The City of Edinburgh Council

10.00am, Thursday, 16 March 2023

Annual Treasury Management Strategy 2023/24 – referral from the Finance and Resources Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The Finance and Resources Committee has referred a report on the Annual Treasury Management Strategy 2023/24 to the City of Edinburgh Council for approval.

Dr Deborah Smart
Executive Director of Corporate Services

Contact: Taylor Ward, Assistant Committee Officer
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THE CITY OF EDINBURGH COUNCIL

Referral Report

Annual Treasury Management Strategy 2023/24

2. Terms of Referral

2.1 On 10 March 2023, the Finance and Resources Committee considered a report on the Annual Treasury Management Strategy 2023/24 comprising an Annual Investment Strategy and a Debt Management Strategy.

2.2 The Finance and Resources Committee agreed:

2.2.1 To note the Annual Treasury Management Strategy 2023/24 and refer the report to the City of Edinburgh Council for approval then on 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 £2.473bn between 2022/23 and 2027/28 with an underlying need to borrow at 31 March 2028 forecast to be £2.321bn.

2.2.2.2 The Council would continue to fund its Capital Financing Requirement from temporary investment balances over the next year, locking out the risk where appropriate.

3. Background Reading

3.1 Finance and Resources Committee – 10 March 2023 - Webcast

3.2 Minute of the Finance and Resources Committee – 10 March 2023

4. Appendices

4.1 Appendix 1 – report by the Executive Director of Corporate Services

Finance and Resources

10:00am, Friday, 10 March 2023

Annual Treasury Management Strategy 2023/24

Executive/routine	**Executive**
Wards	
Council Commitments	

1. Recommendations

1.1 It is recommended that the Committee:

1.1.1 Notes the Annual Treasury Strategy 2023/24 and refers the report to the City of Edinburgh Council for approval then on to 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 £2.473bn between 2022/23 and 2027/28 with an underlying need to borrow at 31 March 2028 forecast to be £2.321bn; and
- The Council will continue to fund its Capital Financing Requirement from temporary investment balances over the next year, locking out the risk where appropriate.

Dr Deborah Smart
Executive Director of Corporate Services

Contact: Innes Edwards, Principal Treasury and Banking Manager,
Finance Division, Resources Directorate
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Report

Annual Treasury Management Strategy 2023/24

2. Executive Summary

2.1 The report proposes a Treasury Management Strategy for the Council for 2023/24, 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 2023/24 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 updated Prudential Indicators based on the budget approved by Council on 23 February 2023.

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 5 years. This shows that GF capital expenditure is anticipated to be £1.347bn, and the HRA £1.126bn, giving a total of £2.473bn over the 6 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 £2.473bn, £810m for the GF and £441m 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 £1.623bn at the start of the current financial year to £2.321bn at 31 March 2028.

Economic Outlook

4.4 Appendix 2 gives an overview of the current economic and market outlook. The major issues to the economy over the quarter continue to be the continuing economic recovery from the coronavirus pandemic and the invasion of Ukraine by Russia, which have contributed to substantially higher inflation and higher interest rates. In the UK inflation is well above the Bank of England's target rate of 2% at 10.5% and the UK only narrowly avoided recession in Q4 2022.

Treasury Management Strategy – Debt

4.5 The Council has only borrowed £11.1m during the 2022/23 financial year, linked to on-lending to Edinburgh Living MMR LLP.

4.6 The Debt Management Strategy for 2023/24, as set out in Appendix 3, is to:

- continue to reduce investment balances to temporarily fund capital expenditure; and
- continue to lock out the risk on projects when the timing of capital expenditure becomes certain and if there are any short-term dips in interest rates.

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 2023/24 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 2023/24. 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 and appropriate interest rates allow. 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 have been updated to reflect the budget approved by Council on 23 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

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 compounded SONIA (Sterling Overnight Index Average) 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

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 2022)

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

Appendix 1

Summary of Capital Expenditure and Funding Requirement

General Services	2021/22 Actual £000	2022/23 Forecast £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Learning Estate	95,726	34,501	99,846	118,462	112,777	47,761	10,233
Asset Management Works	23,236	11,321	15,473	35,677	41,635	26,071	16,000
Place - Transport and Infrastructure	176,181	47,928	73,781	43,468	30,562	21,685	20,322
Place - Other Projects	0	57,945	45,966	45,944	32,874	29,200	29,200
Corporate Services	3,155	1,001	4,665	1,597	669	678	615
Edinburgh Health and Social Care Partnership	164	601	0	0	0	0	0
Other Community (inc Libraries and Sports Centres)	0	3,502	5,352	165	165	165	165
Trams to Newhaven	68,486	56,452	1,755	0	0	0	0
Edinburgh Living LLPs	4,167	37,817	59,418	70,500	41,793	10,804	0
Contingency	0	0	324	0	5,000	5,000	5,000
(slippage) / acceleration across the programme	0	0	-31,233	-15,765	5,775	14,880	11,601
Total Capital Expenditure	**371,116**	**251,067**	**275,346**	**300,048**	**271,250**	**156,244**	**93,136**
HRA – Capital Expenditure	**64,850**	**106,590**	**173,361**	**189,941**	**202,249**	**232,711**	**220,729**

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

General Services	2021/22 Actual £000	2022/23 Forecast £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Grants	115,690	110,057	75,131	70,619	71,430	67,194	68,194
Asset Sales	7,387	3,571	7,000	4,000	3,000	3,000	3,000
Capital Fund	7,150	-	27,650	-	-	-	-
Other External Income	20,447	16,275	6,369	-	-	-	-
Loans Fund Advances	220,442	121,164	159,196	225,429	196,820	85,050	21,942
Total	**371,116**	**251,067**	**275,346**	**300,048**	**271,250**	**156,244**	**93,136**

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

HRA	2021/22 Actual £000	2022/23 Forecast £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Grants	18,372	18,386	28,051	17,563	27,002	37,490	17,225
Asset Sales	11,114	24,124	60,329	46,688	111,810	105,935	74,724
Current Revenue	-	18,300	23,300	18,300	18,300	18,300	18,300
Loans Fund Advances	35,364	45,780	61,681	107,390	45,137	70,986	110,480
Total	**64,850**	**106,590**	**173,361**	**189,941**	**202.249**	**232,711**	**220,729**

Table A1.3 - Funding Sources for HRA Capital Expenditure

Capital Funding v. External Debt	2021/22 Outturn £'000	2022/23 Forecast £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Debt b/fd	1,347,045	1,499,374	1,452,260	1,501,407	1,626,299	1,692,286	1,706,342
Cumulative Capital Expenditure b/fd	1,456,649	1,622,957	1,713,418	1,851,343	2,095,800	2,240,388	2,287,135
Over/underborrowed b/fd	-109,603	-123,583	-261,158	-349,936	-469,501	-548,101	-580,793
GF Capital Financed by borrowing	147,789	44,091	98,023	154,929	155,027	74,246	21,942
OS Debt rounding	-2						
Tram Capital Financed by borrowing	68,486	56,452	1,755	0	0	0	0
Lending to LLPs	4,167	20,621	59,418	70,500	41,793	10,804	0
HRA Capital Financed by borrowing	35,364	45,780	61,681	107,390	45,137	70,986	110,480
less scheduled repayments by GF	-39,573	-45,119	-47,882	-51,766	-57,491	-61,096	-62,925
less scheduled repayments by Tram	0	0	-2,478	-5,073	-5,193	-5,316	-5,441
less scheduled repayments by LLPs	-590	-688	-888	-1,537	-2,329	-2,850	-3,066
less scheduled repayments by HRA	-17,356	-18,661	-19,796	-21,343	-23,715	-25,104	-27,023
less scheduled repayments by Police	-556						
less scheduled repayments by NHT	-31,421	-12,015	-11,908	-8,642	-8,642	-14,924	0
Underlying Need to Borrow	166,308	90,461	137,925	244,457	144,587	46,747	33,967
plus total maturing debt	53,935	55,114	44,753	44,008	67,913	69,844	47,063
Total Borrowing Requirement	220,243	145,576	182,678	288,465	212,500	116,592	81,030
Cumulative Borrowing Requirement	220,243	365,819	548,497	836,962	1,049,462	1,166,054	1,247,084
Committed Market Borrowing	206,264	8,000					
Planned PWLB or short borrowing for year			93,900	168,900	133,900	83,900	58,900
Debt at end of the year	1,499,374	1,452,260	1,501,407	1,626,299	1,692,286	1,706,342	1,718,179
Cumulative Capital Expenditure	1,622,957	1,713,418	1,851,343	2,095,800	2,240,388	2,287,135	2,321,102
Cumulative Over/Under Borrowed	-123,583	-261,158	-349,936	-469,501	-548,101	-580,793	-602,923

Table A1.4 - Capital Funding v. External Debt

Please note, the above tables may include rounding differences

Appendix 2

Economic and Market Outlook

Overview

The major issues to the economy over the last quarter continued to be the on-going economic recovery from the coronavirus pandemic and the invasion of Ukraine by Russia. Amongst other causes, these have contributed to substantially higher inflation and higher interest rates. The UK Growth Plan announced by then Prime Minister and Chancellor, Liz Truss and Kwasi Kwarteng, at the end of September 2022, caused economic turmoil with the Bank of England having to step in to stabilise the economy after the value of the pound dropped to $1.05 and a steep increase in UK Gilt yields. The Government eventually reversed most of its announcements and after replacing the Prime Minister and Chancellor, now Rishi Sunak and Jeremy Hunt, the pound and gilt yields returned to the levels they were prior to the mini budget.

World Economy

The Federal Reserve Open Market Committee (FOMC) increased the federal funds Rate seven consecutive times in 2022 with rates ending the year at 4.25%-4.50% (with a further 25bp increase post quarter). The US economy grew by 3.2% in Q3 2022 following two quarters of contraction. US inflation slowed for a fifth consecutive month to 7.1% in November 2022.

Inflation in the Eurozone was 9.2% in December 2022 down from 10.1% in November giving some early signs that inflation in the Eurozone area may have peaked. The main contributors to the reduction were energy prices rising at a slower rate but food, alcohol and tobacco, non-energy industrial goods and services all increased. The Core inflation index which excludes energy, food, alcohol and tobacco increased from 5% to 5.2%.

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.

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

Source: ONS

The Government’s preferred measure of inflation, CPI was 10.5% year on year in December 2022, decreasing for two months from 11.1% in October and way above the Bank of England’s target rate. CPIH (Consumer Prices Index including owner occupiers’ housing costs) 9.2% year on year in December 2022, having decreased from 9.6% in October. The main contributor to the decrease in CPIH was transport and motor fuels in particular while restaurants, cafes and pubs gave the largest upward contributions.

Figure A2.2 shows the contributions to change in CPIH from October to November 2022 clearly showing the decreases in transport and increase in restaurants.

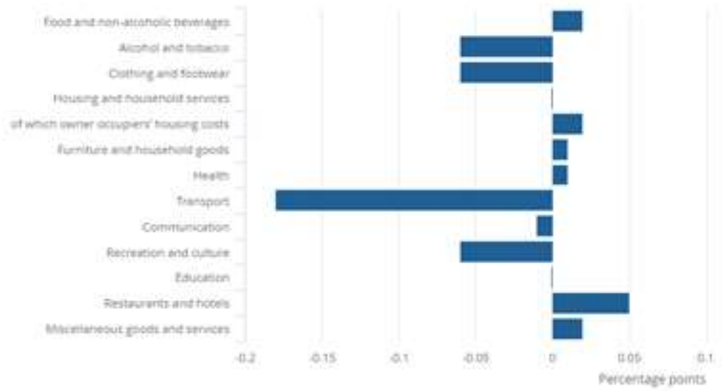

Figure A2.2 – Contributions to change in CPIH between Oct and Nov 22

UK Interest Rate Outlook

The Bank of England has raised interest rates at every single one of their 10 Monetary Policy Committee (MPC) meetings since December 2021. The UK Bank Rate is now 4.0% with further increases at the MPC’s March and May meetings a distinct possibility as the Bank of England’s MPC tries to bring record high inflation levels under control. Inflation in October 2022 hit 11.1% falling slightly since, with a December reading of 10.5%. It is hoped that inflation has reached its peak as much of the inflation was caused by one-off events including energy prices which now seem to be falling. However, there is still the possibility of a wage/price spiral which may lead to inflation becoming entrenched in the economy.

Appendix 3

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 5 years. This shows that GF capital expenditure is anticipated to be £1.347bn, and the HRA £1.126bn, giving a total of £2.473bn over the 6 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 £2.473bn, £810m for the GF and £441m for the HRA will be funded by new capital advances from the Loans Fund. 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 £1.622bn at the start of the current financial year to £2.321bn at 31 March 2028.

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 has a substantial borrowing requirement and hence interest rate risk.

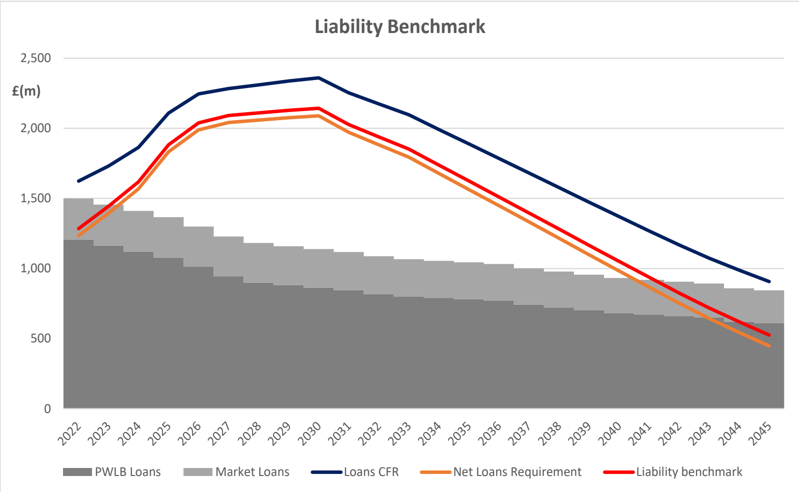

Figure A3.1 – Liability Benchmark

Debt Management Strategy

Figure A3.2 below shows PWLB Maturity Borrowing Rates from April 2005 to February 2023.

Figure A3.2 – PWLB Borrowing Rates

This shows the unprecedented rise in interest rates over the last year. While the £500m borrowed in the 3 years to April 2023 gives the Council some breathing space, the Council still has a substantial borrowing requirement over the next 6 years which gives the Council a significant financing risk. Figure A5.2 shows that the Council still has an elevated level of cash, although it is falling and is likely to fall further. It is difficult to justify borrowing at rates which now seem high, but the future course on interest rates is uncertain.

The strategy for the coming year is therefore to:

- continue to reduce investment balances to temporarily fund capital expenditure; and
- continue to lock out the risk on projects when the timing of capital expenditure becomes certain and if there are any short-term dips in interest rates.

Other Long-Term Liabilities

There are two changes in accounting treatment which will affect the value of the Council's other long-term liabilities.

Firstly, the Council is adopting the IFRS16 accounting standard with effect from 2022/23. This will have the effect of increasing the Council's Long-term Liabilities by £42 as "Right of Use" liabilities are recognised on the Council's Balance sheet. However, it is essentially presentational as the Council will also recognise £42m in "Right of Use" assets on the balance sheet at the same time.

In 2023/24, to the Council will also change the accounting treatment of service concessions, whereby the principal element of debt repayments on the concessions will be spread over the (longer) life of the asset rather than the contract term. The effect of this will be to increase other long-term liabilities by £95m on 1 April 2023, with further increases in subsequent years.

Other long-term liabilities are included in the calculation of the Council's Debt Capital Financing Requirement (CFR) so they will also result in an increase in the Council's Operational Boundary and Authorised Limit. Neither of these change the Council's underlying need to borrow so the Council's Loans CFR shown in the Figure A3.1 is unchanged.

However, the £95m from prior years can be treated as overpayments made available to fund expenditure. As this is used, as part of the revenue budget, the Council's actual cash position will be reduced. Since the Council is currently using cash balances to temporarily fund capital expenditure, a reduced cash position may have an effect on the timing of future borrowing. The costs associated with this are contained within the approved revenue budget.

Maturity / Interest Rate Structure of Borrowing

While all of the Council's external borrowing is currently fixed rate, the Council is required to set limits on the maturity structure of its borrowing and the proportion of it's borrowing which can be variable rate loans. The limits proposed are as follows:

	Lower Limit	Upper Limit
Under 12 months	0%	35%
12-24 months	0%	35%
24 months to 5 years	0%	50%
5 to 10 years	0%	50%
10 years +	20%	100%

It is also intended to operate with in the following limits for variable rate borrowing:

Upper limit for variable rate loans 25%

Upper limit for fixed rate loans 100%

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 is no longer available as an option;

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.

The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 require the statutory loans fund to be administered in accordance with the 2016 Regulations, proper accounting practices and prudent financial management. The Council operates a consolidated loans fund under the terms of these Regulations. Capital payments made by services are financed by capital advances from the loans fund.

Repayments for 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.

Appendix 5

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 shows the split of investments since the inception of the cash fund.

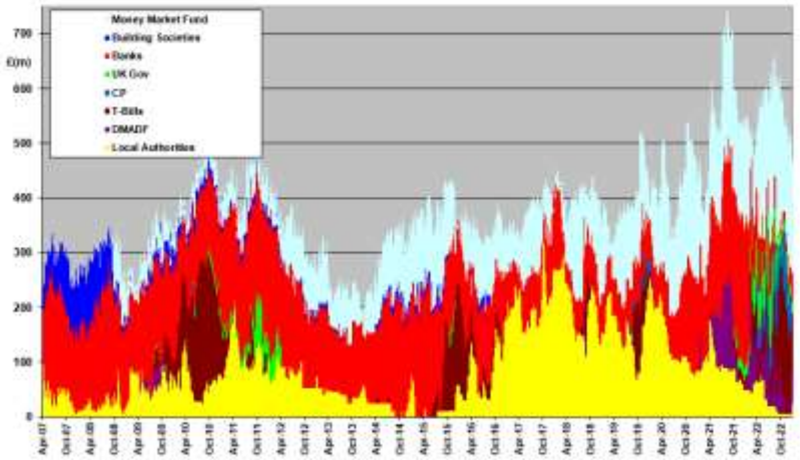

Figure A5.1 – Cash Fund Investments since inception

The Bank of England has raised interest rates at every single one of their 10 Monetary Policy Committee (MPC) meetings since December 2021. The UK Bank Rate is now 4.0% with further increases at the MPC's March and May meetings a distinct possibility. In this scenario, duration has a negative effect on the portfolio. This has made performance against the benchmark which moves in line with UK Bank Rate exceptionally challenging while maintaining the security of the portfolio.

On top of that, UK banks remain awash with cash and have little appetite to take deposits. Opportunities were taken to place deposits with the UK Government using the DMADF, UK Treasury Bills and UK Gilts at rates higher than on offer with Banks and Money Market Funds. To counter the effect of consecutive interest rate rises, we have kept the portfolio very liquid, and intend to continue this into the new financial year adding duration to the portfolio when we consider that we are closer to the peak of rates. In addition, there has been some recent interest from other local authorities in taking notice money from the Council. A number of 31- and 35-day notice loans have been agreed with the interest rate payable moving in line with any change made by the Bank of England, will hopefully provide a good core holding to the portfolio over the next few months.

Figure A5.2 below shows the level of Council investments via the cash fund

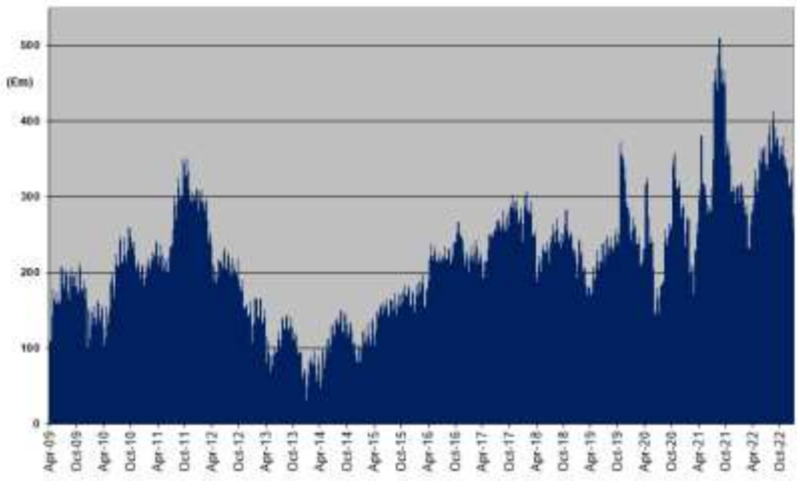

Figure A5.2 – CEC Investment via Cash Fund

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.

Appendix 6

Debt Maturity Profile (February 2023)

Market Debt (non LOBO)

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
08/10/2020	A	08/10/2045	56,500,257.49	2.613	1,727,158.52
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
			120,772,841.48		

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 £
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	1,667,538.64	3.66	82,768.94
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	3,508,514.75	3.64	157,491.50
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	1,895.62	3	62.56
14/07/2011	M	14/07/2030	10,000,000.00	4.93	493,000.00
15/06/1951	E	15/05/2031	1,991.93	3	59.76
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	14,011,287.23	1.64	224,786.70
26/03/2020	A	26/03/2050	4,663,035.29	1.49	67,935.34
26/03/2021	A	26/03/2051	9,614,327.97	1.75	164,806.87
12/07/2021	A	12/07/2051	38,464,432.97	1.78	680,030.06
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	103,658,231.86	2.69	2,773,513.63
12/10/2007	M	12/04/2053	5,000,000.00	4.6	230,000.00
01/07/2021	A	01/07/2053	48,292,867.50	1.98	950,453.33
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	2,571,791.87	2.65	68,994.96
11/06/2019	A	11/06/2059	1,211,725.69	2.23	27,378.69
01/10/2019	A	01/10/2059	1,271,857.56	1.74	22,023.17
02/10/2019	A	02/10/2059	37,891,649.30	1.8	691,722.20
05/11/2019	A	05/11/2059	6,849,318.72	2.96	201,976.68
28/11/2019	A	28/11/2059	1,253,416.90	3.03	37,837.69
02/12/2019	A	02/12/2059	2,698,410.45	3.03	81,458.61
20/01/2020	A	20/01/2060	1,893,927.30	1.77	33,361.18
20/01/2020	A	20/01/2060	439,496.99	2.97	13,004.03
04/10/2019	M	04/04/2060	40,000,000.00	1.69	676,000.00
07/12/2021	A	07/12/2060	18,758,205.61	1.8	336,090.50
02/12/2011	M	02/12/2061	5,000,000.00	3.98	199,000.00
07/12/2021	A	07/12/2061	4,092,431.64	1.79	72,927.92
19/05/2022	A	19/05/2062	3,075,123.56	2.86	87,644.76
02/11/2022	A	02/11/2062	8,000,000.00	4.61	367,981.17
24/03/2022	A	24/03/2063	17,877,239.67	2.65	468,780.64
26/03/2020	M	26/03/2070	10,000,000.00	1.29	129,000.00
12/07/2021	M	12/07/2071	50,000,000.00	1.74	870,000.00
23/12/2021	M	23/12/2071	25,000,000.00	1.45	362,500.00

1,174,249,876.28

SPECIAL

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
31/03/2015	E	01/04/2023	90,144.87	0	0
22/09/2015	E	01/10/2023	43,959.94	0	0
29/03/2019	E	01/04/2029	90,986.09	0	0
			225,090.90		

Appendix 7

2023/24 Budget Prudential Indicators

Indicator 1 - Estimate of Capital Expenditure
The actual capital expenditure that was incurred in 2021/22 and the estimates of capital expenditure to be incurred for the current and future years:

	Capital Expenditure - General Services						
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Rolled Forward Capital Investment Programme	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Learning Estate	95,726	34,501	99,846	118,462	112,777	47,761	10,233
Asset Management Works	23,236	11,321	15,473	35,677	41,635	26,071	16,000
Place - Transport and Infrastructure	176,181	47,928	73,781	43,468	30,562	21,685	20,322
Place - Other Projects	0	57,945	45,966	45,944	32,874	29,200	29,200
Corporate Services	3,155	1,001	4,665	1,597	669	678	615
Edinburgh Health and Social Care Partnership	164	601	0	0	0	0	0
Other Community (inc Libraries and Sports Centres)	0	3,502	5,352	165	165	165	165
Trams to Newhaven	68,486	56,452	1,755	0	0	0	0
Edinburgh Living LLPs	4,167	37,817	59,418	70,500	41,793	10,804	0
Contingency	0	0	324	0	5,000	5,000	5,000
General (slippage) / acceleration across the programme	0	0	-31,233	-15,765	5,775	14,880	11,601
Total General Services Capital Expenditure	**371,116**	**251,067**	**275,346**	**300,048**	**271,250**	**156,244**	**93,136**

The Place - Trams to Newhaven figures include capitalised interest following a change in accounting policy approved by Finance and Resources Committee on 21 January 2021. Note that the 2023-2028 Capital Investment Programme includes slippage / acceleration brought forward based on projected capital expenditure reported at the month three stage.

Rolled Forward Capital Investment Programme	2021/22 Actual £000	2022/23 Forecast £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Housing Revenue Account	64,850	106,590	173,361	189,941	202,249	232,711	220,729

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 2021/22 are:

	Ratio of Financing Costs to Net Revenue Stream						
	2021/22 Actual %	2022/23 Forecast %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %
General Services	6.8%	7.1%	7.6%	8.0%	8.2%	8.4%	8.4%
Housing Revenue Account (HRA)	32.0%	32.5%	33.8%	35.0%	37.0%	37.8%	38.5%

Note: Figures for 2024/25 onwards are indicative at this stage as the Council has not set a General Services or HRA budget for these years.

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 2022 are:

	Capital Financing Requirement						
	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
General Services (including Finance Leases / Right of Use Assets)	1,411	1,494	1,620	1,707	1,789	1,791	1,739
Housing Revenue Account (HRA)	394	422	463	550	571	617	700
NHT LLPs	56	44	32	24	15	-0	-0
Edinburgh Living LLPs	42	62	120	189	229	236	233
Total Capital Financing Requirement	**1,903**	**2,021**	**2,236**	**2,469**	**2,604**	**2,644**	**2,673**

The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. The authority has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequences of all of the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

The capital financing requirement for the NHT LLPs includes an estimate for repayments of advances. Exit strategies are still to be finalised for the remaining three LLPs, however five have now repaid their loans in full.

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

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Gross Debt	1,789	1,769	1,896	2,009	2,065	2,073	2,079
Capital Financing Requirements	1,903	2,021	2,236	2,469	2,604	2,644	2,673
(Over) / under limit by:	**114**	**252**	**340**	**460**	**539**	**571**	**593**

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.

From 2022/2023, the Authority will apply IFRS 16 Leases as adopted by the Code of Accounting Practice. This will subsequently have an impact on the Capital Financing Requirement (CFR) as from the 2022/23 financial year. The capital financing requirement has been adjusted by £42m for 'Right of Use Assets' under IFRS16. 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. These limits separately identify borrowing under credit arrangements including finance leases and PFI assets. Council has delegated authority to the Service Director for Finance and Procurement, 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						
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m	£m	£m
Borrowing	1,748	1,905	2,202	2,531	2,806	2,925	2,972
Credit Arrangements (including leases and Right of Use assets)	289	317	394	383	373	366	361
Authorised Limit for External Debt	**2,038**	**2,222**	**2,596**	**2,914**	**3,179**	**3,291**	**3,333**

These authorised limits are consistent with the authority's current commitments, 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 (but not worst case) scenario with sufficient headroom to allow for operational treasury management. 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 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 has also delegated authority to the Service Director for Finance and Procurement, 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						
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m	£m	£m
Borrowing	1,690	1,855	2,152	2,481	2,756	2,875	2,922
Credit Arrangements (including leases)	289	317	394	383	373	366	361
Operational Boundary for External Debt	**1,980**	**2,172**	**2,546**	**2,864**	**3,129**	**3,241**	**3,283**

The Council's actual external debt at 31 March 2022 was £1,789m of borrowing (including sums repayable within 12 months).

Indicator 6 - Loans Charges Associated with net Capital Investment expenditure plans

The authority can set its own local indicators to measure the affordability of its capital investment plans. The Service Director for Finance and Procurement 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 2022/23 and for future years will be considered as part of the longer term financial frameworks.

	Loans Charges Liability					
	2022/23 Estimate £000	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**	**2026/27 Estimate £000**	**2027/28 Estimate £000**
General Services (excluding On-Lending and Tram to Newhaven) - New Loans Fund Advances						
Loans Fund Advances in year	44,091	98,023	154,929	155,027	74,246	21,942
Year 1 - Interest Only	882	1,960	3,099	3,101	1,485	439
Year 2 - Interest and Principal Repayment	3,233	7,188	11,361	11,369	5,445	1,609
Housing Revenue Account (HRA) - New Loans Fund Advances						
Loans Fund Advances in year (excl. LLP programme *)	45,780	61,681	107,390	45,137	70,986	110,480
Year 1 - Interest Only	973	1,311	2,282	959	1,508	2,348
Year 2 - Interest and Principal Repayment	1,946	2,621	4,564	1,918	3,017	4,695

* 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 or General Services revenue budget. Tram repayments are based on the income model and will commence from 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 Service Director – Finance and Procurement 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 Service Director - Finance and Procurement, 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 Service Director – Finance and Procurement, 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 Service Director - Finance and Procurement, 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 Service Director – Finance and Procurement 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