Finance and Resources Committee

10:00am, Thursday, 3 March 2022

Annual Treasury Management Strategy 2022/23

Executive/routine	**Executive**
Wards	
Council Commitments	

1. Recommendations

1.1 It is recommended that the Committee:

1.1.1 Notes the Annual Treasury Strategy 2022/23 and refers the report to the Governance Risk and Best Value Committee for scrutiny and to the City of Edinburgh Council for approval of the report and the change to the Council's Treasury Management Policy Statement.

1.1.2 Notes the key points in the report, that:

- The Council has borrowed £497m over the last three years;
- The Council's total capital expenditure is forecast to be £2.495bn between 2021/22 and 2025/26 with an underlying need to borrow at 31 March 2026 forecast to be £2.391bn;
- The Council will continue to fund its Capital Financing Requirement from temporary investment balances over the next year, locking out the risk where appropriate; and,
- The Council will continue to seek opportunities to mitigate future interest rate risk with alternatives to the Public Works Loan Board (PWLB).

Richard Carr

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Report

Annual Treasury Management Strategy 2022/23

2. Executive Summary

2.1 The report proposes a Treasury Management Strategy for the Council for 2022/23, 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 2022/23 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 which were approved by Council as part of the budget process.

3.4 Members are asked to note the change in the order of the referral of this report to the Governance, Risk and Best Value Committee and then Council, due to the upcoming elections in May 2022.

4. Main report

Capital Expenditure

4.1 Table A1.1 in Appendix 1 shows the forecast capital expenditure for both the General Fund (GF) Services and the Housing Revenue Account (HRA) for the current and next 4 years. This shows that GF capital expenditure is anticipated to be £1.357bn, and the HRA £1.138bn, giving a total of £2.495bn over the 5 years.

Loans Fund Borrowing Requirement

4.2 Tables A1.2 and A1.3 show how it is anticipated that the Capital Expenditure in Table A1.1 will be funded. Of the £2.495bn, £827m for the GF and £525m for the HRA will be funded by new capital advances from the Loans Fund.

4.3 Table A1.4 in Appendix 1 shows that the Council's underlying need to borrow (shown as 'Cumulative Capital Expenditure') is projected to increase from £1.457bn at the start of the current financial year to £2.391bn at 31 March 2026.

Economic Outlook

4.4 Appendix 2 gives an overview of the current economic and market outlook. COVID-19 continues to dominate and the new variant, Omicrom, which emerged late 2021, increased uncertainty and risk to the economy. The massive push to vaccinate all eligible in the UK helped in avoiding a full lockdown, with some differing local restrictions. In the UK inflation is above the Bank of England's target rate of 2% at 5.4% and GDP was 1.1% in Quarter 3 2021.

Treasury Management Strategy – Debt

4.5 The Council has borrowed £188m during the 2021/22 financial year, bringing the total borrowing over the last three years to £497m mitigating a significant amount of the Council's interest rate risk.

4.6 The Debt Management Strategy for 2022/23, as set out in Appendix 3, is to:

- continue to reduce investment balances to temporarily fund capital expenditure;
- seek alternative sources of funds to the PWLB; and
- continue to lock out the risk on projects when the timing of capital expenditure becomes certain and interest rates are appropriate.

Loan Fund Repayment Policy

4.7 The Council operates a consolidated loans fund under the terms of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, and one of the requirements of the Regulations is to report the Council's Loan Fund Repayment Policy. The Policy for 2022/23 is contained in Appendix 4 and Appendix 6 sets out details of the existing loans including maturity date and interest rate payable.

Treasury Management – Annual Investment Strategy

4.8 Appendix 5 details the proposed Annual Investment Strategy for 2022/23. 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 allows. Investment will continue to be made via the Cash Fund arrangement.

Treasury Management Indicators

4.9 Appendix 7 shows the Indicators required by the Prudential Code which were contained in the budget on 24 February.

Treasury Management Policy Statements

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

5. Next Steps

5.1 The success of the Treasury team can be measured by the outperformance of the Treasury Cash Fund against its benchmark of 7-day London Interbank Bid Rate (LIBID) and managing the Council's debt portfolio to minimise the cost to the Council while mitigating risk.

6. Financial impact

6.1 The Council continues to manage its debt portfolio so as to minimise the medium-term cost of funding its capital projects. Provision for the revenue implications arising from this report have already been included in the Council's long-term financial plan.

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

7. Stakeholder/Community Impact

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

8. Background reading/external references

8.1 None

9. Appendices

9.1 Appendix 1 – Capital Expenditure and Funding Requirement

9.2 Appendix 2 - Economic and Market Outlook

9.3 Appendix 3 – Treasury Management – Debt Management Strategy

9.4 Appendix 4 – Loans Fund Repayment Policy

9.5 Appendix 5 – Treasury Management – Annual Investment Strategy

9.6 Appendix 6 – Debt Maturity Profile (January 2022)

9.7 Appendix 7 – Prudential Indicators

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

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

Appendix 1

Summary of Capital Expenditure and Funding Requirement

	2020/21 Actual £000	2021/22 Forecast £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Education and Children's Services	87,439	76,579	35,338	71,215	103,555	72,646
Place	131,292	165,356	121,577	107,975	76,803	75,726
Place - Lending	19,313	6,995	28,006	62,413	70,500	41,793
Place – Tram York Place to Newhaven	53,071	69,592	42,011	15,090	-	-
Place - Asset Management Works	14,517	22,446	27,392	26,441	33,677	31,484
Corporate Services	478	1,364	4,059	1,091	1,597	669
Edinburgh Health and Social Care Partnership	-	284	-	-	-	-
Contingency	-	-	-	-	-	5,000
Slippage Assumption	-	-	(21,694)	(18,660)	(5,573)	4,574
Capital Expenditure per CIP	**306,110**	**342,616**	**236,689**	**265,565**	**280,559**	**231,892**
HRA – Capital Expenditure	**41,456**	**61,980**	**121,819**	**174,587**	**266,705**	**512,713**

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

General Fund	2020/21 Actual	2021/22 Forecast	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget
Capital Grants	105,239	100,634	89,448	87,652	90,017	91,328
General Asset Sales	6,639	3,000	3,000	3,000	3,000	3,000
Ring-fenced Asset Sales	450	2,415	-	-	-	-
Draw down from Capital Fund	(2,000)	6,986	-	20,014	-	-
Developers Contributions	17,876	2,092	5,777	1,158	9,893	2,055
Capital Grants and Contributions	27,301	1,652	-	-	-	-
Capital from Current Revenue	-	4,246	-	-	-	-
Loans Fund Advances	150,605	221,591	138,464	153,741	177,649	135,509
Total	**306,111**	**342,616**	**236,690**	**265,564**	**280,558**	**231,892**

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

HRA	2020/21 Actual	2021/22 Forecast	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget
Grants	6,361	10,574	9,137	33,584	39,398	56,218
Asset Sales	36,674	12,670	6,444	18,487	89,349	278,580
Capital Funded from Current Revenue	-	-	18,300	18,300	10,800	10,800
Loans Fund Advances	-1,579	38,736	87,938	104,216	127,158	167,115
Total	41,456	61,980	121,819	174,587	266,705	512,713

Table A1.3 - Funding Sources for HRA Capital Expenditure

Capital Funding v. External Debt	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outturn	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Debt b/fd	1,336,171	1,347,045	1,481,374	1,426,535	1,382,150	1,338,522
Cumulative Capital Expenditure b/fd	1,374,600	1,456,649	1,627,054	1,766,018	1,946,464	2,167,873
Over/underborrowed b/fd	-38,428	-109,603	-145,680	-339,483	-564,314	-829,351
GF Capital Financed by borrowing	78,588	145,004	68,447	76,238	107,149	93,716
Tram Capital Financed by borrowing	52,704	69,592	42,011	15,090	0	0
Lending to LLPs	19,313	6,995	28,006	62,413	70,500	41,793
HRA Capital Financed by borrowing	-1,579	38,736	87,938	104,216	127,158	167,115
less scheduled repayments by GF	-42,329	-39,572	-45,299	-47,660	-50,961	-55,253
less scheduled repayments by Tram	-1	0	0	-2,478	-5,073	-5,193
less scheduled repayments by LLPs	-6,973	-32,438	-24,156	-9,316	-9,332	-706
less scheduled repayments by HRA	-17,130	-17,356	-17,394	-17,434	-17,475	-17,519
less scheduled repayments by Joint Boards	-544	-556	-589	-623	-557	-383
Underlying Need to Borrow	**82,049**	**170,405**	**138,964**	**180,446**	**221,409**	**223,570**
plus total maturing debt	**59,126**	**53,935**	**54,839**	**44,385**	**43,628**	**67,521**
Total Borrowing Requirement	**141,175**	**224,341**	**193,803**	**224,831**	**265,037**	**291,091**
Cumulative Borrowing Requirement		**224,341**	**418,144**	**642,974**	**908,012**	**1,199,103**
Committed Market Borrowing	70,000	188,264				
Planned PWLB or short borrowing for year						
Debt at end of the year	**1,347,045**	**1,481,374**	**1,426,535**	**1,382,150**	**1,338,522**	**1,271,001**
Cumulative Capital Expenditure	**1,456,649**	**1,627,054**	**1,766,018**	**1,946,464**	**2,167,873**	**2,391,444**
Cumulative Over/Under Borrowed	**-109,603**	**-145,680**	**-339,483**	**-564,314**	**-829,351**	**-1,120,443**

Table A1.4 - Capital Funding v. External Debt

Appendix 2

Economic and Market Outlook

Overview

Coronavirus will continue to be the major influence on the UK economy together with high inflation, higher interest rates and the effect of Brexit in 2022/23. The emergence of Omicrom variant at the end of 2021 increased uncertainty. The more transmissible variant prompted lockdown fears and Governments encouraged restricting contacts but stopped as far as going for a full lockdown. There was a massive push to vaccinate all eligible before the end of the calendar year, this proved successful and although record number of positive COVID-19 tests were being recorded, this hasn't so far led to the proportionate increase in deaths, although any death as a result of COVID-19 is one too many.

World Economy

In the US the Federal Reserve Open Market Committee (FOMC) has maintained its current rate of 0-0.25 since March 2020 but inflationary pressures may see increases in interest rates and an end to the asset purchase programme with three increases expected by the end of 2022. In the 3rd quarter of 2021 the US economy grew by 2.3% following a strong 6.7% in the previous three months.

Inflation in the Eurozone is expected to increase to a record high of 5.0% in December from 4.9% in November. Energy costs would be the biggest contributor to the increase in inflation. Core index which excludes energy, food, alcohol and tobacco increased 2.6% year on year. Growth in the Eurozone economy was 2.2% in quarter 3 2021, following the same increase the previous quarter.

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.

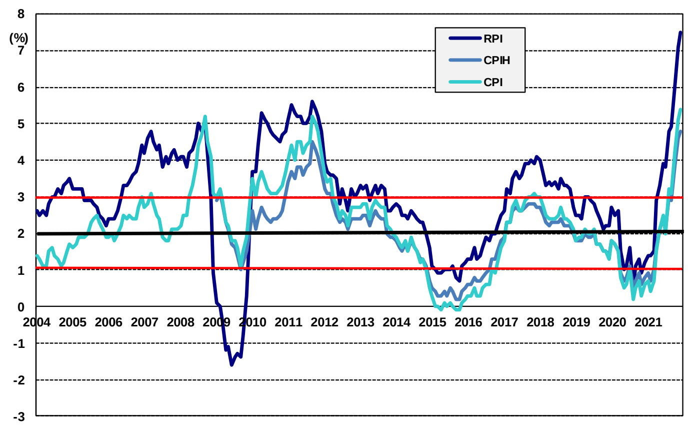

Figure A2.1 – CPIH, CPI and RPI since 2004

Source: ONS

The Government's preferred measure of inflation, CPI was 5.4% year on year in December 2021, increasing from 5.1% in November and well above the Bank of England's target rate. CPIH (Consumer Prices Index including owner occupiers' housing costs) was 4.8% in the 12 months to December, up from 4.6% in November. The main contributor to the rise in CPIH came from transport, including motor fuels and second-hand cars, and housing and household services. Figure A2.2 shows the contributions to CPIH from December 2019 to December 2021, this clearly shows the increases in transport and housing and household services.

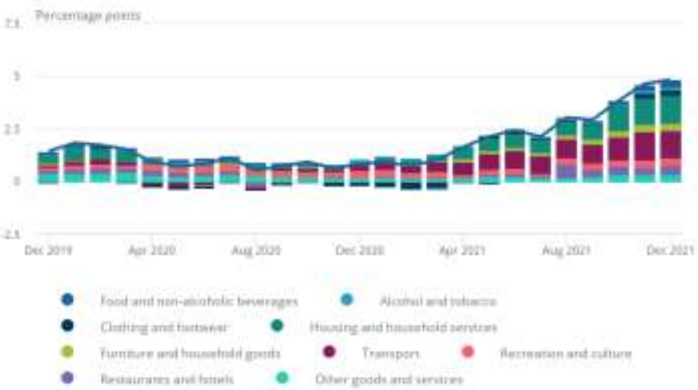

Figure A2.2 – Contributions to CPIH Dec 19 to Dec 21

Source: ONS

UK Interest Rate Outlook

The Bank of England's Monetary Policy Committee (MPC) increased UK Bank Rate from 0.10% to 0.25% at their December 2020 meeting and to 0.50% at their February meeting while maintaining QE at £895bn.

Concerns for the medium term outlook for inflation was one of the key reasons behind locking out interest rate risk over the last three years with the Council borrowing almost half a billion in debt. However, the inflation has come faster and is higher than had been anticipated. The MPC have started to increase rates and it is likely that they will continue to do so. However, in previous occasions when there have been temporary increases in inflation, the MPC have looked through the data as they felt the effect was transitory, and they didn't raise interest rates as much as might have been expected. The Governor of the Bank has told MPs that he was concerned inflation pressures might prove longer-lasting than previously forecast. He also warned that price pressures could be less transitory than first assumed. There are some concerns that the workforce demographics have been made worse by the effects of COVID with a significant number of people becoming "economically inactive". All of this has already had an effect on longer term interest rates, with the 10 Year Gilt Yield rising from 0.08% in August 2020 to 1.53% in February 2022.

Treasury Management – Debt Management Strategy

Overview

The overall objectives of the Council's Strategy for Debt Management are to:

- forecast average future interest rates and borrow accordingly;
- secure new funding at the lowest cost in a manner that is sustainable in the medium term;
- ensure that the Council's interest rate risk is managed appropriately;
- ensure smooth debt profile with a spread of maturities; and
- reschedule debt to take advantage of interest rates.

Loans Fund Borrowing Requirement

Table A1.1 in Appendix 1 shows the forecast capital expenditure for both the General Fund (GF) Services and the Housing Revenue Account (HRA) for the current and next 4 years. This shows that GF capital expenditure is anticipated to be £1.357bn, and the HRA £1.137bn, giving a total of £2.495bn over the 5 years.

Tables A1.2 and A1.3 show how it is anticipated that the Capital Expenditure in Table A1.1 will be funded. Of the £2.495bn, £827m for the GF and £525m for the HRA will be funded by new capital advances from the Loans Fund. Table A1.4 in Appendix 1 shows that the Council's underlying need to borrow (shown as Cumulative Capital Expenditure) is projected to increase from £1.457bn at the start of the current financial year to £2.391bn at 31 March 2026.

The Cumulative Borrowing Requirement shows that if the Council were to fully fund its Capital Financing Requirement it would need to borrow £1.199bn over the next 5 years. However, £188m of this has already been borrowed in 2021/22. Figure A3.1 below shows the Council's Liability benchmark which includes projected borrowing up to 2031. This indicates how much the Council would need to borrow if the Capital projections prove to be accurate. The Council therefore have a substantial borrowing requirement and hence interest rate risk.

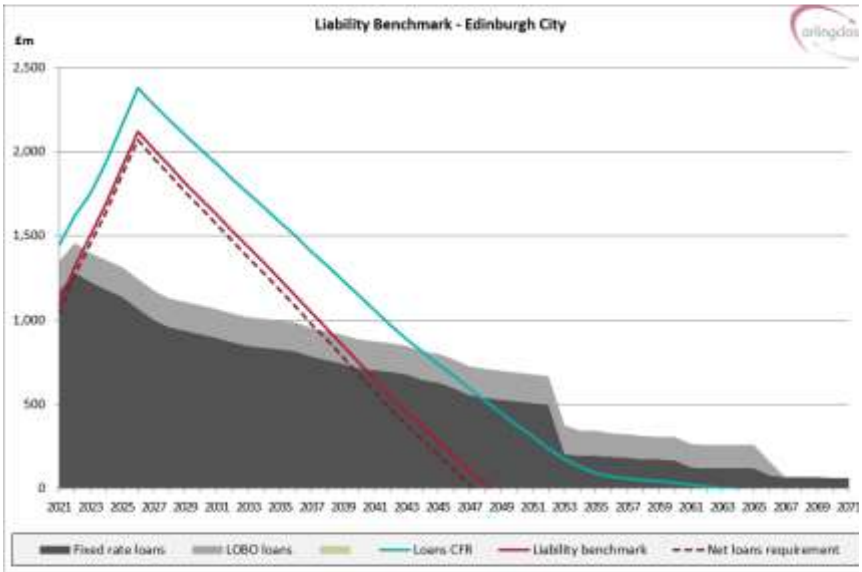

Figure A3.1 – Liability Benchmark

Debt Management Strategy

Figure A3.2 below shows PWLB Maturity Borrowing Rates from April 2005 to January 2022.

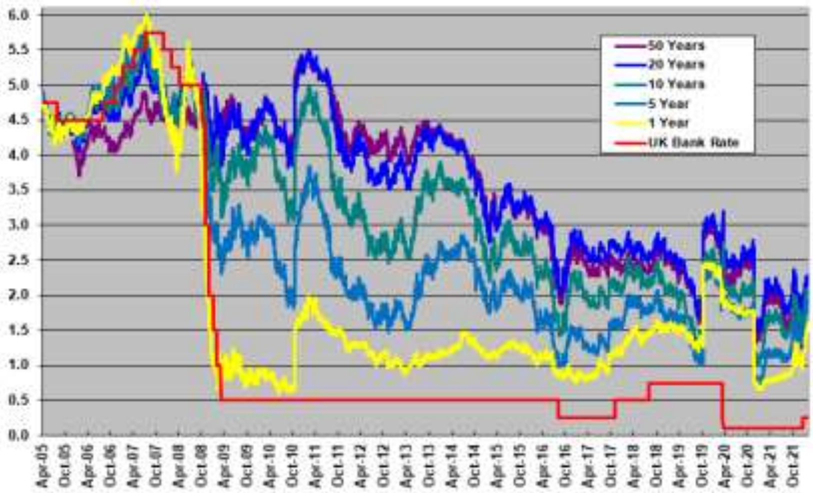

Figure A3.2 – PWLB Borrowing Rates

As previously reported, the Council's strategy changed from one where interest rate risk was manufactured to one where interest rate risk was locked out. The Council took on no new borrowing (other than interest free loans from Salix) from 2012 to 2019 as the view on interest rates was that they would continue to fall. Further as noted in the Mid Year report, there was a significant duration mismatch between the period of capital advances and the external borrowing taken out in the late 2000s. This borrowing, particularly for the purchase of Waverley Court was allowed to mature and not re-financed until recently. However, since 2019 we have taken the view that interest rates have bottomed out and any market dip was an opportunity to lock out historically low rates, managing packets of interest rate risk where we knew there was certainty of capital expenditure. Over the last three years, the Council has borrowed £497m at an average interest rate of 2.09%. The Council still has a substantial borrowing requirement over the next 5 years which gives the Council a significant financing risk. We warned in the 2021/22 strategy that there was a substantial level of borrowing which the Council may have to undertake in a rising interest rate environment. While the £188m borrowed in 2021/22 has mitigated this risk, there is still a large quantum of borrowing to be secured. Figure 5.2 shows the elevated levels of cash which the Council still has and it is a difficult balancing act to incur a cost of carry on additional borrowing which the Council doesn't need at present against a background of delayed capital expenditure and increasing interest rates.

It is intended to continue to lock out PWLB borrowing as the certainty of capital expenditure becomes clear. Forward starting options as an alternative to PWLB will also be considered to manage the risks.

The strategy for the coming year is therefore to:

- continue to reduce investment balances to temporarily fund capital expenditure;
- seek alternative sources of funds to the PWLB; and
- continue to lock out the risk on projects when the timing of capital expenditure becomes certain and interest rates are appropriate.

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 will no longer be available as an option after March 2021;

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.

As part of the 2019/20 budget process the Council received a report on the review carried out on the loans fund. The report recommended changes in the method of calculating loans fund repayments for current and historical capital advances. Those changes mean that the repayments for both historical and new 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.

The Council operates the loans fund to manage historic debt and the balance therefore represents historic borrowing for capital spend.

It is noted that there is currently a review of Capital Accounting in Scottish Local Authorities being undertaken at the request of the Scottish Government.

Appendix 5

Treasury Management – Annual Investment Strategy

In line with CIPFA's Code of Practice, the overall objectives of the Council's Strategy for Investment Management are to:

- ensure the security of funds invested;
- ensure that the Council has sufficient liquid funds to cover its expenditure commitments; and
- pursue optimum investment return within the above two objectives.

The Council's cash balances are pooled and invested via the Treasury Cash Fund subject to the limits set out in the Cash Fund Treasury Management Policy Statement. The Cash Fund's Investment Strategy continues to be based around the security of the investments. Figure A5.1 below shows the distribution of Cash Fund deposits since inception.

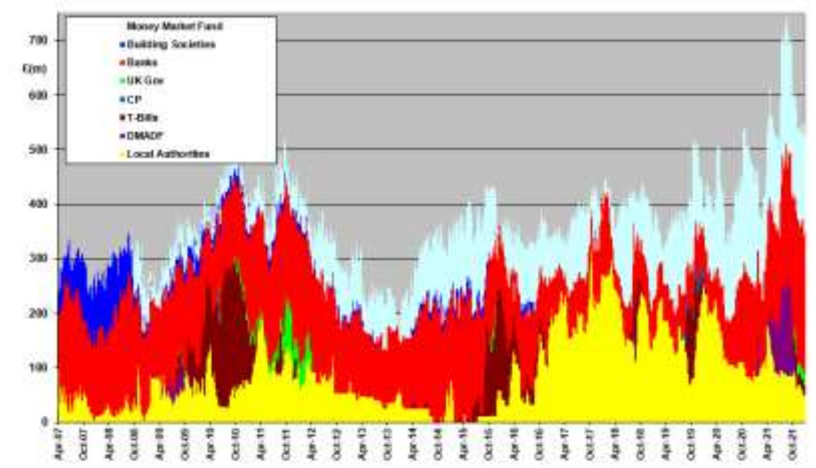

Figure A5.1 – Cash Fund Investments since inception

Figure A5.1 shows the split of investments since the inception of the cash fund.

Figure A5.2 below shows the level of Council investments via the cash fund. The large spike during the financial year was a combination of a Scottish Government Grant for early learning and childcare services and PWLB borrowing. There was a large reduction in balances towards the end of September when payments in respect of the new St James' Quarter were made. Opportunities were taken to lock out some Local Authority deposits, DMADF and a UK Gilt was purchased at rates higher than on offer with Banks and Money Market Funds and the average weighted life of the fund was 28 days towards the end of the calendar year.

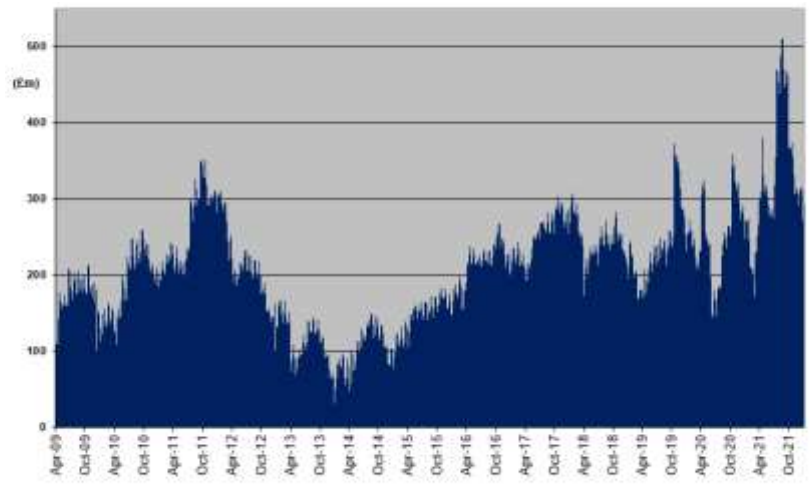

Figure A5.2 – CEC Investment via Cash Fund

The UK Bank Rate has been increased twice between December 2021 and February 2022 with further increases to come. However, UK banks are awash with cash and have little appetite to take deposits. One leading UK bank recently gave notice to the Council that they were dropping the interest rate on the Council's deposits from Base Rate – 9bps (i.e. 0.41%) to an absolute interest rate of 0.01%

It is intended to continue the current investment strategy centred around the security of the investments, taking advantage of longer rates where appropriate. We will continue to explore any opportunities in the short Gilt and Treasury Bill markets.

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 2022)

Market Debt (non LOBO)

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
08/10/2020	A	08/10/2045	58,272,841.48	2.613	1,727,158.52
30/06/2005	M	30/06/2065	5,000,000.00	4.4	220,000.00
07/07/2005	M	07/07/2065	5,000,000.00	4.4	220,000.00
21/12/2005	M	21/12/2065	5,000,000.00	4.99	249,500.00
28/12/2005	M	24/12/2065	12,500,000.00	4.99	623,750.00
14/03/2006	M	15/03/2066	15,000,000.00	5	750,000.00
18/08/2006	M	18/08/2066	10,000,000.00	5.25	525,000.00
01/02/2008	M	01/02/2078	10,000,000.00	3.95	395,000.00
			120,772,841.48		

Market Debt (LOBO)

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

PWLB Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
23/04/2009	M	23/04/2022	5,000,000.00	3.76	94,000.00
12/06/1995	M	15/05/2022	10,200,000.00	8	408,000.00
14/06/2010	M	14/06/2022	10,000,000.00	3.95	197,500.00
31/03/1995	M	25/09/2022	6,206,000.00	8.625	535,267.50
16/02/1995	M	03/02/2023	2,997,451.21	8.625	258,530.17
24/04/1995	M	25/03/2023	10,000,000.00	8.5	850,000.00
05/12/1995	M	15/05/2023	5,200,000.00	8	416,000.00
20/09/1993	M	14/09/2023	2,997,451.21	7.875	236,049.28
20/09/1993	M	14/09/2023	584,502.98	7.875	46,029.61
08/05/1996	M	25/09/2023	10,000,000.00	8.375	837,500.00
13/10/2009	M	13/10/2023	5,000,000.00	3.87	193,500.00
05/12/1995	M	15/11/2023	10,000,000.00	8	800,000.00
10/05/2010	M	10/05/2024	10,000,000.00	4.32	432,000.00
28/09/1995	M	28/09/2024	2,895,506.10	8.25	238,879.25
14/05/2012	M	14/11/2024	10,000,000.00	3.36	336,000.00
14/12/2009	A	14/12/2024	2,457,029.78	3.66	761,370.01
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	4,596,145.15	3.64	1,049,095.80
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	2,148.44	3	252.82
14/07/2011	M	14/07/2030	10,000,000.00	4.93	493,000.00
15/06/1951	E	15/05/2031	2,226.31	3	234.38
06/09/2010	M	06/09/2031	20,000,000.00	3.95	790,000.00
15/12/2011	M	15/06/2032	10,000,000.00	3.98	398,000.00
15/09/2011	M	15/09/2036	10,000,000.00	4.47	447,000.00
22/09/2011	M	22/09/2036	10,000,000.00	4.49	449,000.00

10/12/2007	M	10/12/2037	10,000,000.00	4.49	449,000.00
08/09/2011	M	08/09/2038	10,000,000.00	4.67	467,000.00
15/09/2011	M	15/09/2039	10,000,000.00	4.52	452,000.00
06/10/2011	M	06/10/2043	20,000,000.00	4.35	870,000.00
09/08/2011	M	09/02/2046	20,000,000.00	4.8	960,000.00
23/01/2006	M	23/07/2046	10,000,000.00	3.7	370,000.00
23/01/2006	M	23/07/2046	10,000,000.00	3.7	370,000.00
19/05/2006	M	19/11/2046	10,000,000.00	4.25	425,000.00
07/01/2008	M	07/01/2048	5,000,000.00	4.4	220,000.00
24/03/2020	A	24/03/2050	14,411,623.40	1.64	393,850.54
26/03/2020	A	26/03/2050	4,799,323.64	1.49	134,280.12
26/03/2021	A	26/03/2051	9,872,561.00	1.75	255,993.09
12/07/2021	A	12/07/2051	39,492,672.93	1.78	1,019,169.35
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	105,828,884.87	2.69	2,170,653.01
12/10/2007	M	12/04/2053	5,000,000.00	4.6	230,000.00
01/07/2021	A	01/07/2053	49,436,552.38	1.98	1,132,473.37
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	2,634,821.72	2.65	40,658.17
11/06/2019	A	11/06/2059	1,233,043.54	2.23	20,850.30
01/10/2019	A	01/10/2059	1,296,172.61	1.74	23,897.42
02/10/2019	A	02/10/2059	38,607,063.32	1.8	702,708.35
05/11/2019	A	05/11/2059	6,950,202.78	2.96	97,962.90
28/11/2019	A	28/11/2059	1,271,596.52	3.03	17,641.05
02/12/2019	A	02/12/2059	2,737,548.31	3.03	37,978.40
20/01/2020	A	20/01/2060	1,929,909.74	1.77	35,353.91
20/01/2020	A	20/01/2060	445,956.16	2.97	6,271.52
04/10/2019	M	04/04/2060	40,000,000.00	1.69	676,000.00
07/12/2021	A	07/12/2060	19,099,634.00	1.8	341,428.39
02/12/2011	M	02/12/2061	5,000,000.00	3.98	199,000.00
07/12/2021	A	07/12/2061	4,164,448.00	1.79	72,016.36
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
			1,188,154,173.07		

SPECIAL

Start Date	Loan Type	Maturity Date	Principal Outstanding	Interest Rate	Annual Interest
			£	%	£
31/03/2015	E	01/04/2023	270,434.61	0	0
22/09/2015	E	01/10/2023	87,919.88	0	0
29/03/2019	E	01/04/2029	104,983.95	0	0
			463,338.44		

PRUDENTIAL INDICATORS

Indicator 1 - Estimate of Capital Expenditure

The actual capital expenditure that was incurred in 2020/21 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	Capital Expenditure - General Services					
	2020/21 Actual	**2021/22 Forecast**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Rolled Forward Capital Investment Programme	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Education and Children's Services	87,439	76,579	35,338	71,215	103,555	72,646
Place	131,292	165,356	121,577	107,975	76,803	75,726
Place - Lending	19,313	6,995	28,006	62,413	70,500	41,793
Place - Trams to Newhaven	53,071	69,592	42,011	15,090	0	0
Place - Asset Management Works	14,517	22,446	27,392	26,441	33,677	31,484
Corporate Services	478	1,364	4,059	1,091	1,597	669
Edinburgh Health and Social Care Partnership	0	284	0	0	0	0
General (Slippage) / Acceleration in Programme	0	0	-21,694	-18,660	-5,573	4,574
Total General Services Capital Expenditure	**306,110**	**342,616**	**236,689**	**265,565**	**280,559**	**226,892**

The Place - Trams to Newhaven figures include capitalised interest following a change in accounting policy approved by Finance and Resources Committee on 21 January 2021. Note that the 2022-2026 Capital Investment Programme includes slippage / acceleration brought forward based on projected capital expenditure reported at the month eight stage.

	2020/21 Actual	**2021/22 Forecast**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Rolled Forward Capital Investment Programme	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Housing Revenue Account	41,456	61,980	121,819	174,587	266,705	512,713

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 2020/21 are:

	Ratio of Financing Costs to Net Revenue Stream					
	2020/21 Actual	**2021/22 Forecast**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
	%	%	%	%	%	%
General Services	6.8%	6.8%	7.8%	7.9%	8.0%	8.0%
Housing Revenue Account (HRA)	32.9%	32.7%	35.7%	37.7%	40.5%	44.2%

Note: Figures for 2023/24 onwards are indicative at this stage as the Council has not set a General Services or HRA budget for these years. The figures for General Services are based on the current long term financial plan. HRA figures are based on the business plan which was reported to Finance and Resources Committee on 3 February 2022 including the impact of the Councillor proposed rent freeze.

The estimates of financing costs include current commitments and the proposals in this budget.

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 2021 are:

	Capital Financing Requirement					
	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
General Services (including Finance Leases)	1,247	1,413	1,470	1,505	1,549	1,574
Housing Revenue Account (HRA)	376	398	468	555	665	814
NHT LLPs	88	56	32	24	15	15
Edinburgh Living LLPs	38	44	72	134	203	244
Total Capital Financing Requirement	**1,749**	**1,911**	**2,043**	**2,217**	**2,432**	**2,648**

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

The capital financing requirement for the NHT LLPs includes an estimate for repayments of advances noting that exit strategies are still to be finalised.

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					
	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Gross Debt	1,347	1,433	1,379	1,335	1,292	1,228
Capital Financing Requirements	1,749	1,911	2,043	2,217	2,432	2,648
(Over) / under limit by:	**402**	**478**	**664**	**882**	**1,140**	**1,420**

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.
The introduction of IFRS 16 - Leases within the Accounts could have a significant impact on the balance sheet. Implementation was due from 1 April 2020 but has been pushed back to 1 April 2022. This will subsequently have an impact on the Capital Financing Requirement (CFR) from the 2022/23 financial year. Therefore, it should be expected to see an increase in the CFR in future years. This will similarly have an impact on the authorised limit and operational boundary for external debt but the full impact is yet to be fully understood within these assumptions. It should also be noted at the time of writing there was a further consultation being undertaken on a potential further delay to implementation.

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. In respect of its external debt, it is recommended that Council approves the following authorised limits for its total external debt gross of investments for the next four financial years. These limits separately identify borrowing under credit arrangements including finance leases and PFI assets. Council is asked to approve these limits and to delegate authority to the Service Director - Finance and Procurement, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and credit arrangements, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Council at its meeting following the change.

	Authorised Limit for External Debt				
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£m	**£m**	**£m**	**£m**	**£m**
Borrowing	1,644	1,980	2,350	2,796	3,247
Credit Arrangements (including leases)	294	286	279	272	264
Authorised Limit for External Debt	**1,938**	**2,266**	**2,629**	**3,068**	**3,511**

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 Council is also asked to approve the following operational boundary for external debt for the same period. The proposed 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 is also asked to delegate authority to the Service Director - Finance and Procurement, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and credit arrangements, in a similar fashion to the authorised limit. Any such changes will be reported to the Council at its next meeting following the change.

	Operational Boundary for External Debt				
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£m	**£m**	**£m**	**£m**	**£m**
Borrowing	1,644	1,930	2,300	2,746	3,247
Credit Arrangements (including leases)	294	286	279	272	264
Operational Boundary for External Debt	**1,938**	**2,216**	**2,579**	**3,018**	**3,511**

The Council's actual external debt at 31 March 2021 was £1,347m of borrowing (including sums repayable within 12 months).

In taking its decisions on this budget, the Council is asked to note that the estimate of capital expenditure determined for 2021/22 will be the statutory limit determined under section 35(1) of the Local Government (Scotland) Act 2003.

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

Under the changes to the Prudential Code which came into force in December 2017, the requirement to measure and report on the incremental impact on the Council Tax / rents was removed from the Code. The authority can set its own local indicators to measure the affordability of its capital investment plans. The Service Director - 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 2021/22 and in the longer term financial frameworks.

	Loans Charges Liability				
	2021/22 Actual £000	**2022/23 Estimate £000**	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**
Loans Fund Pooled Interest Rate at Indicative 4%					
General Services (excluding On-Lending and Tram to Newhaven) - New Loans Fund Advances					
Loans Fund Advances in year	145,004	68,447	76,238	107,149	93,716
Year 1 - Interest Only	2,940	1,388	1,546	2,173	1,900
Year 2 - Interest and Principal Repayment	8,435	3,982	4,435	6,233	5,451
Housing Revenue Account (HRA) - New Loans Fund Advances					
Loans Fund Advances in year (excluding borrowing for LLP programme *)	38,736	87,938	104,216	127,158	167,115
Year 1 - Interest Only	785	1,783	2,113	2,578	3,389
Year 2 - Interest and Principal Repayment	2,253	5,115	6,062	7,397	9,721

* 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 in 2023/24 when the line to Newhaven becomes operational.

Consideration of options for the capital programme

In considering its programme for capital investment, Council is required within the Prudential Code to have regard to:

- affordability, e.g. implications for Council Tax or house rents;
- prudence and sustainability, e.g. implications for external borrowing;
- value for money, e.g. option appraisal;
- stewardship of assets, e.g. asset management planning;
- service objectives, e.g. strategic planning for the authority;
- practicality, e.g. achievability of the forward plan.

Appendix 8

The City of Edinburgh Council

Treasury Cash Fund

Treasury Management Policy Statement

Summary
The Council operates the Treasury Cash Fund on a low risk low return basis for cash investments on behalf of itself, Lothian Pension Fund and other associated organisations. This Policy Statement covers the type of investments which are permitted for monies held with the Cash Fund and should be read in conjunction with the Treasury Policy Statement for the City of Edinburgh Council.

Approved Activities
The activity undertaken in the management of cash balances and their investment in cash and near cash instruments. In undertaking this activity, the key objective is the security of the monies invested. Accordingly, the investment types and counterparty limits below represent a prudent attitude towards the instruments with which and the institutions with whom investment will be undertaken.

Treasury Management Strategy

The treasury management strategy for the cash fund is to ensure that surplus funds are invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and optimising the return on these funds consistent with those risks

Permitted Instruments

The Chief Financial Officer may invest monies in accordance with the Council's requirements only by using the following instruments:

(a) Temporary deposit, Certificate of Deposit, collaterised deposit, structured deposit, commercial paper, floating rate note or Bonds with an approved institution of the Bank of England or with any other approved organisation for investment (see below)

(b) UK Treasury Bills

(c) Gilt-edged securities

(d) Reverse Repurchase Agreements

(e) Money Market Funds and Bond Funds

(f) Debt Management Office's Debt Management Agency Deposit Facility

Limits on Investment
The approved limits on counterparties and investment types are as follows (where money limits and percentages are stated, the greater of the two should be applied):

(a) DMO's DMADF, UK Treasury Bills and UK Gilts with no limit

(b) UK local authorities up to a maximum of £50 million per authority.

(c) other public bodies up to a maximum of £20 million per organisation.

(d) The Council's bankers, where not otherwise permitted under (k) below, up to a limit of £20m on an overnight only basis other than when funds are received into the Council's bank account without pre-notification.

(e) Money Market Funds with no limit in total but with no more than £30 million or 15% of the funds under management with any one Fund.

(f) Bond Funds with no more than £20 million or 10% of the funds under management.

(g) Supranational Bonds with a limit of £60 million or 20% of the fund in total.

(h) financial institutions where the relevant deposits, CDs or Bonds are guaranteed by a sovereign government of AA or above up to a maximum of £60 million or 20 percent of the fund per institution for the duration of the guarantee in addition to the appropriate counterparty limit for the institution.

(i) Local Authority Collateralised deposits up to a maximum of £30 million or 15 percent of the fund per institution up to a maximum of 5 years in addition to the appropriate counterparty limit for the institution.

(j) Structured deposits up to a maximum of £20 million or 10 percent of the fund, subject to the appropriate counterparty limits for the institution also being applied.

(k) financial institutions included on the Bank of England's authorised list under the following criteria:

Credit Rating	Banks Unsecured	Banks Secured	B. Socs. Unsecured	B. Socs. Secured
AAA	20% or £60m	20% or £60m	20% or £60m	20% or £60m
AA+	15% or £30m	20% or £60m	15% or £30m	20% or £60m
AA	15% or £30m	20% or £60m	15% or £30m	15% or £30m
AA-	15% or £30m	20% or £60m	10% or £20m	15% or £30m
A+	10% or £20m	15% or £30m	10% or £20m	10% or £20m
A	10% or £20m	15% or £30m	10% or £20m	10% or £20m
A-	10% or £20m	15% or £30m	5% or £10m	10% or £20m
BBB+	5% or £10m	5% or £10m	n/a	n/a
None	n/a	n/a	n/a	n/a

The credit ratings quoted in the above table are for the financial institution, instrument or security provided and are the lowest of the relevant long term ratings from the three main Credit ratings agencies, S&P, Moodys and Fitch.

Time Limits
In addition to the monetary limits above, the following maximum time limits will be placed on investments:

Category	Max. Time Limit
20% of Assets Under Management / £60m	5 Years
15% of Assets Under Management / £30m	1 Years
10% of Assets Under Management / £20m	6 months
5% of Assets Under Management / £10m	3 months

In addition to the above limits, no more than 25% of assets under management will have a maturity greater than 1 year.
In considering an investment, consideration is given to a wide range of information, not simply the credit ratings of the institution being considered. This will include financial information on the institution, relevant Credit Default Swaps and equity pricing data, and the general macro-economic, market and sector background. The investment risks and controls to mitigate those risks are outlined to the end of this document.

Policy on Delegation
The Treasury Cash Fund is operated under the Council's Treasury Policy Statement and the delegations are defined in that document.

Reporting Arrangements

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

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

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

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

(d) Ad hoc reports according to need.

Type of Investment	Treasury Risks	Mitigating Controls
a. Deposits with the Debt Management Account Facility (UK Government) (Very low risk)	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
b. UK Treasury Bills (Very Low Risk)	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates unless held to maturity. Maturity at issue is only 1, 3 or 6 months so will be used mainly in the 1 to 3 month period to provide a high level of security but a better return than the DMADF in (a).	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
c. UK Gilts (Very Low Risk)	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates unless held to maturity. There is a risk to capital if the Gilt needed to be sold, so should only be used on a hold to maturity basis as a proxy for a slightly longer maturity Treasury Bill	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments. Would only be used on a hold to maturity basis at the very short end of the yield curve.
d. Deposits with other local authorities or public bodies (Very low risk)	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value.	Little mitigating controls required for local authority deposits, as this is a quasi UK Sovereign Government investment.
e. Money Market Funds (MMFs) (low/medium risk)	Pooled cash investment vehicle which provides short term liquidity.	Funds will generally be used to provide liquidity for the Cash Fund.
f. Bond Funds (low/medium risk)	AAA Rated Pooled cash investment vehicle investing in a range of Government, Financial Institutions and Government Bonds.	Fairly liquid vehicle investing in Bonds with a high average credit rating, will only be used for a relatively small proportion of the fund.
g. Call account deposit accounts with financial institutions (banks and building societies) (Risk is dependent on credit rating)	These tend to be moderately low risk investments, but will exhibit higher risks than the categories (a) to (d) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice. These will be used to provide the primary liquidity source for Cash Management	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody’s and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
h. Term deposits with financial institutions (banks and building societies) (Low to medium risk depending on period & credit rating)	The risk on these is determined, but will exhibit higher risks than categories (a) to (d) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody’s and Standard and Poors On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
i. Certificates of deposits with financial institutions (risk dependent on credit rating)	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a) to (d) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody’s and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
j. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) (Low to medium risk depending on period & credit rating)	These tend to be medium to low risk investments, but will exhibit higher risks than categories (a) to (d) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody’s and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.

k. Bonds (Low to medium risk depending on period & credit rating)	This entails a higher level of risk exposure than gilts and the aim is to achieve a higher rate of return than normally available from gilts. They do have an exposure to movements in market prices of assets held.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, on a hold to maturity basis. Bonds may also carry an explicit Government Guarantee.
l. Floating Rate Notes (Low to medium risk depending on credit rating)	These are Bonds on which the rate of interest is established periodically with reference to short term interest rates.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. Will be used in an increasing interest rate environment but only for a limited proportion of the portfolio.
m. Commercial Paper (Low to medium risk depending on credit rating)	These are short term promissory notes issued at a discount par. They entail a higher level of risk exposure than gilts and the aim is to achieve a higher rate of return than normally available from gilts. They do have an exposure to movements in market prices of assets held.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, on a hold to maturity basis. They are relatively short maturity.
n. Secured Investments (relatively low risk due to dual recourse)	These include Reverse Purchase Agreements (Repo) and Covered Bonds issued by banks and building societies.	Both Repo and Covered Bonds provide opportunities to lower credit risk by having any exposure supported by an enhanced level of high quality collateral such as Gilts in the case of Repo. The lower credit risk is reflected in the Cash Fund being able to invest larger % or value amounts as shown in the criteria for financial institutions in (k).

Appendix 9

The City of Edinburgh Council

Treasury Management Policy Statement

Summary

The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services. As part of the adoption of that code, the Council agreed to create and maintain, as the cornerstones for effective treasury management:

- a Treasury Management Policy Statement (TMPS), stating the policies and objectives of its treasury management activities; and
- suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

This document outlines the Council's Treasury Management Policy Statement which provides a framework for the Council's treasury management activities. Any reference in the Treasury Policy Statement to the Chief Financial Officer should be taken to be any other officer to whom the Chief Financial Officer has delegated his powers.

Approved Activities

The Council defines its treasury management activities as:

> "The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

Subject to any legal restrictions, this definition covers the following activities:

- arranging, administering and managing all capital financing transactions
- approving, arranging and administering all borrowing on behalf of the Council
- cash flow management
- investment of surplus funds
- ensuring adequate banking facilities are in place, negotiating bank charges, and ensuring the optimal use by the Council of banking and associated facilities and services

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

The Council also acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Treasury Management Strategy

The treasury management strategy for the cash fund is to:

- Secure both capital and revenue funding at the lowest cost in the medium term; and
- ensure that surplus funds are invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and optimising the return on these funds consistent with those risks

Approved Sources of Finance

Finance will only be raised in accordance with legislation and within this limit the Council has a number of approved methods and sources of raising capital finance. No other instrument other than those listed below may be used

- Bank Overdraft
- Temporary Loans
- Loans from the Public Works Loan Board
- Loans from the European Community institutions
- Long-Term Market Loans
- Bonds
- Stock Issues
- Negotiable Bonds
- Internal (Capital Receipts and Revenue Balances)
- Commercial Paper
- Medium Term Notes
- Finance and Operating Leases
- Deferred Purchase Covenant Agreements
- Government and European Community Capital Grants
- Lottery Monies
- Public and Private Partnership funding initiatives

Permitted Instruments

Where possible the Service Director - Finance and Procurement, the Council's Statutory Section 95 Chief Financial Officer, will manage all of the Council's temporary surplus funds together and invest them using the Council's Treasury Cash Fund. The investment restrictions contained in the Treasury Cash Fund Policy Statement therefore apply to the City of Edinburgh Council's monies.

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

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

The Service Director – Finance and Procurement, as the Council's Statutory Chief Financial Officer, may invest monies in accordance with the Council's requirements only by using the following instruments:

(a) Temporary deposit with an approved institution of the Bank of England or with any other approved organisation for investment (see below)

(b) Money Market Funds

(c) Debt Management Office's Debt Management Agency Deposit Facility

(d) Investment Properties

(e) Loans to Other Organisations

(f) Investment in share capital of Council Companies and Joint Ventures

(g) Loans (including mezzanine debt) to / investment in the Loan Stock of Council Companies and LLPs

(h) Investment in Shared Equity Housing Schemes

(i) Investment in the Subordinated Debt of projects delivered via the "HubCo" model

Approved Organisations for Investment

The approved counterparty limits are as follows:

(a) *The Council's bankers with no limit.*

(b) *DMO's DMADF with no limit.*

(c) *AAA Money Market Funds with no limit.*

(d) *financial institutions on the Bank of England's authorised list where the lowest of their long term rating from the three main Credit ratings agencies, S&P, Moody's and Fitch, equivalent to A- or above up to a maximum of £10 million per institution.*

(e) *building societies where the lowest of their long term rating from the three main Credit ratings agencies, S&P, Moody's and Fitch, equivalent to A- or above up to a maximum of £5 million per institution.*

(f) *Subordinated debt of projects delivered via "HubCo" model up to a maximum of £1 million.*

In addition, there is no explicit limit at present for the non-cash investment types. However, it is anticipated that each specific investment of these types would be reported individually to Council and a full list of them will be contained in the Treasury Annual Report.
The investment risks and controls to mitigate those risks are outlined to the end of this document.

Policy on Delegation

Responsibility for the implementation and regular monitoring of the Council's treasury management policies and practices is retained by the Council.

The Council delegates responsibility for the execution and administration of Treasury Management decisions to the Service Director - Finance and Procurement, as the Statutory Section 95 Chief Financial Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

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

Reporting Arrangements

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

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

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

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

(d) Ad hoc reports according to need.

Type of Investment	Treasury Risks	Mitigating Controls
a. Deposits with the Debt Management Account Facility (UK Government) (Very low risk)	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
b. Money Market Funds (MMFs) (low/medium risk)	Pooled cash investment vehicle which provides short term liquidity.	Funds will generally be used to provide liquidity for the Cash Fund.
c. Call account deposit accounts with financial institutions (banks and building societies) (Risk is dependent on credit rating)	These tend to be moderately low risk investments, but will exhibit higher risks than the category (a) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice. These will be used to provide the primary liquidity source for Cash Management	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence
d. Term deposits with financial institutions (banks and building societies) (Low to medium risk depending on period & credit rating)	The risk on these is determined, but will exhibit higher risks than category (a) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
e. Investment properties	These are non-service properties which are being held solely for a longer term rental income stream or capital appreciation. These are highly illiquid assets with high risk to value (the potential for property prices to fall).	Property holding will be re-valued regularly and reported annually with gross and net rental streams.
f. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit substantial credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.
g. Loans to a local authority company or LLP	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit significant credit risk and are likely to be highly illiquid. In the case of mezzanine loans, these are specifically to ensure that the LLPs tasked with delivering Council objectives do so within State Aid rules	Each loan to a local authority company requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default. The Council and Scottish Government (via the SFT) are participants in and party to the governance and controls within the project structure. Strict viability tests to ensure long term financial security are completed before any funds are advanced to the LLP.
h. Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.
i. Investment in Shared Equity Schemes	These are service investments which exhibit property market risk and are likely to be highly illiquid, with funds tied up for many years.	Each scheme investment requires Member approval and each decision will be supported by the service rational behind the investment and the likelihood of loss.
j. Investment in the Subordinated Debt of projects delivered via the "Hubco" model	These are investments which are exposed to the success or failure of individual projects and are highly illiquid	The Council and Scottish Government (via the SFT) are participants in and party to the governance and controls within the project structure. As such they are well placed to influence and ensure the successful completion of the project's term