

# Finance and Resources Committee

10.00am, Thursday, 3rd December 2020

## Treasury Management: Mid-Term Report 2020/21

Executive/routine                      Executive  
Wards  
Council Commitments

### 1. Recommendations

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- 1.1 It is recommended that the Committee:
  - 1.1.1 notes the mid-term report on Treasury Management for 2020/21; 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.

**Stephen S. Moir**

Executive Director of Resources

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

E-mail: [innes.edwards@edinburgh.gov.uk](mailto:innes.edwards@edinburgh.gov.uk) | Tel: 0131 469 6291

# Report

## Treasury Management: Mid-Term Report 2020/21

### 2. Executive Summary

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- 2.1 The purpose of this report is to give an update on Treasury Management activity undertaken in the first half of 2020/21.
- 2.2 In accordance with the Strategy set in March 2020 the Council drew down no borrowing during the first half of the financial year. The overall approach continues to generate significant short-term savings in Loans Charges for the Council.
- 2.3 The investment return for 2020/21 continues to show out-performance against the Fund's benchmark, although low in absolute terms, while maintaining the security of the investments as a priority.

### 3. Background

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

### 4. Main report

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#### 4.1 UK Interest Rates

- 4.1.1 During the last six months of Economic uncertainty due to the COVID-19 pandemic, the Bank of England's (BoE) Monetary Policy Committee (MPC) made no change to monetary policy maintain UK Bank Rate at 0.1%. Brexit talks have intensified with the chances of a no-deal Brexit increasing due to the Government trying to pass the Internal Market Bill which could override the agreed Brexit deal.

## **4.2 Debt Management**

- 4.2.1 The Council continued to fund its borrowing requirement by reducing its investments. Pre-arranged borrowing of £60m is due to be advanced to the Council at the beginning of October. Appendix 1 outlines the debt management activity during the period.
- 4.2.2 The Chancellor announced at his March 2020 Budget statement that borrowing for the Housing Revenue Account (HRA) would revert to 0.80% above equivalent gilt yields, 1% less than the newly increased borrowing rate and there would be a specific infrastructure rate at 0.60% above gilts, this would require separate application. There was also a consultation launched named “Future Lending Terms” which closed in July with the outcome expected late this year or early 2021.

## **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 2 provides detail on Council’s investments.
- 4.3.2 As can also be seen in Appendix 2 Treasury Cash Fund performance continues to out-perform its benchmark although investment returns remain low.

## **5. Next Steps**

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- 5.1 The Treasury team will continue to operate its Treasury Cash Fund with the aim of out-performing its benchmark of 7-day London Interbank Bid Rate (LIBID) and manage the Council’s debt portfolio to minimise the cost to the Council while mitigating risk.

## **6. Financial impact**

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

## **7. Stakeholder/Community Impact**

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

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

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- 8.1 None

## **9. Appendices**

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- 9.1 Appendix 1 – Debt Management Summary
- 9.2 Appendix 2 - Investment Outturn
- 9.3 Appendix 3 - Debt outstanding 30<sup>th</sup> September 2020

## Debt Management Activity

Debt Management Strategy for 2020/21 as outlined in the Strategy Report was:

*To address the borrowing requirement it is intended, subject to appropriate rates being available, to:*

- *Fund the 2020/21 requirement by reducing cash deposits further;*
- *Borrow for each tranche of LLP housing subject to meeting the viability test for the tranche;*
- *Seek to mitigate risk on major projects as the requirement becomes more certain.*

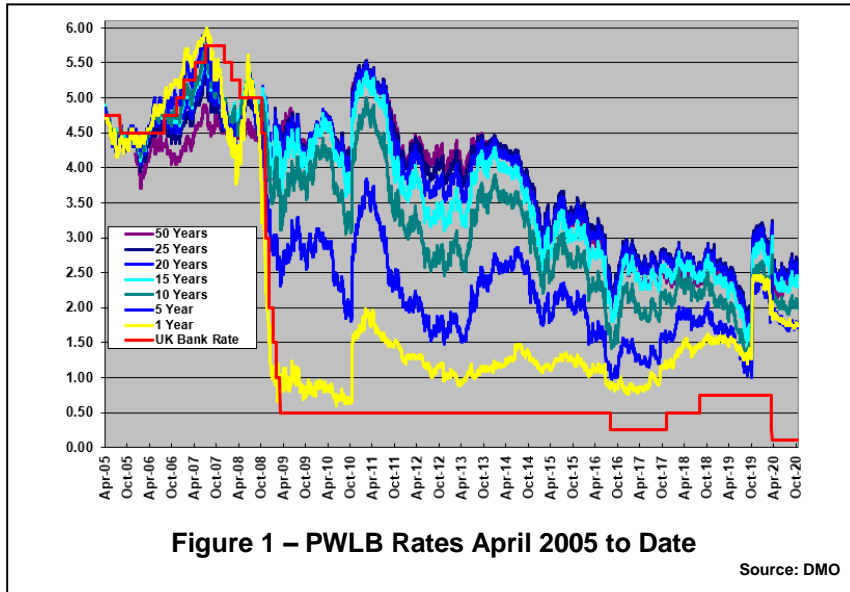
Although the strategy to reduce cash further has been followed through, the global pandemic has resulted in significantly lower capital expenditure than had been anticipated with further uncertainty over future expenditure. The only LLP settlement so far post-lockdown was therefore also funded by reducing cash deposits rather than matching the loan to the LLP with PWLB borrowing.

Figure 1 below shows the PWLB borrowing rates since April 2005. Our Treasury Advisors, Arlingclose issued the following update with regards financial markets and gilt yields:

*Equity markets continued their recovery, with the Dow Jones climbing to not far off its pre-crisis peak, albeit that performance being driven by a handful of technology stocks including Apple and Microsoft, with the former up 75% in 2020. The FTSE 100 and 250 have made up around half of their losses at the height of the pandemic in March. Central bank and government stimulus packages continue to support asset prices, but volatility remains.*

*Ultra-low interest rates and the flight to quality continued, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield started and ended the June–September period at -0.06% (with much volatility in between). The 10-year gilt yield also bounced around, starting at 0.21% and ending at 0.23% over the same period, while the 20-year rose from 0.56% to 0.74%. 1-month, 3-month and 12-month bid rates averaged 0.02%, 0.06% and 0.23% respectively over the period.*

*At the end of September, the yield on 2-year US treasuries was around 0.13% while that on 10-year treasuries was 0.69%. German bund yields remain negative across most maturities.*



Due to the impact of COVID-19 restrictions the capital programme remains under review and a further update will be provided to the Finance and Resources Committee in January 2021. COVID has impacted a number of projects including the Tram extension, although work has now re-commenced. No new PWLB borrowing has been taken during 2020/21. Table 1 below which shows the outturn for 2019/20 along with the Council’s borrowing requirement over the current and next three years.

<b>Capital Funding v. External Debt</b>	<b>2019/20 Outturn £'000</b>	<b>2020/21 Estimate £'000</b>	<b>2021/22 Estimate £'000</b>	<b>2022/23 Estimate £'000</b>	<b>2023/24 Estimate £'000</b>
Debt b/fd	1,198,460	1,306,373	1,355,159	1,331,510	1,332,097
Cumulative Capital Expenditure b/fd	1,355,900	1,378,055	1,505,993	1,893,723	2,088,798
Over/underborrowed b/fd	-157,440	-71,681	-150,834	-562,213	-756,701
GF Capital Financed by borrowing	17,906	86,565	237,890	53,750	37,178
Tram Capital Financed by borrowing	25,187	50,433	69,758	37,008	9,356
Lending to LLPs	28,138	28,184	49,491	52,040	40,575
HRA Capital Financed by borrowing	38,403	23,541	91,213	117,169	182,919
less scheduled repayments by GF	-66,229	-42,492	-41,172	-43,108	-44,093
less scheduled repayments by Tram	0	0	0	0	-3,404
less scheduled repayments by LLPs*	-38	-260	-896	-1,299	-2,038
less scheduled repayments by HRA	-20,695	-17,489	-17,998	-19,896	-22,492
less scheduled repayments by Joint Boards	-517	-544	-556	-589	-623
<b>Underlying Need to Borrow</b>	<b>22,155</b>	<b>127,938</b>	<b>387,730</b>	<b>195,075</b>	<b>197,378</b>
plus total maturing debt	98,750	58,589	52,062	51,453	40,824
<b>Total Borrowing Requirement</b>	<b>120,904</b>	<b>186,526</b>	<b>439,793</b>	<b>246,528</b>	<b>238,201</b>
<b>Cummulative Borrowing Requirement</b>	<b>120,904</b>	<b>307,431</b>	<b>747,223</b>	<b>993,751</b>	<b>1,231,953</b>
Committed Market Borrowing		60,000			
Planned PWLB or short borrowing for year	206,663	47,374	28,413	52,040	40,575
<b>Debt at end of the year</b>	<b>1,306,373</b>	<b>1,355,159</b>	<b>1,331,510</b>	<b>1,332,097</b>	<b>1,331,848</b>
<b>Cumulative Capital Expenditure</b>	<b>1,378,055</b>	<b>1,505,993</b>	<b>1,893,723</b>	<b>2,088,798</b>	<b>2,286,176</b>
<b>Cumulative Over/Under Borrowed</b>	<b>-71,681</b>	<b>-150,834</b>	<b>-562,213</b>	<b>-756,701</b>	<b>-954,328</b>

**Table 1 – Summary of Capital Advances v External Debt**

Although the projection for the current year has been reduced substantially, the Council still has a significant borrowing requirement to fund in the medium term.

It is intended to continue the strategy of using investments to temporarily fund the Council's ongoing borrowing requirement in the short term. However, work will continue to investigate funding sources other than the PWLB which could be used to manage the Council's interest rate risk.

Edinburgh Living LLP's will continue to be considered on a tranche by tranche basis.

### Investment Outturn

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. Figure 2 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. The Cash Fund’s Investment Strategy continues to be based around the security of the investments.

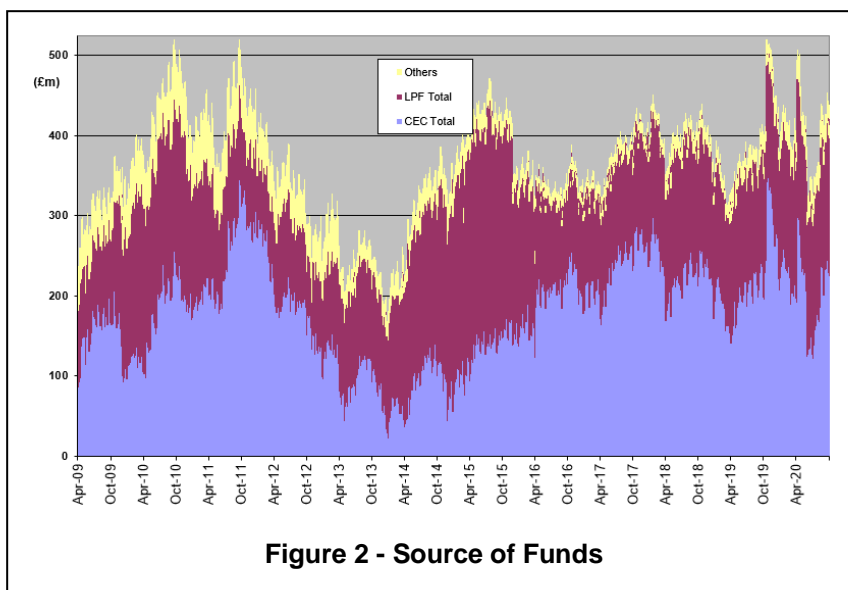


Figure 3 shows the rates achieved in the Friday auctions of UK Treasury Bills. Treasury Bill yields have reduced to close to and below zero. Local Authority and rates achieved on call with Banks and Money Market Funds have also reduced towards zero.

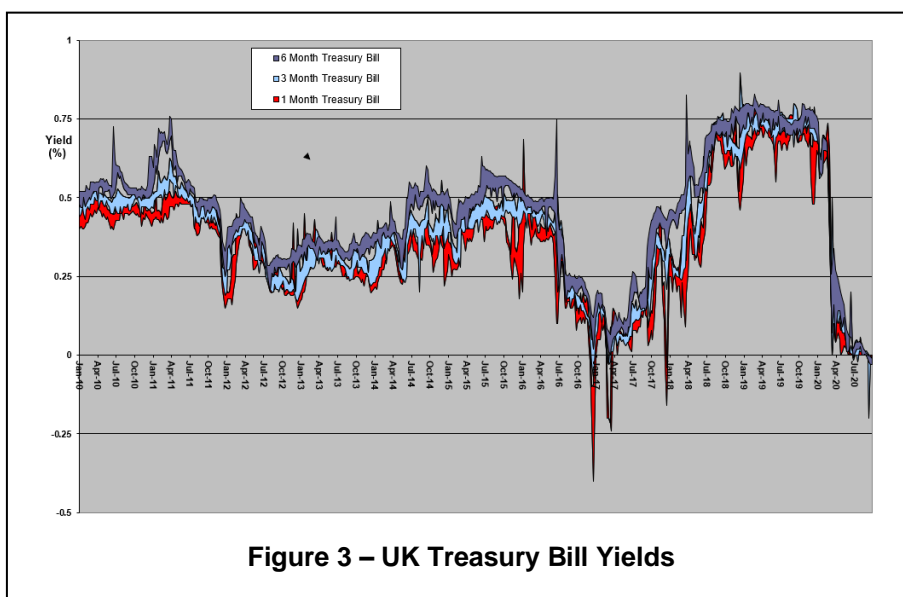
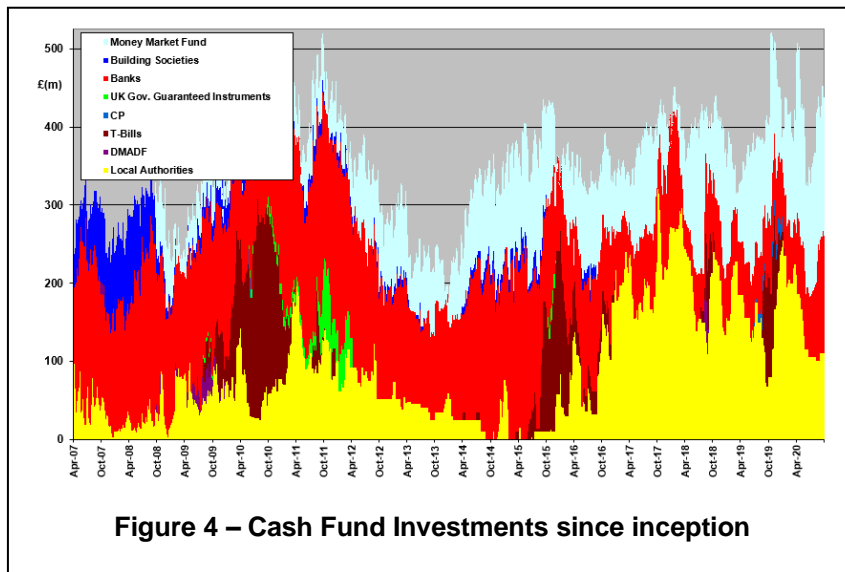
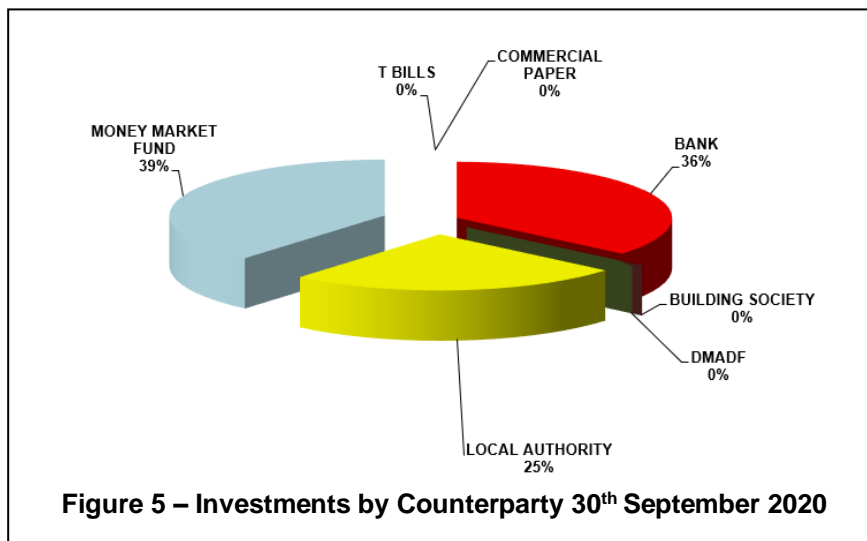




Figure 4 shows in detail the distribution on Cash Fund investments since inception in 2007. This shows the increased investment within Banks and Money Market Funds due to maturing Local Authority deposits and increased cash holdings.

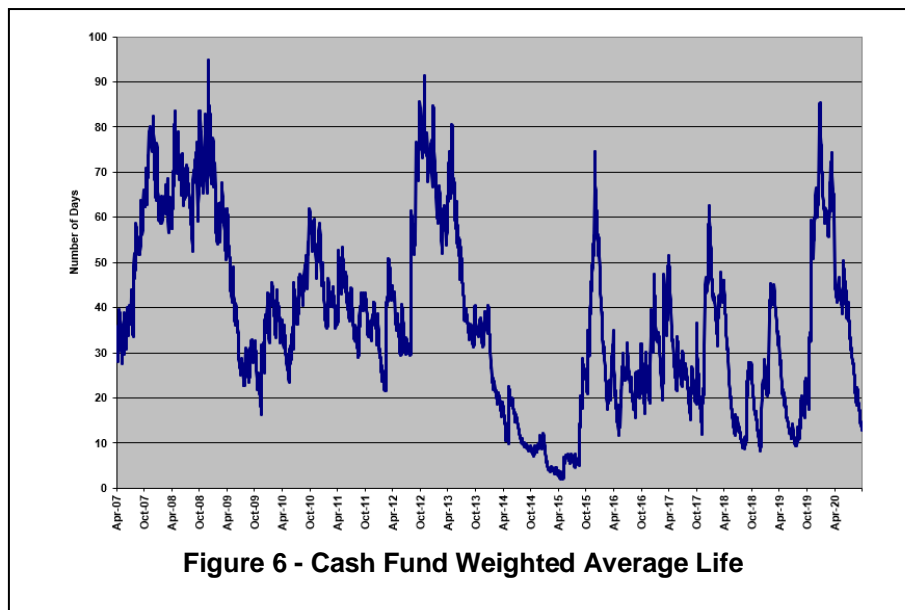


As can be seen in Figure 5, 25% of the fund was invested in Local Authority deposits with 9 different authorities, 36% was invested with Banks in call accounts split between instant access and a 31-day notice account with HSBC and 39% was on invested via Money Market Funds.



The strategy is to seek Local Authority and UK Treasury Bill trades which add value to relative MMF/Bank rates and make a positive performance contribution. With Gilt Yields and UK Bank Rate being extremely low many Local Authorities have taken advantage of the opportunity to lock out the low interest rates on offer. The resultant liquidity has reduced inter Local Authority market rates further.

As can be seen in Figure 6 the weighted average life of the fund decreased slightly to just under 13 days at the end of September. This is mainly due to maturing Local Authority deposits and increased cash holdings being reinvested within instant access accounts.



### Cash Fund performance

The annualised rate of return for the Cash Fund for the six months to September 2020 was 0.41% against a benchmark of -0.05%. Figure 7 below shows the daily investment performance of the cash Fund against its benchmark since April 2011. As can be seen, Cash Fund performance has remained substantially above the benchmark. The decision to add duration to the portfolio in December 2019 and again in March 2020 with Local Authority fixed deposits continues to contribute to the significant outperformance of the cash fund. Some call accounts have given notice to reduce rates further and Money Market Funds rates also continue to reduce.

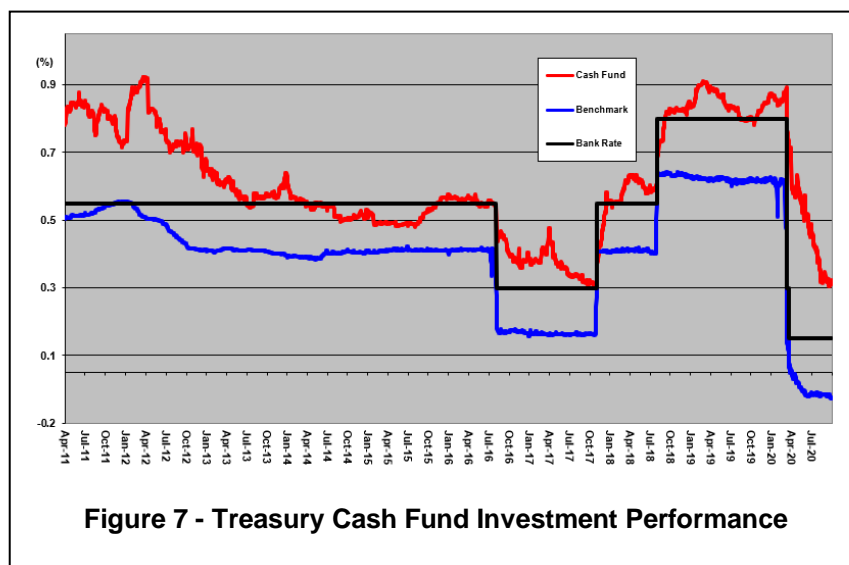
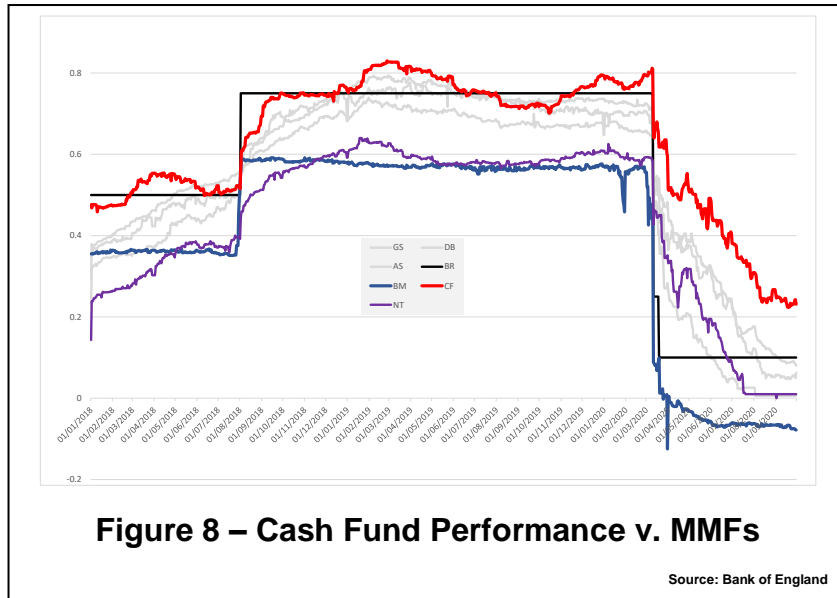


Figure 8 below compares the Cash Fund performance against that of the private sector equivalent, Money Market Funds. This shows the Cash Fund out performance against the three Money Market Funds which the Cash Fund uses along with the Northern Trust Short Term Investment Fund which would be the default option for Lothian Pension Fund's cash investment if they did not use the Cash Fund approach.



This shows that the Cash Fund approach and the strategy to add duration has added significant value and stands up to peer group review against the private sector, although still relatively low in absolute cash terms.

Debt outstanding 30<sup>th</sup> September 2020

## Market Debt (non LOBO)

Loan Type	Start Date	Maturity Date	Principal Outstanding (£)	Interest Rate (%)	Annual Interest (£)
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
			62,500,000.00		

## 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	07/09/2005	07/09/2065	10,000,000.00	4.99	499,000.00
M	13/09/2005	14/09/2065	5,000,000.00	3.95	197,500.00
M	03/10/2005	05/10/2065	5,000,000.00	4.375	218,750.00
M	23/12/2005	23/12/2065	10,000,000.00	4.75	475,000.00
M	06/03/2006	04/03/2066	5,000,000.00	4.625	231,250.00
M	17/03/2006	17/03/2066	10,000,000.00	5.25	525,000.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	03/04/2006	01/04/2066	10,000,000.00	4.875	487,500.00
M	07/04/2006	07/04/2066	10,000,000.00	4.75	475,000.00
M	05/06/2006	07/06/2066	20,000,000.00	5.25	1,050,000.00
M	05/06/2006	07/06/2066	16,500,000.00	5.25	866,250.00
			172,400,000.00		

**PWLB**

<b>Loan Type</b>	<b>Start Date</b>	<b>Maturity Date</b>	<b>Principal Outstanding (£)</b>	<b>Interest Rate (%)</b>	<b>Annual Interest (£)</b>
M	09/12/1994	15/11/2020	5,000,000.00	8.625	431,250.00
A	10/05/2010	10/05/2021	527,379.15	3.09	28,179.23
M	21/10/1994	15/05/2021	10,000,000.00	8.625	862,500.00
M	10/03/1995	15/05/2021	11,900,000.00	8.75	1,041,250.00
M	12/06/1995	15/05/2021	10,000,000.00	8	800,000.00
M	02/06/2010	02/06/2021	5,000,000.00	3.89	194,500.00
M	16/08/1994	03/08/2021	2,997,451.21	8.5	254,783.35
M	28/04/1994	25/09/2021	5,000,000.00	8.125	406,250.00
M	23/04/2009	23/04/2022	5,000,000.00	3.76	188,000.00
M	12/06/1995	15/05/2022	10,200,000.00	8	816,000.00
M	14/06/2010	14/06/2022	10,000,000.00	3.95	395,000.00
M	31/03/1995	25/09/2022	6,206,000.00	8.625	535,267.50
M	16/02/1995	03/02/2023	2,997,451.21	8.625	258,530.17
M	24/04/1995	25/03/2023	10,000,000.00	8.5	850,000.00
M	05/12/1995	15/05/2023	5,200,000.00	8	416,000.00
M	20/09/1993	14/09/2023	2,997,451.21	7.875	236,049.28
M	20/09/1993	14/09/2023	584,502.98	7.875	46,029.61
M	08/05/1996	25/09/2023	10,000,000.00	8.375	837,500.00
M	13/10/2009	13/10/2023	5,000,000.00	3.87	193,500.00
M	05/12/1995	15/11/2023	10,000,000.00	8	800,000.00
M	10/05/2010	10/05/2024	10,000,000.00	4.32	432,000.00
M	28/09/1995	28/09/2024	2,895,506.10	8.25	238,879.25
M	14/05/2012	14/11/2024	10,000,000.00	3.36	336,000.00
A	14/12/2009	14/12/2024	3,588,853.81	3.66	151,204.84
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	6,155,766.94	3.64	251,283.27
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	2,401.26	3	77.73
M	14/07/2011	14/07/2030	10,000,000.00	4.93	493,000.00
E	15/06/1951	15/05/2031	2,577.88	3	82.61
M	06/09/2010	06/09/2031	20,000,000.00	3.95	790,000.00
M	15/12/2011	15/06/2032	10,000,000.00	3.98	398,000.00
M	15/09/2011	15/09/2036	10,000,000.00	4.47	447,000.00
M	22/09/2011	22/09/2036	10,000,000.00	4.49	449,000.00
M	10/12/2007	10/12/2037	10,000,000.00	4.49	449,000.00
M	08/09/2011	08/09/2038	10,000,000.00	4.67	467,000.00
M	15/09/2011	15/09/2039	10,000,000.00	4.52	452,000.00
M	06/10/2011	06/10/2043	20,000,000.00	4.35	870,000.00
M	09/08/2011	09/02/2046	20,000,000.00	4.8	960,000.00
M	23/01/2006	23/07/2046	10,000,000.00	3.7	370,000.00
M	23/01/2006	23/07/2046	10,000,000.00	3.7	370,000.00
M	19/05/2006	19/11/2046	10,000,000.00	4.25	425,000.00
M	07/01/2008	07/01/2048	5,000,000.00	4.4	220,000.00
A	24/03/2020	24/03/2050	14,805,473.94	1.64	244,404.89
A	26/03/2020	26/03/2050	4,933,603.76	1.49	74,005.35
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	108,978,025.06	2.69	2,945,254.44
M	12/10/2007	12/04/2053	5,000,000.00	4.6	230,000.00
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	2,675,479.89	2.65	71,689.03
A	11/06/2019	11/06/2059	1,264,146.87	2.23	28,528.41
A	01/10/2019	01/10/2059	1,331,864.38	1.74	23,276.17
A	02/10/2019	02/10/2059	39,656,431.89	1.8	716,907.89
A	05/11/2019	05/11/2059	7,096,078.22	2.96	210,742.68
A	28/11/2019	28/11/2059	1,297,861.13	3.03	39,453.89
A	02/12/2019	02/12/2059	2,794,091.89	3.03	84,938.05
A	20/01/2020	20/01/2060	1,982,708.34	1.77	35,246.97

A	20/01/2020	20/01/2060	455,294.78	2.97	13,567.14
M	04/10/2019	04/04/2060	40,000,000.00	1.69	676,000.00
M	02/12/2011	02/12/2061	5,000,000.00	3.98	199,000.00
M	26/03/2020	26/03/2070	10,000,000.00	1.29	129,000.00
			1,049,330,098.87		

**SALIX INTEREST FREE**

<b>Loan Type</b>	<b>Start Date</b>	<b>Maturity Date</b>	<b>Principal Outstanding (£)</b>	<b>Interest Rate (%)</b>	<b>Annual Interest (£)</b>
Z	07/01/2015	01/09/2021	78,957.14	0.00	0.00
Z	31/03/2015	01/04/2023	540,869.22	0.00	0.00
Z	22/09/2015	01/10/2023	153,859.79	0.00	0.00
Z	29/03/2019	01/04/2029	125,980.74	0.00	0.00
			899,666.89		