The City of Edinburgh Council

10.00am, Thursday 12 March 2020

Annual Treasury Management Strategy 2020/21 – referral from the Finance and Resources Committee

Executive/routine	
Wards	**All**
Council Commitments	

1. For Decision/Action

1.1 The Finance and Resources Committee has referred a report on the Capital Strategy 2020-2030 – Annual Report to Council for approval.

Laurence Rockey

Head of Strategy and Communications

Contact: Rachel Gentleman, Committee Services

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Referral Report

Annual Treasury Management Strategy 2020/21

2. Terms of Referral

2.1 On 5 March 2020, the Finance and Resources Committee considered a report setting out the proposed Treasury Management Strategy for the Council for 2020/21.

2.2 This comprised of an Annual Investment Strategy and a Debt Management Strategy. There is a statutory requirement for Council to approve this in advance of the new financial year.

2.3 The Finance and Resources Committee agreed:

2.3.1 To note the Annual Treasury Strategy 2020/21 and refer the report to the City of Edinburgh Council for approval of the report and the change to the Council's Treasury Management Policy Statement and subsequent remit by the City of Edinburgh Council to the Governance Risk and Best Value Committee for scrutiny.

2.3.2 To note the key points in the report, that:

- The Council's total capital expenditure is forecast to be £2.104bn between 2019/20 and 2023/24 with an underlying need to borrow at 31 March 2024 forecast to be £2.310bn;
- The Council will continue to fund its Capital Financing Requirement from temporary investment balances over the next year; and
- The Council will continue to seek opportunities to mitigate future interest rate risk with alternatives to the Public Works Loan Board (PWLB) and lock out the risk where appropriate.

3. Background Reading/ External References

Minute of the Finance and Resources Committee of 5 March 2020

4. Appendices

Appendix 1 – report by the Executive Director of Resources

Finance and Resources Committee

10,00am, Thursday, 5 March 2020

Annual Treasury Management Strategy 2020/21

Executive/routine	**Executive**
Wards	**All**
Council Commitments	

1. Recommendations

1.1 It is recommended that the Committee:

1.1.1 Notes the Annual Treasury Strategy 2020/21 and refers the report to the City of Edinburgh Council for approval of the report and the change to the Council's Treasury Management Policy Statement and subsequent remit by the City of Edinburgh Council to the Governance Risk and Best Value Committee for scrutiny.

1.1.2 Notes the key points in the report, that:

- The Council's total capital expenditure is forecast to be £2.104bn between 2019/20 and 2023/24 with an underlying need to borrow at 31 March 2024 forecast to be £2.310bn;
- The Council will continue to fund its Capital Financing Requirement from temporary investment balances over the next year; and
- The Council will continue to seek opportunities to mitigate future interest rate risk with alternatives to the Public Works Loan Board (PWLB) and lock out the risk where appropriate.

Stephen S. Moir

Executive Director of Resources

Contact: Innes Edwards, Principal Treasury and Banking Manager,

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EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Annual Treasury Management Strategy 2020/21

2. Executive Summary

2.1 The report proposes a Treasury Management Strategy for the Council for 2020/21, comprising an Annual Investment Strategy and a Debt Management Strategy. There is a statutory requirement for Council to approve this in advance of the new financial year.

3. Background

3.1 This report sets out a Treasury Management Strategy for 2020/21 including estimates of funding requirements, an economic forecast and borrowing and investment strategies.

3.2 The Council's Treasury Management activities are carried out in accordance with the Council's Treasury Policy Statement. Under the provisions of the Treasury Policy Statement, a report should be submitted on the proposed Treasury Management Strategy for the ensuing year. The Treasury Strategy aims to:

- Ensure that the Council has sufficient and appropriate facilities available to meet its short and long-term borrowing requirements and funding needs;
- Secure new funding at the lowest cost; and
- Ensure that surplus funds are invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and optimising the return on these funds consistent with those risks.

3.3 Treasury Management is undertaken with regard to the CIPFA Code of Practice for Treasury Management in the Public Services and the Prudential Code. It also adheres to the statutory requirements in Scotland which require this report, including the Capital Investment Programme and Prudential Indicators to be approved by the full Council. Appendix 7 gives details of the Capital Investment Programme and Prudential Indicators which were approved by Council as part of the budget process.

4. Main report

Capital Expenditure

4.1 Table A1.1 in Appendix 1 shows the forecast capital expenditure for both the General Fund (GF) Services and the Housing Revenue Account (HRA) for the current and next 4 years. This shows that GF capital expenditure is anticipated to be £1.324bn, and the HRA £780m, giving a total of £2.104bn over the 5 years. In addition to the capital expenditure shown in the table, there is a further £85.1m in 2019/20 and £41.5m in 2020/21 of additional liabilities brought on to the Council's balance sheet in relation to new PPP type projects – the Millerhill Zero waste facility and Queensferry High School.

Loans Fund Borrowing Requirement

4.2 Tables A1.2 and A1.3 show how it is anticipated that the Capital Expenditure in Table A1.1 will be funded. Of the £2.104bn, £874m for the GF and £427m for the HRA will be funded by new capital advances from the Loans Fund.

4.3 Table A1.4 in Appendix 1 shows that the Council's underlying need to borrow (shown as 'Cumulative Capital Expenditure') is projected to increase from £1.356bn at the start of the current financial year to £2.310bn at 31 March 2024.

Economic Outlook

4.4 Appendix 2 gives an overview of the current economic and market outlook. European and US economies appear weak with both Central Banks reducing interest rates. In the UK inflation is below the Bank of England's target rate of 2% and there are concerns what impact of the Coronavirus will have on the global economy.

Treasury Management Strategy – Debt

4.5 In the 2019/20 Forecast, repayment of the £40m RBS Lobo Loans is included in the maturing debt figure of £99m. The £40m replacement PWLB loans as well as the new PWLB borrowing to de-risk the core Trams project funding is included in the Planned PWLB borrowing figure of £207m. The remainder of the Planned Borrowing relates to the capital advances for Edinburgh Living where the Council may choose to undertake external borrowing at the same time as it loans the funds to Edinburgh Living to purchase houses.

4.6 The borrowing undertaken this year means that the projected use of temporary investments to fund capital expenditure is projected to fall from £157m to £101m during this financial year. The Debt Management Strategy for 2020/21, as set out in Appendix 3, is to:

- continue to reduce investment balances to temporarily fund capital expenditure;
- seek alternative sources of funds to the PWLB; and

- continue to lock out the risk on projects when the timing of capital expenditure becomes certain and interest rates are appropriate.

Loan Fund Repayment Policy

4.7 The Council operates a consolidated loans fund under the terms of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, and one of the requirements of the Regulations is to report the Council's Loan Fund Repayment Policy. The Policy for 2020/21 is contained in Appendix 4, which also explains the need to change the policy to allow for the consequences of the recent Loans Fund Review. Appendix 6 sets out details of the existing loans including maturity date and interest rate payable.

Treasury Management – Annual Investment Strategy

4.8 Appendix 5 details the proposed Annual Investment Strategy for 2020/21. It is intended to continue the current investment strategy which is centred around the security of the investments, taking advantage of longer rates where liquidity allows. Investment will continue to be made via the Cash Fund arrangement.

4.9 In order to ensure that the Council adhere to State Aid legislation, the Investment Strategy proposes a change to the Council's Treasury Management Policy Statement to permit the Council to lend to Council Companies and LLPs in the form of mezzanine loans.

Treasury Management Indicators

4.10 Appendix 7 shows the Indicators required by the Prudential Code which were approved by Council on 20 February.

Treasury Management Policy Statements

4.11 Appendices 8 and 9 set out the Treasury Management Policy Statements for the City of Edinburgh Council and its Treasury Cash Fund.

5. Next Steps

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

6. Financial impact

6.1 The Council continues to manage its debt portfolio so as to minimise the medium term cost of funding its capital projects. Provision for the revenue implications arising from this report have already been included in the Council's long term financial plan.

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

7. Stakeholder/Community Impact

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

8. Background reading/external references

8.1 None

9. Appendices

Appendix 1 – Capital Expenditure and Funding Requirement

Appendix 2 - Economic and Market Outlook

Appendix 3 – Treasury Management – Debt Management Strategy

Appendix 4 – Loans Fund Repayment Policy

Appendix 5 – Treasury Management – Annual Investment Strategy

Appendix 6 – Debt Maturity Profile (January 2019)

Appendix 7 – Prudential Indicators

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

Appendix 9 – Treasury Management Policy Statement – Treasury Cash Fund

Appendix 1

Summary of
Capital Expenditure and Funding Requirement

	2018/19 Actual £000	2019/20 Forecast £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Communities and Families	28,431	66,319	114,331	30,207	51,554	106,745
Edinburgh Integration Joint Board	138	117	0	5,000	5,000	0
Place	109,572	99,745	201,611	39,765	36,985	20,035
Place - Lending	23,152	28,448	56,139	28,413	52,040	40,575
Place - Tram York Place to Newhaven	0	24,798	70,721	67,339	27,262	9,412
Contingency	26	0	4,242	0	0	0
Resources - Asset Management Works	21,770	40,300	16,704	25,916	25,650	19,800
Resources - Other	2,652	7,335	6,051	0	0	0
General Slippage in Programme (2.5% 19/20)	0	-4,215	0	0	0	0
Total General Services Capital Expenditure	**185,741**	**262,847**	**469,799**	**196,640**	**198,491**	**196,567**
HRA – Capital Expenditure (inc. Early Action)	**80,962**	**100,679**	**96,468**	**149,982**	**217,371**	**215,537**

Table A1.1 - Capital Expenditure on General Fund Services and HRA

General Fund	2018/19 Actual	2019/20 Forecast	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget
Grants	113,306	131,879	77,026	43,500	44,000	44,500
Asset Sales	19,659	37,143	3,000	3,000	3,000	3,000
Capital Fund	7,482	6,311	14,195	0	12,805	0
Capital Funded from Current Revenue	0	0	0	0	0	0
Other External Income	7,938	4,617	6,297	10,012	3,106	3,273
Loans Fund Advances	37,356	82,897	369,281	140,128	135,581	145,794
Total	**185,741**	**262,847**	**469,799**	**196,640**	**198,491**	**196,567**

Table A1.2 - Funding Sources for General Fund Services Capital Expenditure

HRA	2018/19 Actual	2019/20 Forecast	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget
Grants	9,070	8,526	66,316	45,331	86,260	66,181
Asset Sales	6,875	13,353	3,150	6,722	11,340	9,805
Capital Fund	0	0	0	0	0	0
Capital Funded from Current Revenue	48,518	23,000	3,656	3,013	3,121	3,229
Other External Income	0	0	0	0	0	0
Loans Fund Advances	16,499	55,800	23,346	94,916	116,650	136,322
Total	**80,962**	**100,679**	**96,468**	**149,982**	**217,371**	**215,537**

Table A1.3 - Funding Sources for HRA Capital Expenditure

Capital Funding v. External Debt	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Outturn	**Forecast**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Debt b/fd	1,245,546	1,198,460	1,306,373	1,355,159	1,331,510	1,332,097
Cumulative Capital Expenditure b/fd	1,384,533	1,355,900	1,407,118	1,738,960	1,913,382	2,100,721
Over / underborrowed b/fd	-138,987	-157,440	-100,744	-383,801	-581,872	-768,624
GF Capital Financed by borrowing	14,196	33,243	243,170	44,756	56,659	96,187
Tram Capital Financed by borrowing	0	21,206	69,972	66,959	26,882	9,032
Lending to LLPs	23,152	28,448	56,139	28,413	52,040	40,575
HRA Capital Financed by borrowing	16,500	55,800	23,346	94,916	116,650	136,322
less scheduled repayments by GF	-60,791	-66,229	-42,492	-41,172	-43,108	-44,093
less scheduled repayments by Tram	0	0	0	0	0	-3,404
less scheduled repayments by LLPs*	0	-38	-260	-896	-1,299	-2,038
less scheduled repayments by HRA	-20,115	-20,695	-17,489	-17,998	-19,896	-22,492
less scheduled repayments by Joint Boards	-1,575	-517	-544	-556	-589	-623
Underlying Need to Borrow	**-28,633**	**51,218**	**331,842**	**174,422**	**187,340**	**209,466**
plus total maturing debt	49,960	98,750	58,589	52,062	51,453	40,824
Total Borrowing Requirement	**21,327**	**149,967**	**390,430**	**226,484**	**238,792**	**250,290**
Cumulative Borrowing Requirement		**149,967**	**540,398**	**766,882**	**1,005,674**	**1,255,964**
Committed Market Borrowing			60,000			
Planned PWLB or short borrowing for year	2,874	206,663	47,374	28,413	52,040	40,575
Debt at end of the year	**1,198,460**	**1,306,373**	**1,355,158**	**1,331,510**	**1,332,097**	**1,331,848**
Cumulative Capital Expenditure	**1,355,900**	**1,407,118**	**1,738,960**	**1,913,382**	**2,100,721**	**2,310,187**
Cumulative Over/Under Borrowed	**-157,440**	**-100,744**	**-383,801**	**-581,872**	**-768,624**	**-978,339**

* This is based on the known repayments for current advances, with the planned advances on a 40 year annuity basis, using a 3.15% interest rate.

Table A1.4 - Capital Funding v. External Debt

Tables A1.1, A1.2 and A1.4 include the revised cash flow profile for capital expenditure in relation to the Trams to Newhaven project.

Economic and Market Outlook

Overview

Geopolitical worries, particularly in the Middle East, combined with the trade war between the US and China resulted in global growth slowing in 2019. The result of the UK election on 12th December 2019 was a majority for the Conservative Party, allowing Prime Minister Boris Johnson to proceed with Brexit plans. Brexit will continue to be a major influence on the UK Economy while it continues to negotiate its exit. However, the UK economy returned to growth in January 2020. Composite PMI data came in at 52.4 which was above expectations and a 16 month high from a contraction of 49.3 in December.

World Economy

In the US the Federal Reserve Open Market Committee (FOMC) voted to reduce interest rates by 25 basis points to between 1.50% and 1.75% at its October meeting having already reduced the rate in August and September as a pre-emptive strike against slowing global and US economic growth on the back of the ongoing trade was with China. During its December meeting the FOMC made no change to interest rates.

Inflation in the Eurozone for December is expected to be 1.3%, up from 1% in November and in line with market expectations. It would be the highest rate since June 2019 with increases in the cost of unprocessed food and energy prices. Core inflation for December, which excludes the prices of food, alcohol and tobacco and energy, is likely to hold steady at 1.3%. GDP growth in the 3rd quarter of 2019 was 1.2% when compared with the same quarter of the previous year, the same as the previous 3 month period. Christine Lagarde took up her new post as European Central Bank President on the 1st November 2019 and in her first announcement confirmed that the bank would continue to provide monetary support as needed to bring the euro inflation rate back towards target.

The Coronavirus is having a large impact on markets and economies in Asia Pacific as the number of infections and death toll continue to rise. Markets in mainland China are closed until 3rd February at the earliest. The spread of the virus has also influenced global markets and analysis from the 2004 SARS virus suggested that it cost the world economy a total of about $40bn with some forecasting the costs from the Coronavirus could be worse.

UK Inflation Outlook

Figure A2.1 below shows CPI (Consumer Price Index) 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.

The Government’s preferred measure of inflation, CPI was 1.3% in December 2019, down from 1.5% in November and below the Bank of England’s target rate. CPIH was 1.4% in December, down from 1.5% in November. The largest downward contributions came from accommodation services and clothing. Upwards movements came from housing, water, electricity, gas and other fuels. Figure A2.2 shows the contributions to CPIH from December 2017 to December 2019, highlighting the movements

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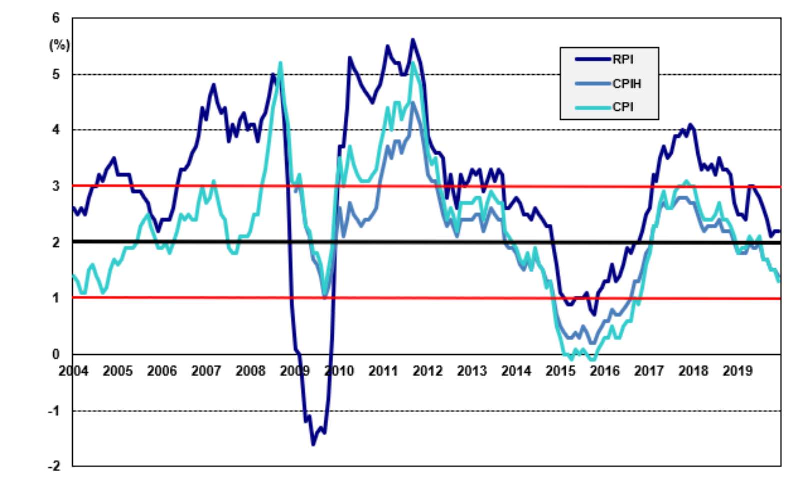

Figure A2.1 – CPIH, CPI and RPI since 2004

CPIH was 1.4% in December, down from 1.5% in November. The largest downward contributions came from accommodation services and clothing. Upwards movements came from housing, water, electricity, gas and other fuels. Figure A2.2 shows the contributions to CPIH from December 2017 to December 2019, highlighting the movements.

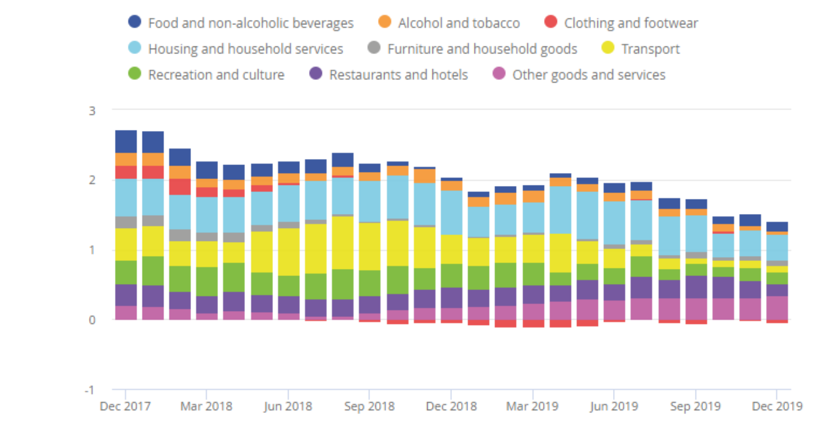

Figure A2.2 – Contributions to CPIH Dec 17 to Dec 19

Interest Rate Outlook

Table A2.1 gives a Reuters poll of up to 69 economists, taken 16th January, showing their forecasts for UK Bank Rate until Quarter 2 2021. Most economists polled believed that the UK Bank Rate will remain at 0.75% until the 2nd quarter of 2021. The poll also shows some Economists believe UK Bank Rate will drop to 0.25% during Q2 2020 then 0% in Q3. With the recent media comments regarding MPC members perhaps looking to vote for a rate cut in January it may have been expected that there would be a larger reduction in the mean rate from the previous poll at the start of December. In fact the Q1 2020 mean only dropped from 0.71% to 0.70% and Q2 from 0.69% to 0.66%. This shows the difference in opinion between Economists and market expectation as futures data on 20th January showed a 72% probability of a reduction in UK Bank Rate to 0.50% at the 30th January Meeting, this has reduced to 60% on the 21st January.

	2020				2021	
	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21	Q2/21
Median	0.75	0.75	0.75	0.75	0.75	0.75
Mean	0.70	0.66	0.64	0.66	0.67	0.71
Mode	0.75	0.75	0.75	0.75	0.75	0.75
Min	0.50	0.25	0.00	0.00	0.00	0.00
Max	0.75	0.75	1.00	1.00	1.25	1.25
Count	69	70	67	68	51	46

Table A2.1 – Economists' Forecasts for UK Bank Rate

Source: REUTERS

UK Interest Rates

After a couple of weeks of speculation that the Monetary Policy Committee (MPC) may vote to cut UK Bank Rate, in Governor Mark Carney's last MPC meeting off the 30th January, committee members voted 7-2 to maintain UK Bank Rate at 0.75%. In early January two members of the MPC gave interviews suggesting that they were more sympathetic to a cut in interest rates. This prompted some surveys to suggest a high probability of a cut in the rate which gradually faded as the meeting approached with the emergence of better than expected economic data. The focus now shifts to the next MPC meeting in March, new Governor Andrew Bailey's first MPC meeting.

Figure A2.3 below shows the UK gilt curve since January 2018, with 1 year at the front of the chart and 50 years at the back. This shows the long end of the curve falling from the blue peaks of over 2% in 2018 through the yellow band of 1.5% to 2.0% to the grey of 1.0% to 1.5% and recently into the brown of 0.5% to 1.0%. The "lower for even longer" interest rate environment continues.

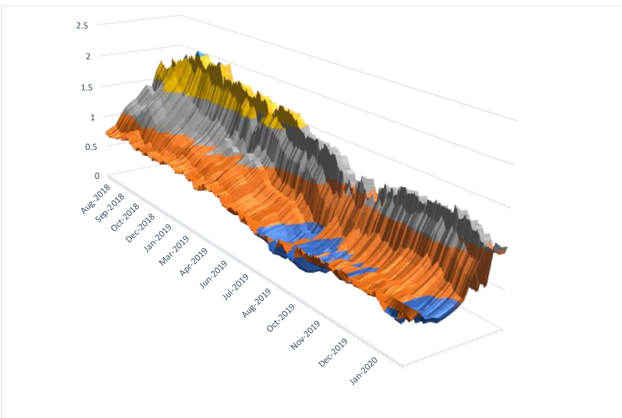

Figure A2.3 – UK Gilt Curve over time

Treasury Management – Debt Management Strategy

Overview

The overall objectives of the Council's Strategy for Debt Management are to:

- forecast average future interest rates and borrow accordingly;
- secure new funding at the lowest cost in a manner that is sustainable in the medium term;
- ensure that the Council's interest rate risk is managed appropriately;
- ensure smooth debt profile with a spread of maturities; and
- reschedule debt to take advantage of interest rates.

Loans Fund Borrowing Requirement

Table A1.1 in Appendix 1 shows the forecast capital expenditure for both the General Fund (GF) Services and the Housing Revenue Account (HRA) for the current and next 4 years. This shows that GF capital expenditure is anticipated to be £1.324bn, and the HRA £780m, giving a total of £2.104bn over the 5 years. In addition to the capital expenditure shown in the table, there is a further £85.1m in 2019/20 and £41.5m in 2020/21 of additional liabilities brought on to the Council's balance sheet in relation to new PPP type projects.

Tables A1.2 and A1.3 show how it is anticipated that the Capital Expenditure in Table A1.1 will be funded. Of the £2.104bn, £874m for the GF and £427m for the HRA will be funded by new capital advances from the Loans Fund. Table A1.4 in Appendix1 shows that the Council's underlying need to borrow (shown as Cumulative Capital Expenditure) is projected to increase from £1.356bn at the start of the current financial year to £2.310bn at 31 March 2024.

The Cumulative Borrowing Requirement shows that if the Council were to fully fund its Capital Financing Requirement it would need to borrow £1.256bn over the next 5 years, on top of the £157m in cash balances which have already been used to temporarily fund capital expenditure.

Debt Management Strategy

The Council therefore has a substantial borrowing requirement over the next 5 years. However, some of that borrowing has already been undertaken or committed to.

In the 2019/20 Forecast, repayment of the £40m RBS Lobo Loans is included in the maturing debt figure of £99m. The £40m replacement PWLB loans as well as the new PWLB borrowing to de-risk the core Trams project funding is included in the Planned PWLB borrowing figure of £207m for the current financial year - all of which has already been borrowed. The remainder of the Planned Borrowing relates to the capital advances for Edinburgh Living where the Council may choose to undertake external borrowing at the same time as it loans the funds to Edinburgh Living to purchase houses. In addition, in 2018 the Council committed to drawing down £60m of loans from PBB in October 2020.

The borrowing undertaken this year means that the projected use of temporary investments to fund capital expenditure is projected to fall from £157m to £101m during this financial year. The strategy for the coming year is to:

- continue to reduce investment balances to temporarily fund capital expenditure;
- seek alternative sources of funds to the PWLB; and
- continue to lock out the risk on projects when the timing of capital expenditure becomes certain and interest rates are appropriate.

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Appendix 4

Loans Fund Repayment Policy

The Council operates a consolidated loans fund under the terms of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016. Capital payments made by services are financed by capital advances from the loans fund. The Regulations require the Council to have a policy for the prudent repayment to the loans fund of the capital advances. The 2016 guidance sets out four options for the calculation of the repayment of loans fund advances, which are:

Option 1 – Statutory Method – this method allows repayments to me made as if the previous Schedule 3 to the 1975 Local Government (Scotland) Act was still in force but will no longer be available as an option after March 2021;

Option 2 – Depreciation Method – a complex method that links the calculated repayment to the depreciation charged each year and movement in the value of the asset;

Option 3 – Asset Life Method – a simpler alternative to the depreciation method, either on an equal instalment basis or on an annuity basis; or

Option 4 – Funding/Income Profile Method – repayments calculated by assessing future income receivable from the use of the asset, if the asset created generates income.

The guidance indicates that these four options are those likely to be most relevant for the majority of local authorities for loans fund advances made for the authority's own capital expenditure. Other approaches are not ruled out but must be considered by the local authority to be a prudent repayment.

With the exception of advances in relation to Edinburgh Living LLPs, until this year all advances from the loans fund to date have had a repayment profile set out using Option 1 – the statutory method. These capital advances are being repaid using the previous hybrid annuity structure with fixed principal repayments. However, as part of the budget process the Council received a report on the review carried out on the loans fund. The report recommended changes in the method of calculating loans fund repayments for current and historical capital advances. Those changes mean that the repayments for both historical and new capital advances (with the exception of those detailed below) will be calculated using option 3 – the Asset Life method.

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

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

The Council operates the loans fund to manage historic debt and the balance therefore represents historic borrowing for capital spend.

Treasury Management – Annual Investment Strategy

In line with CIPFA's Code of Practice, the overall objectives of the Council's Strategy for Investment Management are to:

- ensure the security of funds invested;
- ensure that the Council has sufficient liquid funds to cover its expenditure commitments; and
- pursue optimum investment return within the above two objectives.

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

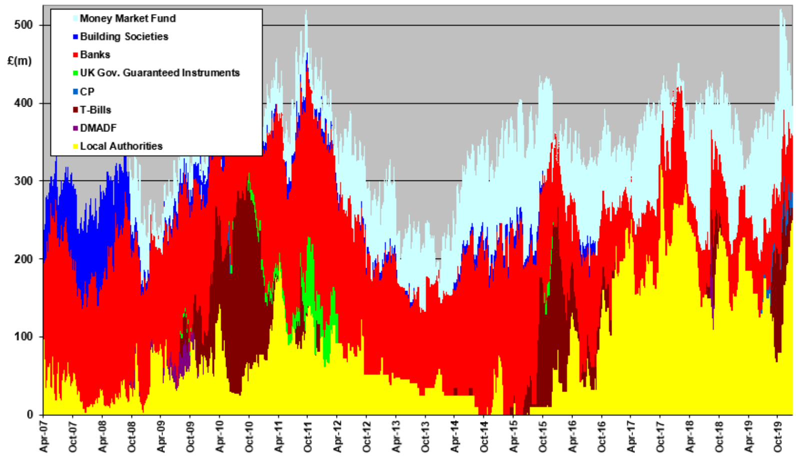

Figure A5.1 – Cash Fund Investments since inception

As can be seen in Figure A5.1 above the bulk of the investments within the Cash Fund are currently represented by loans to other Local Authorities.

Figure A5.2 below shows the level of Council investments via the cash fund. The value of investments increased significantly when the additional borrowing for the Trams project was taken. Given that most of the monies would not be needed for a period of time, the opportunity was taken to increase the duration of the cash fund investments. The average weighted life of the fund increased to 78 days towards the end of the calendar year, which is the longest in the fund since late 2012.

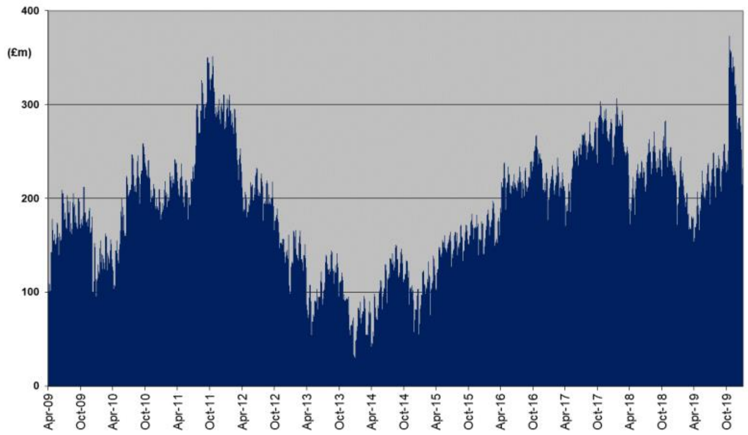

Figure A5.2 – CEC Investment via Cash Fund

Our central forecast has been that the next move in UK Bank Rate would be up rather than down. However, the dangers around the spread of the Coronavirus means that there is still a chance of an "insurance" cut to UK Bank Rate.

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 Treasury Cash Fund arrangement. Appendix 8 contains the Treasury Management Policy Statement for the Treasury Cash Fund which details the investment and counterparty limits for the Fund.

The City of Edinburgh Council - Treasury Management Policy Statement

Appendix 9 contains the Treasury Management Policy Statement for the City of Edinburgh Council. This is for activities such as borrowing which are Council specific as well as for investments for which the Cash Fund arrangement would be inappropriate – such as equity investment in Council Companies. It is proposed to make a small change to the Policy Statement for 2020/21.

The Policy currently allows for loans to be advanced to Council Companies. For the Edinburgh Living initiative to deliver affordable housing, the Council has created two Limited Liability Partnerships – a Mid-Market Rent LLP (MMR LLP) and a Market Rent LLP (MR LLP). To date all loans to the MMR LLP to purchase housing from the HRA have been senior secured loans i.e. the loan has been secured against the LLP's houses. However, subject to passing the final viability tests, it is likely that loans will be advanced to the Market Rent LLP early in 2020/21 for that LLP to also purchase houses from the HRA. The Council has engaged its Treasury Advisors to review the arrangement to ensure it does not breach State Aid rules. The Advisors' recommendation was that the structure of the loans to the MR LLP is slightly different to that of the MMR LLP. It is proposed that 90% of the funding is advanced by way of Senior Secured Loans (the type of loans advanced to the MMR LLP) but that 10% is advanced in the form of Mezzanine

Debt. The Mezzanine Debt would not be secured against the LLP's houses, but would lie in the capital structure below the Senior Debt and would be on a par with Equity. The interest rate on the mezzanine loans would be higher to reflect their lower ranking, but the average blended interest rate for the combined Senior and Mezzanine loans would be lower than the rate used in the initial business case. This does increase the risk to the Council in making the loans, particularly if at any later stage any external funders were brought in at a more senior level. However, it is not viewed that the risk is substantial and the lower blended interest rate to the MR LLP would assist in ensuring the LLP's long term financial sustainability. In addition, the Council holds 99% of the ownership of the LLP and Council Officers are also part of the governance structure of the LLPs.

In all other respects there would be no difference to the arrangements which are already in in place and working with the MMR LLP. The proposed structure does not change the total value of the loans to the LLP, the associated capital advances made by the Council from the Loans Fund or any external borrowing which the Council may choose to undertake to manage the interest rate risk in the loans to the LLPs.

It is proposed to amend item (g) in the City of Edinburgh Council's Permitted Investments to specifically allow mezzanine loans to Council Companies and LLPs. The associated risks and mitigating controls have likewise been amended to reflect the different risk associated with this structure.

Appendix 6

Debt Maturity Profile (January 2020)

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
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
			172,400,000.00		

PWLB

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
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	785,066.07	3.09	35,960.95
21/10/1994	M	15/05/2021	10,000,000.00	8.625	862,500.00
10/03/1995	M	15/05/2021	11,900,000.00	8.75	1,041,250.00
12/06/1995	M	15/05/2021	10,000,000.00	8	800,000.00
02/06/2010	M	02/06/2021	5,000,000.00	3.89	194,500.00
16/08/1994	M	03/08/2021	2,997,451.21	8.5	254,783.35
28/04/1994	M	25/09/2021	5,000,000.00	8.125	406,250.00
23/04/2009	M	23/04/2022	5,000,000.00	3.76	188,000.00
12/06/1995	M	15/05/2022	10,200,000.00	8	816,000.00
14/06/2010	M	14/06/2022	10,000,000.00	3.95	395,000.00
31/03/1995	M	25/09/2022	6,206,000.00	8.625	535,267.50
16/02/1995	M	03/02/2023	2,997,451.21	8.625	258,530.17
24/04/1995	M	25/03/2023	10,000,000.00	8.5	850,000.00
05/12/1995	M	15/05/2023	5,200,000.00	8	416,000.00
20/09/1993	M	14/09/2023	2,997,451.21	7.875	236,049.28
20/09/1993	M	14/09/2023	584,502.98	7.875	46,029.61
08/05/1996	M	25/09/2023	10,000,000.00	8.375	837,500.00
13/10/2009	M	13/10/2023	5,000,000.00	3.87	193,500.00
05/12/1995	M	15/11/2023	10,000,000.00	8	800,000.00
10/05/2010	M	10/05/2024	10,000,000.00	4.32	432,000.00
28/09/1995	M	28/09/2024	2,895,506.10	8.25	238,879.25
14/05/2012	M	14/11/2024	10,000,000.00	3.36	336,000.00
14/12/2009	A	14/12/2024	3,952,650.35	3.66	164,163.02
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	6,657,167.44	3.64	269,047.82
21/12/1995	M	21/12/2025	2,397,960.97	7.875	188,839.43
21/05/1997	M	15/05/2026	10,000,000.00	7.125	712,500.00
28/05/1997	M	15/05/2026	10,000,000.00	7.25	725,000.00
29/08/1997	M	15/11/2026	5,000,000.00	7	350,000.00
24/06/1997	M	15/11/2026	5,328,077.00	7.125	379,625.49

07/08/1997	M	15/11/2026	15,000,000.00	6.875	1,031,250.00
13/10/1997	M	25/03/2027	10,000,000.00	6.375	637,500.00
22/10/1997	M	25/03/2027	5,000,000.00	6.5	325,000.00
13/11/1997	M	15/05/2027	3,649,966.00	6.5	237,247.79
17/11/1997	M	15/05/2027	5,000,000.00	6.5	325,000.00
13/12/2012	M	13/06/2027	20,000,000.00	3.18	636,000.00
12/03/1998	M	15/11/2027	8,677,693.00	5.875	509,814.46
06/09/2010	M	06/09/2028	10,000,000.00	3.85	385,000.00
14/07/2011	M	14/07/2029	10,000,000.00	4.9	490,000.00
14/07/1950	E	03/03/2030	2,654.08	3	85.31
14/07/2011	M	14/07/2030	10,000,000.00	4.93	493,000.00
15/06/1951	E	15/05/2031	2,695.07	3	86.12
06/09/2010	M	06/09/2031	20,000,000.00	3.95	790,000.00
15/12/2011	M	15/06/2032	10,000,000.00	3.98	398,000.00
15/09/2011	M	15/09/2036	10,000,000.00	4.47	447,000.00
22/09/2011	M	22/09/2036	10,000,000.00	4.49	449,000.00
10/12/2007	M	10/12/2037	10,000,000.00	4.49	449,000.00
08/09/2011	M	08/09/2038	10,000,000.00	4.67	467,000.00
15/09/2011	M	15/09/2039	10,000,000.00	4.52	452,000.00
06/10/2011	M	06/10/2043	20,000,000.00	4.35	870,000.00
09/08/2011	M	09/02/2046	20,000,000.00	4.8	960,000.00
23/01/2006	M	23/07/2046	10,000,000.00	3.7	370,000.00
23/01/2006	M	23/07/2046	10,000,000.00	3.7	370,000.00
19/05/2006	M	19/11/2046	10,000,000.00	4.25	425,000.00
07/01/2008	M	07/01/2048	5,000,000.00	4.4	220,000.00
27/01/2006	M	27/07/2051	1,250,000.00	3.7	46,250.00
16/01/2007	M	16/07/2052	40,000,000.00	4.25	1,700,000.00
30/01/2007	M	30/07/2052	10,000,000.00	4.35	435,000.00
13/02/2007	M	13/08/2052	20,000,000.00	4.35	870,000.00
20/02/2007	M	20/08/2052	70,000,000.00	4.35	3,045,000.00
22/02/2007	M	22/08/2052	50,000,000.00	4.35	2,175,000.00
08/03/2007	M	08/09/2052	5,000,000.00	4.25	212,500.00
30/05/2007	M	30/11/2052	10,000,000.00	4.6	460,000.00
11/06/2007	M	11/12/2052	15,000,000.00	4.7	705,000.00
12/06/2007	M	12/12/2052	25,000,000.00	4.75	1,187,500.00
05/07/2007	M	05/01/2053	12,000,000.00	4.8	576,000.00
25/07/2007	M	25/01/2053	5,000,000.00	4.65	232,500.00
10/08/2007	M	10/02/2053	5,000,000.00	4.55	227,500.00
24/08/2007	M	24/02/2053	7,500,000.00	4.5	337,500.00
13/09/2007	M	13/03/2053	5,000,000.00	4.5	225,000.00
14/10/2019	A	10/04/2053	110,000,000.00	2.69	2,945,254.44
12/10/2007	M	12/04/2053	5,000,000.00	4.6	230,000.00
05/11/2007	M	05/05/2057	5,000,000.00	4.6	230,000.00
15/08/2008	M	15/02/2058	5,000,000.00	4.39	219,500.00
25/01/2019	A	25/01/2059	2,715,081.66	2.65	71,694.26
11/06/2019	A	11/06/2059	1,274,286.84	2.23	28,305.66
01/10/2019	A	01/10/2059	1,343,557.00	1.74	23,276.17

02/10/2019	A	02/10/2059	40,000,000.00	1.8	716,907.89
05/11/2019	A	05/11/2059	7,143,292.00	2.96	210,742.68
28/11/2019	A	28/11/2059	1,306,356.00	3.03	39,453.89
02/12/2019	A	02/12/2059	2,812,380.00	3.03	84,938.05
16/01/2020	A	20/01/2060	458,317.00	2.97	13,567.14
16/01/2020	A	20/01/2060	2,000,000.00	1.77	35,246.97
04/10/2019	M	04/04/2060	40,000,000.00	1.69	676,000.00
02/12/2011	M	02/12/2061	5,000,000.00	3.98	199,000.00
			1,075,233,014.40		

SALIX

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
07/01/2015	E	01/09/2021	157,914.28	0	0.00
31/03/2015	E	01/04/2023	631,014.09	0	0.00
22/09/2015	E	01/10/2023	175,839.76	0	0.00
29/03/2019	E	01/04/2029	132,979.67	0	0.00
			1,097,747.80		

Appendix 7

PRUDENTIAL INDICATORS

Indicator 1 - Estimate of Capital Expenditure

The actual capital expenditure that was incurred in 2018/19 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					
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Rolled Forward Capital Investment Programme	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Communities and Families	28,431	66,319	114,331	30,207	51,554	106,745
Edinburgh Integration Joint Board	138	117	0	5,000	5,000	0
Place	109,572	99,745	201,611	39,765	36,985	20,035
Place - Lending	23,152	28,448	56,139	28,413	52,040	40,575
Place - Tram York Place to Newhaven	0	25,211	70,101	58,004	29,731	0
Contingency	26	0	4,242	0	0	0
Resources - Asset Management Works	21,770	40,300	16,704	25,916	25,650	19,800
Resources - Other	2,652	7,335	6,051	0	0	0
General Slippage in Programme (2.5% 19/20)	0	-4,215	0	0	0	0
Total General Services Capital Expenditure (per 14 February F&R Report)	**185,741**	**263,260**	**469,179**	**187,305**	**200,960**	**187,155**
Place - Tram York Place to Newhaven Updated Cashflow	0	-413	621	9,335	-2,469	9,412
Total General Services Capital Expenditure	**185,741**	**262,847**	**469,800**	**196,640**	**198,491**	**196,567**

Note that the 2020-2024 Capital Investment Programme includes slippage / acceleration brought forward based on projected capital expenditure reported at the month eight stage. Place - Tram York Place to Newhaven cashflow shows movement of budget to reflect the latest forecast. Project remains within the time and budget parameters agreed by Council.

	Capital Expenditure - Housing Revenue Account (HRA)					
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Rolled Forward Capital Investment Programme	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Housing Revenue Account	80,962	100,679	96,468	149,982	217,371	215,537

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 2018/19 are:

	Ratio of Financing Costs to Net Revenue Stream					
	2018/19 Actual	**2019/20 Forecast**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	%	%	%	%	%	%
General Services	11.16	10.93	10.48	10.05	9.88	9.96
Housing Revenue Account (HRA)	37.29	38.30	35.57	37.13	38.91	39.46

Note: Figures for 2021/222 onwards are indicative at this stage as the Council has not set a General Services or HRA budget for these years. The figures for General Services are based on the current long term financial plan. HRA figures are based on the business plan which was reported to Finance and Resources Committee on 14 February 2020.

The estimates of financing costs include current commitments and the proposals in this budget.

Indicator 3 - Capital Financing Requirement
Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual capital financing requirement at 31 March 2019 are:

	Capital Financing Requirement					
	2018/19 Actual	**2019/20 Forecast**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
General Services	1,079	1,146	1,453	1,520	1,556	1,610
Housing Revenue Account (HRA)	377	413	418	495	592	706
NHT LLPs	87	99	108	108	108	108
Edinburgh Living LLPs	3	19	66	94	145	183
Total Capital Financing Requirement	**1,546**	**1,677**	**2,045**	**2,217**	**2,401**	**2,607**

The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all 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			
	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Gross Debt	1,198	1,306	1,355	1,332	1,332	1,332
Capital Financing Requirements	1,546	1,677	2,045	2,217	2,401	2,607
(Over) / under limit by:	**348**	**371**	**690**	**885**	**1,069**	**1,275**

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.

The introduction of IFRS 16 - Leases within the Accounts will have a significant impact on the balance sheet from its introduction in 2020/21. This will subsequently have an impact on the Capital Financing Requirement (CFR) as from the 2020/21 financial year. Therefore, it should be expected to see an increase in the CFR in future years. This will similarly have an impact on the authorised limit and operational boundary for external debt.

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 four financial years. These limits separately identify borrowing under credit arrangements including finance leases and PFI assets. Council is asked to approve these limits and to delegate authority to the Head of Finance, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and credit arrangements, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Council at its meeting following the change.

	Authorised Limit for External Debt				
	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£m	**£m**	**£m**	**£m**	**£m**
Borrowing	1,682	1,949	2,112	2,268	2,422
Credit Arrangements (including leases)	281	317	313	309	305
Authorised Limit for External Debt	**1,963**	**2,266**	**2,425**	**2,577**	**2,727**

These authorised limits are consistent with the authority's current commitment, existing plans and the proposals in this budget for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

Indicator 5 - Operational Boundary for External Debt

The Council is also asked to approve the following operational boundary for external debt for the same period. The proposed operational boundary equates to the estimated maximum of external debt. It is based on the same estimates as the authorised limit but reflects directly the estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements. The operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and credit arrangements are separately identified. The Council is also asked to delegate authority to the Head of Finance, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and credit arrangements, in a similar fashion to the authorised limit. Any such changes will be reported to the Council at its next meeting following the change.

	Operational Boundary for External Debt				
	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£m	**£m**	**£m**	**£m**	**£m**
Borrowing	1,446	1,768	1,929	2,127	2,322
Credit Arrangements (including leases)	281	317	313	309	305
Operational Boundary for External Debt	**1,727**	**2,085**	**2,242**	**2,436**	**2,627**

The Council's actual external debt at 31 March 2019 was £1,420m comprising borrowing (including sums repayable within 12 months).

In taking its decisions on this budget, the Council is asked to note that the estimate of capital expenditure determined for 2020/21 (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 2019/20 and in the longer term financial frameworks.

	Loans Charges Liability				
	2019/20 Forecast £000	**2020/21 Estimate £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**
Loans Fund Pooled Interest Rate at Indicative 4.5%					
General Fund (excluding On-Lending and Trams tom Newhaven) - New Loans Fund Advances					
Loans Fund Advances in year	33,243	243,170	44,756	56,659	96,187
Year 1 - Interest Only	757	5,539	1,019	1,291	2,191
Year 2 - Interest and Principal Repayment	2,052	15,013	2,763	3,498	5,938
Housing Revenue Account (HRA) - New Loans Fund Advances					
Loans Fund Advances in year (excluding borrowing for LLP programme *)	55,800	23,346	94,916	116,650	136,322
Year 1 - Interest Only	1,271	532	2,161	2,657	3,105
Year 2 - Interest and Principal Repayment	3,445	1,441	5,860	7,202	8,416

* 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. Tram repayments are based on the income model and will commence in 2023/24 when the line to Newhaven becomes operational.

Consideration of options for the capital programme

In considering its programme for capital investment, Council is required within the Prudential Code to have regard to:

- affordability, e.g. implications for Council Tax or house rents;
- prudence and sustainability, e.g. implications for external borrowing;
- value for money, e.g. option appraisal;
- stewardship of assets, e.g. asset management planning;
- service objectives, e.g. strategic planning for the authority;
- practicality, e.g. achievability of the forward plan.

Appendix 8

The City of Edinburgh Council

Treasury 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 up to a maximum of £50 million per authority.

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

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

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

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

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

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

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

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

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

Credit Rating	Banks Unsecured	Banks Secured	B. Socs. Unsecured	B. Socs. Secured
AAA	20% or £60m	20% or £60m	20% or £60m	20% or £60m
AA+	15% or £30m	20% or £60m	15% or £30m	20% or £60m
AA	15% or £30m	20% or £60m	15% or £30m	15% or £30m
AA-	15% or £30m	20% or £60m	10% or £20m	15% or £30m
A+	10% or £20m	15% or £30m	10% or £20m	10% or £20m
A	10% or £20m	15% or £30m	10% or £20m	10% or £20m
A-	10% or £20m	15% or £30m	5% or £10m	10% or £20m
BBB+	5% or £10m	5% or £10m	n/a	n/a
None	n/a	n/a	n/a	n/a

The credit ratings quoted in the above table are for the financial institution, instrument or security provided and are the lowest of the relevant long term ratings from the three main Credit ratings agencies, S&P, Moodys and Fitch.

Time Limits
In addition to the monetary limits above, the following maximum time limits will be placed on investments:

Category	Max. Time Limit
20% of Assets Under Management / £60m	5 Years
15% of Assets Under Management / £30m	1 Years
10% of Assets Under Management / £20m	6 months
5% of Assets Under Management / £10m	3 months

In addition to the above limits, no more than 25% of assets under management will have a maturity greater than 1 year.
In considering an investment, consideration is given to a wide range of information, not simply the credit ratings of the institution being considered. This will include financial information on the institution, relevant Credit Default Swaps and equity pricing data, and the general macro-economic, market and sector background. The investment risks and controls to mitigate those risks are outlined to the end of this document.

Policy on Delegation
The Treasury Cash Fund is operated under the Council's Treasury Policy Statement and the delegations are defined in that document.

Reporting Arrangements

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

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

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

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

(d) Ad hoc reports according to need.

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

Appendix 9

The City of Edinburgh Council

Treasury Management Policy Statement

Summary

The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services. As part of the adoption of that code, the Council agreed to create and maintain, as the cornerstones for effective treasury management:

- a Treasury Management Policy Statement (TMPS), stating the policies and objectives of its treasury management activities; and
- suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

This document outlines the Council's Treasury Management Policy Statement which provides a framework for the Council's treasury management activities. Any reference in the Treasury Policy Statement to the Chief Financial Officer should be taken to be any other officer to whom the Chief Financial Officer has delegated his powers.

Approved Activities

The Council defines its treasury management activities as:

> "The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

Subject to any legal restrictions, this definition covers the following activities:

- arranging, administering and managing all capital financing transactions
- approving, arranging and administering all borrowing on behalf of the Council
- cash flow management
- investment of surplus funds
- ensuring adequate banking facilities are in place, negotiating bank charges, and ensuring the optimal use by the Council of banking and associated facilities and services

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

The Council also acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Treasury Management Strategy

The treasury management strategy for the cash fund is to:

- Secure both capital and revenue funding at the lowest cost in the medium term; and
- ensure that surplus funds are invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and optimising the return on these funds consistent with those risks

Approved Sources of Finance

Finance will only be raised in accordance with legislation and within this limit the Council has a number of approved methods and sources of raising capital finance. No other instrument other than those listed below may be used

Bank Overdraft

Temporary Loans

Loans from the Public Works Loan Board

Loans from the European Community institutions

Long-Term Market Loans

Bonds

Stock Issues

Negotiable Bonds

Internal (Capital Receipts and Revenue Balances)

Commercial Paper

Medium Term Notes

Finance and Operating Leases

Deferred Purchase Covenant Agreements

Government and European Community Capital Grants

Lottery Monies

Public and Private Partnership funding initiatives

Permitted Instruments

Where possible the Head of Finance, the Council's Statutory Section 95 Chief Financial Officer, will manage all of the Council's temporary surplus funds together and invest them using the Council's Treasury Cash Fund. The investment restrictions contained in the Treasury Cash Fund Policy Statement therefore apply to the City of Edinburgh Council's monies.

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

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

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

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

(b) Money Market Funds

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

(d) Investment Properties

(e) Loans to Other Organisations

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

(g) Loans (including mezzanine debt) to / investment in the Loan Stock of Council Companies and LLPs

(h) Investment in Shared Equity Housing Schemes

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

Approved Organisations for Investment

The approved counterparty limits are as follows:

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

(b) *DMO's DMADF with no limit.*

(c) *AAA Money Market Funds with no limit.*

(d) *financial institutions on the Bank of England's authorised list where the lowest of their long term rating from the three main Credit ratings agencies, S&P, Moody's and Fitch, equivalent to A- or above up to a maximum of £10 million per institution.*

(e) *building societies where the lowest of their long term rating from the three main Credit ratings agencies, S&P, Moody's and Fitch, equivalent to A- or above up to a maximum of £5 million per institution.*

(f) *Subordinated debt of projects delivered via "HubCo" model up to a maximum of £1 million.*

In addition, there is no explicit limit at present for the non-cash investment types. However, it is anticipated that each specific investment of these types would be reported individually to Council and a full list of them will be contained in the Treasury Annual Report.
The investment risks and controls to mitigate those risks are outlined to the end of this document.

Policy on Delegation
Responsibility for the implementation and regular monitoring of the Council's treasury management policies and practices is retained by the Council.

The Council delegates responsibility for the execution and administration of Treasury Management decisions to the Head of Finance, as the Statutory Section 95 Chief Financial Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

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

Reporting Arrangements

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

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

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

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

(d) Ad hoc reports according to need.

Type of Investment	Treasury Risks	Mitigating Controls
a. Deposits with the Debt Management Account Facility (UK Government) (Very low risk)	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
b. Money Market Funds (MMFs) (low/medium risk)	Pooled cash investment vehicle which provides short term liquidity.	Funds will generally be used to provide liquidity for the Cash Fund.
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 or LLP	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. In the case of mezzanine loans, these are specifically to ensure that the LLPs tasked with delivering Council objectives do so within State Aid rules	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. The Council and Scottish Government (via the SFT) are participants in and party to the governance and controls within the project structure. Strict viability tests to ensure long term financial security are completed before any funds are advanced to the LLP.
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