

# The City of Edinburgh Council

10.00am, Thursday 11 March 2021

## Annual Treasury Management Strategy 2021/22 – referral from the Finance and Resources Committee

Executive/routine  
Wards  
Council Commitments

### 1. For Decision/Action

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- 1.1 The Finance and Resources Committee has referred a report on the Annual Treasury Management Strategy 2021/22 to the City of Edinburgh Council for approval.

**Andrew Kerr**

Chief Executive

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# Referral Report

## Annual Treasury Management Strategy 2021/22

### 2. Terms of Referral

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- 2.1 On 4 March 2021, the Finance and Resources Committee considered a report which proposed a Treasury Management Strategy for the Council for 2021/22, comprising an Annual Investment Strategy and a Debt Management Strategy. There was a statutory requirement for Council to approve this in advance of the new financial year.
- 2.2 The Finance and Resources Committee agreed:
- 2.2.1 To note the Annual Treasury Strategy 2021/22 and to 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.
- 2.2.2 To note the key points in the report, that:
- 2.2.2.1 The Council's total capital expenditure was forecast to be £1.987bn between 2020/21 and 2024/25 with an underlying need to borrow at 31 March 2025 forecast to be £2.327bn.
- 2.2.2.2 The Council would continue to fund its Capital Financing Requirement from temporary investment balances over the next year.
- 2.2.2.3 The Council would 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.
- 2.3 To agree to include more detail on the level of borrowing in the six-month period Treasury Management report.

### 3. Background Reading/ External References

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- 3.1 [Finance and Resources Committee – 4 March 2021 – Webcast](#)

### 4. Appendices

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- 4.1 Appendix 1 – report by the Executive Director of Resources

# Finance and Resources Committee

10:00am, Thursday, 4 March 2021

## Annual Treasury Management Strategy 2021/22

Executive/routine Wards Council Commitments	Executive
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### 1. Recommendations

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1.1 It is recommended that the Committee:

1.1.1 Notes the Annual Treasury Strategy 2021/22 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 £1.987bn between 2020/21 and 2024/25 with an underlying need to borrow at 31 March 2025 forecast to be £2.327bn;
- 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

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## Annual Treasury Management Strategy 2021/22

### 2. Executive Summary

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- 2.1 The report proposes a Treasury Management Strategy for the Council for 2021/22, 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

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- 3.1 This report sets out a Treasury Management Strategy for 2021/22 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

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### 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 £1.175bn, and the HRA £812m, giving a total of £1.987bn over the 5 years.

### 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 £1.987bn, £793m for the GF and £418m 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 £1.375bn at the start of the current financial year to £2.327bn at 31 March 2025.

### Economic Outlook

- 4.4 Appendix 2 gives an overview of the current economic and market outlook. World economies remain weak as it continues to cope with lockdowns due to the Covid-19 pandemic. In the UK inflation is below the Bank of England's target rate of 2% at 0.8% and unemployment has risen to 4.9% due to impact of Coronavirus.

### Treasury Management Strategy – Debt

- 4.5 The Council borrowed £236m during the 2019/20 financial year, reducing the use of temporary investments to fund capital expenditure to £39m. Due to the consequences of the global pandemic £200m of capital expenditure projected to be spent in 2020/21 has been re-profiled into future financial years. During much of the 2020/21 financial year, PWLB rates were set at a higher level while a consultation on the PWLB was undertaken. However, the Council has a substantial borrowing requirement in the coming financial years. Interest rates are still at a historic low but are likely to be subject to upward pressure if the COVID-19 vaccines prove effective.
- 4.6 The Debt Management Strategy for 2021/22, 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 and 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 2021/22. 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.

### **Treasury Management Indicators**

- 4.9 Appendix 7 shows the Indicators required by the Prudential Code which were approved by Council on 18 February.

### **Treasury Management Policy Statements**

- 4.10 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**

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- 5.1 The success of the Treasury team can be measured by the outperformance 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**

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- 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**

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

## **8. Background reading/external references**

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- 8.1 None

## **9. Appendices**

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- 9.1 Appendix 1 – Capital Expenditure and Funding Requirement
- 9.2 Appendix 2 - Economic and Market Outlook
- 9.3 Appendix 3 – Treasury Management – Debt Management Strategy
- 9.4 Appendix 4 – Loans Fund Repayment Policy
- 9.5 Appendix 5 – Treasury Management – Annual Investment Strategy
- 9.6 Appendix 6 – Debt Maturity Profile (January 2019)
- 9.7 Appendix 7 – Prudential Indicators
- 9.8 Appendix 8 – Treasury Management Policy Statement – The City of Edinburgh Council
- 9.9 Appendix 9 – Treasury Management Policy Statement – Treasury Cash Fund

## Summary of Capital Expenditure and Funding Requirement

	2019/20 Actual £000	2020/21 Forecast £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Communities and Families	64,321	51,281	122,262	56,546	64,533	80,951
Place	109,606	104,161	144,927	37,028	28,707	22,676
Place - Lending	28,138	19,569	20,302	4,856	72,000	70,500
Place - Trams to Newhaven	26,421	56,319	72,032	41,744	12,849	-
Resources - Asset Management Works	48,547	13,816	20,861	25,650	19,800	19,800
Resources	2,873	1,758	2,088	807	1,091	1,597
Edinburgh Integration Joint Board	-110	284	0	0	0	0
Slippage Assumption			-18,108	1,848	-16,360	16,856
<b>Capital Expenditure per CIP</b>	<b>279,796</b>	<b>247,188</b>	<b>364,364</b>	<b>168,479</b>	<b>182,620</b>	<b>212,380</b>
<b>HRA – Capital Expenditure (inc. Early Action)</b>	<b>111,854</b>	<b>46,855</b>	<b>87,386</b>	<b>190,541</b>	<b>259,152</b>	<b>228,348</b>

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

General Fund	2019/20 Actual	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget
Central Government Grants	148,229	79,410	68,609	38,225	38,225	45,000
Use of Capital Receipts	43,125	5,757	3,000	3,000	3,000	3,000
Other External Income	9,666	17,140	56	5,777	1,158	9,893
Draw down from Capital Fund	6,311	14,195	6,986	9,186	0	10,828
Capital Grants Unapplied	805	0	14,442	3,422	0	0
Developers Contributions	0	0	380	380	380	760
Loans Fund Advances	72,465	130,686	270,891	108,489	139,857	142,899
<b>Total</b>	<b>279,796</b>	<b>247,188</b>	<b>364,364</b>	<b>168,479</b>	<b>182,620</b>	<b>212,380</b>

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

HRA	2019/20 Actual	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget
Grants	11,613	8,526	14,859	7,012	35,686	26,482
Capital Funded from Current Revenue	23,000	0	18,300	23,300	28,300	10,800
Capital Receipts from Edinburgh Living	38,838	24,103	21,143	6,162	76,718	93,196
Loans Fund Advances	38,403	14,226	33,084	154,067	118,448	97,870
<b>Total</b>	<b>111,854</b>	<b>46,855</b>	<b>87,386</b>	<b>190,541</b>	<b>259,152</b>	<b>228,348</b>

**Table A1.3 - Funding Sources for HRA Capital Expenditure**

<b>Capital Funding v. External Debt</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>Outturn</b>	<b>Forecast</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Debt b/fd	1,198,460	1,336,058	1,337,470	1,284,875	1,232,882	1,191,396
Cumulative Capital Expenditure b/fd	1,355,901	1,374,600	1,457,795	1,775,598	1,979,907	2,165,927
Over/underborrowed b/fd	-157,441	-38,542	-120,325	-490,724	-747,025	-974,531
GF Capital Financed by borrowing	17,921	54,798	213,187	62,268	55,388	73,159
Tram Capital Financed by borrowing	26,406	56,319	71,652	41,364	12,469	-760
Lending to LLPs	28,138	19,569	20,302	4,856	72,000	70,500
HRA Capital Financed by borrowing	38,403	14,226	33,084	154,067	118,448	97,870
less scheduled repayments by GF	-66,229	-32,439	0	-36,206	-41,492	-44,835
less scheduled repayments by Tram	0	-1	0	0	-4,942	-5,060
less scheduled repayments by LLPs*	-4,728	-14,559	-4,623	-4,834	-4,879	-5,859
less scheduled repayments by HRA	-20,695	-14,174	-15,242	-16,619	-20,349	-23,609
less scheduled repayments by Joint Boards	-517	-544	-556	-588	-623	-557
<b>Underlying Need to Borrow</b>	<b>18,699</b>	<b>83,195</b>	<b>317,804</b>	<b>204,308</b>	<b>186,020</b>	<b>160,849</b>
plus total maturing debt	98,750	58,589	52,595	51,993	41,486	40,674
<b>Total Borrowing Requirement</b>	<b>117,449</b>	<b>141,784</b>	<b>370,399</b>	<b>256,301</b>	<b>227,506</b>	<b>201,523</b>
<b>Cumulative Borrowing Requirement</b>		<b>141,784</b>	<b>512,182</b>	<b>768,484</b>	<b>995,989</b>	<b>1,197,513</b>
New / Committed Borrowing	236,348	60,000				
<b>Debt at end of the year</b>	<b>1,336,058</b>	<b>1,337,470</b>	<b>1,284,875</b>	<b>1,232,882</b>	<b>1,191,396</b>	<b>1,150,722</b>
<b>Cumulative Capital Expenditure</b>	<b>1,374,600</b>	<b>1,457,795</b>	<b>1,775,598</b>	<b>1,979,907</b>	<b>2,165,927</b>	<b>2,326,776</b>
<b>Cumulative Over/Under Borrowed</b>	<b>-38,542</b>	<b>-120,325</b>	<b>-490,724</b>	<b>-747,025</b>	<b>-974,531</b>	<b>-1,176,054</b>

\* 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**

### **Economic and Market Outlook**

#### **Overview**

Coronavirus has and will continue to be the major influence on the UK economy along with the effect of Brexit in 2021/22 including lockdown measures, vaccines and new trading arrangements. Unfortunately, with the new more transmissible variant of the virus numbers are hitting new record highs. However, during December we have had some good news in that two vaccines were given approval in the UK. Although it will take some time to vaccinate the population, there may be some light at the end of the tunnel.

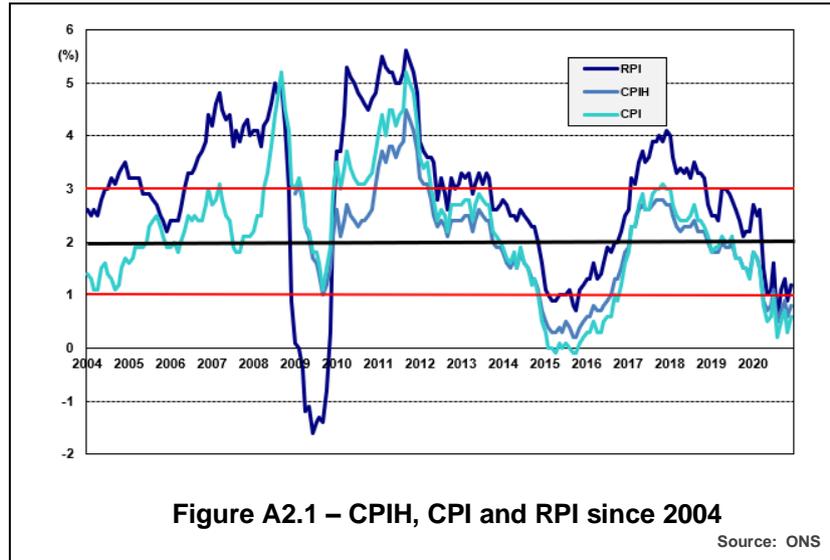
#### **World Economy**

In the US the Federal Reserve Open Market Committee (FOMC) voted to reduce interest rates twice in March 2020. It has remained at its current rate of 0-0.25 since 16<sup>th</sup> March and have strongly indicated that interest rates are unlikely to change over the next three years. The US Economy grew by 33.4% in Quarter 3 after a contraction of 31.4% in Quarter 2. President Biden was officially sworn in on the 20<sup>th</sup> January ending 4 years of President Trump in the White House.

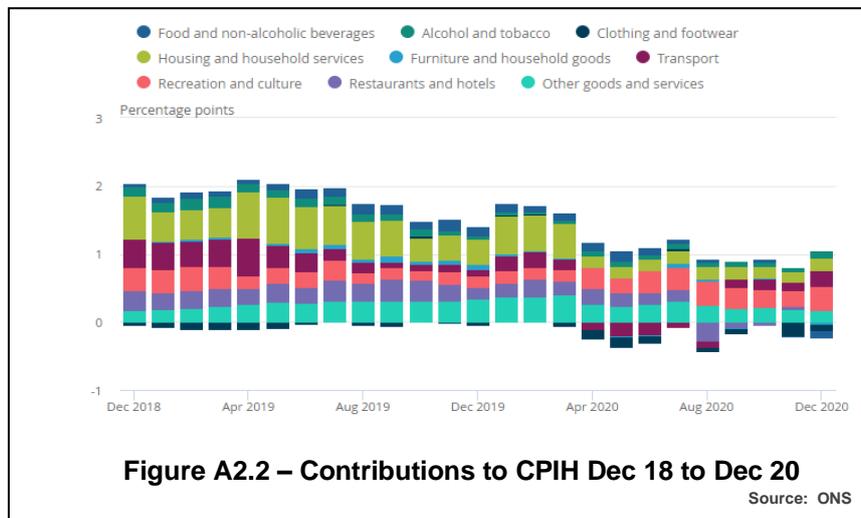
Inflation in the Eurozone is expected to be -0.3% in December 2020, the same as the previous 3 months. Prices should continue to fall for energy and non-energy industrial products. Prices for food, alcohol and tobacco increased. Core inflation, which excludes the prices of food, alcohol and tobacco and energy, for December is likely to be unchanged at 0.2% which continues to be the lowest on record. The economy grew by 12.5% in the three months to September 2020, recovering from -11.7% the previous quarter. This was the largest increase since 1995 which was boosted by a rebound in activity and demand as lockdowns were gradually lifted. Since September further restrictions were implemented across the Eurozone which will have a negative effect on future growth figures.

#### **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 0.6% in December 2020, up from 0.3% in November and below the Bank of England’s target rate. CPIH was 0.8% in December, up from 0.6% in November. The largest upwards contributions came from recreation and culture, rising transport costs and clothing. Downwards movements came from food and non-alcoholic beverages. Figure A2.2 shows the contributions to CPIH from December 2017 to December 2019, highlighting the movements.



### Interest Rate Outlook

Table A2.1 gives a Reuters poll of up to 59 economists, taken 15th January, showing their forecasts for UK Bank Rate until Quarter 2 2022. Most economists polled believed that the UK Bank Rate will remain at 0.10% until the 2<sup>nd</sup> quarter of 2022. The poll also shows some Economists believe UK Bank Rate will turn negative as quickly as Q1 2021.

	2021				2022	
	Q1/21	Q2/21	Q3/21	Q4/21	Q1/22	Q2/22
Median	0.10	0.10	0.10	0.10	0.10	0.10
Mean	0.09	0.08	0.07	0.07	0.08	0.08
Mode	0.10	0.10	0.10	0.10	0.10	0.10
Min	-0.15	-0.15	-0.15	-0.15	-0.10	-0.10
Max	0.10	0.10	0.10	0.10	0.10	0.10
Count	59	59	59	59	43	34

**Table A2.1 – Economists’ Forecasts for UK Bank Rate**

Source: REUTERS

## UK Interest Rates

Due to the worsening global economic impact of the COVID-19 virus the Bank of England’s Monetary Policy Committee (MPC) cut UK Bank Rate from 0.75% to 0.25% on the 11<sup>th</sup> March 2020 then again on the 19<sup>th</sup> March to 0.10% where it remains. The quantitative easing programme has increased by £450bn from the start of lockdowns in March and now stands at £895bn.

In November 2020 after a consultation process the PWLB announced a reduction of 1% in all Standard Rate and Certainty Rate loans effective immediately. The new terms apply to all Local Authorities as long as they confirm there is no intention to buy investment assets primarily for yield in the current or next two financial years. Gilt yields have remained relatively low with short term yields negative. However, we consider that there is some upward pressure on rates which is likely to intensify if the roll out in the Covid-19 vaccine is seen to be successful and results in a rebound in the economy.

**Treasury Management – Debt Management Strategy****Overview**

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

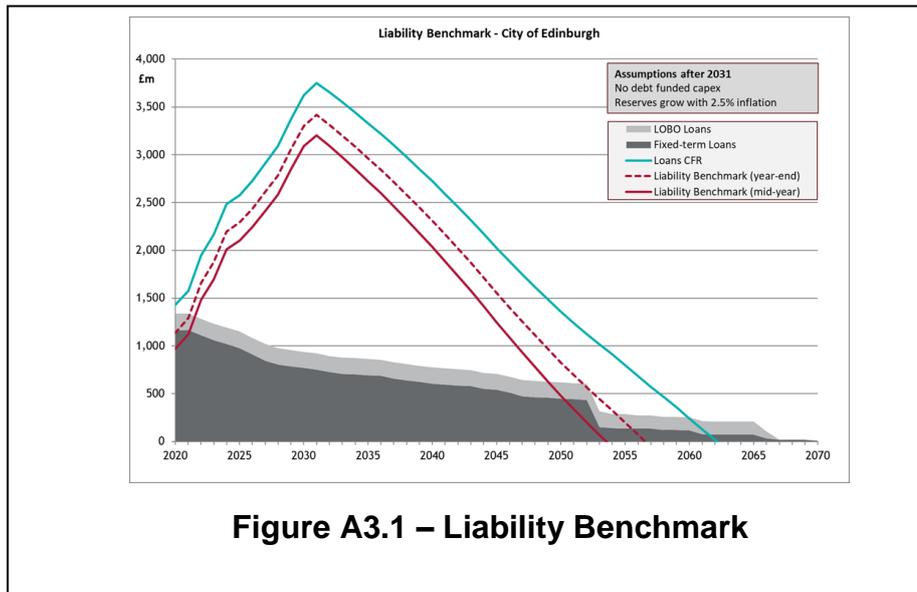
- forecast average future interest rates and borrow accordingly;
- secure new funding at the lowest cost in a manner that is sustainable in the medium term;
- ensure that the Council's interest rate risk is managed appropriately;
- ensure smooth debt profile with a spread of maturities; and
- reschedule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

**Loans Fund Borrowing Requirement**

Around £200m of capital expenditure which anticipated in 2020/21 has been re-profiled into future financial years due to the effects of the global pandemic and lockdowns. 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 £1.175bn, and the HRA £812m, giving a total of £1.987bn over the 5 years.

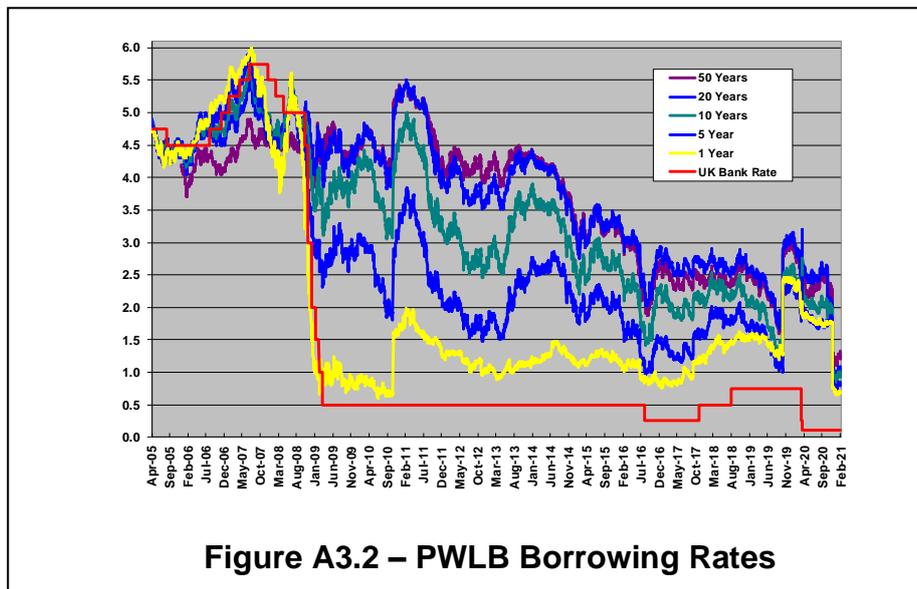
Tables A1.2 and A1.3 show how it is anticipated that the Capital Expenditure in Table A1.1 will be funded. Of the £1.987bn, £827m for the GF and £418m for the HRA will be funded by new capital advances from the Loans Fund. Table A1.4 in Appendix1 shows that the Council's underlying need to borrow (shown as Cumulative Capital Expenditure) is projected to increase from £1.375bn at the start of the current financial year to £2.327bn at 31 March 2025.

The Cumulative Borrowing Requirement shows that if the Council were to fully fund its Capital Financing Requirement it would need to borrow £1.198bn over the next 5 years, on top of the £39m in cash balances which have already been used to temporarily fund capital expenditure. Figure A3.1 below shows the Council's Liability benchmark which includes projected borrowing up to 2031. This indicates how much the Council would need to borrow if the Capital projections prove to be accurate. The Council therefore have a substantial borrowing requirement and hence interest rate risk.



### Debt Management Strategy

The Council has a substantial borrowing requirement over the next 5 years which gives the Council a significant financing risk. The quarter of a billion pounds of borrowing undertaken in 2019/20 has reduced the financing risk to an extent but the Liability Benchmark indicates the substantial level of borrowing which the Council may have to undertake in a rising interest rate environment. Figure A3.2 below shows PWLB Maturity Borrowing Rates from April 2005 to February 2021.



Because of the new borrowing undertaken in 2019/20, the use of temporary investments to fund capital expenditure fell from £157m to £39m at 31 March 2020. This gave scope to await the results of the PWLB Consultation, but the quantum of borrowing requirement which the Council has over the next few years suggests that more of the financing risk

needs to be managed. It is therefore intended to lock out PWLB borrowing as the certainty of capital expenditure becomes clear. Forward starting options as an alternative to PWLB will also be considered to manage the risks.

The strategy for the coming year is therefore 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.

### 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 be 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.

As part of the 2019/20 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.

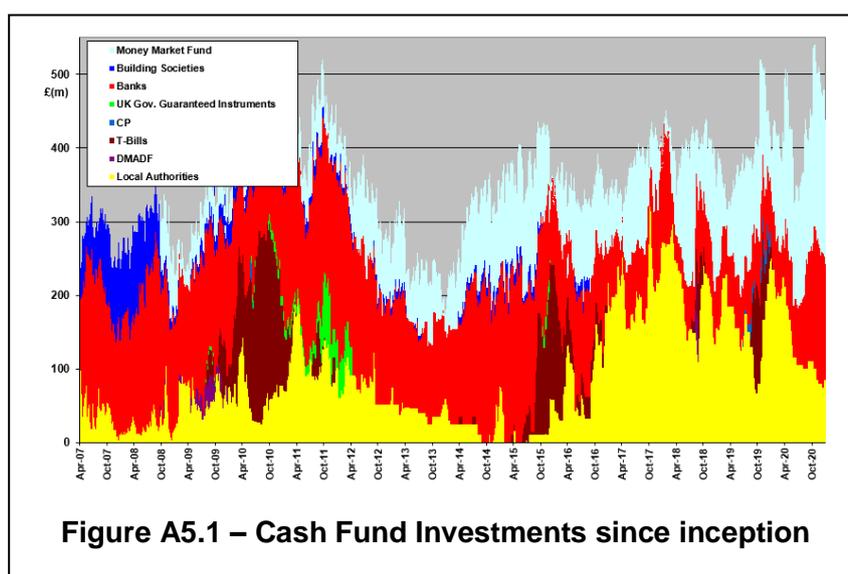
The Council operates the loans fund to manage historic debt and the balance therefore represents historic borrowing for capital spend.

## 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.

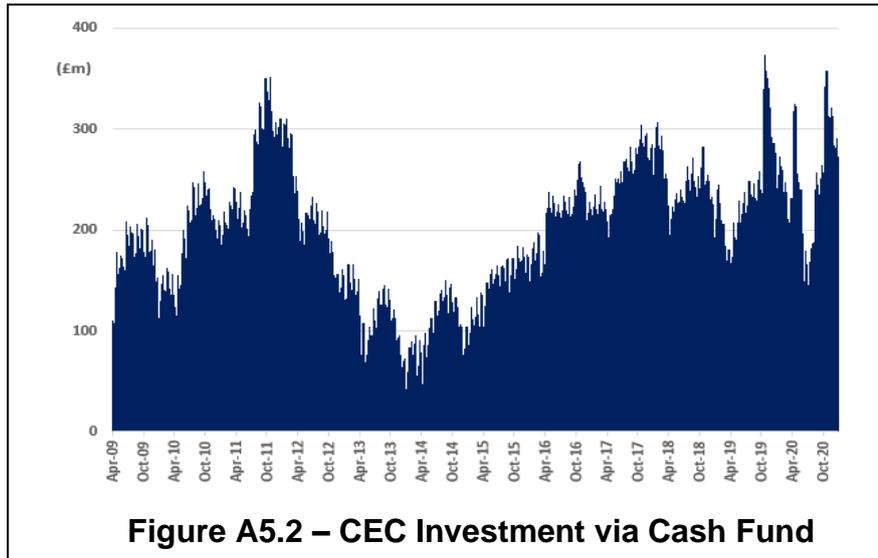
The Council's cash balances are pooled and invested via the Treasury Cash Fund subject to the limits set out in the Cash Fund Treasury Management Policy Statement. The Cash Fund's Investment Strategy continues to be based around the security of the investments. Figure A5.1 below shows the distribution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



**Figure A5.1 – Cash Fund Investments since inception**

Figure A5.1 shows the split of investments since the inception of the cash fund.

Figure A5.2 below shows the level of Council investments via the cash fund. The large peak at the start of the financial year was due to Scottish Government Grants to cover COVID-19 grant claim and can be seen reducing very quickly. The following peak in October was the drawdown of the large forward borrowing agreed in 2018. Opportunities were taken to lock out some Local Authority deposits at a rate higher than on offer with Banks and Money Market Funds and the average weighted life of the fund was 30 days towards the end of the calendar year.



**Figure A5.2 – CEC Investment via Cash Fund**

Our central forecast has been that UK Bank Rate will remain at 0.10% for some time to come. However, further cuts to zero or negative can't be fully ruled out. There are continued dangers from Coronavirus although vaccinations can hopefully mean that that lockdowns can come to an end later in the year subsequently giving a much needed lift to the economy.

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.

## Debt Maturity Profile (January 2021)

## 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**

<b>Start Date</b>	<b>Loan Type</b>	<b>Maturity Date</b>	<b>Principal Outstanding £</b>	<b>Interest Rate %</b>	<b>Annual Interest £</b>
10/05/2010	A	10/05/2021	265,710.97	3.09	20,277.28
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	3,218,399.79	3.66	138,009.52
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	5,645,240.95	3.64	233,195.41
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	2,401.26	3	77.73
14/07/2011	M	14/07/2030	10,000,000.00	4.93	493,000.00
15/06/1951	E	15/05/2031	2,460.69	3	79.10
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
24/03/2020	A	24/03/2050	14,805,473.94	1.64	241,201.58
26/03/2020	A	26/03/2050	4,933,603.76	1.49	73,012.36
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	107,942,304.56	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	2,655,284.60	2.65	71,164.31
11/06/2019	A	11/06/2059	1,253,893.84	2.23	28,303.54
01/10/2019	A	01/10/2059	1,320,070.03	1.74	23,276.17
02/10/2019	A	02/10/2059	39,309,771.67	1.8	716,907.89
05/11/2019	A	05/11/2059	7,048,165.68	2.96	210,742.68
28/11/2019	A	28/11/2059	1,289,237.57	3.03	39,453.89
02/12/2019	A	02/12/2059	2,775,526.71	3.03	84,938.05
20/01/2020	A	20/01/2060	1,965,263.65	1.77	35,246.97

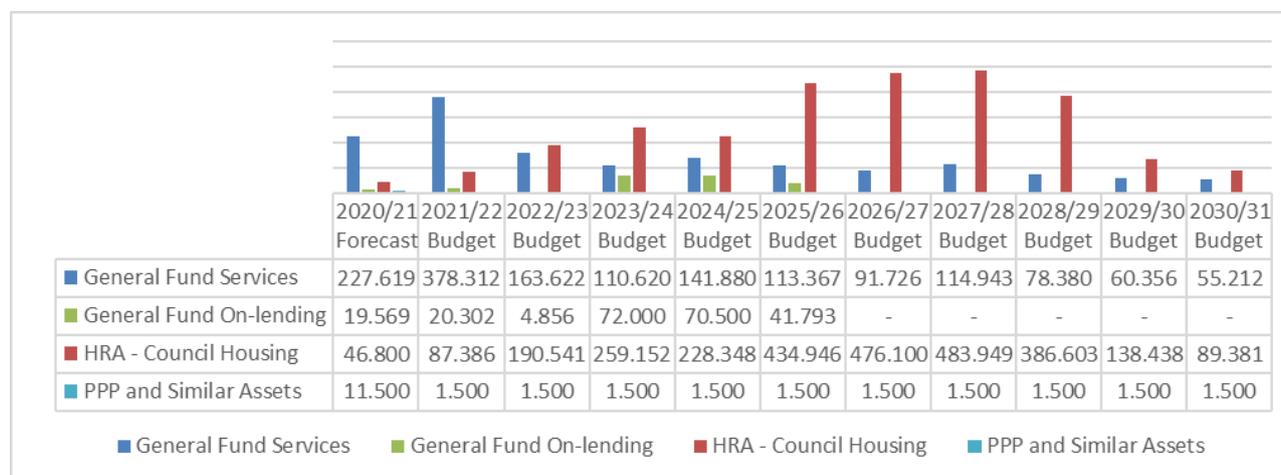
20/01/2020	A	20/01/2060	452,227.68	2.97	13,567.14
04/10/2019	M	04/04/2060	40,000,000.00	1.69	676,000.00
02/12/2011	M	02/12/2061	5,000,000.00	3.98	199,000.00
26/03/2020	M	26/03/2070	10,000,000.00	1.29	129,000.00
			1,041,667,097.03		

**SPECIAL**

<b>Start Date</b>	<b>Loan Type</b>	<b>Maturity Date</b>	<b>Principal Outstanding £</b>	<b>Interest Rate %</b>	<b>Annual Interest £</b>
07/01/2015	E	01/09/2021	78,957.14	0	0
31/03/2015	E	01/04/2023	450,724.35	0	0
22/09/2015	E	01/10/2023	131,879.82	0	0
29/03/2019	E	01/04/2029	118,981.81	0	0
08/10/2020	A	08/10/2045	60,000,000.00	2.613	1,556,590.56
			60,780,543.12		

## Prudential Indicators

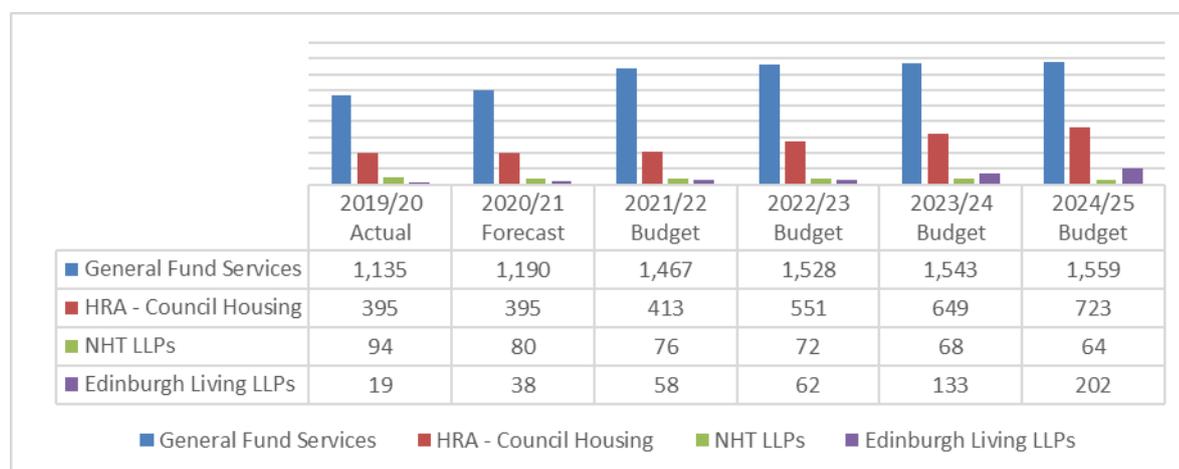
### Indicator 1 – Capital Expenditure

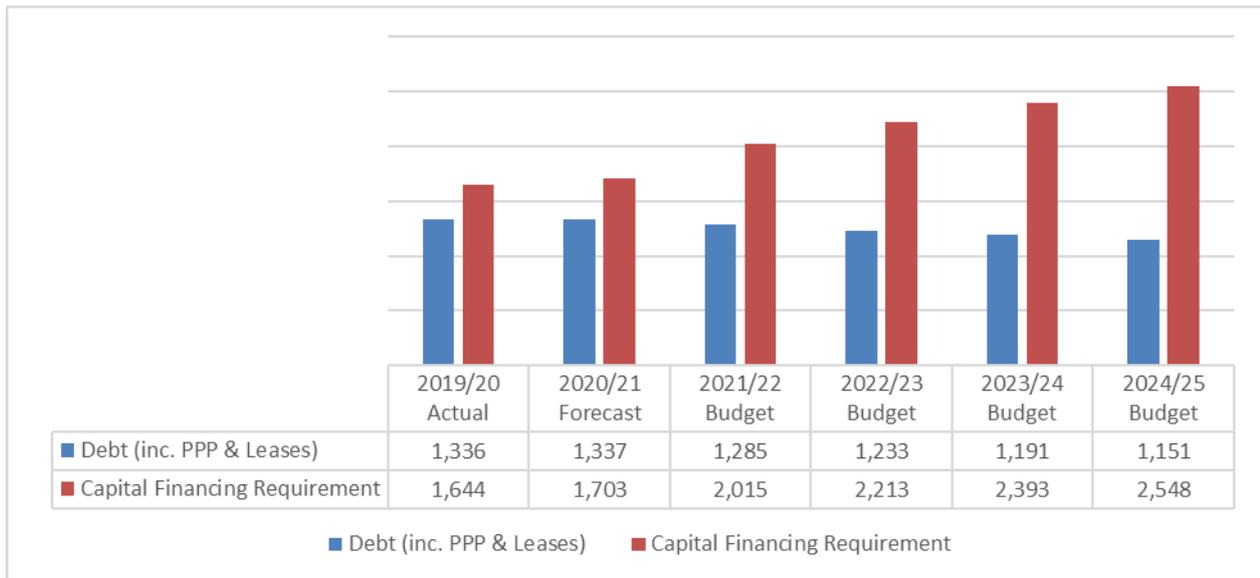


### Indicator 2 – Ratio of Financing Cost to Net Revenue Stream

	2019/20 Actual	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget
Financing costs (£m) – General Fund Services	104,710	79,611	56,524	98,337	108,665	108,507
Proportion of net General Fund revenue stream	10.50%	7.42%	4.73%	8.77%	9.78%	9.85%
Financing costs (£m) – Housing Revenue Account	39,148	36,337	37,556	40,652	46,252	51,963
Proportion of net HRA revenue stream	37.65%	35.23%	35.89%	37.75%	41.00%	44.27%

### Indicator 3 – Capital Financing Requirement





#### Indicators 4 and 5 – Authorised limit and Operational Boundary for External Debt

	2020/21 Limit	2021/22 Limit	2022/23 Limit	2023/24 Limit	2024/25 Limit
Authorised Limit – Borrowing	2,088	2,566	2,891	2,831	2,725
Authorised Limit – PFI and Leases	256	248	242	235	229
<b>Authorised Limit – Total External Debt</b>	<b>2,344</b>	<b>2,814</b>	<b>3,133</b>	<b>3,066</b>	<b>2,954</b>
Operational Boundary – Borrowing	1,538	1,959	2,344	2,560	2,725
Operational Boundary – PFI and Leases	256	248	242	235	229
<b>Operational Boundary – Total External Debt</b>	<b>1,794</b>	<b>2,207</b>	<b>2,586</b>	<b>2,795</b>	<b>2,954</b>

#### Indicator 6 – Loans Charges associated with the net Capital Investment Expenditure Plans

##### INDICATOR 6

2020/21	2021/22	2022/23	2023/24	2024/25
Forecast	Forecast	Forecast	Forecast	Forecast
£000	£000	£000	£000	£000

Loans Fund Pooled Interest Rate at Indicative 4%

General Fund (excluding On-Lending) - New Loans Fund Advances

Loans Fund Advances in year	54,798	213,187	62,268	55,388	73,159
Year 1 - Interest Only	1,111	4,323	1,263	1,123	2,191
Year 2 - Interest and Principal Repayment	3,188	12,401	3,622	3,222	5,938

HRA - New Loans Fund Advances

Loans Fund Advances in year	14,226	33,084	154,067	118,448	97,870
Year 1 - Interest Only	288	754	3,509	2,698	2,229
Year 2 - Interest and Principal Repayment	828	2,043	9,512	7,313	6,042

# 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, collateralised 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:

<b>Credit Rating</b>	<b>Banks Insecured</b>	<b>Banks Secured</b>	<b>B. Socs. Insecured</b>	<b>B. Socs. Secured</b>
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:

<b>Category</b>	<b>Max. Time Limit</b>
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 Pools.  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 Pools  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 Pools.  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 Pools.  On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.

<p>k. Bonds (Low to medium risk depending on period &amp; credit rating)</p>	<p>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.</p>	<p>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.</p>
<p>l. Floating Rate Notes (Low to medium risk depending on credit rating)</p>	<p>These are Bonds on which the rate of interest is established periodically with reference to short term interest rates.</p>	<p>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 Pools.  Will be used in an increasing interest rate environment but only for a limited proportion of the portfolio.</p>
<p>m. Commercial Paper (Low to medium risk depending on credit rating)</p>	<p>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.</p>	<p>The counterparty selection criteria approved above restricts lending only to high quality counterparties, on a hold to maturity basis. They are relatively short maturity.</p>
<p>n. Secured Investments (relatively low risk due to dual recourse)</p>	<p>These include Reverse Purchase Agreements (Repo) and Covered Bonds issued by banks and building societies.</p>	<p>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).</p>

# 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)	<p>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.</p> <p>These will be used to provide the primary liquidity source for Cash Management</p>	<p>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 Pools.</p> <p>On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence</p>
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	<p>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 Pools</p> <p>On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.</p>
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	<p>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.</p> <p>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</p>	<p>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.</p> <p>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.</p>
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