

# CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD

**AUDIT COMMITTEE:**

**27 JUNE 2016**

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## TREASURY PERFORMANCE REPORT – POSITION AT 31 MARCH 2016 AND 31 MAY 2016

### REPORT OF CORPORATE DIRECTOR RESOURCES

**AGENDA ITEM: 8.1**

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**Appendix 1 and 2 of this report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972**

### PORTFOLIO: CORPORATE AFFAIRS

#### Reason for this Report

1. The Audit Committee Terms of Reference sets out their responsibility for undertaking scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices.
2. This report has been prepared to provide Audit Committee Members with performance information and a position statement on Treasury Management as at 31 May 2016 and at 31 March 2016.

#### Background

3. To indicate the final position for the financial year 2015/16, Audit committee is provided at Appendix 1 with a snapshot of treasury performance, position statements on investments and borrowing as at 31 March 2016, along with a summary of performance for the year.
4. Appendix 2 provides the Committee with position statements on investments and borrowing at 31 May 2016. Any forecasts indicated for interest and internal borrowing are as per budget and will be updated following the first budget monitoring review of 2016/17.

#### Performance

##### 31 March 2016

5. At 31 March 2016, investments arising from temporary cash balances stood at £58 million. The overall level of interest receivable from treasury investments totalled £518,000 including interest on the £1 million Local Authority Mortgage Scheme indemnity.
6. The average rate of interest on investments achieved for 2015/16 was 0.70% which compared favourably against the 7 day London Interbank Bid Rate (LIBID) rate of 0.36% and the 3 Month LIBID rate of 0.46%.

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 2015/16.

7. External borrowing at 31 March 2016 totalled £666.1 million which includes additional borrowing undertaken in the year to make a £187 million Housing Subsidy Reform Settlement payment to Welsh Government / HM Treasury. Audit Committee were provided with a number of reports setting out the detail and implications of this on Treasury Management.
8. All borrowing is in the name of the Council and a single pool of debt is maintained rather than having separate loans for the HRA and General Fund. The average rate on the Council's borrowing reduced from 5.22% at 31 March 2015 to 4.84% at the 31 March 2016. Total interest paid on external debt was £32.199 million, of which £13.015 million was charged to the Housing Revenue Account.
9. The level of internal borrowing at 31 March 2016, subject to audit, is £43 million. This is where the Council is using temporary cash balances to pay for capital expenditure rather undertaking external borrowing.
10. There were no breaches of any indicators or limits in 2015/16.

#### 31 May 2016

11. At 31 May 2016, investments total £84.0 million. The budgeted level of interest receivable from treasury investments is £325,000 with this forecast for the year to be updated at Month 4 Budget Monitoring.
12. Borrowing is £666.1 million, with the average rate being 4.84%. The total interest forecast to be payable is shown as that initially budgeted, £32.8 million.
13. The budgeted level of internal borrowing at 31 March 2017 was £40 million. The projections for this and interest will be updated at Month 4 Monitoring to reflect assumptions re external borrowing planned to be undertaken in 2016/17. If borrowing is not undertaken or taken later in the year, then the value of interest expense will be less than budgeted.

#### **Investments**

14. 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.
15. 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 2016 by a colour coding which indicates the perceived strength of the organisation.
16. 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.

17. 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 2016

18. As reported previously to Council, Cabinet and Audit Committee, £187.392 million of PWLB loans were undertaken in April 2015 to make a settlement payment or 'Buy-out' from the Housing Revenue Account Subsidy System.
19. During 2015/16 the Council repaid £5.981 million of maturing loans. Whilst borrowing rates have remained higher than investment rates in 2015/16, the Council has undertaken internal borrowing which involves using temporary cash balances in the short term rather than undertaking external borrowing. In addition to the short term financial benefits, it also reduces exposure to credit risk. 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.
20. In recognition of these risks, £12.975 million of the Council's long term borrowing requirement was undertaken to mitigate the risk of rising longer term rates and also to benefit from concessionary borrowing rates before 31 March 2016. In addition a number of smaller interest free loans were received from WG and SALIX for specific capital expenditure schemes.
21. Accordingly, the Council's total external borrowing at 31 March 2016 was £666.2 million, predominantly made up of fixed interest rate maturity loans from the Public Works Loan Board (PWLB).

### 31 May 2016

22. As set out in the Council's Treasury Management Strategy for 2016/17, further external borrowing is required in 2016/17, with initial estimates that the borrowing requirement would be £80 million i.e. the difference between the closing Capital Finance Requirement and the level of external borrowing with no new borrowing at 31 March 2017). The budget

assumed that £40 million of any borrowing requirement would be via internal borrowing.

23. Whilst no new borrowing has been undertaken in the year to date, the Council has received a sum of circa £2m in advance from WG, subject to a business case being approved for implementation of energy efficiency measures in various Council buildings. Should the proposal be taken forward, then this would be included in the borrowing totals as an interest free loan in future monitoring reports.
24. The timing and quantum of any new external borrowing will be considered in conjunction with the Council's treasury advisors, having regard to forecasts for interest rates and performance in delivering the capital programme. Updates would be provided in future reports to Committee.

### **Reason for Report**

25. To provide Audit Committee Members with a performance position statement at 31 March 2016 and 31 May 2016.

### **Legal Implications**

26. No direct legal implications arise from this report.

### **Financial Implications**

27. Treasury management activities undertaken by the Council are governed by a range of policies, codes of practice and legislation. This report and appendices 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.

### **RECOMMENDATIONS**

28. That the Treasury Performance Report for 31 March 2016 and 31 May 2016 be noted.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**10 June 2016**

*The following appendix is attached*

Appendix 1 – Cardiff Council Treasury Management Performance Report – 31 March 2016

Appendix 2 – Cardiff Council Treasury Management Performance Report – 31 May 2016