

CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD

AUDIT COMMITTEE: 22 JUNE 2015

TREASURY PERFORMANCE REPORT – POSITION AT 31 MARCH 2015, 31 MAY 2015 AND HOUSING FINANCE REFORM IMPACT

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 8.1

Appendix 2 and 3 of this report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972

Reason for this Report

1. To provide Audit Committee Members with performance information and a position statement on Treasury Management as at 31 March 2015 and 31 May 2015. To provide final details of the settlement payment made to exit the Housing Revenue Account Subsidy (HRAS) system and the impact on the Council's Treasury Management position in relation to borrowing.

Background

2. Audit Committee has previously received details of the draft HRAS exit proposals in various reports, but the final details of the requirements were only negotiated by WG and HM Treasury at the end of March 2015. Appendix 1 provides details on the final outcome of the HRAS settlement agreed by the Council, with borrowing undertaken and the settlement payment made on 2 April 2015.
3. For completeness and for comparator purposes, Audit Committee is provided at Appendix 2 with a snapshot of treasury performance, position statements on investments and borrowing as at 31 March 2015, the end of financial year 2014/15.
4. Appendix 3 provides the Committee with position statements on investments and borrowing at 31 May 2015 which includes the main changes particularly in relation to borrowing. Any forecasts indicated for interest and internal borrowing are as per the 2015/16 Budget Report and will be updated following the first budget monitoring review of 2015/16.

Performance

31 March 2015

5. At 31 March 2015, investments arising from temporary cash balances stood at £54.9 million. The overall level of interest receivable from treasury investments totalled £504,000 including interest on the £1 million Local Authority Mortgage Scheme indemnity. The average rate of interest on investments achieved for 2014/15 was 0.61% which compared favourably against the 7 day LIBID rate of 0.35% and the 3 Month LIBID rate of 0.43%. Whilst performance compared to industry benchmarks is positive, the historically low rate of return can be attributed to the Bank of England base rate which has remained at 0.5% during 2014/15.
6. Borrowing totalled £470.5 million, with the average rate on the Council's borrowing reducing from 5.22% at 31 March 2014 to 5.19% at the 31 March 2015. Total interest paid on external debt was £24.678 million, of which £4.806 million was charged to the Housing Revenue Account.
7. Whilst borrowing rates have remained higher than investment rates for most of 2014/15, the Council has undertaken internal borrowing which involves using temporary cash balances in the short term rather than undertaking external borrowing. The risk attached to internal borrowing is that the Council may have to borrow at higher rates in the future when borrowing becomes a necessity. The level of internal borrowing at 31 March 2015, subject to audit, is £25 million.
8. There were no breaches of any indicators or limits in 2014/15 and an Internal Audit review provided satisfactory assurance in relation to controls in place to manage treasury activities.

31 May 2015

9. At 31 March 2015, investments total £67.2 million. The overall level of interest receivable from treasury investments budgeted is £300,000 and the forecast for the year will be updated at Month 3 Budget Monitoring.
10. Borrowing totalled £657.9 million following the HRAS settlement payment, with the average rate on the Council's borrowing reducing to 4.9%. The total interest forecast to be payable is budgeted at £33.6 million. The estimated General Fund share of this will be determined at Month 3 Monitoring, with the projection updated to reflect assumptions in respect of any additional borrowing planned to be undertaken in 2015/16. If the planned additional borrowing is not undertaken or an Internal borrowing position is likely, then the value of interest expense will be less than budgeted.
11. There is assumed to be a nil level of internal borrowing at this stage, a position to be updated at Month 3 Monitoring.

Investments

12. Pages 2 and 3 of both Performance Reports consider the position on investments. The charts on the Performance Report show the position at a point in time and investments continue to be closely monitored.
13. The current investments list details each investment, the interest rate, the start date and maturity date. They also link this back to the credit criteria approved by Council in February 2015 by a colour coding which indicates the perceived strength of the organisation.
14. The balance of investments is at a point in time and will fluctuate depending on the timing of income and expenditure e.g. payments to suppliers, receipt of grants, capital receipts etc.
15. The charts that surround this table provide additional information and the key areas to highlight are shown below.
 - **Counterparty Exposure** displays actual investment against the maximum permitted directly with an organisation – This demonstrates that we are not exceeding any exposure limits.
 - **Remaining Maturity Profile of Investments.** Maturities of investments have been spread to achieve a balanced profile.
 - **Investments by Institution.** This expresses the investments held with different institutions as a percentage of the total. It can be seen that investments remain diversified over a number of organisations.
 - **Geographic Spread of Investments** as determined by the country of origin of relevant organisations. All countries are rated AA and above as per our approved criteria.
 - **Investments by Financial Sector.** The majority of investments are with banks.

Borrowing

31 March 2015

16. Borrowing of £5 million was taken during October at the rate and period set out in the Performance Report as appended and the Council repaid £7.818 million of maturing loans. Accordingly, the Council's total external borrowing at 31 March 2015 was £470.5 million, predominantly made up of fixed interest rate maturity loans from the Public Works Loan Board (PWLB).

31 May 2015

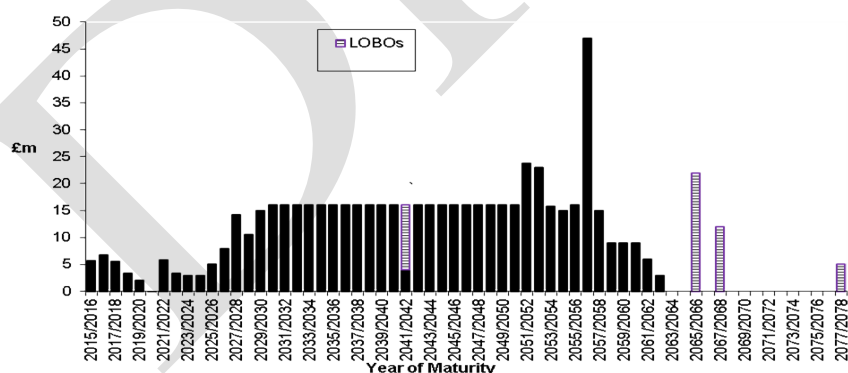
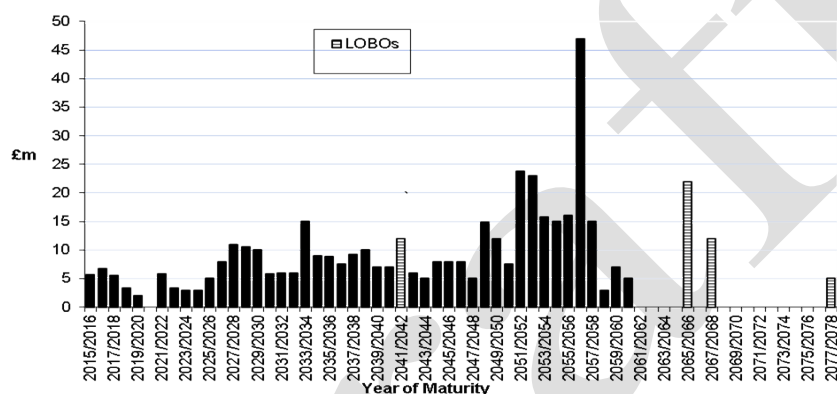
17. As indicated in Appendix 1, the Council made a settlement payment to WG on 2 April 2015 of £187 million in respect of exiting the HRAS system. In accordance with the requirements of the agreement, the level of borrowing had to generate a required level of interest payable in the first five years, be taken only from the PWLB and be at special rates of interest determined by the PWLB and HM Treasury.

18. The details of the loans undertaken are shown in Appendix 1, with the strategy adopted in determining the loans and periods being a balance of:-

- meeting the requirements of the settlement agreement
- minimising the length of loans
- consideration of existing Council debt to ensure a spread of loan maturities and maintaining a single pool for Council Fund and HRA debt.

19. The Council's total external borrowing at 31 May 2015 is £657.9 million, predominantly made up of fixed interest rate maturity loans from the Public Works Loan Board (PWLB).

20. The charts below indicate the maturity profile of the Council's loans at 31 March 2015 and after the settlement payment at 31 May 2015.



21. As set out in the Council's Treasury Management Strategy for 2015/16, further external borrowing is required in 2015/16. The timing and quantum of this will be considered in conjunction with the Council's treasury advisors, having regard to forecasts for interest rates and the level of internal borrowing and performance in delivering the capital programme. Updates will be provided in future reports to the Audit Committee.

Reason for Report

22. To provide Audit Committee Members with a performance position statement at 31 March 2015 and 31 May 2015, including impact of the final Housing Revenue Account Subsidy exit settlement payment.

Legal Implications

23. No direct legal implications arise from this report.

Financial Implications

24. Treasury management activities undertaken by the Council are governed by a range of policies, codes of practice and legislation. This report indicates the treasury management position at one point in time and makes a number of assumptions in forecasts which will be updated in future reports. The report provides a tool for indicating to Members the treasury position. Future reports will highlight main changes since this report.
25. This report highlights the financial impact that the settlement payment made to WG / Treasury to exit the Housing Subsidy system has had. External borrowing has increased by £187 million and the estimated net HRA revenue benefit per annum after capital financing costs is £3.3 million. Any such benefit is to be re-invested in the existing and new housing stock in accordance with the HRA Business Plan.
26. The Council will have to comply with a debt cap in the Housing Revenue Account of £316.5 million and processes have been put in place to ensure this is monitored closely as part of the Treasury Strategy and HRA Business Planning process.
27. The Treasury Management Indicators approved by Council as part of the Budget Proposals in February 2015 included the impact of Housing Finance Reform.

RECOMMENDATIONS

28. That the Treasury Performance Report for 31 March 2015 and 31 May 2015, together with the appendix setting the final position in respect of the exit of the HRAS system be noted.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES
10 June 2015

The following appendix is attached

- Appendix 1 – Housing Revenue Account Subsidy System – Final Settlement
- Appendix 2 – Cardiff Council Treasury Management Performance Report – 31 March 2015
- Appendix 3 – Cardiff Council Treasury Management Performance Report – 31 May 2015