Governance, Risk and Best Value Committee

10.00am, Tuesday, 31 October 2023

Treasury Management: Annual Report 2022/23 – 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 the Treasury Management Annual Report 2022/23 to the Governance Risk and Best Value Committee for scrutiny.

Dr Deborah Smart
Executive Director of Corporate Services

Contact: Louise Williamson, Assistant Committee Officer
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Referral Report

Treasury Management: Annual Report 2022/23 – referral from the Finance and Resources Committee

2. Terms of Referral

2.1 On 21 September 2023, the Finance and Resources Committee considered the Treasury Management: Annual Report 2022/23. The report provided updates on Treasury Management activity in 2022/23..

2.3 The Finance and Resources Committee agreed:

2.3.1 To note the Annual Report on Treasury Management for 2022/23.

2.3.2 To remit the report by the Executive Director of Corporate Services to Council for approval.

2.3.3 To refer the report to the Governance, Risk and Best Value Committee for their scrutiny.

3. Background Reading/ External References

3.1 Finance and Resources Committee – 21 September 2023 - Webcast

3.2 Minute of the Finance and Resources Committee – 21 September 2023

4. Appendices

Appendix 1 – Report by the Executive Director of Corporate Services

Finance and Resources Committee

10:00am, Thursday, 21st September 2023

Treasury Management: Annual Report 2022/23

Executive/routine
Wards

1. Recommendations

1.1 It is recommended that the Committee:

1.1.1 Notes the Annual Report on Treasury Management for 2022/23;

1.1.2 Remits the report to Council for approval; and

1.1.3 Refers the report to the Governance, Risk and Best Value Committee for their scrutiny.

Dr Deborah Smart

Executive Director of Corporate Services

Contact: Innes Edwards, Principal Treasury and Banking Manager

E-mail: innes.edwards@edinburgh.gov.uk | Tel: 0131 469 6291

Report

Treasury Management: Annual Report 2022/23

2. Executive Summary

2.1 The purpose of this report is to give an update on Treasury Management activity in 2022/23.

3. Background

3.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Sector, and under the code, an Annual Report on Treasury Management must be submitted to the Council after the end of each financial year. A separate mid-term report will also be produced during the financial year.

4. Main report

4.1 The Treasury Management is undertaken with regard to the CIPFA Code of Practice for Treasury Management in the Public Services and CIPFA's Prudential Code. Appendix 1 contains Prudential Indicators showing the actual out-turn for 2022/23. The Council operated within both the Authorised Limit and the Operational Boundary at all times during the year and there were no breaches of the Council's Treasury Management Policy.

4.2 Appendix 2 gives a short economic review of the year, including a commentary from the Council's Treasury Advisors.

4.3 Appendix 3 gives an overview of the Council's borrowing for 2022/23. The Council only borrowed £11.1m term from the PWLB during the financial year.

4.4 Appendix 4 shows the Investment Out-turn for 2022/23.

4.5 A list of the Council's borrowing at 31 March 2023 is included in Appendix 5.

4.6 The Council's money is invested via the Treasury Cash Fund. The Cash Fund encompasses a number of organisations, including Lothian Pension Fund. Interest is accrued monthly, and performance is evaluated against a benchmark of 7-day compounded SONIA (sterling overnight index average) less 6.25 basis points.

4.7 UK Bank Rate was increased at every meeting of the Bank of England's Monetary Policy Committee during the year. The average interest rate on the fund for the year was 2.10% against a benchmark of 2.13%. The cash fund rate at year end was 4.14% against a benchmark of 4.11%.

5. Next Steps

5.1 The Treasury team will continue to operate its Treasury Cash Fund with the aim of out-performing its benchmark of 7-day compounded SONIA less 6.25 basis points and manage the Council's debt portfolio to minimise the cost to the Council while mitigating risk.

6. Financial impact

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

7. Equality and Poverty Impact

7.1 N/A.

8. Climate and Nature Emergency Implications

8.1 The Council's Treasury Management Policy Statements specify a list of approved investment types, and this list does not include investment in equities (other than in Council companies) or Corporate Bonds (other than issued by financial institutions). As such the Council has no direct or indirect investments in fossil fuel companies.

8.2 However, the most recent version of the Treasury Management Code has placed a greater emphasis on ESG issues, suggesting in the Treasury Management Practices that:

"The organisation's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level."

8.3 As the code notes, ESG within Treasury portfolios is a developing area, and further work on this will be carried out in conjunction with the Council's advisors with the intention of including narrative on responsible investment in the 2024/25 Policy Statement.

9. Risk, policy, compliance, governance and community impact

9.1 To support Elected Members in discharging their duties in relation to the Council's Treasury Management activities, it is intended to make some structured training available in advance of the 2024/25 Strategy report.

10. Background reading/external references

10.1 N/A.

11. Appendices

11.1 Appendix 1: Prudential Indicators Out-turn

11.2 Appendix 2: Economic Review of 2022/23

11.3 Appendix 3: Borrowing Out-turn 2022/23

11.4 Appendix 4: Investment Out-turn 2022/23

11.5 Appendix 5: Outstanding Debt as at 31st March 2023

Appendix 1

Prudential Indicators

Prudential Indicator 1 - Estimate of Capital Expenditure

The actual capital expenditure that was incurred in 2022/23 and the estimates of capital expenditure to be incurred for the current and future years:

	Capital Expenditure - General Services					
	2022/23 Actual	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Rolled Forward Capital Investment Programme	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Learning Estate	46,465	60,102	136,132	133,883	52,237	10,233
Asset Management Works	10,497	9,875	35,677	41,635	26,071	16,000
Place - Transport and Infrastructure	65,393	57,536	42,600	31,680	25,633	25,043
Place - Other Projects	77,257	67,348	70,506	50,775	29,200	29,200
Corporate Services	2,304	1,427	7,446	669	678	615
Edinburgh Health and Social Care Partnership	1,297	0	279	0	0	0
Other Community (inc Libraries and Sports Centres)	3,691	3,061	2,528	165	165	165
Trams to Newhaven	53,419	12,281	0	0	0	0
Edinburgh Living LLPs	27,400	13,764	70,500	92,071	10,804	0
Contingency	0	0	324	5,000	5,000	5,000
General (slippage) / acceleration across the programme	0	-16,000	-30,998	5,775	14,880	11,601
Total General Services Capital Expenditure	**287,722**	**209,395**	**334,996**	**361,651**	**164,668**	**97,857**

Table A1.1 – Capital Expenditure 2022/23 – General Services

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.

	2022/23 Actual	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Rolled Forward Capital Investment Programme	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Housing Revenue Account	121,335	124,798	238,504	202,249	232,711	220,729

Table A1.2 – Capital Expenditure 2022/23– Housing Revenue Account

Prudential 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 2022-23 are:

	Ratio of Financing Costs to Net Revenue Stream					
	2022/23 Actual	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	%	%	%	%	%	%
General Services	7.2%	7.6%	8.0%	8.2%	8.4%	8.4%
Housing Revenue Account (HRA)	33.9%	31.0%	32.2%	34.8%	36.2%	36.9%

Table A1.3 – Ratio of Financing Costs to Net Revenue Stream

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.

Prudential Indicator 3 - Capital Financing Requirement (CFR)

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 2023 are:

	Capital Financing Requirement					
	2022/23 Actual £m	2023/24 Forecast £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	1,596	1,575	1,681	1,788	1,798	1,752
Housing Revenue Account (HRA)	423	471	550	571	617	700
NHT LLPs	44	32	24	15	0	0
Edinburgh Living LLPs	59	72	142	232	240	237
Total Capital Financing Requirement	**2,122**	**2,151**	**2,397**	**2,606**	**2,655**	**2,689**

Table A1.4 – Capital Financing Requirement

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 consequence of all of the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

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					
	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Gross Debt	1,879	1,910	2,023	2,079	2,087	2,094
Capital Financing Requirements	2,122	2,151	2,397	2,606	2,655	2,689
(Over) / under limit by:	**243**	**241**	**374**	**527**	**568**	**596**

Table A1.5 – Gross Debt v. Capital Financing Requirement

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 has applied IFRS 16 Leases as adopted by the Code of Accounting Practice. This will have an impact on the Capital Financing Requirement (CFR) as from the 2022/23 financial year. The capital financing requirement has been adjusted by £51m for 'Right of Use Assets' under IFRS16. This will similarly have an impact on the authorised limit and operational boundary for external debt.

Prudential 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					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m	£m
Borrowing	1,900	2,093	2,435	2,784	2,912	2,964
Credit Arrangements (including leases and Right of Use assets)	423	405	394	384	377	372
Authorised Limit for External Debt	**2,323**	**2,498**	**2,828**	**3,168**	**3,289**	**3,336**

Table A1.6 – Authorised Limit for External Debt

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.

Prudential 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					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m	£m
Borrowing	1,850	2,043	2,385	2,734	2,862	2,914
Credit Arrangements (including leases)	423	405	394	384	377	372
Operational Boundary for External Debt	**2,273**	**2,448**	**2,778**	**3,118**	**3,239**	**3,286**

Table A1.7 – Operational Boundary for External Debt

The Council's actual external debt at 31 March 2023 was £1,870m (including sums repayable within 12 months).

Prudential 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 2023-24 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	42,890	35,501	172,616	177,141	82,670	26,663
Year 1 - Interest Only	858	710	3,452	3,543	1,653	533
Year 2 - Interest and Principal Repayment	3,145	2,603	12,658	12,990	6,062	1,955
Housing Revenue Account (HRA) - New Loans Fund Advances						
Loans Fund Advances in year (excl. LLP programme *)	46,777	68,864	100,207	45,137	70,986	110,480
Year 1 - Interest Only	994	1,463	2,129	959	1,508	2,348
Year 2 - Interest and Principal Repayment	1,988	2,927	4,259	1,918	3,017	4,695

Table A1.8 – Loan Charges Liability

* 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 as the line to Newhaven is 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 2

Economic Review of 2022/23

The Council's treasury advisor, Arlingclose, has provided the following economic review of the year:

The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

Following the decision by the UK government under Rishi Sunak and Jeremy Hunt to reverse some of the support to household energy bills announced under Liz Truss, further support in the form of a cap on what energy suppliers could charge household was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April.

The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3mth/year eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%.

The inactivity rate was 21.3% in the December-February quarter, slightly down from the 21.4% in the first quarter of the financial year. Nominal earnings were robust throughout the year, with earnings growth in December-February at as 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, however, both measures were negative for that period and have been so throughout most of the year.

Despite household budgets remaining under pressure, consumer confidence rose to -36 in March, following readings of -38 and -45 in the previous two months, and much improved compared to the record-low of -49 in September. Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the October-December period was revised upwards to

0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.

The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

After reaching 9.1% in June, annual US inflation slowed for eight consecutive months to 6% in February. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March meeting.

From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

Figure A2.1 below shows PWLB borrowing rates since 2005. This shows the sharp increase in borrowing rates due to the mini budget in October 2022 followed by the recovery then subsequent increases due to increases in UK Bank Rate and inflation concerns.

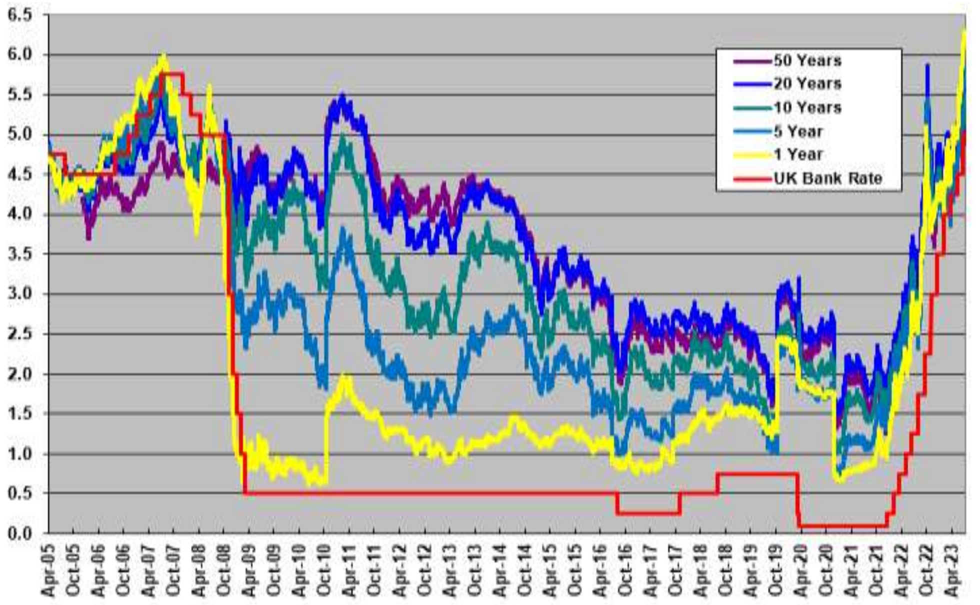

Figure A2.1 – PWLB Rates from April 2005 to Date

Source: DMO

Appendix 3

Borrowing Out-turn 2022/23

2022/23 Borrowing

Figure A2.1 above shows the increase in PWLB borrowing rates over the last two years.

PWLB borrowing Rates are based on a margin over Gilt yields and Figure A3.1below gives a longer- term perspective on these yields.

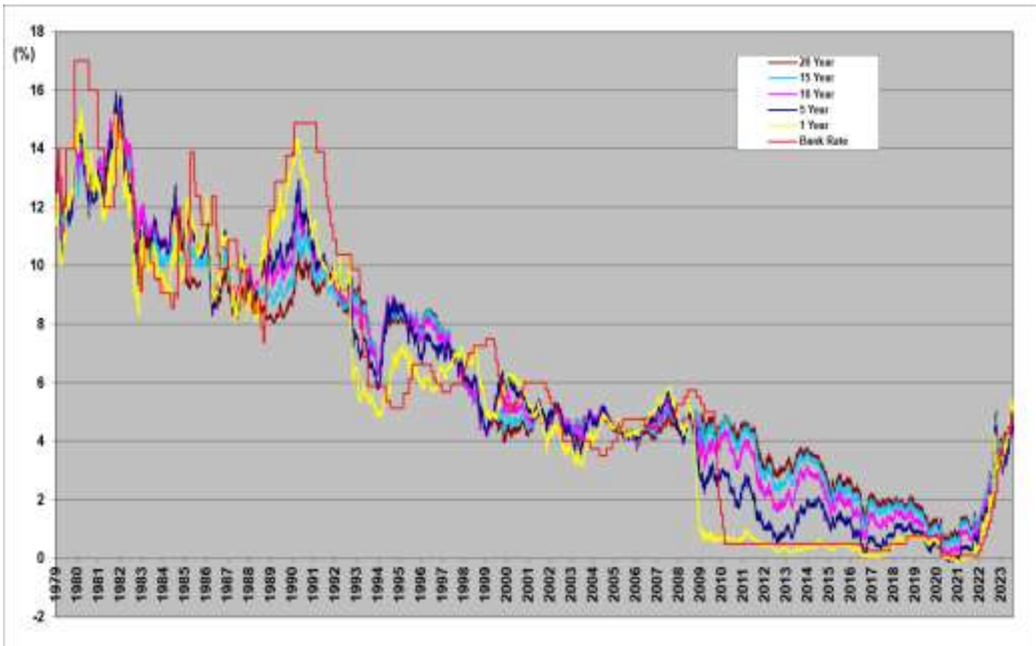

Figure A3.1 – Nominal Gilt Yields 1979 to Date

Yields are up to rates not seen since the Global Financial Crisis in 2008. Table A3.1 below summarises the movements in the Council’s borrowing during 2022/23.

Type of Loan	Balance 01.04.2022 £m	Borrowing Raised £m	Borrowing Repaid £m	Balance 31.03.2023 £m
PWLB - fixed	1,205.73	11.10	-53.11	1,163.72
Salix Finance Ltd	0.46		-0.24	0.22
Market	293.17		-1.77	291.40
	1,499.36	11.10	-55.12	1,455.34
Capital Advances	1,622.96			1,707.45
Under-borrowed	123.60		Under-borrowed	252.11

Table A3.1 – Outstanding Debt Portfolio 2022/23

The Council only borrowed £11.1m during 2022/23, all of which related to backing out the interest rate risk on lending to the Edinburgh Living Mid-Market Rent LLP. In the anticipation of increasing borrowing rates, in March 2022, the Council pre-borrowed sufficient loans from the PWLB to fund all loans to Edinburgh Living for all homes where building was on site. However, at the time, the external purchase of the Fruitmarket homes had not been approved by Elected Members, so £8m of the 2022/23 borrowing related to that purchase of affordable homes.

Figure A3.2 below shows the sources of borrowing at 31 March 2023.

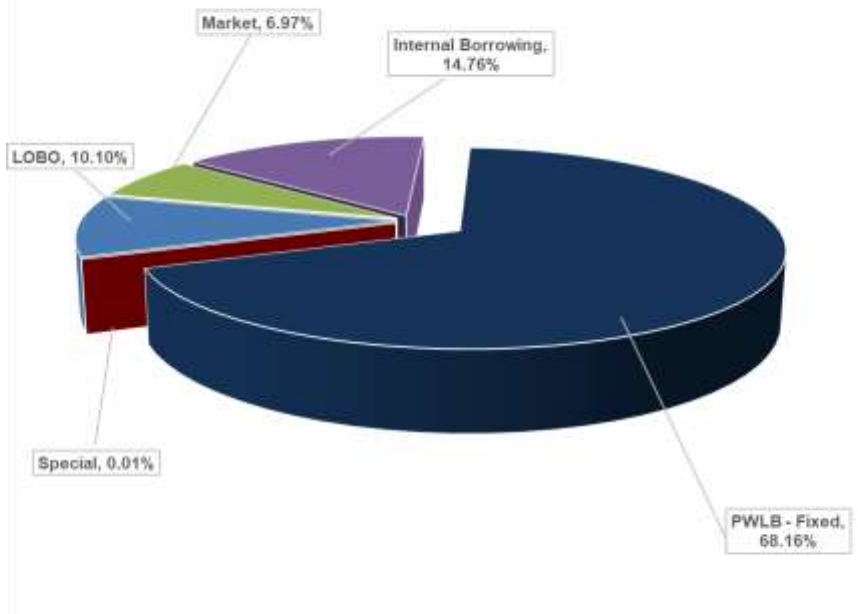

Figure A3.2 – **CEC Debt Portfolio (31 March 2023)**

The PWLB and market loans are fixed rate so there is no interest rate risk on 75% of the loans portfolio. The 10% of the portfolio in LOBO loans is fixed rate but as interest rates rise, there is an increased possibility that an increase in the rate on the loan might be requested. There is therefore a level of interest rate risk on these loans.

Figure A3.3 below shows the Council's Loans Fund Capital Advances, the level of actual external debt, and the interest cost of that debt. As explained below, that cost includes not just external interest paid on loans, but also the internal cost of foregoing external interest on deposits while they are used to temporarily fund capital expenditure in lieu of external borrowing.

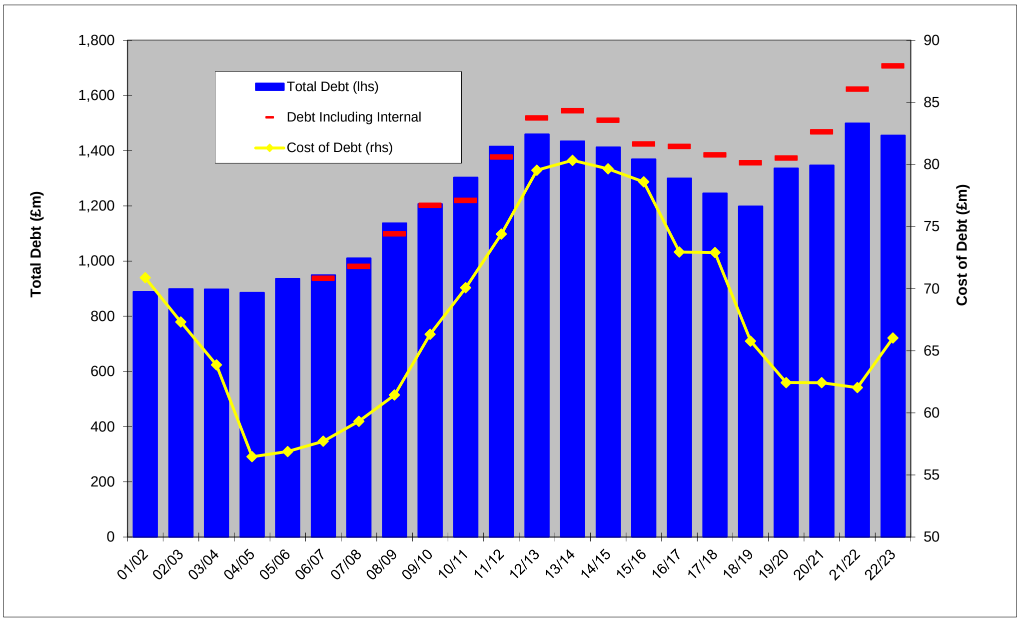

Figure A3.3 – CEC Debt and its Annual Cost

As previously reported, in the three financial years to 31 March 2022, the Council borrowed just short of £500m. Between March 2019 and March 2022, the Council's debt increased from £1.198bn to £1.499bn, while the interest cost of that debt reduced from £65.7m to £62.0m. This was as the larger value of debt at historically low rates replaced higher interest rate debt designed to mature in these years locking out the interest rate risk which had been created.

The cost of debt increased from £62.0 in 2021/22 to £66.1m in 2022/23. The external interest cost reduced from £62.0m to £61.7m, however due to increasing interest rate, the Capital Financing Charge (effectively the internal lost interest on investments due to using the cash to temporarily fund capital expenditure) went from £0 in 2020/21 to £81k in 2021/22 to £4.46m in 2022/23.

Figure A3.4 below shows how much the Gilt Yield curve has changed from the 2011 normal curve where short rates are lower than longer rate to the current inverted curve where short rate are higher.

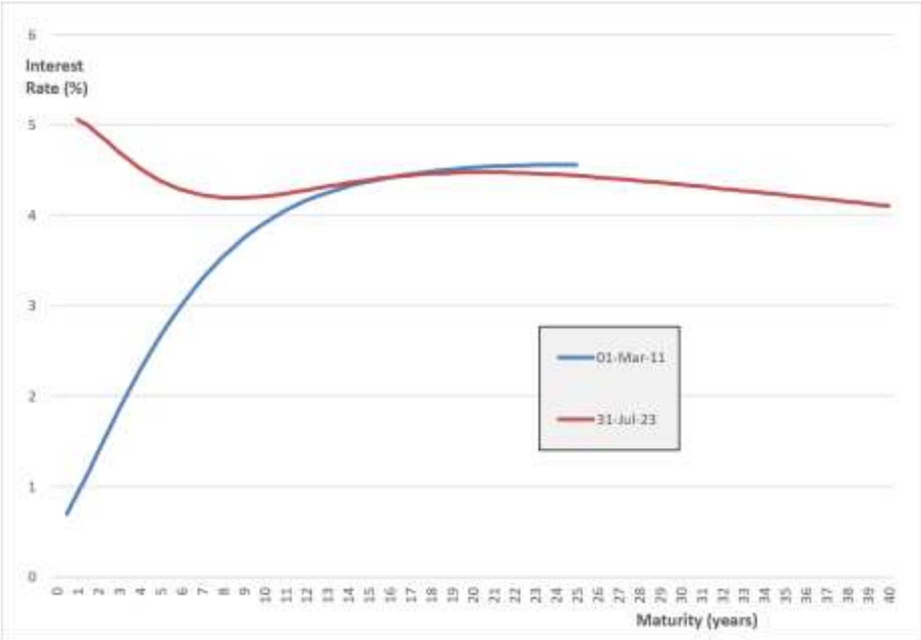

Figure A3.4 – Gilt Yield Curve Comparison

Given that the certainty rates at which the Council can borrow from the PWLB are 80bps higher than Gilt yields, no part of the curve was attractive for strategic borrowing in 2022/23.

Appendix 4

Investment Out-turn 2022/23

The Council's money is invested via the Treasury Cash Fund. The Cash Fund encompasses a number of organisations, including Lothian Pension Fund. Interest is accrued monthly, and performance is evaluated against a benchmark, which is 7-day compounded SONIA less 6.25 basis points.

The major issues for the economy are higher inflation, higher interest rates and associated impact on household budgets. The Bank of England's Monetary Policy Committee (MPC) has increased UK Bank Rate at 14 consecutive meetings, at the time of drafting this report. After the 0.25% increase in August, the UK Bank Rate is currently 5.25%.

Figure A4.1 below shows investment performance since April 2011.

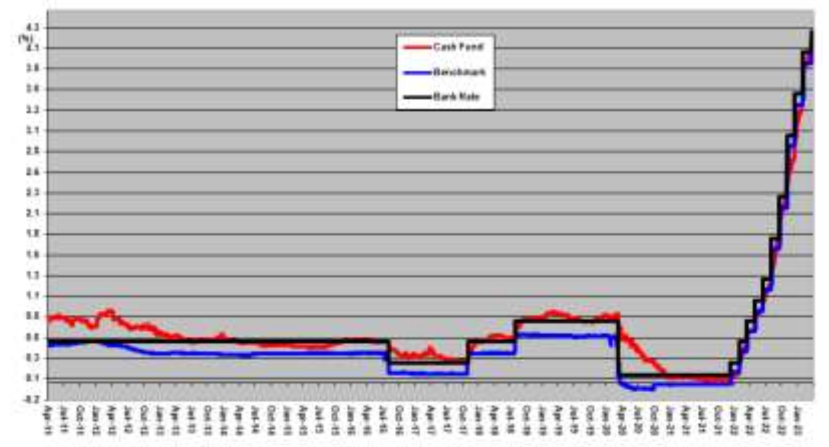

Figure A4.1 - Treasury Cash Fund Investment Performance

The consecutive interest rate rises created a difficult environment in which to match the fund's benchmark. The average interest rate on the Cash Fund for the year was 2.10%, against a benchmark of 2.13%. Figure A4.2 below shows the cash fund's performance relative to its benchmark and the 10bp outperformance target set by Lothian Pension Fund.

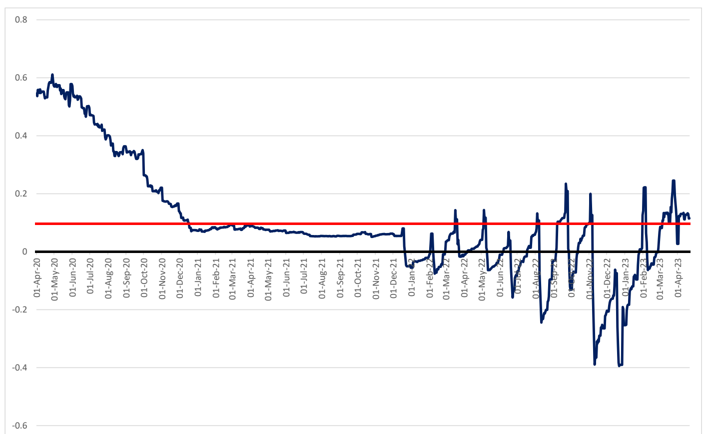

Figure A4.2 – Cash Fund Relative Performance

Source: CEC

While 2022/23 has been challenging, the fund was still above the 10bps outperformance target on a rolling 3-year basis due to the strong 2020/21 performance.

The fund generated income of £6.2m during 2022/23 to CEC.

The cash fund rate at 31 March 2023 was 4.14% against a benchmark of 4.11%. Figure A4.3 is produced by the Council's Treasury Advisors and shows the Cash fund performance relative to their other clients.

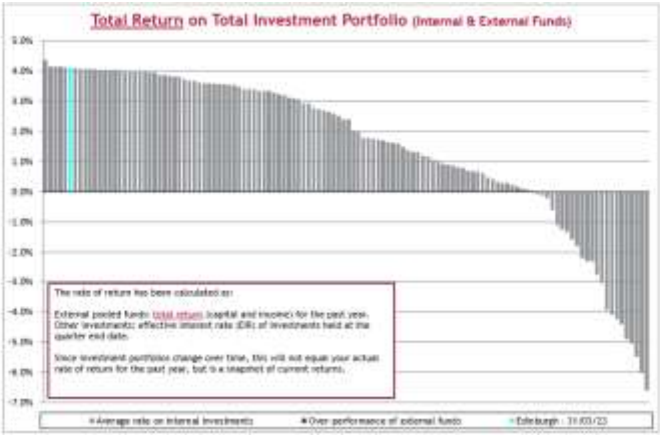

Figure A4.3 – Cash Fund Performance

Figure A4.4 is also produced by the Council's Treasury Advisors and is a snapshot of the risk / return on the cash fund investments at 31 December 2022. This shows that at that point, the cash fund had above average return with over one standard deviation less risk.

Figure A4.4 – Cash Fund Relative Performance

The emphasis remained on security during the financial year with the return of the principal sum being the main concern. With the Strategy being around the security of the investments. Cash Fund money has been invested with banking institutions which was held on instant access call and a 31-day notice account with a highly credit rated institution, money market funds, supranational commercial paper, UK gilts, UK treasury bills, DMADF and other Local Authorities on 31 and 35 day notice linked to UK Bank Rate and short term fixed deposits. Figure A4.5 below shows the distribution of the Cash Fund investments since April 2007.

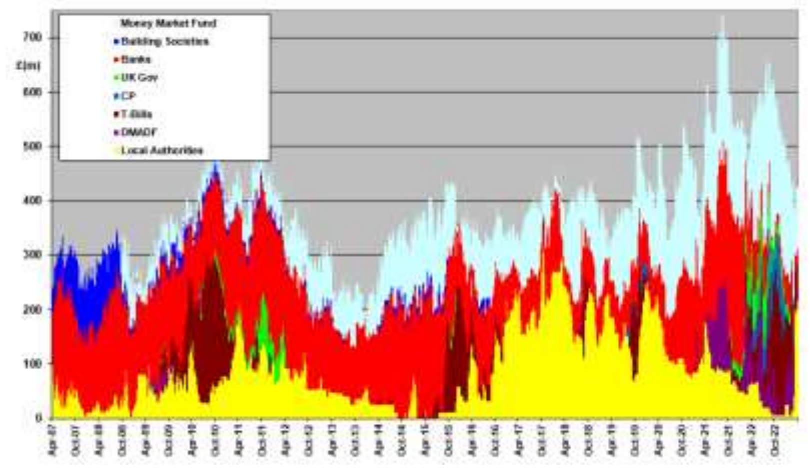

Figure A4.5 – Cash Fund Investments since inception

The strategy remains to seek trades which add value relative to MMF/Bank rates and make a positive contribution towards out-performance while maintaining the security of funds.

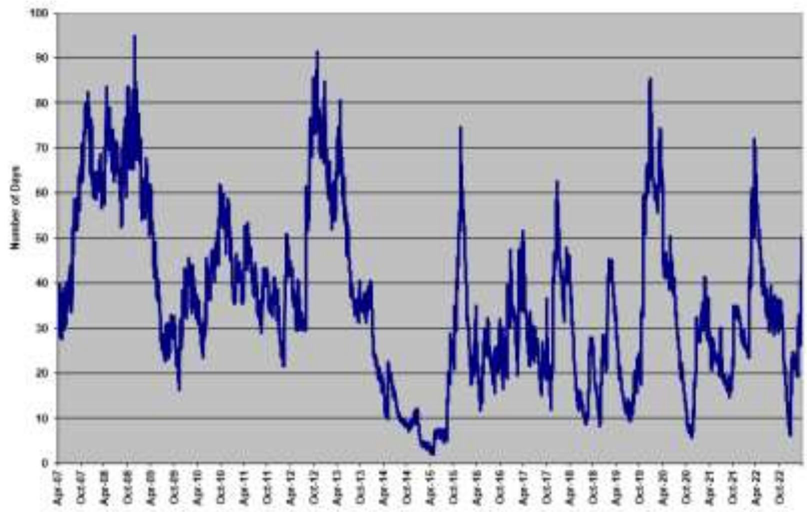

Figure A4.6 - Cash Fund Weighted Average Life

Figure A4.6 shows the weighted average life of the fund and the short duration of the fund over the last two years as high liquidity was kept in the anticipation of rising interest rates.

Appendix 5

Outstanding Debt as at 31st March 2023

PWLB PROFILE	START DATE	MATURITY DATE	PRINCIPAL OUTSTANDING £	INTEREST RATE %	ANNUAL INTEREST £
M	05/12/1995	15/05/2023	5,200,000.00	8	416,000.00
M	20/09/1993	14/09/2023	2,997,451.21	7.875	236,049.28
M	20/09/1993	14/09/2023	584,502.98	7.875	46,029.61
M	08/05/1996	25/09/2023	10,000,000.00	8.375	837,500.00
M	13/10/2009	13/10/2023	5,000,000.00	3.87	193,500.00
M	05/12/1995	15/11/2023	10,000,000.00	8	800,000.00
M	10/05/2010	10/05/2024	10,000,000.00	4.32	432,000.00
M	28/09/1995	28/09/2024	2,895,506.10	8.25	238,879.25
M	14/05/2012	14/11/2024	10,000,000.00	3.36	336,000.00
A	14/12/2009	14/12/2024	1,667,538.64	3.66	82,768.94
M	17/10/1996	25/03/2025	10,000,000.00	7.875	787,500.00
M	10/05/2010	10/05/2025	5,000,000.00	4.37	218,500.00
M	16/11/2012	16/05/2025	20,000,000.00	2.88	576,000.00
M	13/02/1997	18/05/2025	10,000,000.00	7.375	737,500.00
M	20/02/1997	15/11/2025	20,000,000.00	7.375	1,475,000.00
A	01/12/2009	01/12/2025	3,508,514.75	3.64	157,491.50
M	21/12/1995	21/12/2025	2,397,960.97	7.875	188,839.43
M	21/05/1997	15/05/2026	10,000,000.00	7.125	712,500.00
M	28/05/1997	15/05/2026	10,000,000.00	7.25	725,000.00
M	29/08/1997	15/11/2026	5,000,000.00	7	350,000.00
M	24/06/1997	15/11/2026	5,328,077.00	7.125	379,625.49
M	07/08/1997	15/11/2026	15,000,000.00	6.875	1,031,250.00
M	13/10/1997	25/03/2027	10,000,000.00	6.375	637,500.00
M	22/10/1997	25/03/2027	5,000,000.00	6.5	325,000.00
M	13/11/1997	15/05/2027	3,649,966.00	6.5	237,247.79
M	17/11/1997	15/05/2027	5,000,000.00	6.5	325,000.00
M	13/12/2012	13/06/2027	20,000,000.00	3.18	636,000.00
M	12/03/1998	15/11/2027	8,677,693.00	5.875	509,814.46
M	06/09/2010	06/09/2028	10,000,000.00	3.85	385,000.00
M	14/07/2011	14/07/2029	10,000,000.00	4.9	490,000.00
E	14/07/1950	03/03/2030	1,769.21	3	58.76
M	14/07/2011	14/07/2030	10,000,000.00	4.93	493,000.00
E	15/06/1951	15/05/2031	1,991.93	3	65.03
M	06/09/2010	06/09/2031	20,000,000.00	3.95	790,000.00
M	15/12/2011	15/06/2032	10,000,000.00	3.98	398,000.00
M	15/09/2011	15/09/2036	10,000,000.00	4.47	447,000.00
M	22/09/2011	22/09/2036	10,000,000.00	4.49	449,000.00
M	10/12/2007	10/12/2037	10,000,000.00	4.49	449,000.00
M	08/09/2011	08/09/2038	10,000,000.00	4.67	467,000.00
M	15/09/2011	15/09/2039	10,000,000.00	4.52	452,000.00

M	06/10/2011	06/10/2043	20,000,000.00	4.35	870,000.00
M	09/08/2011	09/02/2046	20,000,000.00	4.8	960,000.00
M	23/01/2006	23/07/2046	10,000,000.00	3.7	370,000.00
M	23/01/2006	23/07/2046	10,000,000.00	3.7	370,000.00
M	19/05/2006	19/11/2046	10,000,000.00	4.25	425,000.00
M	07/01/2008	07/01/2048	5,000,000.00	4.4	220,000.00
A	24/03/2020	24/03/2050	13,808,653.73	1.64	224,786.70
A	26/03/2020	26/03/2050	4,594,128.66	1.49	69,988.78
A	26/03/2021	26/03/2051	9,483,514.34	1.75	169,385.43
A	12/07/2021	12/07/2051	38,464,432.97	1.78	680,030.06
M	27/01/2006	27/07/2051	1,250,000.00	3.7	46,250.00
M	16/01/2007	16/07/2052	40,000,000.00	4.25	1,700,000.00
M	30/01/2007	30/07/2052	10,000,000.00	4.35	435,000.00
M	13/02/2007	13/08/2052	20,000,000.00	4.35	870,000.00
M	20/02/2007	20/08/2052	70,000,000.00	4.35	3,045,000.00
M	22/02/2007	22/08/2052	50,000,000.00	4.35	2,175,000.00
M	08/03/2007	08/09/2052	5,000,000.00	4.25	212,500.00
M	30/05/2007	30/11/2052	10,000,000.00	4.6	460,000.00
M	11/06/2007	11/12/2052	15,000,000.00	4.7	705,000.00
M	12/06/2007	12/12/2052	25,000,000.00	4.75	1,187,500.00
M	05/07/2007	05/01/2053	12,000,000.00	4.8	576,000.00
M	25/07/2007	25/01/2053	5,000,000.00	4.65	232,500.00
M	10/08/2007	10/02/2053	5,000,000.00	4.55	227,500.00
M	24/08/2007	24/02/2053	7,500,000.00	4.5	337,500.00
M	13/09/2007	13/03/2053	5,000,000.00	4.5	225,000.00
A	14/10/2019	10/04/2053	103,658,231.86	2.69	2,832,296.87
M	12/10/2007	12/04/2053	5,000,000.00	4.6	230,000.00
A	01/07/2021	01/07/2053	48,292,867.50	1.98	973,210.38
M	05/11/2007	05/05/2057	5,000,000.00	4.6	230,000.00
M	15/08/2008	15/02/2058	5,000,000.00	4.39	219,500.00
A	25/01/2019	25/01/2059	2,571,791.87	2.65	68,994.96
A	11/06/2019	11/06/2059	1,211,725.69	2.23	27,378.69
A	01/10/2019	01/10/2059	1,271,857.56	1.74	22,448.09
A	02/10/2019	02/10/2059	37,891,649.30	1.8	691,722.20
A	05/11/2019	05/11/2059	6,849,318.72	2.96	204,984.94
A	28/11/2019	28/11/2059	1,253,416.90	3.03	38,392.70
A	02/12/2019	02/12/2059	2,698,410.45	3.03	82,653.48
A	20/01/2020	20/01/2060	1,893,927.30	1.77	34,000.88
A	20/01/2020	20/01/2060	439,496.99	2.97	13,197.29
M	04/10/2019	04/04/2060	40,000,000.00	1.69	676,000.00
A	07/12/2021	07/12/2060	18,758,205.61	1.8	336,090.50
M	02/12/2011	02/12/2061	5,000,000.00	3.98	199,000.00
A	07/12/2021	07/12/2061	4,092,431.64	1.79	72,927.92
A	19/05/2022	19/05/2062	3,075,123.56	2.86	87,644.76
A	02/11/2022	02/11/2062	8,000,000.00	4.61	71,867.21
A	24/03/2022	24/03/2063	17,752,852.77	2.65	468,780.64
M	26/03/2020	26/03/2070	10,000,000.00	1.29	129,000.00
M	12/07/2021	12/07/2071	50,000,000.00	1.74	870,000.00

M	23/12/2021	23/12/2071	25,000,000.00	1.45	362,500.00
			1,163,723,009.21		

Non-LOBO Profile	Start Date	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
M	08/10/2020	08/10/2045	56,500,257.49	2.613	1,511,165.09
M	30/06/2005	30/06/2065	5,000,000.00	4.4	220,000.00
M	07/07/2005	07/07/2065	5,000,000.00	4.4	220,000.00
M	21/12/2005	21/12/2065	5,000,000.00	4.99	249,500.00
M	28/12/2005	24/12/2065	12,500,000.00	4.99	623,750.00
M	14/03/2006	15/03/2066	15,000,000.00	5	750,000.00
M	18/08/2006	18/08/2066	10,000,000.00	5.25	525,000.00
M	01/02/2008	01/02/2078	10,000,000.00	3.95	395,000.00
			119,000,257.49		

LOBO Profile	Start Date	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
M	12/11/1998	13/11/2028	3,000,000.00	4.75	142,500.00
M	15/12/2003	15/12/2053	10,000,000.00	5.25	525,000.00
M	18/02/2004	18/02/2054	10,000,000.00	4.54	454,000.00
M	28/04/2005	28/04/2055	12,900,000.00	4.75	612,750.00
M	01/07/2005	01/07/2065	10,000,000.00	3.86	386,000.00
M	24/08/2005	24/08/2065	5,000,000.00	4.4	220,000.00
M	07/09/2005	07/09/2065	10,000,000.00	4.99	499,000.00
M	13/09/2005	14/09/2065	5,000,000.00	3.95	197,500.00
M	03/10/2005	05/10/2065	5,000,000.00	4.375	218,750.00
M	23/12/2005	23/12/2065	10,000,000.00	4.75	475,000.00
M	06/03/2006	04/03/2066	5,000,000.00	4.625	231,250.00
M	17/03/2006	17/03/2066	10,000,000.00	5.25	525,000.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	07/04/2006	07/04/2066	10,000,000.00	4.75	475,000.00
M	05/06/2006	07/06/2066	20,000,000.00	5.25	1,050,000.00
M	05/06/2006	07/06/2066	16,500,000.00	5.25	866,250.00
			172,400,000.00		

SPECIAL FIXED/ VAR	START DATE	MATURITY DATE	PRINCIPAL OUTSTANDING £	INTEREST RATE %	ANNUAL INTEREST £
F	31/03/2015	01/04/2023	90,144.87	0	0.00
F	22/09/2015	01/10/2023	43,959.94	0	0.00
F	29/03/2019	01/04/2029	90,986.09	0	0.00
			225,090.90		