City of Edinburgh Council

10.00am, Thursday, 21 March 2024

Annual Treasury Management Strategy 2024/25 – 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: Strategy 2024/25, to the Council for approval and then on to the Governance Risk and Best Value Committee for scrutiny.

Dr Deborah Smart
Executive Director of Corporate Services

Contact: Louise Williamson, Assistant Committee Officer
Legal and Assurance Division, Corporate Services Directorate
E-mail: louise.p.williamson@edinburgh.gov.uk | Tel: 0131 529 4264

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Referral Report

Annual Treasury Management Strategy 2024/25 – referral from the Finance and Resources Committee

2. Terms of Referral

2.1 On 14 March 2024, the Finance and Resources Committee considered a report on the Annual Treasury Management Strategy 2024/25 comprising an annual investment strategy and a debt management strategy.

2.2 **Motion**

1) To note the Annual Treasury Strategy 2024/25 and refer the report to the City of Edinburgh Council for approval then on to Governance, Risk and Best Value Committee for scrutiny.

2) To note the key points in the report, that:

- The Council's total capital expenditure was forecast to be £3.250bn between 2023/24 and 2028/29 with an underlying need to borrow at 31 March 2029 forecast to be £2.879bn; and
- The Council had reached the limit in resources for funding its Capital Financing Requirement from temporary investment balances and required to undertake significant external borrowing.

\- moved by Councillor Watt, seconded by Councillor Dalgleish

Amendment

1) To note the Annual Treasury Strategy 2024/25 and refer the report by The Executive Director of Corporate Services to the City of Edinburgh Council for approval then on to Governance, Risk and Best Value Committee for scrutiny.

2) To note the key points in the report, that:

- The Council's total capital expenditure is forecast to be £3.250bn between 2023/24 and 2028/29 with an underlying need to borrow at 31 March 2029 forecast to be £2.879bn; and
- The Council has reached the limit in resources for funding its Capital Financing Requirement from temporary investment balances and requires to undertake significant external borrowing.

3) Notes that that Treasury Code stated that “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” but welcomed the inclusion at Appendix 10 of additional considerations for environmental and social governance that the council may wish to explore.

4) Believes that Edinburgh Council should be leaders in upholding ethical financial standards.

5) Therefore requests that a report is produced within three cycles exploring those schemes listed in the appendix, how they align with the council’s business plan, and how their adoption might impact positively and adversely on both the Council’s budget strategies and climate and equality aspirations.

- moved by Councillor Mumford, seconded by Councillor Staniforth

In accordance with Standing Order 22(13), the amendment was accepted as an addendum to the motion.

Decision

To approve the following adjusted motion by Councillor Watt:

1) To note the Annual Treasury Strategy 2024/25 and refer the report by The Executive Director of Corporate Services to the City of Edinburgh Council for approval then on to Governance, Risk and Best Value Committee for scrutiny.

2) To note the key points in the report, that:

   - The Council’s total capital expenditure is forecast to be £3.250bn between 2023/24 and 2028/29 with an underlying need to borrow at 31 March 2029 forecast to be £2.879bn; and
   - The Council has reached the limit in resources for funding its Capital Financing Requirement from temporary investment balances and requires to undertake significant external borrowing.

3) To note that that Treasury Code stated that “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” but welcomed the inclusion at Appendix 10 of the report of additional considerations for environmental and social governance that the council may wish to explore.

4) To believe that Edinburgh Council should be leaders in upholding ethical financial standards.

5) To therefore request that a report be produced within three cycles exploring those schemes listed in the appendix to the report, how they aligned with the council’s business plan, and how their adoption might impact positively and adversely on both the Council’s budget strategies and climate and equality aspirations.

3. Background Reading/ External References

3.1 Finance and Resources Committee – 14 March 2024 - Webcast

3.2 Minute of the Finance and Resources Committee – 14 March 2024

4. Appendices

Appendix 1 – Report by the Executive Director of Corporate Services

Finance and Resources

10:00am, Thursday, 14 March 2023

Annual Treasury Management Strategy 2024/25

Executive/routine
Wards

1. Recommendations

1.1 Notes the Annual Treasury Strategy 2024/25 and refers the report to the City of Edinburgh Council for approval then on to Governance, Risk and Best Value Committee for scrutiny.

1.2 Notes the key points in the report, that:

- The Council's total capital expenditure is forecast to be £3.250bn between 2023/24 and 2028/29 with an underlying need to borrow at 31 March 2029 forecast to be £2.879bn; and
- The Council has reached the limit in resources for funding its Capital Financing Requirement from temporary investment balances and requires to undertake significant external borrowing.

Richard Lloyd-Bithell

Service Director – Finance & Procurement

Contact: Innes Edwards, Principal Treasury and Banking Manager

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

Report

Annual Treasury Management Strategy 2024/25

2. Executive Summary

2.1 The report proposes a Treasury Management Strategy for the Council for 2024/25, 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 2024/25 including estimates of funding requirements, an economic forecast and borrowing and investment strategies.

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

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

3.3 Treasury Management is undertaken with regard to the CIPFA Code of Practice for Treasury Management in the Public Services and the Prudential Code. It also adheres to the statutory requirements in Scotland which require this report, including the Capital Investment Programme and Prudential Indicators to be approved by the full Council. Appendix 7 gives details of the Capital Investment Programme and Prudential Indicators based on the budget approved by Council on 22 February 2024.

4. Main report

Capital Expenditure and Loans Fund Borrowing Requirement

4.1 Tables A1.1 and A1.2 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 and how it will be funded. This shows that GF capital expenditure is anticipated to be £1.406bn, and the HRA £1.844bn, giving a total of £3.250bn over the 6 years.

4.2 Table A1.3 in Appendix 1 shows that the Council's underlying need to borrow (shown as 'Cumulative Capital Expenditure') is projected to increase from £1.707bn at the start of the current financial year to £2.879bn at 31 March 2029.

Economic Outlook

4.3 Appendix 2 gives an overview of the current economic and market outlook. The major issues to the economy over the year were higher interest rates, weakening economic outlook and political uncertainty due to an upcoming general election as well as the continued war in Ukraine along with war in the Middle East. In the UK inflation is reducing but remains above the Bank of England's target rate of 2% at 4%.

Treasury Management Strategy – Debt

4.4 The Council has borrowed £70m during the 2023/24 financial year, £50m of which was for the HRA.

4.5 The Debt Management Strategy for 2024/25, as set out in Appendix 3, is to:

- 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

4.6 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 2024/25 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

4.7 Appendix 5 details the proposed Annual Investment Strategy for 2024/25. 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

4.8 Appendix 7 shows the Indicators required by the Prudential Code which reflect the budget approved by Council on 22 February.

Treasury Management Policy Statements

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

Environmental, Social and Governance Issues

4.10 Appendix 10 sets out the issues around ESG in short term cash investing.

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. Equality and Poverty Impact

7.1 Treasury acts as an enabling function for the Council – low borrowing costs and/or increased investment return help with the Council's financial position and therefore assist the Council to afford activities to meet its objectives that it otherwise might not have been able to afford.

7.2 Any decisions on those activities are part of other Council reports with their own IIAs and the Treasury Strategy is in no position to influence those outcomes directly.

7.3 The Treasury Strategy, on its own, has no direct equality, human rights (including children's right) or socio-economic disadvantage implications.

8. Climate and Nature Emergency Implications

8.1 ESG is at an early stage of development in the Treasury Management environment. The Treasury Code states that "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". However, Appendix 10 considers what high level initiatives might be considered by the Council.

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, a briefing on the Capital and Treasury Management Strategies has been arranged in advance of the March Finance and resources Committee meeting.

9.2 In addition, the CIPFA Scottish Treasury Management Forum has commissioned an online Treasury Management Toolkit which will be a set of training modules. The first two of these, which were designed for Elected Members as well as for Officers, are now operational. We will look to make these available to any Elected Member which wishes to work thought them.

10. Background reading/external references

10.1 n/a

11. Appendices

11.1 Appendix 1 – Capital Expenditure and Funding Requirement

11.2 Appendix 2 - Economic and Market Outlook

11.3 Appendix 3 – Treasury Management – Debt Management Strategy

11.4 Appendix 4 – Loans Fund Repayment Policy

11.5 Appendix 5 – Treasury Management – Annual Investment Strategy

11.6 Appendix 6 – Debt Maturity Profile (January 2024)

11.7 Appendix 7 – Prudential Indicators

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

11.9 Appendix 9 – Treasury Management Policy Statement – Treasury Cash Fund

11.10 Appendix 10 – ESG Issues in Treasury Management

Appendix 1

Summary of Capital Expenditure Funding

General Fund	Forecast 2023/24	Budget 2024/25	Budget 2025/26	Budget 2026/27	Budget 2027/28	Budget 2028/29
Grants	124.030	84.415	85.825	64.575	64.575	64.575
Asset Sales	32.919	22.953	14.060	6.002	3.005	3.005
Capital Fund	27.650	0.000	0.000	0.000	0.000	0.000
PPP and similar arrangements	2.000	2.000	2.000	2.000	2.000	2.000
On-Lending	11.000	73.264	92.071	10.804	0.000	0.000
Loans Fund Advances	62.022	220.941	142.607	94.069	58.417	30.989
Total	**259.621**	**403.573**	**336.562**	**177.450**	**127.998**	**100.570**

Table A1.1 - Funding Sources for General Fund Services Capital Expenditure

HRA	Forecast 2023/24	Budget 2024/25	Budget 2025/26	Budget 2026/27	Budget 2027/28	Budget 2028/29
Grants	14.927	20.215	52.694	43.295	94.903	66.938
Asset Sales	23.648	44.685	61.506	77.767	155.140	181.561
PPP and similar arrangements	0.000	0.000	0.000	0.000	0.000	0.000
Loans Fund Advances	85.632	71.293	237.496	202.468	211.526	198.641
Total	**124.207**	**136.193**	**351.696**	**323.530**	**461.569**	**447.140**

Table A1.2 - Funding Sources for HRA Capital Expenditure

Capital Funding v. External Debt	2023/24 Forecast £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Debt b/fd	1,455,360	1,440,593	1,663,749	1,984,443	2,146,800	2,270,992
Cumulative Capital Expenditure b/fd	1,707,372	1,793,326	2,042,575	2,412,752	2,613,999	2,770,213
Over/underborrowed b/fd	-252,013	-352,733	-378,825	-428,310	-467,199	-499,221
GF Capital Financed by borrowing	62,022	220,941	142,607	94,069	58,417	30,989
Lending to LLPs	11,000	73,264	92,071	10,804	0	0
HRA Capital Financed by borrowing	85,632	71,293	237,496	202,468	211,526	198,641
less scheduled repayments by GF	-48,705	-51,450	-61,219	-67,681	-70,532	-72,487
less scheduled repayments by Tram	-2,478	-5,073	-5,193	-5,316	-5,441	-5,570
less scheduled repayments by LLPs	-945	-1,147	-1,951	-2,984	-3,204	-3,318
less scheduled repayments by HRA	-20,572	-23,105	-24,991	-30,114	-34,552	-39,329
less scheduled repayments by NHT	0	-35,474	-8,642	0	0	0
Underlying Need to Borrow	**85,954**	**249,249**	**370,177**	**201,247**	**156,214**	**108,927**
plus total maturing debt	64,767	47,343	71,378	73,447	50,808	26,852
Total Borrowing Requirement	**150,721**	**296,592**	**441,555**	**274,694**	**207,022**	**135,779**
Cummulative Borrowing Requirement	**511,082**	**807,674**	**1,249,230**	**1,523,923**	**1,730,945**	**1,866,724**
Committed Market Borrowing						
Planned PWLB or short borrowing for year	50,000	270,500	392,071	235,804	175,000	150,000
Debt at end of the year	**1,440,593**	**1,663,749**	**1,984,443**	**2,146,800**	**2,270,992**	**2,394,140**
Cumulative Capital Expenditure	**1,793,326**	**2,042,575**	**2,412,752**	**2,613,999**	**2,770,213**	**2,879,140**
Cumulative Over/Under Borrowed	**-352,733**	**-378,825**	**-428,310**	**-467,199**	**-499,221**	**-485,000**

Table A1.3 - Cumulative Borrowing Requirement

Notes:

The figures in the above table may be subject to rounding differences.

The table was produced prior to and therefore does not reflect the Council borrowing £20m in late February.

Appendix 2

Economic and Market Outlook

Overview

The major issues to the economy are political uncertainty with a general election due in 2024, higher interest and inflation rates and a weakening economic outlook alongside wars in Ukraine and in the Middle East. UK GDP for the three months to September fell by 0.1% from an estimate of no growth. Bank of England forecasts show GDP is likely to stagnate in 2024 forecasting that higher interest rates will constrain growth. Inflation in December increased slightly from 3.9% November to 4%, the first time the rate has increased since February 2023. UK unemployment was 4.2% in the quarter to November 2023, the same rate as the previous 3-month period which had increased from 4%.

World Economy

The Federal Reserve Open Market Committee (FOMC) increased the federal funds rate to 5.25% - 5.50% in August 2023 where it has remained. US GDP increased to 4.9% in the quarter to September 2023 from 2.1% in the previous quarter and greater than the expected 4.3%. US inflation increased to 3.4% in December from 3.1% the previous month.

Inflation in the Eurozone was 2.9% in December 2023 increasing from 2.4% in November which had been a two year low. The main contributor to the increase was energy prices which dropped at a lower pace than the previous month. The European Central Bank (ECB) held its main benchmark interest rate at 4.50% in January for the third consecutive meeting. The third estimate of Euro Area GDP showed no growth following an earlier estimate of 0.1%, the weakest since contractions in 2020.

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.

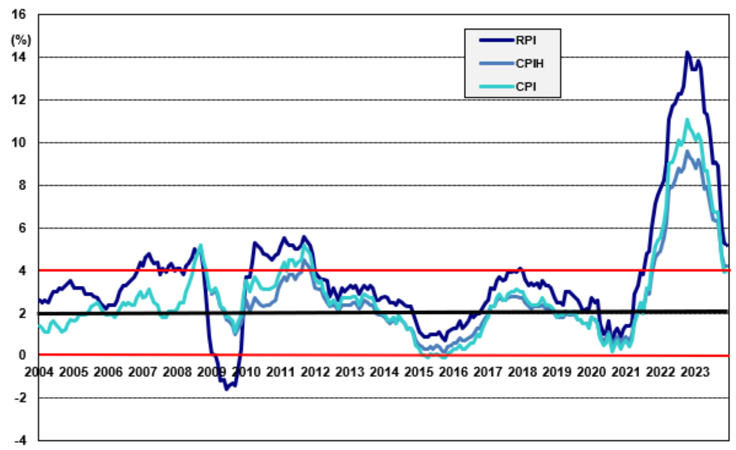

Figure A2.1 – CPIH, CPI and RPI since 2004

Source: ONS

The Government's preferred measure of inflation, CPI was 4.00% year on year in December 2023, increasing from 3.9% in November and above the Bank of England's target rate. CPIH (Consumer Prices Index including owner occupiers' housing costs) 4.2% year on year in December 2023, the same rate as November. The main contributor to the increase in CPIH and CPI rates were alcohol and tobacco, food and non-alcoholic beverages gave the largest downward contributions.

Figure A2.2 shows the contributions to change in CPIH from November to December 2023 clearly showing the increases and decreases.

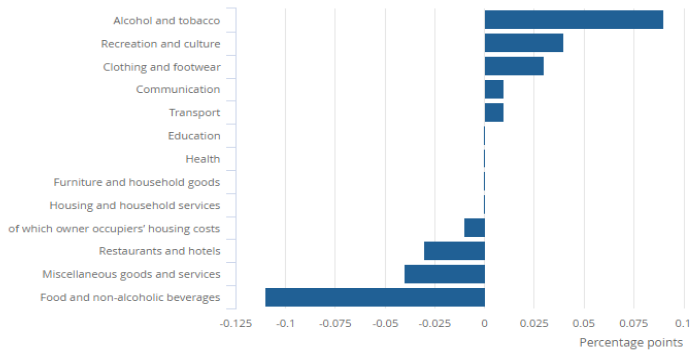

Figure A2.2 – Contributions to change in CPIH Nov to Dec 23

Source: ONS

UK Interest Rate Outlook

The Bank of England has held interest rates at 5.25% since September 2023 after 14 consecutive rate increases and with expectations that UK bank rate has peaked it is expected to start reducing in 2024. However, inflation has fallen more quickly than the Bank of England had expected and may well be about the 2% target by the end of Q1 2024. Figure A2.3 below shows the projection for UK Bank Rate from the Council's Treasury Advisors.

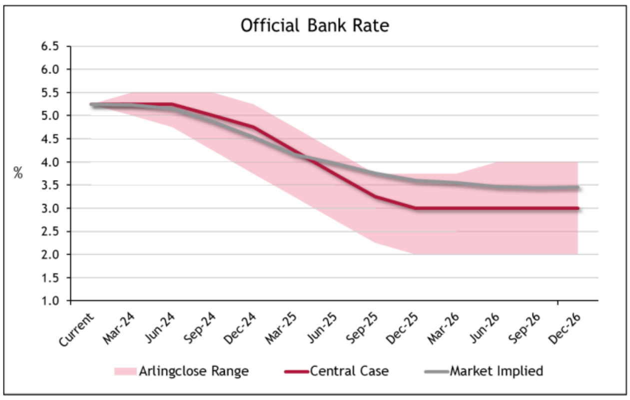

Figure A2.3 – Expectation for UK Bank Rate

Source: Arlingclose

Of greater concern is Figure A2.3 below which shows their projection for the 20 Year gilt Yield.

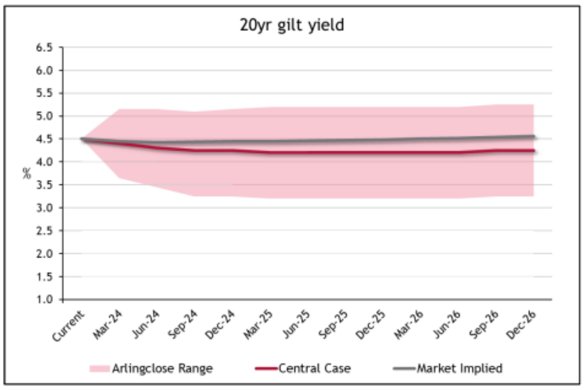

Figure A2.3 – Expectation for UK 20Y Gilt Yield

Source: Arlingclose

If the capital expenditure is delivered in line with the programme, the Council has a substantial borrowing requirement over the next few years. The PWLB Certainty Rate at which the Council can borrow is 0.80% above the Gilt yield so the fact that Gilt Yields are not expected to reduce is a matter of some concern.

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

Tables A1.1 and A1.2 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 £1.406bn, and the HRA £1.844bn, giving a total of £3.250bn over the 6 years.

Of the £3.250bn, £796m for the GF and £1.077bn for the HRA will be funded by new capital advances from the Loans Fund. Table A1.3 in Appendix 1 shows that the Council's underlying need to borrow (shown as Cumulative Capital Expenditure) is projected to increase from £1.707bn at the start of the current financial year to £2.879bn at 31 March 2029. £50m has been taken in PWLB borrowing in 2023/24 and the Planned PWLB or short borrowing shows how much external borrowing the Council will need to take out to stay within its cash resources.

Figure A3.1 below shows the Council's Liability benchmark. 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.

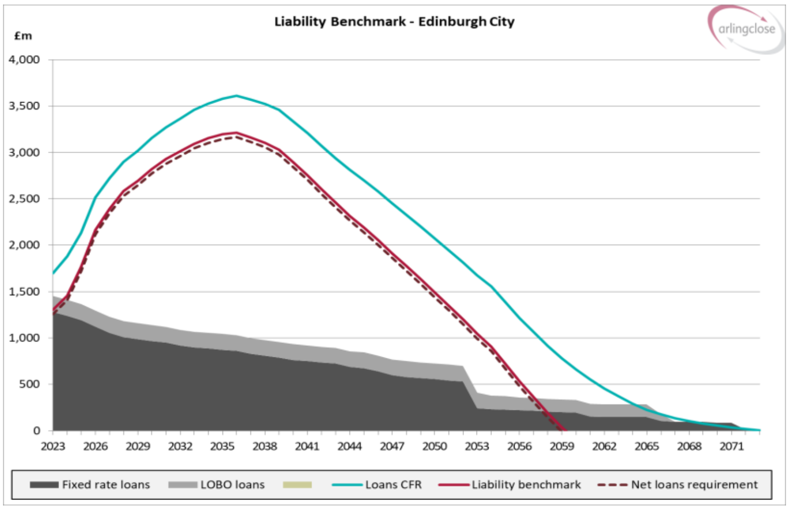

Figure A3.1 – Liability Benchmark

Debt Management Strategy

Figure A3.2 below shows PWLB Maturity Borrowing Rates from April 2005 to January 2024.

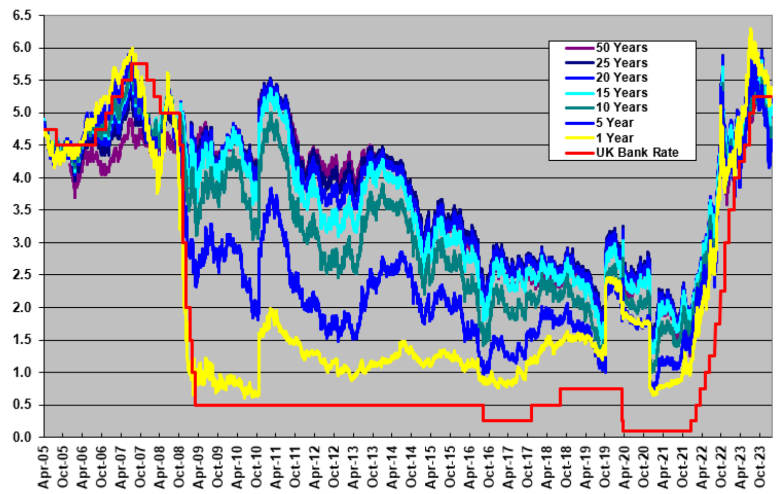

Figure A3.2 – PWLB Borrowing Rates

This shows the substantial increase in interest rates continuing with high inflation and the increase in UK Bank Rate. There was a temporary dip in shorter rates in December and two tranches of £25m were taken at the HRA Rate which was sub-4% at the time.

The Council continues to have a substantial borrowing requirement over the coming years leaving a significant financing risk. Figure A5.2 shows that the Council's balances have reduced and are expected to continue to fall. The projection in February was that it was unlikely that the Council would be able to continue to fund capital expenditure from internal resources through year end. £20m of short-term tactical maturity borrowing at a certainty rate of 4.74% was therefore taken from the PWLB. Further borrowing is likely to be needed in advance of year end.

The strategy for the coming year is therefore to:

- 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; and
- take some short-term tactical borrowing in the anticipation that rates will fall over the next two years.

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 its 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.

It is noted that there was a consultation undertaken by the Scottish Government in December 2023 on the Scottish Capital Finance Regulations. It is not yet clear what the outcome of that consultation will be and what, if any, impact it will have on the Council's Loans Fund.

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.

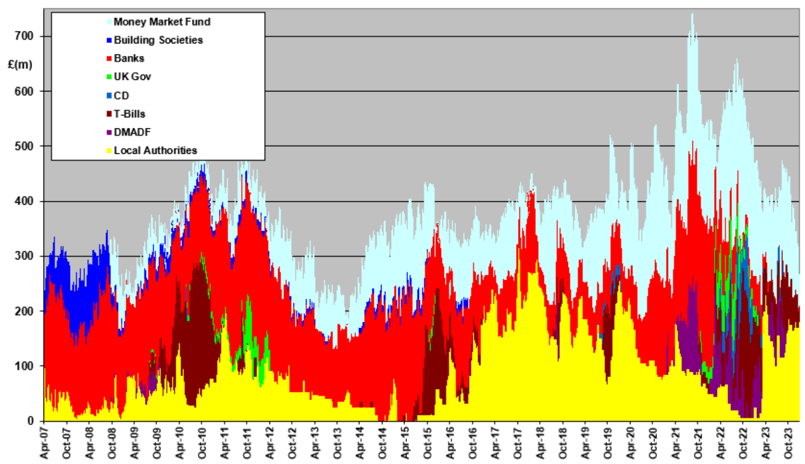

Figure A5.1 – Cash Fund Investments since inception

The Bank of England had raised interest rates at 14 consecutive Monetary Policy Committee (MPC) meetings since December 2021 then voting to keep rates on hold at 5.25% in September due to lower than expected inflation rate and held at each meeting thereafter. Strong performance against the benchmark, which moves in line with UK Bank Rate, has been mainly due to a number of 14, 31- and 35-day notice loans that had negotiated terms which meant the interest rate changed on the day following the bank rate decision therefore increasing before benchmark which has a 7-day lag.

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 and UK Treasury Bills at rates higher than on offer with Banks and Money Market Funds. To counter the effect of consecutive interest rate rises, we kept the portfolio very liquid, and added some duration to the portfolio when we considered that we were close to the peak of rates.

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

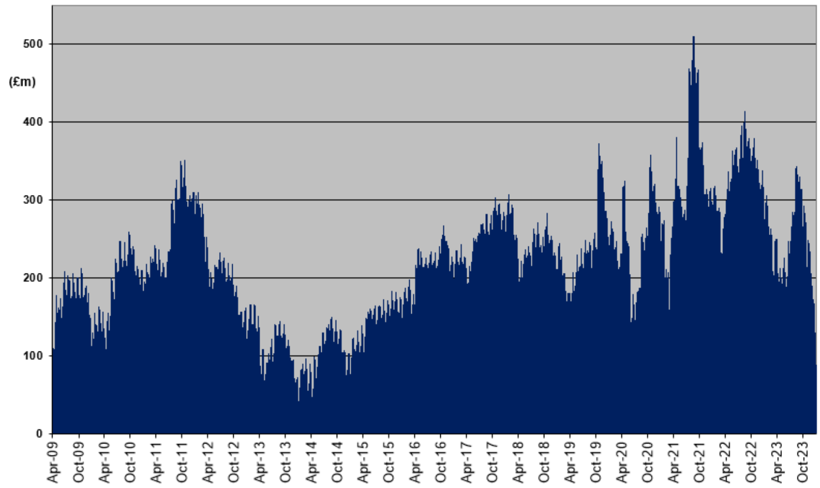

Figure A5.2 – CEC Investment via Cash Fund

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 (January 2024)

Market Debt (non LOBO)

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
08/10/2020	A	08/10/2045	54,681,053.30	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
			117,181,053.30		

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
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
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
			152,400,000.00		

PWLB Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
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	848,887.74	3.66	53,609.18
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	2,380,934.34	3.64	117,541.49
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	1,642.80	3	54.97
14/07/2011	M	14/07/2030	10,000,000.00	4.93	493,000.00
15/06/1951	E	15/05/2031	1,757.55	3	58.00
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
21/12/2023	A	21/12/2035	25,000,000.00	3.97	976,157.84
11/01/2024	A	11/01/2036	25,000,000.00	3.87	951,472.11
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	13,604,358.63	1.64	228,123.52

26/03/2020	A	26/03/2050	4,524,808.68	1.49	68,965.87
26/03/2021	A	26/03/2051	9,351,556.09	1.75	167,106.12
12/07/2021	A	12/07/2051	37,417,808.89	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	101,428,795.61	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	47,126,425.59	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	2,550,222.71	2.65	67,866.69
11/06/2019	A	11/06/2059	1,189,929.79	2.23	26,900.64
01/10/2019	A	01/10/2059	1,247,117.59	1.74	22,023.17
02/10/2019	A	02/10/2059	37,163,299.87	1.8	678,786.79
05/11/2019	A	05/11/2059	6,745,426.40	2.96	201,976.68
28/11/2019	A	28/11/2059	1,215,375.68	3.03	37,837.69
02/12/2019	A	02/12/2059	2,658,077.72	3.03	81,458.61
20/01/2020	A	20/01/2060	1,857,305.16	1.77	33,361.18
20/01/2020	A	20/01/2060	432,844.56	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	18,410,603.85	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	4,019,120.42	1.79	72,927.92
19/05/2022	A	19/05/2062	3,032,333.92	2.86	87,644.76
02/11/2022	A	02/11/2062	7,928,132.79	4.61	367,981.17
24/03/2022	A	24/03/2063	17,626,817.73	2.65	472,098.73
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
			1,171,462,787.18		

SPECIAL

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
29/03/2019	E	01/04/2029	76,988.23	0	0
			76,988.23		

Indicator 1 - Estimate of Capital Expenditure
The forecast capital expenditure outturn for 2023-24 and the estimates of capital expenditure to be incurred for future years:

	Capital Expenditure - General Services					
Rolled Forward Capital Investment Programme	**2023/24 Forecast £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**	**2026/27 Estimate £000**	**2027/28 Estimate £000**	**2028/29 Estimate £000**
General Fund	257,621	401,573	334,562	175,450	125,998	98,570
Housing Revenue Account	124,207	136,193	351,696	323,530	461,569	447,140
Total Capital Expenditure	**381,828**	**537,766**	**686,258**	**498,980**	**587,567**	**545,710**

Note that the 2024-2029 Capital Investment Programme includes slippage / acceleration brought forward based on projected capital expenditure reported at the month seven stage.

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					
	2023/24 Forecast	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**
	%	%	%	%	%	%
General Services	7.6%	7.2%	7.5%	7.7%	7.7%	7.5%
Housing Revenue Account (HRA)	36.8%	38.3%	41.1%	47.5%	51.2%	53.8%

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 2023 are:

	Capital Financing Requirement					
	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
General Services (including Finance Leases / Right of Use Assets/ Service Concession Flexibility)	1,577	1,725	1,785	1,795	1,768	1,714
Housing Revenue Account (HRA)	488	536	748	921	1,098	1,257
NHT LLPs	44	9	0	0	0	0
Edinburgh Living LLPs	69	142	232	239	236	233
Total Capital Financing Requirement	**2,178**	**2,411**	**2,765**	**2,955**	**3,102**	**3,204**

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 impact of applying the service concession arrangements from 1st April 2023 is included in the above figures.

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					
	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Gross Debt	1,835	2,041	2,346	2,497	2,612	2,728
Capital Financing Requirements	2,178	2,411	2,765	2,955	3,102	3,204

(Over) / under limit by:	**344**	**370**	**419**	**458**	**490**	**476**

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.

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					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	2,119	2,461	2,869	3,122	3,306	3,435
Credit Arrangements (including leases and Right of Use assets)	394	377	362	350	341	333
Authorised Limit for External Debt	**2,513**	**2,838**	**3,231**	**3,472**	**3,647**	**3,769**

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					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	2,069	2,411	2,819	3,072	3,256	3,385
Credit Arrangements (including leases)	394	377	362	350	341	333
Operational Boundary for External Debt	**2,463**	**2,788**	**3,181**	**3,422**	**3,597**	**3,719**

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					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	Forecast	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
General Services (excluding On-Lending and Tram to Newhaven) - New Loans Fund Advances						
Loans Fund Advances in year	62,022	220,941	142,607	94,069	58,417	30,989
Year 1 - Interest Only	1,318	4,695	3,030	1,999	1,241	659
Year 2 - Interest and Principal Repayment	4,703	16,755	10,814	7,134	4,430	2,350
Housing Revenue Account (HRA) - New Loans Fund Advances						
Loans Fund Advances in year (excl. LLP programme *)	85,632	71,293	237,496	202,468	211,526	198,641
Year 1 - Interest Only	1,820	1,515	5,047	4,302	4,495	4,221
Year 2 - Interest and Principal Repayment	5,432	4,637	15,037	12,937	13,506	8,442

* 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 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

Appendix 10

Environmental, Social and Governance Issues in Short Term Cash Management

Introduction

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."*

The TM Code notes that ESG considerations are…

> *"better developed in equity and bond markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult."*

UN Principles for Responsible Banking

The aim of UN Principles for Responsible Banking (UN PRB) which is convened by the UN is to accelerate a positive global transition for people and the planet. It has 300 signatories with total assets c.US$ 84 trillion, approximately 45% of global banking assets (as of Nov-22).

Through the principles framework, banks take action to align their core strategy, decision-making, lending and investment with the UN Sustainable Development Goals, and international agreements such as Paris Climate Agreement.

The six principles are:

- Alignment with the UN SDGs, the Paris Agreement and relevant national and regional frameworks
- Continuously increasing positive impacts while reducing the negative impacts on people and the environment resulting from the bank's activities, products and services
- Working responsibly with clients and customers to encourage sustainable practises and enable economic activities that create shared prosperity for current and future generations
- Proactively and responsibly consulting, engaging and partnering with stakeholders to achieve society's goals
- Committing to the Principles through effective governance and culture of responsible banking
- Being transparent and accountable for bank's positive and negative impacts and contribution to society's goals

Net Zero Banking Alliance

Industry-led and UN-convened. Launched in April 2021 by 43 founding members and has since grown to about 40% of global banking assets

The Alliance supports the implementation of decarbonisation strategies, providing an internationally coherent framework and guidelines in which to transition the real economy to net-zero emissions.

Banks commit to:

- Transition the operational and attributable GHG emissions from their lending and investment portfolios to align with pathways to net-zero by 2050 or sooner
- Within 18 months of joining, set 2030 targets (or sooner) and a 2050 target, with intermediary targets to be set every 5 years from 2030 onwards
- Focus their first 2030 targets on priority sectors where the bank can have the most significant impact (i.e. most GHG-intensive sectors within their portfolios), with further sector targets to be set within 36 months
- Annually publish absolute emissions and emissions intensity in line with best practice and within a year of setting targets, disclose progress against a board-level reviewed transition strategy setting out proposed actions and climate-related sectoral policies
- Take a robust approach to the role of offsets in transition plans

Asset Management Initiatives

The Council uses three Money Market Funds which are short-term funds managed by Asset Managers to provide same day liquidity to clients. They invest in a range of instruments including term deposits, Certificates of Deposit, Bonds and other tradable instruments. The Asset management industry is further down the ESG path than the cash market, and there are three initiatives to which the Council might have regard:

(a) UN Principles of Responsible Investment

The UN Principles of Responsible Investment (PRI) was launched in 2005 and is supported by the United Nations (structured as a Board with committees). It is the World's leading proponent of responsible investment with over 5,000 signatories.

The UN defines Responsible Investment as "a strategy and practice to incorporate environmental, social and governance factors in investment decisions and active ownership", complementing traditional financial analysis and portfolio construction techniques. The PRI promotes incorporation of ESG into investment decision-making

Its approach is outlined in six guiding principles for investors:

- Incorporation of ESG issues;
- Active ownership;
- Seeking appropriate disclosure on ESG issues from investee entities through the Global Reporting Initiative;
- Wider promotion of the principles in the investment industry;
- Working together to enhance effectiveness; and
- Reporting on activities and progress made.

It also provides a reporting framework for asset managers and scores their submissions.

(b) Net Zero Asset Managers Initiative

A voluntary initiative managed by six 'founding partner' investor networks, launched in 2020. A large global group of Asset Managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with efforts to limit warming to 1.5 degrees and to supporting investing aligned with net zero emissions by 2050 or sooner. There are currently 315 signatories, representing the management of over $57 trillion of assets.

Signatories are committed to:

- Work with clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management;
- Set an interim target for the proportion of assets to be managed in line with net zero by 2050 or sooner; and
- Review the interim target at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included.

They will, for NZ assets:

- Set interim targets for 2030 for CO2 reduction;
- Take account of portfolio Scope 1 & 2 emissions and, if possible, Scope 3 emissions;
- Prioritise the achievement of real economy emissions reductions;
- Create investment products aligned with net zero and facilitate increased investment in climate solutions.

(c) UK Stewardship Code 2020

This is a voluntary code for asset managers, owners and service providers published by the Financial Reporting Council. Stewardship is defined as the "responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society". It sets a standard that is higher than the minimum UK regulatory requirements and the Code has a strong focus on stewardship activities and outcomes It expects signatories to progress beyond articulating their stewardship policies and comprises a set of "apply and explain" principles, to boost transparency and disclosure.

The Code's 12 principles focus on

- Purpose and Governance;
- Investment Approach;
- Engagement; and
- Exercising Rights and Responsibilities.

Signatories to the 2020 Code report annually to FRC with specific evidence for each reporting period on the Code's application, including activities and outcomes, successes, and setbacks, all described succinctly and in plain English.

All of these initiatives have some merit, but realistically they are much more applicable to equity type asset portfolios which holdings are much longer term and allow greater ongoing engagement to change businesses' approaches than to short term cash holdings.

Portfolio Implications

Table A10.1 and A10.2 below show which banks and Assets Managers are signatories to the above codes. Essentially it is of little help in distinguishing between the banks on their ESG credentials. This comes back to the original acknowledgement in the Treasury Code that getting consistent and meaningful data on cash counterparties is problematic. We will continue to work with our Treasury Advisors to review what more we can do in this area.

For the Money Market Funds, two out of the three which we use are signatories to all three initiatives although again this is looking at the asset manager and not the underlying investments. There are specific ESG Money Market Funds and we have been engaging with one to review what differentiates their approach with a view to opening an account with them.

	UN PRB	NZBA
Barclays Group	✓	✓
Clydesdale (through Virgin Money)	✓	✓
Co-operative Bank	✓	✗
Handelsbanken (through Svenska Handelsbanken)	✓	✓
HSBC Holdings	✗	✓
Lloyds Banking Group (in. Bank of Scotland)	✓	✓
NatWest Group (inc. Royal Bank of Scotland)	✓	✓
Santander UK	✓	✓
Standard Chartered	✓	✓
TSB Bank (through Banca Sabadell)	✓	✓

Table A10.1 – UK Banks as signatories

	UN PRI	NZAMI	UK Code
Aberdeen Standard	✓	✓	✓
Aegon	✓	✓	✓
Ardea Investment Management	✓	✗	✓
Aviva Investors	✓	✓	✓
Blackrock	✓	✓	✓
BNP Paribas Investment Partners	✓	✓	✓
Columbia Threadneedle	✓	✓	✓
CCLA Investment Management	✓	✓	✓
DWS	✓	✓	✓
Federated Hermes	✓	✓	✓
Fidelity International	✓	✗	✓
Foresight	✓	✗	✗
Fundamentum	✓	✗	✗
Goldman Sachs Asset Management	✓	✗	✓
Gravis	✓	✓	✗
HSBC Global Asset Management	✓	✓	✓
Insight investment	✓	✓	✓

Table A10.2 – Selection of Asset Managers as signatories