Appendix 1

Annual Treasury Management Review 2013/14

Midlothian Council
May 2014

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Annual Treasury Management Review 2013/14

Purpose

This Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2013/14. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2013/14 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 05/02/2013)
- a mid year (minimum) treasury update report (Council 05/11/2013)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council.

Executive Summary

During 2013/14, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	2012/13 Actual £000	2013/14 Budget £000	2013/14 Actual £000
Capital expenditure:-			
General Fund	29,525	24,618	17,342
HRA	17,723	16,466	16,104
Total	**47,248**	**41,084**	**33,446**
Borrowing Required			
General Fund	7,109	13,888	8,799
HRA	11,072	14,000	13,436
Total	**18,181**	**27,888**	**22,235**
Capital Financing Requirement:-			
General Fund	103,807	125,043	108,227
HRA	134,500	145,757	145,548
Total	**238,307**	**270,800**	**253,775**
Gross Borrowing	**230,020**	**263,173**	**225,993**
Investments:-			
Under 1 year	38,844	36,501	39,127
Longer than 1 year	-	-	-
Total	**38,844**	**36,501**	**39,127**

The financial year 2013/14 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk.

The Council continues to maintain a nominal under-borrowed position, reflecting a strategy to continue to cash-back the majority of the Council’s balance sheet reserves (ensuring the security of these funds through the utilisation of fixed term deposits with only UK-government backed counterparties).

The Council has sought to source new long-term borrowing from PWLB, taking advantage of the historically low rates on offer and the current 0.20% discount, whilst maintaining an element of shorter-dated temporary borrowing on offer at less than base rate (<0.50%).

Prudential and treasury indicators are to be found in the main body of this report. The Head of Finance & Integrated Service Support also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit), was not breached.

Introduction and Background

This report summarises the following:

- **Section 1**: Capital activity during the year;
- **Section 2**: Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- **Section 3**: Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- **Section 4**: Treasury Management Strategy during 2013/14;
- **Section 5**: Summary of interest rate movements during 2013/14;
- **Sections 6/7**: Detailed debt activity during 2013/14;
- **Sections 8/9**: Detailed investment activity during 2013/14; and
- **Section 10**: Performance Measurement.

1. The Council's Capital Expenditure and Financing 2013/14

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Table 1: Capital Expenditure + Financing			
	2012/13 Actual £000	**2013/14 Budget £000**	**2013/14 Actual £000**
General Fund			
Capital Expenditure	29,525	24,618	17,342
Available Funding	22,416	10,730	8,543
Borrowing Required	**7,109**	**13,888**	**8,799**
HRA			
Capital Expenditure	17,723	16,466	16,104
Available Funding	6,651	2,466	2,668
Borrowing Required	**11,072**	**14,000**	**13,436**
General Fund and HRA			
Capital Expenditure	47,248	41,084	33,446
Available Funding	29,067	13,196	11,211
Borrowing Required	**18,181**	**27,888**	**22,235**

2. The Council's Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2013/14 unfinanced capital expenditure (see above table), plus prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Scheduled Debt Amortisation (or loans repayment), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the minimum loan repayment each year through an additional revenue charge.

The Council's CFR for the year is shown below, and represents a key prudential indicator.

Table 2: Council's Capital Financing Requirement

CFR:	31-Mar-13 Actual	2013/14 Budget	31-Mar-14 Actual
	£000	£000	£000
Opening balance	**£ 226,848**	**£ 247,827**	**£ 238,307**
Add Borrowing Required	£ 18,181	£ 27,888	£ 22,235
Less scheduled debt amortisation	£ (6,722)	£ (6,975)	£ (6,767)
Closing balance	**£ 238,307**	**£ 268,740**	**£ 253,775**

Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2013/14) plus the estimates of any additional capital financing requirement for the current (2014/15) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2013/14. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

Table 3: Council's Gross Borrowing Position			
	31-Mar-13	2013/14	31-Mar-14
	Actual	Budget	Actual
	£000	£000	£000
Gross Borrowing	£ 230,020	£ 263,173	£ 225,993
CFR	£ 238,307	£ 268,740	£ 253,775

The authorised limit – this Council has kept within its authorised external borrowing limit as shown by the table below. Once this has been set, the Council does not have the power to borrow above this level.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Table 4: Gross Borrowing against Authorised Limit / Operational Boundary	
	2013/14
Authorised limit	£ 336,676
Operational boundary	£ 320,186
Maximum gross borrowing position	£ 238,020
Average gross borrowing position	£ 223,913

3. Treasury Position as at 31 March 2014

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the Purpose section of this report, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2013/14 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

Table 5: Treasury Position

	31 March 2013 Principal	Rate/ Return	Average Life (Yrs)	31 March 2014 Principal	Rate/ Return	Average Life (Yrs)
Debt						
Fixed Rate Debt						
PWLB	£ 178,018	3.89%	21.79	£ 187,993	3.88%	20.71
Market	£ 37,003	0.86%	8.81	£ 23,000	1.19%	13.94
Total Fixed Rate Debt	**£ 215,020**	**3.37%**	**19.56**	**£ 210,993**	**3.59%**	**19.97**
Variable Rate Debt						
PWLB	£ -	n/a	n/a	£ -	n/a	n/a
Market	£ 15,000	4.63%	37.72	£ 15,000	4.63%	36.71
Total Variable Rate Debt	**£ 15,000**	**4.63%**	**37.72**	**£ 15,000**	**4.63%**	**36.71**
Total debt/gross borrowing	**£ 230,020**	**3.45%**	**20.74**	**£ 225,993**	**3.65%**	**18.74**
CFR	**£ 237,755**			**£ 253,775**		
Over/ (under) borrowing	**£ (7,735)**			**£ (27,781)**		
Investments						
Fixed Rate Investments						
In House	£ 28,900	2.13%	0.53	£ -	n/a	n/a
With Managers	£ -	n/a	n/a	£ -	n/a	n/a
Total Fixed Rate Investments	**£ 28,900**	**2.13%**	**0.53**	**£ -**	**n/a**	**n/a**
Variable Rate Investments						
In House	£ 9,944	0.75%	0.00	£ 39,127	0.88%	0.06
With Managers	£ -	n/a	n/a	£ -	n/a	n/a
Total Variable Rate Investments	**£ 9,944**	**0.75%**	**0.00**	**£ 39,127**	**0.88%**	**0.06**
Total Investments	**£ 38,844**	**1.78%**	**0.39**	**£ 39,127**	**0.88%**	**0.06**
Net Borrowing	**£ 191,176**			**£ 186,867**		

The maturity structure of the debt portfolio was as follows:

Table 6: Maturity Structure of Debt Portfolio					
	31-Mar-13		2013/14	31-Mar-14	
	Actual		Original Limits	Actual	
	£000	%	%	£000	%
Under 12 months	£ 32,027	14%	0% to 50%	£ 38,024	17%
12 months to 2 years	£ 20,024	9%	0% to 50%	£ 5,026	2%
2 years to 5 years	£ 17,086	7%	0% to 50%	£ 22,094	10%
5 years to 10 years	£ 28,300	12%	0% to 50%	£ 18,318	8%
10 years to 20 years	£ 42,949	19%	0% to 50%	£ 42,897	19%
20 years to 30 years	£ 4,100	2%	0% to 50%	£ 14,100	6%
30 years to 40 years	£ 38,000	17%	0% to 50%	£ 50,700	22%
40 years to 50 years	£ 42,534	18%	0% to 50%	£ 29,834	13%
50 years and above	£ 5,000	2%	0% to 50%	£ 5,000	2%
Total	£ 230,020	100%		£ 225,993	100%

The maturity structure of the investment portfolio was as follows:

Table 7: Maturity Structure of Investment Portfolio		
	31-Mar-13	31-Mar-14
	£000	£000
Investments		
Under 1 Year	£ 38,844	£ 39,127
Over 1 Year	£ -	£ -
Total	£ 38,844	£ 39,127

The exposure to fixed and variable interest rates on debt was as follows:-

Table 8: Fixed/Variable Interest Rate Exposure of Debt Portfolio					
	31-Mar-13		2013/14	31-Mar-14	
	Actual		Original Limits	Actual	
	£000	%	%	£000	%
Fixed Interest Rate Exposure	£ 215,020	93%	0% to 100%	£ 210,993	93%
Variable Interest Rate Exposure	£ 15,000	7%	0% to 30%	£ 15,000	7%
Total	£ 230,020	100%		£ 225,993	100%

4. The Strategy for 2013/14

The expectation for interest rates within the strategy for 2013/14 anticipated low but rising Bank Rate (starting in quarter 1 of 2015) and gradual rises in medium and longer term fixed borrowing rates during 2013/14. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

The actual movement in gilt yields meant that PWLB rates were on a sharply rising trend during 2013 as markets anticipated the start of tapering of asset purchases by the Fed. This duly started in December 2013 and the US FOMC (the Fed.), adopted a future course of monthly reductions of $10bn (from a starting position of $85bn), meaning that asset purchases were likely to stop by the end of 2014. However, volatility set in during the first quarter of 2014 as fears around emerging markets, various vulnerabilities in the Chinese economy, the increasing danger for the Eurozone to drop into a deflationary spiral, and the situation in the Ukraine, caused rates to dip down, reflecting a flight to quality into UK gilts.

With that in mind, the general strategy for any new borrowings required was to balance savings from the utilisation of short-term market money from other UK public sector bodies at rates often available at less than base rate (0.5%), with borrowing from PWLB at historically low rates, particularly at the short-medium end of the curve. This allowed longer-term borrowing to be undertaken at the start of the financial year when rates were low, whilst continued use of shorter-term borrowing within the overall portfolio continued to add value.

Special tranche rates on offer from low risk UK Government backed banks (Lloyds, RBS) dropped from a high of 3% for a 1 year fixed term deposit in summer 2012 to sub 1% for a similar term deposit throughout financial year 2013/14. This resulted in the withdrawal of the use of these products by the Council.

5. The Economy and Interest Rates

The original expectation for 2013/14 was that Bank Rate would not rise during the year and for it only to start gently rising from quarter 1 2015. This forecast rise has now been pushed back to a start in quarter 3 2015. Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the year. Consequently there was no additional quantitative easing during 2013/14 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year. While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain slightly below the target rate for most of the two years ahead.

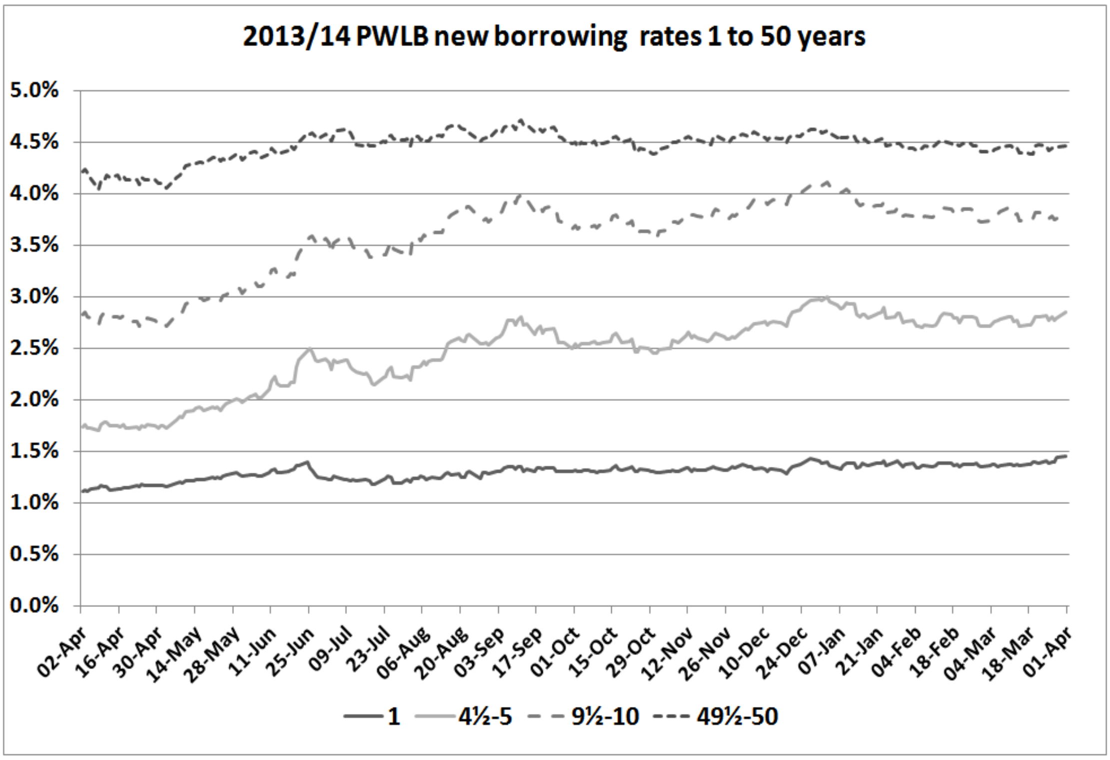
Gilt yields were on a sharply rising trend during 2013 but volatility returned in the first quarter of 2014 as various fears sparked a flight to quality (see paragraph 4). The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing into 2013/14. That part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over resurging house prices.

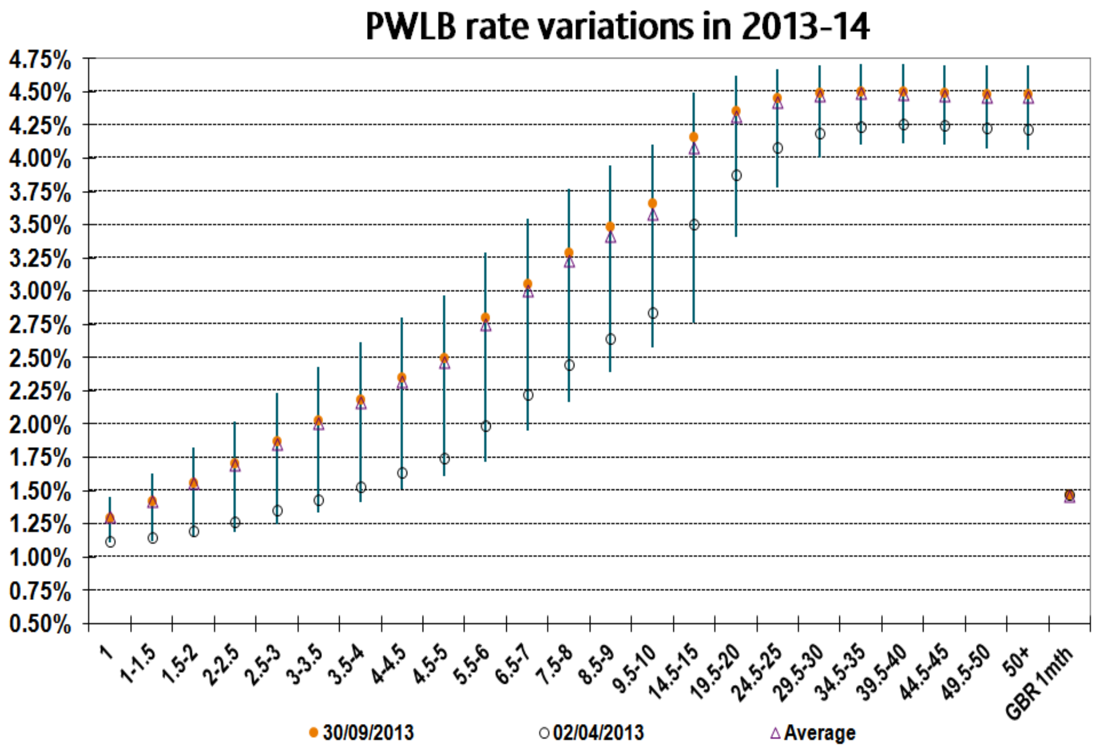
The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth has led to a cumulative, (in the Autumn Statement and the March Budget), reduction in the forecasts for total borrowing, of £97bn over the next five years, culminating in a £5bn surplus in 2018-19.

The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the ECB statement in July 2012 that it would do “whatever it takes” to support struggling Eurozone countries; this led to a return of confidence in its banking system which has continued into 2013/14 and led to a move away from only very short term investing. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

6. Borrowing Rates in 2013/14

PWLB borrowing rates - the graphs and table for PWLB maturity rates below show, for a selection of maturity periods, the high and low points in rates, the average rates, spreads and individual rates at the start and the end of the financial year.





	PWLB borrowing rates 2013/14 for 1 to 50 years								
	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
2/4/13	1.120%	1.150%	1.350%	1.530%	1.750%	2.840%	4.080%	4.230%	1.470%
30/9/13	1.300%	1.420%	1.870%	2.190%	2.500%	3.660%	4.450%	4.480%	1.470%
High	1.450%	1.630%	2.230%	2.620%	2.970%	4.100%	4.670%	4.700%	1.480%
Low	1.110%	1.120%	1.250%	1.410%	1.610%	2.580%	3.780%	4.070%	1.450%
Average	1.305%	1.421%	1.853%	2.164%	2.469%	3.584%	4.427%	4.467%	1.466%
Spread	0.340%	0.510%	0.980%	1.210%	1.360%	1.520%	0.890%	0.630%	0.030%
High date	31/3/14	31/3/14	27/12/13	27/12/13	27/12/13	2/1/14	10/9/13	10/9/13	9/4/13
Low date	5/4/13	15/4/13	15/4/13	15/4/13	15/4/13	19/4/13	19/4/13	3/5/13	10/5/13

Short-dated market money:- sourced from other UK public bodies, rates fluctuated throughout the year from 0.26%-0.50% for 1 to 12 month maturities.

7. Borrowing Outturn for 2013/14

New Treasury Borrowing:-

New loans were drawn to fund the net unfinanced capital expenditure and naturally maturing debt.

The loans drawn were:-

Table 9: New Loans Taken in Financial Year 2013/14						
Lender	**Date Taken**	**Principal £000's**	**Interest Rate**	**Fixed/ Variable**	**Maturity Date**	**Term (Yrs)**
PWLB	03 Apr 2013	£ 10,000	3.71%	Fixed	03 Oct 2034	21.50
Market	Various	£ 61,200	0.26%-0.40%	Variable interest rate	Various	0.08-1.00
Total		**£ 71,200**				

Market loans of £61.2m reflects an average carrying value of £16m of Temporary Borrowing drawn on average every 3.1 months.

This compares with a budget assumption of new medium term (PWLB) borrowing at an interest rate of 3.95%, and new short-term market borrowing at an interest rate of 0.63%.

Maturing Debt:-

The following table gives details of treasury debt maturing during the year:-

Table 10: Maturing Debt in Financial Year 2013/14						
Lender	**Date Repaid**	**Principal £000's**	**Interest Rate**	**Fixed/ Variable**	**Date Originally Taken**	**Original Term (Yrs)**
PWLB	Various (Annuities)	£ 24	9.12%	Fixed	Various	58.14
EIB	Various	£ 3	8.75%	Fixed	05 Apr 1997	16.00
Market	Various	£ 75,200	0.26%-0.40%	Variable interest rate	Various	0.08-1.00
Total		**£ 75,227**				

Market loans of £75,200 reflects an average carrying value of £16m of Temporary Borrowing maturing on average every 2.6 months.

Rescheduling:-

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

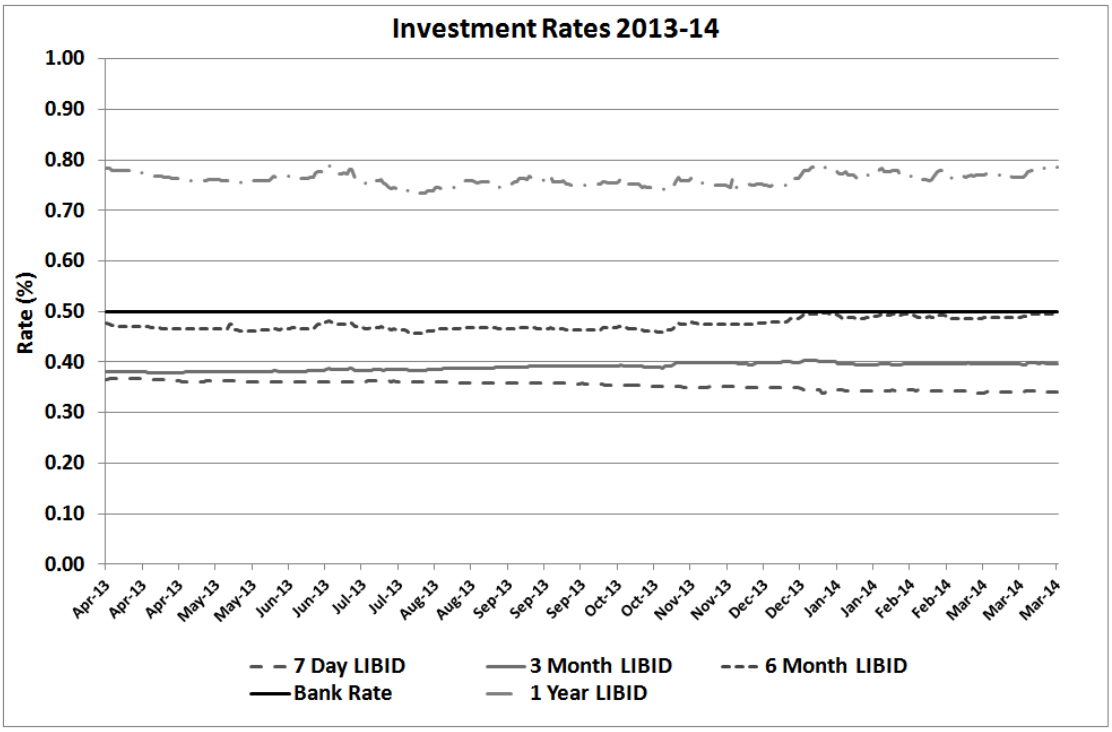
Summary of debt transactions:-

The average interest rate payable on external debt increased from 3.20% to 3.68%, as a result of a switch away from shorter-term market loans to more secure, longer-term funding sourced from the PWLB.

The average interest rate on external debt of 3.68% was in line with budget.

8. Investment Rates in 2013/14

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for five years. Market expectations as to the timing of the start of monetary tightening ended up almost unchanged at around the end of 2014 / start of 2015. The Funding for Lending Scheme resulted in deposit rates remaining depressed during the whole of the year, although the part of the scheme supporting provision of credit for mortgages came to an end in the first quarter of 2014.



The Council withdrew their use of the “Special tranche” rates on offer from the UK government backed banks (c. 3% for a 12 month fixed term investment), as these rates dropped to sub-1% in late 2012/13 and remained at these levels throughout 2013/14.

Money market fund rates started the year between 0.35%-0.45% and remained broadly unchanged, symptomatic of the challenging investment environment.

Call account rates started at a high of 0.75%-0.80% before dropping as the year progressed to a low of 0.40%-0.50%, with notification of a further drop in one of the approved counterparties to 0.25% in mid-April 2014.

This merely exacerbates the challenge to the Council of few approved counterparties for use (to ensure the security of the Council’s funds) along with historically low rates of return.

9. Investment Outturn for 2013/14

Investment Policy:-

The Council's investment policy is governed by Scottish Government Investment Regulations, which have been implemented in the annual investment strategy approved by the Council on 05/02/2013. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Resources:-

The Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources are comprised as follows:-

Table 11: Balance Sheet Resources

	31-Mar-12	31-Mar-13	Movement
HRA Balances	£ 14,673	£ 18,374	£ 3,701
General Fund Balances/Earmarked Reserves	£ 14,083	£ 20,511	£ 6,428
Repairs & Renewal Fund	£ 2,275	£ 2,553	£ 278
Usable capital receipts	£ 7,531	£ 10,658	£ 3,127
Total	**£ 38,562**	**£ 52,096**	**£ 13,534**

Investments held by the Council:-

The Council maintained an average balance of £37.0 million of internally managed funds. The internally managed funds earned an average rate of return of 1.23%. The comparable performance indicator is the average 6-month LIBID un-compounded rate, which was 0.47%. This compares with a budget assumption of £33.9 million of internally managed funds earning an average rate of 1.29%.

Summary of investment transactions:-

Management of the investment portfolio resulted in an increase in investment returns of £28,000 compared with budget (£456,000 interest return against a budgeted assumption of £438,000).

10. Performance Measurement

One of the key requirements in the Code is the formal introduction of performance measurement relating to investments, debt and capital financing activities.

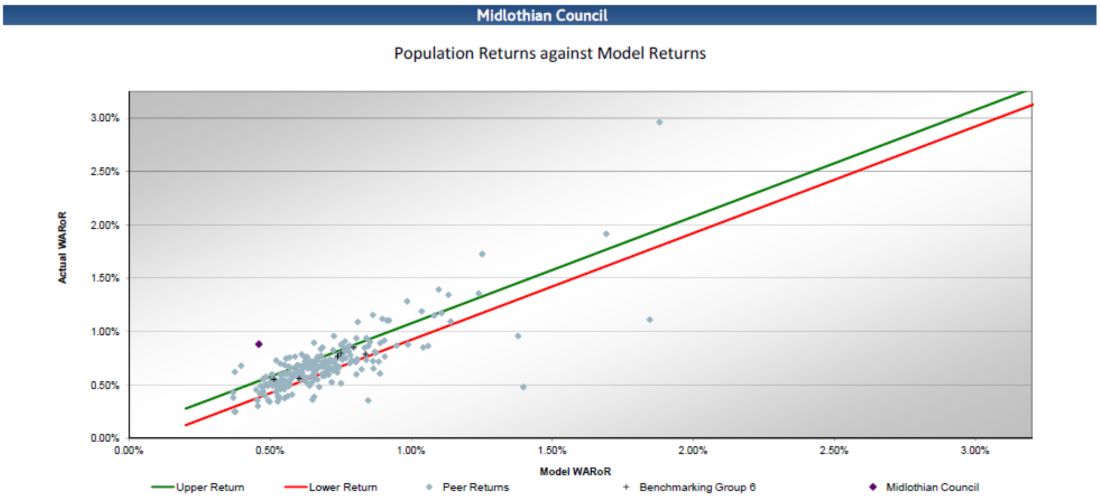
Loans Fund Rate

Combining the interest paid (earned) on external debt (investments) with charges for premiums written off and internal interest allowed into an average Loans Fund Rate, Midlothian's result of 3.03% for 2012/13 was the lowest Loans Fund Rate amongst all mainland authorities in Scotland (see Appendix 1).

The comparative Loans Fund Rate for 2013/14, of 3.46%, is once again expected to be one of the lowest when benchmarked against all mainland authorities in Scotland (note that at present, these benchmark figures are not yet available).

Investment Benchmarking

The Council participates in the Scottish Investment Benchmarking Group set up by its Treasury Management Consultants, Sector. This service provided by Sector provides benchmarking data to authorities for reporting and monitoring purposes, by measuring the security, liquidity and yield within an individual authority portfolio. Based on the Council's investments as at 31 March 2014, the Weighted Average Rate of Return (WARoR) on investments of 0.88% against other authorities is shown in the graph below:-



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Midlothian Council	0.88%	0.46%	0.42%	0.38%	0.54%	Above

** Models for 30 June 2013, 30 September 2013 and 31 December 2013 are attached as Appendix 2.*

As can be seen from the above graph, Midlothian is performing above the Sector model benchmarks (red to green lines), and is achieving one of the highest Weighted Average Rates of Return (WARoR) for the Weighted Average Credit Risk held, not only amongst peer Councils within the Benchmarking Group but also amongst the population of authorities across the UK.

Debt Performance

Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide. In this respect, the relevant figures for Midlothian are incorporated in the table in Section 3.

11. Conclusion

The Council's overall cost of borrowing continues to benefit from proactive Treasury Management activity.

The cost of long term borrowing has been maintained by taking up opportunities to borrow from the PWLB at low interest rates whilst advantage has also been taken of the low rates available for temporary borrowing.

A better than average return on investments has been achieved for the tenth consecutive year and Midlothian continues to perform above the Sector model benchmarks and is achieving one of the highest Weighted Average Rates of Return (WARoR) for the Weighted Average Credit Risk held, not only amongst peer Councils within the Benchmarking Group but also amongst the population of authorities across the UK.

Overall Midlothian's Loans Fund Rate for the year is expected to be one of the lowest when benchmarked against all mainland Authorities in Scotland.

Appendix 2

Loans Fund Rate Comparison 2012/13

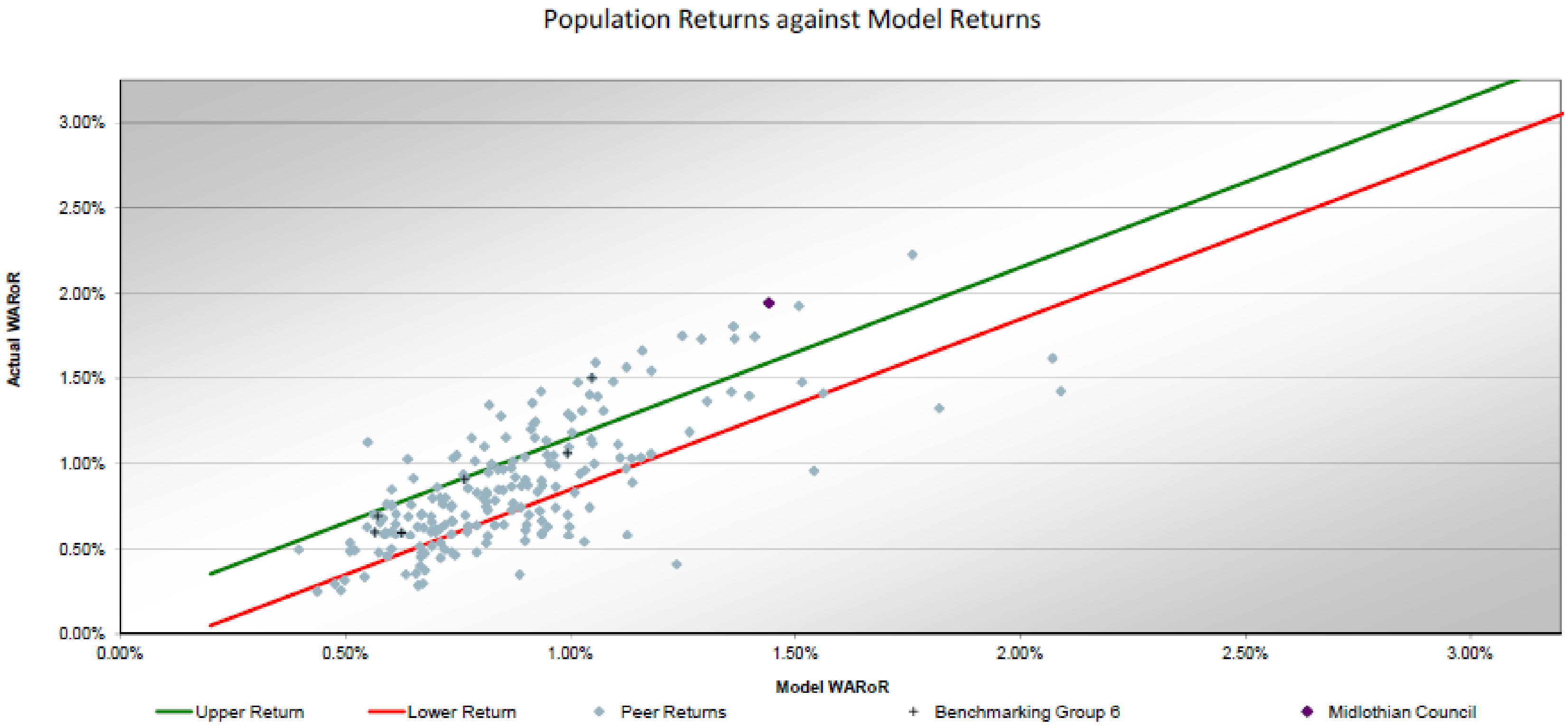
	Loans Fund Rate Comparison		
Scottish Local Authorities	Interest Rate	Expenses Rate	Loans Fund Rate
Midlothian	**2.98%**	**0.05%**	**3.03%**
Dumfries & Galloway	3.31%	0.05%	3.35%
Perth & Kinross	3.32%	0.06%	3.38%
East Lothian	3.46%	0.03%	3.49%
Falkirk	3.46%	0.10%	3.56%
Inverclyde	3.81%	0.08%	3.89%
Fife	4.02%	0.07%	4.09%
West Lothian	4.19%	0.06%	4.25%
Aberdeen City	4.22%	0.03%	4.25%
Renfrewshire	4.34%	0.05%	4.39%
South Lanarkshire	4.35%	0.04%	4.39%
Dundee City	4.38%	0.07%	4.44%
Angus	4.53%	0.07%	4.60%
Aberdeenshire	4.59%	0.03%	4.62%
Glasgow City	4.61%	0.03%	4.64%
East Renfrewshire	4.56%	0.09%	4.65%
North Lanarkshire	4.61%	0.04%	4.65%
East Ayrshire	4.60%	0.08%	4.68%
Clackmannanshire	4.70%	0.10%	4.80%
Highland	4.84%	0.02%	4.86%
Moray	4.75%	0.24%	4.99%
Scottish Borders	5.03%	0.04%	5.07%
East Dunbartonshire	5.00%	0.10%	5.10%
Argyll & Bute	5.07%	0.06%	5.14%
North Ayrshire	5.08%	0.10%	5.18%
Stirling	5.14%	0.08%	5.22%
West Dunbartonshire	5.28%	0.05%	5.33%
Edinburgh City	5.43%	0.02%	5.46%
South Ayrshire	5.43%	0.09%	5.52%
Island Councils			
Comhairle Nan Eilean Siar	5.92%	0.06%	5.98%
Orkney	3.86%	0.13%	3.99%
Shetland	0.92%	0.10%	1.02%
Summary			
Minimum	2.98%	0.02%	3.03%
Maximum	5.92%	0.24%	5.98%
Average	4.50%	0.07%	4.57%
Median	4.59%	0.06%	4.65%

The Loans Fund Rate combines the interest paid by the Council on money borrowed, with the interest earned by the Council on money invested, along with other charges such as internal interest allowed, premiums written off and treasury-related expenses to arrive at a weighted average “loans fund rate” figure for each authority, as noted in the final column above.

Appendix 3

Midlothian Council Investment Portfolio return as at 30 June 2013

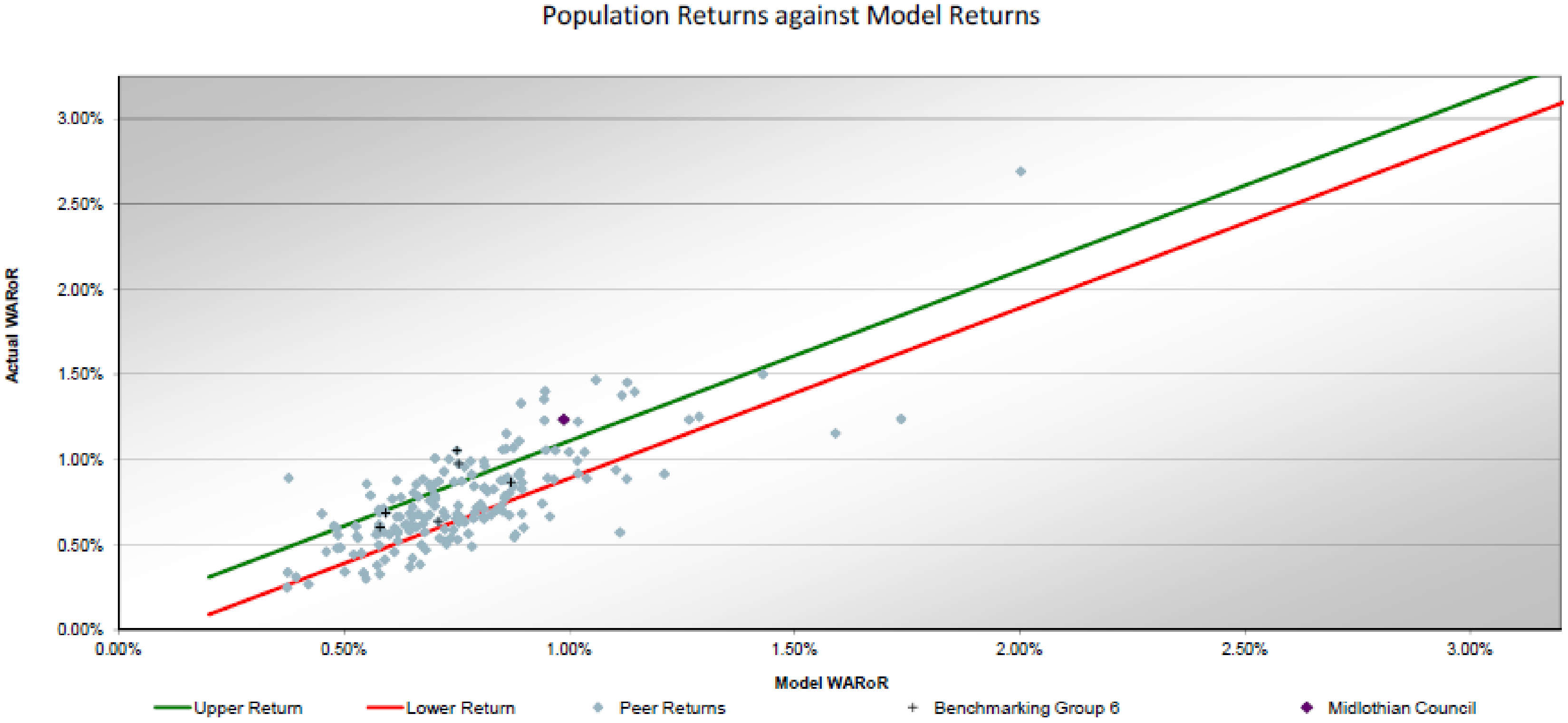
Midlothian Council



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Midlothian Council	1.94%	1.44%	0.50%	1.29%	1.59%	Above

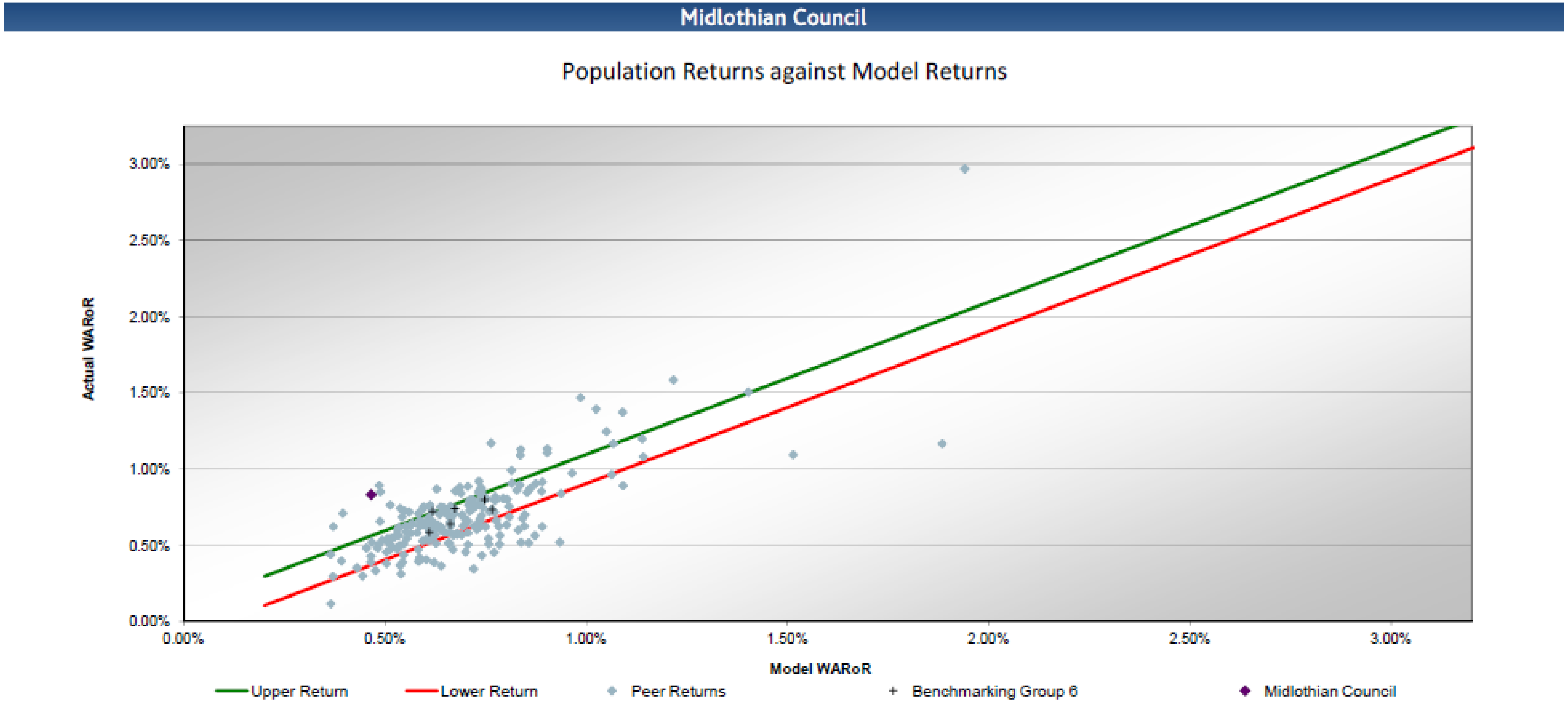
Midlothian Council Investment Portfolio return as at 30 September 2013

Midlothian Council



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Midlothian Council	1.24%	0.99%	0.25%	0.88%	1.10%	Above

Midlothian Council Investment Portfolio return as at 31 December 2013



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Midlothian Council	0.83%	0.47%	0.37%	0.37%	0.56%	Above