15,000,000.00	5	750,000.00
M	18/08/2006	18/08/2066	10,000,000.00	5.25	525,000.00
M	01/02/2008	01/02/2078	10,000,000.00	3.95	395,000.00
			62,500,000.00		

Market Debt (LOBO)

Loan Type	Start Date	Maturity Date	Principal Outstanding (£)	Interest Rate (%)	Annual Interest (£)
M	12/11/1998	13/11/2028	3,000,000.00	4.75	142,500.00
M	15/12/2003	15/12/2053	10,000,000.00	5.25	525,000.00
M	18/02/2004	18/02/2054	10,000,000.00	4.54	454,000.00
M	28/04/2005	28/04/2055	12,900,000.00	4.75	612,750.00
M	25/02/2011	25/02/2060	15,000,000.00	8.272	1,240,800.00
M	25/02/2011	25/02/2060	10,000,000.00	8.272	827,200.00
M	26/02/2010	26/02/2060	5,000,000.00	8.242	412,100.00
M	26/02/2010	26/02/2060	10,000,000.00	8.242	824,200.00
M	01/07/2005	01/07/2065	10,000,000.00	3.86	386,000.00
M	24/08/2005	24/08/2065	5,000,000.00	4.4	220,000.00
M	07/09/2005	07/09/2065	10,000,000.00	4.99	499,000.00
M	13/09/2005	14/09/2065	5,000,000.00	3.95	197,500.00
M	03/10/2005	05/10/2065	5,000,000.00	4.375	218,750.00
M	23/12/2005	23/12/2065	10,000,000.00	4.75	475,000.00
M	06/03/2006	04/03/2066	5,000,000.00	4.625	231,250.00
M	17/03/2006	17/03/2066	10,000,000.00	5.25	525,000.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	07/04/2006	07/04/2066	10,000,000.00	4.75	475,000.00
M	05/06/2006	07/06/2066	20,000,000.00	5.25	1,050,000.00
M	05/06/2006	07/06/2066	16,500,000.00	5.25	866,250.00
			212,400,000.00		

PWLB

Loan Type	Start Date	Maturity Date	Principal Outstanding (£)	Interest Rate (%)	Annual Interest (£)
A	12/11/2008	12/11/2019	277,076.95	3.96	27,006.62
M	23/03/1994	15/11/2019	5,000,000.00	8	400,000.00
M	07/12/1994	15/11/2019	10,000,000.00	8.625	862,500.00
A	01/12/2008	01/12/2019	273,000.75	3.65	24,555.73
M	01/12/2009	01/12/2019	5,000,000.00	3.77	188,500.00
M	14/12/2009	14/12/2019	10,000,000.00	3.91	391,000.00
M	15/02/1995	25/03/2020	5,000,000.00	8.625	431,250.00
M	21/04/2009	21/04/2020	10,000,000.00	3.54	354,000.00
M	12/05/2009	12/05/2020	10,000,000.00	3.96	396,000.00
M	21/10/1994	15/05/2020	5,000,000.00	8.625	431,250.00
M	07/12/1994	15/05/2020	5,000,000.00	8.625	431,250.00
M	21/11/2011	21/05/2020	15,000,000.00	2.94	441,000.00
M	16/08/1995	03/08/2020	2,997,451.21	8.375	251,036.54
M	09/12/1994	15/11/2020	5,000,000.00	8.625	431,250.00
A	10/05/2010	10/05/2021	1,038,832.30	3.09	43,624.27
M	21/10/1994	15/05/2021	10,000,000.00	8.625	862,500.00
M	10/03/1995	15/05/2021	11,900,000.00	8.75	1,041,250.00
M	12/06/1995	15/05/2021	10,000,000.00	8	800,000.00
M	02/06/2010	02/06/2021	5,000,000.00	3.89	194,500.00
M	16/08/1994	03/08/2021	2,997,451.21	8.5	254,783.35
M	28/04/1994	25/09/2021	5,000,000.00	8.125	406,250.00
M	23/04/2009	23/04/2022	5,000,000.00	3.76	188,000.00
M	12/06/1995	15/05/2022	10,200,000.00	8	816,000.00
M	14/06/2010	14/06/2022	10,000,000.00	3.95	395,000.00
M	31/03/1995	25/09/2022	6,206,000.00	8.625	535,267.50
M	16/02/1995	03/02/2023	2,997,451.21	8.625	258,530.17
M	24/04/1995	25/03/2023	10,000,000.00	8.5	850,000.00
M	05/12/1995	15/05/2023	5,200,000.00	8	416,000.00
M	20/09/1993	14/09/2023	2,997,451.21	7.875	236,049.28
M	20/09/1993	14/09/2023	584,502.98	7.875	46,029.61
M	08/05/1996	25/09/2023	10,000,000.00	8.375	837,500.00
M	13/10/2009	13/10/2023	5,000,000.00	3.87	193,500.00
M	05/12/1995	15/11/2023	10,000,000.00	8	800,000.00
M	10/05/2010	10/05/2024	10,000,000.00	4.32	432,000.00
M	28/09/1995	28/09/2024	2,895,506.10	8.25	238,879.25
M	14/05/2012	14/11/2024	10,000,000.00	3.36	336,000.00
A	14/12/2009	14/12/2024	4,309,909.05	3.66	176,888.32
M	17/10/1996	25/03/2025	10,000,000.00	7.875	787,500.00
M	10/05/2010	10/05/2025	5,000,000.00	4.37	218,500.00
M	16/11/2012	16/05/2025	20,000,000.00	2.88	576,000.00
M	13/02/1997	18/05/2025	10,000,000.00	7.375	737,500.00
M	20/02/1997	15/11/2025	20,000,000.00	7.375	1,475,000.00
A	01/12/2009	01/12/2025	7,149,605.57	3.64	286,494.83

M	21/12/1995	21/12/2025	2,397,960.97	7.875	188,839.43
M	21/05/1997	15/05/2026	10,000,000.00	7.125	712,500.00
M	28/05/1997	15/05/2026	10,000,000.00	7.25	725,000.00
M	29/08/1997	15/11/2026	5,000,000.00	7	350,000.00
M	24/06/1997	15/11/2026	5,328,077.00	7.125	379,625.49
M	07/08/1997	15/11/2026	15,000,000.00	6.875	1,031,250.00
M	13/10/1997	25/03/2027	10,000,000.00	6.375	637,500.00
M	22/10/1997	25/03/2027	5,000,000.00	6.5	325,000.00
M	13/11/1997	15/05/2027	3,649,966.00	6.5	237,247.79
M	17/11/1997	15/05/2027	5,000,000.00	6.5	325,000.00
M	13/12/2012	13/06/2027	20,000,000.00	3.18	636,000.00
M	12/03/1998	15/11/2027	8,677,693.00	5.875	509,814.46
M	06/09/2010	06/09/2028	10,000,000.00	3.85	385,000.00
M	14/07/2011	14/07/2029	10,000,000.00	4.9	490,000.00
E	14/07/1950	03/03/2030	2,654.08	3	85.31
M	14/07/2011	14/07/2030	10,000,000.00	4.93	493,000.00
E	15/06/1951	15/05/2031	2,812.26	3	89.64
M	06/09/2010	06/09/2031	20,000,000.00	3.95	790,000.00
M	15/12/2011	15/06/2032	10,000,000.00	3.98	398,000.00
M	15/09/2011	15/09/2036	10,000,000.00	4.47	447,000.00
M	22/09/2011	22/09/2036	10,000,000.00	4.49	449,000.00
M	10/12/2007	10/12/2037	10,000,000.00	4.49	449,000.00
M	08/09/2011	08/09/2038	10,000,000.00	4.67	467,000.00
M	15/09/2011	15/09/2039	10,000,000.00	4.52	452,000.00
M	06/10/2011	06/10/2043	20,000,000.00	4.35	870,000.00
M	09/08/2011	09/02/2046	20,000,000.00	4.8	960,000.00
M	23/01/2006	23/07/2046	10,000,000.00	3.7	370,000.00
M	23/01/2006	23/07/2046	10,000,000.00	3.7	370,000.00
M	19/05/2006	19/11/2046	10,000,000.00	4.25	425,000.00
M	07/01/2008	07/01/2048	5,000,000.00	4.4	220,000.00
M	27/01/2006	27/07/2051	1,250,000.00	3.7	46,250.00
M	16/01/2007	16/07/2052	40,000,000.00	4.25	1,700,000.00
M	30/01/2007	30/07/2052	10,000,000.00	4.35	435,000.00
M	13/02/2007	13/08/2052	20,000,000.00	4.35	870,000.00
M	20/02/2007	20/08/2052	70,000,000.00	4.35	3,045,000.00
M	22/02/2007	22/08/2052	50,000,000.00	4.35	2,175,000.00
M	08/03/2007	08/09/2052	5,000,000.00	4.25	212,500.00
M	30/05/2007	30/11/2052	10,000,000.00	4.6	460,000.00
M	11/06/2007	11/12/2052	15,000,000.00	4.7	705,000.00
M	12/06/2007	12/12/2052	25,000,000.00	4.75	1,187,500.00
M	05/07/2007	05/01/2053	12,000,000.00	4.8	576,000.00
M	25/07/2007	25/01/2053	5,000,000.00	4.65	232,500.00
M	10/08/2007	10/02/2053	5,000,000.00	4.55	227,500.00
M	24/08/2007	24/02/2053	7,500,000.00	4.5	337,500.00
M	13/09/2007	13/03/2053	5,000,000.00	4.5	225,000.00
M	12/10/2007	12/04/2053	5,000,000.00	4.6	230,000.00
M	05/11/2007	05/05/2057	5,000,000.00	4.6	230,000.00

M	15/08/2008	15/02/2058	5,000,000.00	4.39	219,500.00
A	25/01/2019	25/01/2059	2,715,081.66	2.65	71,949.66
A	11/06/2019	11/06/2059	1,284,315.00	2.23	28,640.22
M	02/12/2011	02/12/2061	5,000,000.00	3.98	199,000.00
			901,832,798.51		

SALIX INTEREST

FREE

Loan Type	Start Date	Maturity Date	Principal Outstanding (£)	Interest Rate (%)	Annual Interest (£)
Z	07/01/2015	01/09/2021	157,914.28	0.00	0.00
Z	31/03/2015	01/04/2023	631,014.09	0.00	0.00
Z	22/09/2015	01/10/2023	175,839.76	0.00	0.00
Z	29/03/2019	01/04/2029	139,978.53	0.00	0.00
			1,104,746.66		

Borrowing completed since 30th September

PWLB

Loan Type	Start Date	Maturity Date	Principal Outstanding (£)	Interest Rate (%)	Annual Interest (£)
A	01/10/2019	01/10/2059	1,343,557.00	1.74	23,377.89
A	02/10/2019	02/10/2059	40,000,000.00	1.8	720,000.00
M	04/10/2019	04/04/2060	40,000,000.00	1.69	676,000.00
A	14/10/2019	10/04/2053	110,000,000.00	2.69	2,959,000.00
			191,343,557.00		