

## Annual Investment Strategy

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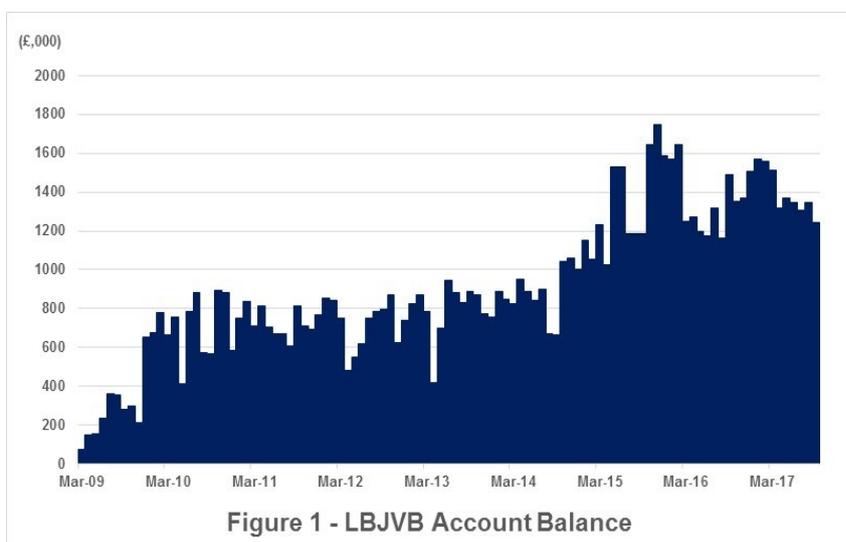
5<sup>th</sup> February 2018

### 1. Introduction

1.1 The purpose of this report is to propose an Investment Strategy for 2018/19.

### 2. Annual Investment Strategy

- 2.1 The Board currently maintains its funds as part of the City of Edinburgh Council's group of bank accounts. Any cash balance is effectively lent to the Council, but is offset by expenditure undertaken by the City of Edinburgh Council on behalf of the Board. Interest is given on month end net indebtedness balances between the Council and the Board in accordance with the former Local Authority (Scotland) Accounts Advisory Committee's (LASAAC) Guidance Note 2 on Interest on Revenue Balances (IoRB). The interest rate given on the balances is 7-Day LIBID, which is the Council's own benchmark investment rate.
- 2.2 An Investment Strategy and Treasury Management Policy Statement are brought to the Board for consideration each year. The current arrangement dates back to June 2010 when the Board adopted CIPFA's Code of Practice for Treasury Management in the Public Services. At the time, the average monthly balance which the Board had in the previous year was around £400k and that was not anticipated to rise significantly. Figure 1 shows the monthly balance on the Board's account in the period from March 2009.



Over the last couple of years, the average monthly balances have been higher than previously, principally reflecting the Board's decision of 4 February 2011 to retain underspend to meet future cost commitments arising from application of the Board's Voluntary Early Release Arrangements.

The Board has no separate bank account, with payments being made out of the City of Edinburgh Council's bank account and re-charged to the Board. When the arrangements were considered in 2010, the administrative cost of creating an alternative significantly outweighed any potential benefit.

It was therefore considered that the current arrangement best served the Board as:

- the Board had relatively small investment balances;
- the existing administration accounting and supplier payment arrangements with the City of Edinburgh Council were cost effective; and
- following the bail out of a number of banks, the Board gained security from its counterparty exposure being to the City of Edinburgh Council.

As noted on other reports on this agenda, the Board's Transformation and Cultural Change Programme is being progressed during 2017/18. Draw-down of £0.335m from the retained underspend has been incurred to date, with potential further draw-down to be incurred in 2018/19.

The report Revenue Budget 2018/19 elsewhere on this agenda recommends a minimum reserve of 3% (£0.175m), with balances retained in excess of 3% to be reviewed annually.

Given the current and future anticipated draw-down against the Board's Reserve and minimum level of Reserve of 3%, the average monthly balance is anticipated to revert to around £0.4m – the base level originally anticipated in adopting the current Investment Strategy.

Taken cognisance of the level of reserves set out above and that the investment return is likely to be modest given the current interest rate environment, it is considered appropriate for the current arrangement be continued.

### **3. Recommendations**

- 3.1 It is recommended that the Board approves the Annual Investment Strategy in Appendix 1.

**Hugh Dunn**  
Treasurer

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#### **Appendix**

Appendix 1 – Annual Investment Strategy

#### **Contact/tel**

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# APPENDIX 1

## Annual Investment Strategy

### (a) Treasury Management Policy Statement

1. The Board defines its Treasury Management activities as:

*The management of the Board's investments, 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.*

2. The Board 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 organisation.

3. The Board 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 comprehensive measurement techniques, within the context of effective risk management.

Treasury Management is carried out on behalf of the Board by the City of Edinburgh Council. The Board therefore adopts the Treasury Management Practices of the City of Edinburgh Council. The Board's approach to investment is a low risk one, and its investment arrangements reflect this.

### (b) Permitted Investments

The Board will maintain its banking arrangement with the City of Edinburgh Council's group of bank accounts. The Board has no Investment Properties and makes no loans to third parties. As such the Board's only investment / counterparty exposure is to the City of Edinburgh Council.

### (c) Prudential Indicators

The Board has no Capital Programme and therefore also has no long term borrowing. The indicators relating to debt are therefore not relevant for the Board. By virtue of the investment arrangements permitted in (b) above, all of the Board's investments are variable rate, and subject to movement in interest rates during the period of the investment.