Governance, Risk and Best Value Committee

10.00am, Tuesday, 23 January 2025

Treasury Management: Mid-Year Report 2024/25 - referral from the City of Edinburgh Council

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The City of Edinburgh Council has referred the Treasury Management: Mid-Year Report 2024/25, to the Governance, Risk and Best Value Committee for scrutiny.

Paul Lawrence
Chief Executive

Contact: Louise Williamson, Assistant Committee Officer
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Referral Report

Treasury Management: Mid-Year Report 2024/25 – referral from the City of Edinburgh Council

2. Terms of Referral

2.1 On 19 December 2024, The City of Edinburgh Council considered the Treasury Management: Mid-Year Report 2024/25 report which provided an update on Treasury Management activity undertaken in the first half of 2024/25.

2.2 **Motion**

1) To note the mid-year report on Treasury Management for 2024/25.

2) To refer the report to City of Edinburgh Council for approval and subsequent remit by the City of Edinburgh Council to the Governance Risk and Best Value Committee for scrutiny.

- moved by Councillor Watt, seconded by Councillor Dalgleish

Amendment

1) To note the mid-year report on Treasury Management for 2024/25.

2) To note that group leaders were asked for a decision to approve loans to companies / homeowners to fund their HMO licence applications within less than 24 hours of Licensing Sub-committee meeting. That although not approved by any Group Leader, (with the exception of Councillor Day), this move was highly unconventional with potential implications on financial risk and reputation to the Council.

3) To agree that approvals should come through respective Committees, and where not possible, Group Leaders are given as much prior notice as possible including information about risks involved to ensure a considered and informed decision.

4) To refer the report to City of Edinburgh Council for approval and subsequent remit by the City of Edinburgh Council to the Governance Risk and Best Value Committee for scrutiny.

- moved by Councillor Kumar, seconded by Councillor Fullerton

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 mid-year report on Treasury Management for 2024/25.

2) To note that group leaders were asked for a decision to approve loans to companies / homeowners to fund their HMO licence applications within less than 24 hours of Licensing Sub-committee meeting. That although not approved by any Group Leader, (with the exception of Councillor Day), this move was highly unconventional with potential implications on financial risk and reputation to the Council.

3) To agree that approvals should come through respective Committees, and where not possible, Group Leaders be given as much prior notice as possible including information about risks involved to ensure a considered and informed decision.

4) To refer the report to City of Edinburgh Council for approval and subsequent remit by the City of Edinburgh Council to the Governance Risk and Best Value Committee for scrutiny.

3. Background Reading/ External References

3.1 The City of Edinburgh Council – 19 December 2024 - Webcast

3.2 Minute of the City of Edinburgh Council – 19 December 2024

3.3 Finance and Resources Committee – 19 November 2024 - Webcast

3.4 Minute of the Finance and Resources Committee – 19 November 2024

4. Appendices

Appendix 1 –Report by the Executive Director of Corporate Services

Finance and Resources Committee

10:00am, Tuesday, 19th November 2024

Treasury Management: Mid-Year Report 2024/25

Executive/routine
Wards

1. Recommendations

1.1 It is recommended that the Committee:

1.1.1 notes the mid-year report on Treasury Management for 2024/25; and

1.1.2 refers the report to City of Edinburgh Council for approval and subsequent remit by the City of Edinburgh Council to the Governance Risk and Best Value Committee for scrutiny.

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Richard Lloyd-Bithell

Service Director – Finance and Procurement

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Treasury Management: Mid-Year Report 2024/25

Treasury Management: Mid-Year Report 2024/25

2. Executive Summary

2.1 The purpose of this report is to give an update on Treasury Management activity undertaken in the first half of 2024/25.

2.2 In accordance with the Strategy set in March 2024 the Council has borrowed £210m in the first six month of this financial year.

2.3 The investment return for the first half of the 2024/25 financial year outperformed the Fund's benchmark by a significant margin while maintaining the security of the investments as a priority.

3 Background

3.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Sector, and under the code, the mid-year report has been prepared setting out activity undertaken.

4 Main report

4.1 UK Interest Rates

4.1.1 Through the first five months of the financial year, the Consumer Price Index of inflation (CPI) held at or just above the Bank of England's 2% target. This allowed the Bank of England's Monetary Policy Committee to hold UK Bank Rate at 5.25% before reducing it to 5.00% at its August meeting. Appendix 1 gives a summary of the first six months from the Council's Treasury Advisors

4.2 Debt Management

4.2.1 The Council borrowed £210m during the first half of the financial year, mitigating some of the Council's significant financing risk. Appendix 2 outlines the debt management activity during the period.

4.3 Investment Out-turn

4.3.1 The Council's cash balances are pooled and invested via the Treasury Cash Fund subject to the limits set out in the Treasury Management Policy Statement. Appendix 3 provides detail on the Council's investments.

4.3.2 As can also be seen in Appendix 3 Treasury Cash Fund performance has outperformed its benchmark with absolute investment returns increasing due to the increases in UK interest rates.

5 Next Steps

5.1 The Treasury Team will continue to operate its Treasury Cash Fund with the aim of out-performing its benchmark and manage the Council's debt portfolio to minimise the cost to the Council while mitigating risk.

5.2 The Treasury Team will also continue to review the Council's borrowing requirements, taking into account the significant planned capital investment set out in the ten-year capital plan, and seek any opportunities to undertake further borrowing which the market presents.

6 Financial impact

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

6.2 Loan charges associated with the borrowing will be managed within the approved budget.

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 Work is on-going to source meaningful data on the ESG credentials of the Council's financial institution counterparties.

9 Risk, policy, compliance, governance and community impact

9.1 n/a

10 Background reading/external references

10.1 n/a

11 Appendices

Appendix 1: Economic Background

Appendix 2: Debt Management Activity

Appendix 3: Investment Out-turn

Appendix 4: Debt outstanding 30th September 2024

Appendix 1

Economic Background

Our Treasury Advisors, Arlingclose, summarised the financial markets and gilt yields over the first six months of the financial year as follows:

UK headline consumer price inflation remained around the Bank of England (BoE) target later in the period, falling from an annual rate of 3.2% in March to 2.0% in May and then rebounding marginally to June to 2.2% in July and August, as was expected, due to base effects from energy prices. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August. The UK economy continued to expand over the period, albeit slowing from the 0.7% gain in the first calendar quarter to 0.5% (downwardly revised from 0.6%) in the second. Of the monthly figures, the economy was estimated to have registered no growth in July.

Labour market data was slightly better from a policymaker perspective, showing an easing in the tightness of the job market, with inactivity rates and vacancies declining. However, a degree of uncertainty remains given ongoing issues around the data collected for the labour force survey by the Office for National Statistics. Figures for the three months to July showed the unemployment rate fell to 4.1% (3mth/year) from 4.4% in the previous three-month period while the employment rate rose to 74.8% from 74.3%.

Over the same period average regular earnings (excluding bonuses) was 5.1%, down from 5.4% in the earlier period, and total earnings (including bonuses) was 4.0% (this figure was impacted by one-off payments made to NHS staff and civil servants in June and July 2023). Adjusting for inflation, real regular pay rose by 2.2% in May to July and total pay by 1.1%.

With headline inflation lower, the BoE cut Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The decision was finely balanced, voted by a 5-4 majority with four members preferring to hold at 5.25%. At the September MPC meeting, committee members voted 8-1 for no change at 5.00%, with the lone dissenter preferring Bank Rate to be cut again to 4.75%. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky inflation remaining a concern among policymakers.

The latest BoE Monetary Policy Report, published in August, showed policymakers expected GDP growth to continue expanding during 2024 before falling back and moderating from 2025 to 2027. Unemployment was forecast to stay around 4.5% while inflation was shown picking up in the latter part of 2024 as the previous years' energy price declines fell out of the figures before slipping below the 2% target in 2025 and remaining there until early 2027.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of further cuts, with November 2024 the likely next one, taking Bank Rate down to around 3% by the end of 2025.

The US Federal Reserve (the Fed) also cut interest rates during the period, reducing the Federal Funds Rate by 0.50% to a range of 4.75%-5.00% at its policy meeting in September. The forecasts released at the same time by the central bank suggested a further 1.00% of easing is expected by the end of the calendar year, followed by the same amount in 2025 and then a final 0.50% of cuts during 2026.

Having first reduced interest rates in June, the European Central Bank (ECB) held steady in July before cutting again in September, reducing its main refinancing rate to 3.65% and its deposit rate to 3.50%. Unlike the Fed, the ECB has not outlined a likely future path of rates, but inflation *projections remain in line with the central bank's previous forecasts where it will remain above its 2% target until 2026 on an annual basis.*

Sentiment in financial markets continued to mostly improve over the period, but the ongoing trend of bond yield volatility remained. The general upward trend in yields in the early part of the period was reversed in the later part, and yields ended the half-year not too far from where they started. However, the volatility in response to economic, financial and geopolitical issues meant it was a bumpy ride for bond investors during that time.

Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at 4.00% but hit a high of 4.41% in May and a low of 3.76% in mid-September. While the 20-year gilt started at 4.40% and ended at 4.51% but hit a high of 4.82% in May and a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.12% over the period to 30th September.

Appendix 2

Debt Management Activity

Figure A2.1 below shows the PWLB certainty borrowing interest rates since April 2005.

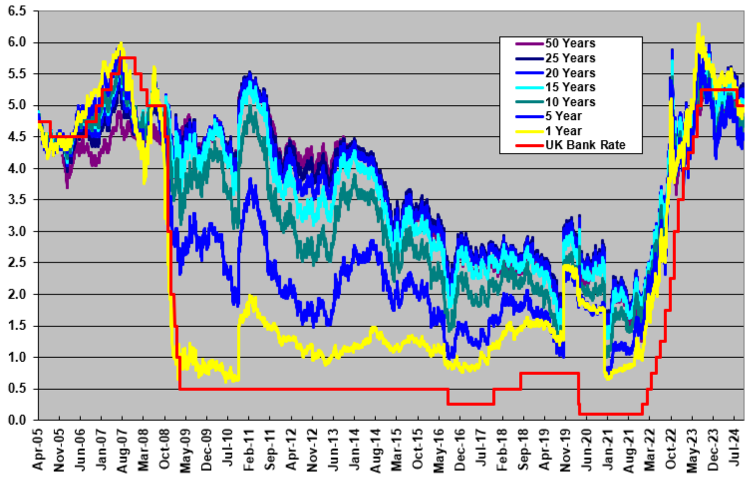

Figure A2.1 – PWLB Rates April 2005 to Date

Source: DMO

A combination of UK Bank Rate being increased at 14 consecutive meetings of the Bank of England's Monetary Policy Committee and the substantial increase in UK inflation led to interest rates rising rapidly across the whole of the Gilt yield curve.

With shorter PWLB rates peaking at over 6% mid-2023, the Council reduced its investments to temporarily fund capital expenditure, then when rates came down in late 2023, some borrowing was taken for both the General Fund and Housing Revenue Account. However, as noted in the Annual Treasury Management report, even after taking £125m in new PWLB borrowing in 2023/24, the Council was under-borrowed against its Capital Financing Requirement by £293m at 31 March 2024.

The Debt Management Strategy for 2024/25, as set out in the Treasury Management Strategy Report 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.

The Annual Treasury Management Report showed that the Council was projected to have a £1.27bn increase in the Council's borrowing Capital Financing Requirement over the course of the current and subsequent five financial years. This means that the Council is exposed to significant financing risk over the next few years. While we anticipate that there will be further reductions in UK Bank Rate, the future path for Gilts is less certain. Our central forecast is that Gilt Yields will reduce, though to nowhere close to the lows in recent years. However, the UK has a historically high Debt to GDP ratio with substantial further Gilt issuance planned. There is therefore significant upside risk to the Council's borrowing requirement. To mitigate that risk, a further £210m in borrowing has been taken from the PWLB in the first six months of the financial year. Figure A2.2 below annotates when borrowing was taken over the last 9 months.

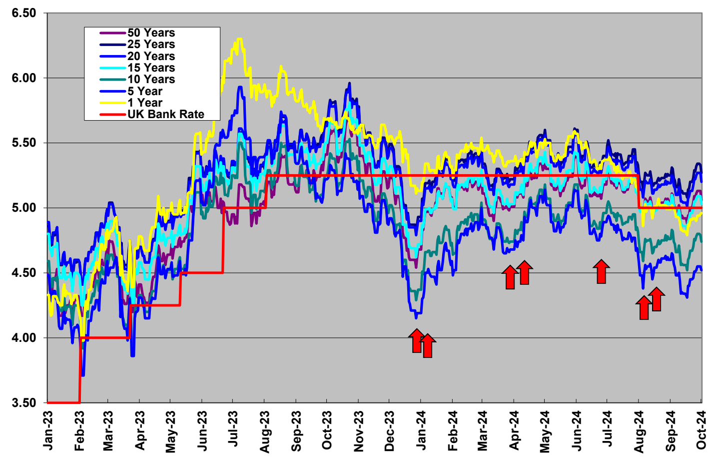

Figure A2.2 – PWLB Rates January 2023 to Date

Source: DMO

The borrowing has been a mixture of Annuity and Equal Instalment of Principal (EIP) types and at the shorter end of the yield curve. The split between General Fund and the HRA was as follows:

	Value	Ave. Rate
HRA	£90m	4.09%
General Fund	£120m	4.52%

The lower HRA average interest rate reflects the lower PWLB concessionary rate introduced in June 2023 for borrowing undertaken solely on behalf of the HRA. The PWLB concessionary HRA Rate (which is Gilts + 40bps, compared to the PWLB Certainty Rate of Gilts +80bps) has been extended to June 2025.

Appendix 3

Investment Out-turn

The Council's cash balances are pooled with the sterling cash of Lothian Pension Fund and other associated organisations and invested via the Treasury Cash Fund subject to the limits set out in the Cash Fund Treasury Management Policy Statement.

Figure A3.1 below shows the daily investment in the Cash Fund since April 2009. The Treasury Management strategy 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.

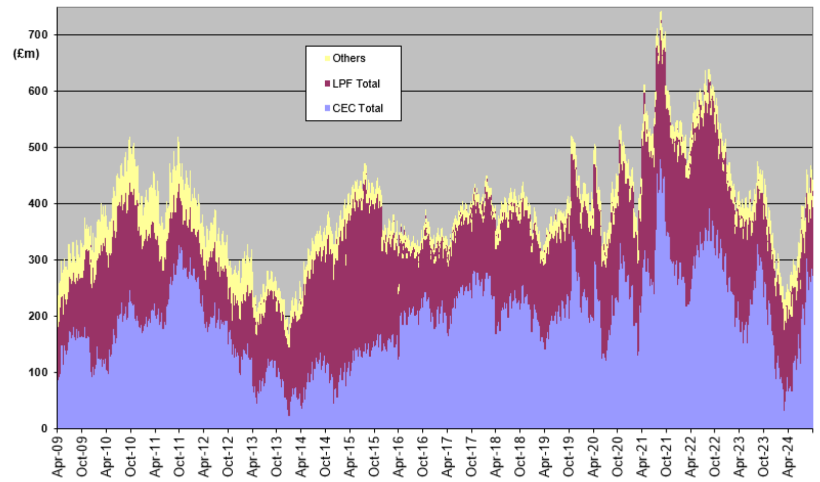

Figure A3.1 - Source of Funds

Figure A3.2 shows the Cash Fund investment distribution at the end of September. At the end of September over a third of the Fund was held short in Money Market Funds providing a pool of liquidity. Twenty percent was lent short-term to the UK Government and a further third was lent to other local authorities, adding duration to the portfolio.

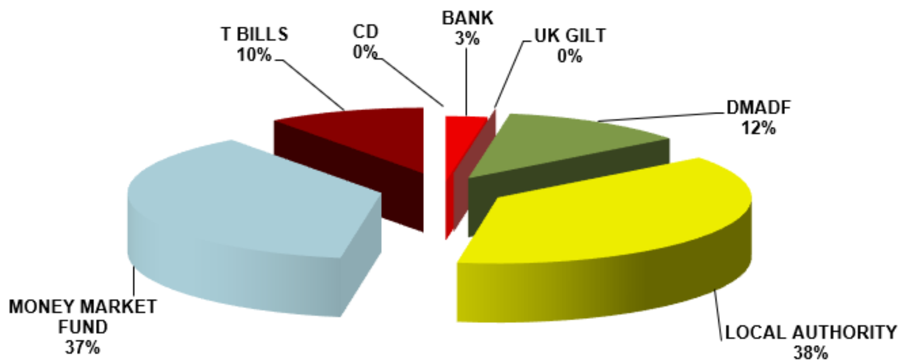

Figure A3.2 – Investments by Counterparty 30th September 2024

Source: CEC

Figure A3.3 below summarises the investment maturity by sector including distinguishing between Local Authority fixed and notice deposits as well as between Scottish and English Authorities.

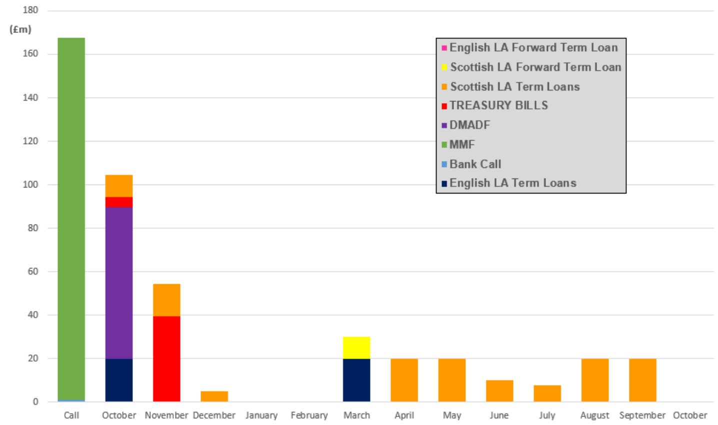

Figure A3.3 – Cash Fund Maturity Analysis at 01 October 2024

Source: CEC

This shows the duration which has been added to the portfolio, particularly with Scottish Local Authorities in the anticipation of reductions in UK Bank Rate in August and probably November. Figure A3.4 below shows how the Weighted Average Life of the Cash Fund has increased as a result of the duration added to the portfolio.

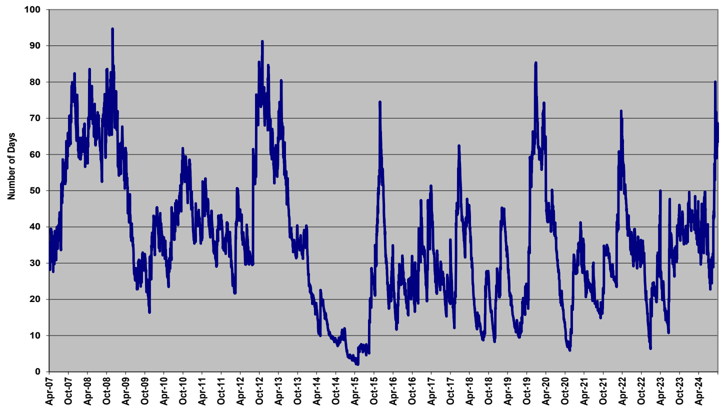

Figure A3.4 – Cash Fund Weighted Average Life

Source: CEC

Cash Fund Performance

The benchmark set for the Cash Fund is 7-Day Compounded SONIA less 6.25bps. Figure A3.5 below shows the daily investment performance of the Cash Fund against its benchmark for 2024 highlighting the 0.10% out-performance target set by Lothian Pension Fund.

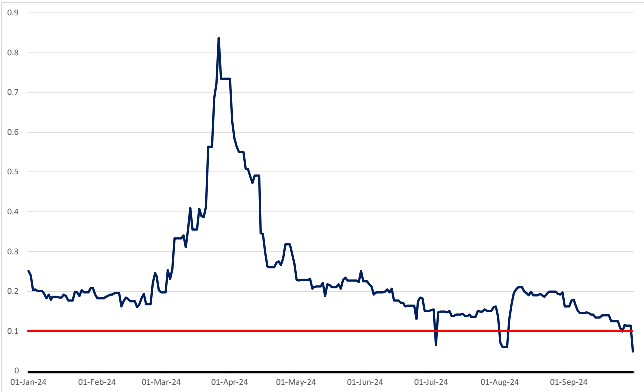

Figure A3.5 - Treasury Cash Fund Investment Performance

Source: CEC

This shows substantial out-performance around the March April period when there was a particular lack of liquidity in the inter-local authority market and therefore a significant rate premium in that market. The temporary dips in July and the end of September relate to large Pension Fund property receipts received late in the day which were therefore not included in the day's dealing. The dip in August was because the Fund's benchmark is related to 7-day compounded SONIA which took 7 days to reset lower following the reduction in UK Bank Rate.

The Council supplies data on its Cash Fund investment to the Council's Treasury Advisors to allow their analysis of the Council's portfolio and performance. The advisors provide a credit analysis at the end of each quarter and Figure A3.6 below shows the investment return against Credit Risk for their client universe. It shows CEC had a slightly better than average investment return while lower than average Credit Risk.

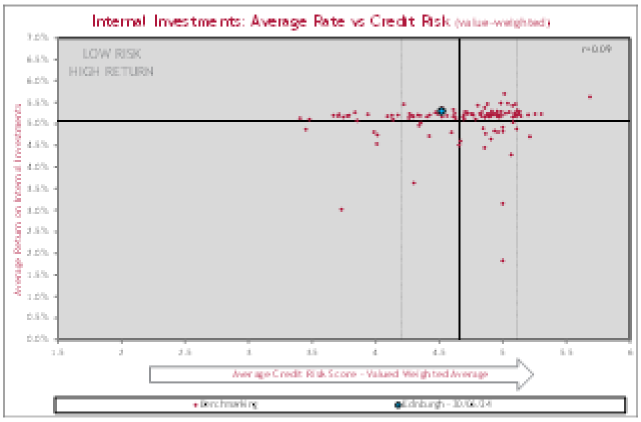

Figure A3.6 – Treasury Advisor Return v. Credit Risk

Source: Arlingclose

Treasury Management Policy Statement

Appendix 5 contains the Treasury Management Policy Statement for the City of Edinburgh Council. It is proposed to add two new categories to the Permitted Instruments:

(j) Investment in Bond Funds

(k) Investment in Property Funds

It is also proposed to add the following limits to the Approved Organisations for Investment

(g) Bond Funds up to a limit of £50m per fund

(h) Property Funds up to a limit of £50m

The Council will continue to use its Treasury Cash Fund as the main investment mechanism for surplus funds. However, these two types of pooled investment vehicles would provide the Council with additional investment options should there be future opportunities to borrow to mitigate the interest rate risk associated with the quantum of borrowing required for the capital programme. Elected Members are asked to approve these changes.

Appendix 4

Debt outstanding 30th September 2024

Market Debt (non LOBO)

Loan Type	Start Date	Maturity Date	Principal Outstanding (£)	Interest Rate (%)	Annual Interest (£)
A	08/10/2020	08/10/2045	53,753,586.72	2.613	1,440,777.00
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
			116,253,586.72		

Market Debt (LOBO)

Loan Type	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	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	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
			152,400,000.00		

PWLB

Loan Type	Start Date	Maturity Date	Principal Outstanding (£)	Interest Rate (%)	Annual Interest (£)
M	14/05/2012	14/11/2024	10,000,000.00	3.36	336,000.00
A	14/12/2009	14/12/2024	428,292.35	3.66	38,627.87
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	1,801,706.39	3.64	97,019.52
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	1,389.98	3	47.39
M	14/07/2011	14/07/2030	10,000,000.00	4.93	493,000.00
M	04/03/2024	04/03/2031	20,000,000.00	4.74	948,000.00
M	15/03/2024	15/03/2031	25,000,000.00	4.27	1,067,500.00
E	15/06/1951	15/05/2031	1,640.36	3	54.48
M	06/09/2010	06/09/2031	20,000,000.00	3.95	790,000.00
M	12/03/2024	12/09/2031	30,000,000.00	4.75	1,425,000.00
M	15/12/2011	15/06/2032	10,000,000.00	3.98	398,000.00
E	08/08/2024	08/08/2035	20,000,000.00	4.56	891,272.73
E	08/08/2024	08/08/2035	25,000,000.00	4.16	1,016,363.64
E	12/08/2024	12/08/2035	25,000,000.00	4.39	1,072,556.82
E	12/08/2024	12/08/2035	25,000,000.00	3.99	974,829.55
E	18/09/2024	18/09/2035	30,000,000.00	4.33	1,269,477.27
E	18/09/2024	18/09/2035	20,000,000.00	3.93	768,136.36
A	21/12/2023	21/12/2035	24,176,717.49	3.97	976,157.84
A	28/06/2024	31/12/2035	25,000,000.00	4.67	1,103,039.47
A	28/06/2024	31/12/2035	20,000,000.00	4.27	839,427.84
A	11/01/2024	11/01/2036	24,171,685.15	3.87	951,472.11
E	17/04/2024	17/04/2036	20,000,000.00	4.68	916,500.00
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	13,190,729.03	1.64	221,422.52
A	26/03/2020	26/03/2050	4,384,313.33	1.49	66,897.13
A	26/03/2021	26/03/2051	9,084,165.58	1.75	162,487.50
A	12/07/2021	12/07/2051	36,887,500.32	1.78	670,715.11
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	100,291,537.97	2.69	2,743,527.71
M	12/10/2007	12/04/2053	5,000,000.00	4.6	230,000.00
A	01/07/2021	01/07/2053	46,534,529.58	1.98	938,905.55
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	2,506,223.23	2.65	67,291.32
A	11/06/2019	11/06/2059	1,178,849.24	2.23	26,657.62
A	01/10/2019	01/10/2059	1,234,585.94	1.74	21,590.82
A	02/10/2019	02/10/2059	36,794,201.46	1.8	672,231.65
A	05/11/2019	05/11/2059	6,692,324.21	2.96	200,439.07
A	28/11/2019	28/11/2059	1,225,101.55	3.03	37,553.86
A	02/12/2019	02/12/2059	2,637,451.93	3.03	80,847.57
A	20/01/2020	20/01/2060	1,838,750.65	1.77	33,037.07
A	20/01/2020	20/01/2060	429,444.07	2.97	12,905.24
M	04/10/2019	04/04/2060	40,000,000.00	1.69	676,000.00
A	07/12/2021	07/12/2060	18,234,453.15	1.8	332,962.08
M	02/12/2011	02/12/2061	5,000,000.00	3.98	199,000.00
A	07/12/2021	07/12/2061	3,981,971.98	1.79	72,271.79
A	19/05/2022	19/05/2062	3,010,479.10	2.86	87,032.87
A	02/11/2022	02/11/2062	7,890,952.06	4.61	366,324.63
A	24/03/2022	24/03/2063	17,369,715.65	2.65	465,418.58
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
			1,436,782,408.72		

SALIX

Loan Type	**Start Date**	**Maturity Date**	**Principal Outstanding**	**Interest Rate**	**Annual Interest**

			(£)	**(%)**	**(£)**
Z	29/03/2019	01/04/2029	69,989.30	0	0.00
			69,989.30		

Appendix 5

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

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

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

The Head of Finance 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 to / investment in the Loan Stock of Council Companies

(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 Chief Financial Officer who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

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

Reporting Arrangements

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

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

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

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

(d) Ad hoc reports according to need.

Type of Investment	Treasury Risks	Mitigating Controls
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
b. Money Market Funds (MMFs) **(low/medium risk)**	Pooled cash investment vehicle which provides short term liquidity. It is difficult to effectively monitor the underlying counterparty exposure, so will be sparingly used.	Funds will only be used where the MMFs are Constant Net Asset Value (CNAV), and the fund has a “AAA” rated status from either Fitch, Moody’s or Standard & Poors.
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	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.	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.
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	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

via the “Hubco” model		structure. As such they are well placed to influence and ensure the successful completion of the project’s term