

**CITY OF CARDIFF COUNCIL
CYNGOR DINAS CAERDYDD**

AUDIT COMMITTEE:

18 September 2017

**TREASURY PERFORMANCE REPORT – POSITION AT 31
AUGUST 2017**

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 9.1

Appendix 1 of this report is not for publication as it contains exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972.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 August 2017.

Background

3. Appendix 1 provides the Committee with position statements on investments and borrowing at 31 August 2017. There is deemed to be little change for Audit Committee to note since the previous position statement for 31 May 2017 received by Audit Committee in June 2017.

Performance

4. At 31 August 2017, investments total £88 million. This includes £12.218 million, which is currently being separately identified for Treasury Management purposes in relation to Grant received by Cardiff Council as accountable body on behalf of the Capital Cardiff Region City Deal. The budgeted level of interest receivable from treasury investments in 2017/18 is £360,000.
5. Borrowing is £670.6 million, with the average rate being 4.73%. The total interest forecast to be payable is projected at £31.9 million at Month 4 for 2017/18, but if borrowing is not undertaken or taken later in the year, then the value of interest expense will be lower.

6. The projected level of internal borrowing at 31 March 2018 is £65 million. This is dependent on capital expenditure in the year as well as the way in which that expenditure is to be paid for.

Investments

7. 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.
8. 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 2017 by a colour coding which indicates the perceived strength of the organisation.
9. 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.
10. 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

11. Since the May 2017 performance report, a £2 million maturing PWLB loan has been repaid and £57,640 of interest free loans from SALIX for specific capital projects have been included.
12. Whilst interest rates for investments remain low, borrowing will be deferred as this allows short term savings to be made. Current assumptions are that an element of the Council's borrowing requirement would be taken in the last quarter of this financial year

Markets in Financial Instruments Directive – Update

13. The Markets in Financial Instruments Directive (MiFID) is EU legislation that regulates firms who provide financial instrument services to clients. MiFID was applied in the UK from November 2007, but is now being

revised with changes to take effect from 3 January 2018, with the new legislation being known as MiFID II.

14. The aim is to ensure financial institutions undertake more extensive checks on their client's suitability for investment products. Organisations undertaking investments will be either classified as 'retail' or 'professional' MiFID II does not cover fixed deposits. It focusses on more complex products such as Certificates of Deposit, Gilts, Corporate Bonds and investment funds including Money Market Funds.
15. MiFID II requires all Local Authorities to be initially treated as "retail clients" unless they "opt up" to a "professional client". The assumption being that retail clients require a greater level of due diligence and support for investment decision making. This is particularly the case for smaller local authority bodies. Financial institutions will owe a greater duty of care to retail clients, however, they will have no greater financial protection than professional clients.
16. In order to meet professional client status, a local authority must have a minimum financial portfolio size of £10 Million and fulfil one of the following criteria:
 - has carried out transactions, in significant size on the relevant market at an average frequency of ten per quarter over the previous four quarters
 - the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged.
 - the client is an 'administering authority' of the Local Government Pension Scheme.
17. Retail clients will continue to have access to simple fixed term deposits, however in order to continue using Money Market Funds or to have access to Certificates of Deposit or other products which are included in the Treasury Management Strategy the Council will need to be classified as a professional client.
18. Whilst there is likely to be additional administrative costs to the Council, as highlighted in the approved February 2017 Treasury Management Strategy, the Council will aim to secure professional status with each organisation it invests with. Not doing so may limit the products and interest rates offered by financial institutions for what may be similar risk. Professional status will continue to allow investment in AAA rated money market funds and allow the option of investing in other regulated products approved by the current strategy.
19. Over the next few months, the Council is likely to receive information and requests for information from its counterparties and service providers to assess its professional status. Alternatively, CIPFA are offering an online solution for local authorities in consultation with financial institutions to manage the electing-up process and ongoing classifications, for which the Council has registered an initial interest to see how this can support the administrative process.

Reason for Report

20. To provide Audit Committee Members with a performance position statement at 31 August 2017.

Legal Implications

21. No direct legal implications arise from this report.

Financial Implications

22. 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 that 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

23.
 1. That the Treasury Performance Report for 31 August 2017 be noted.
 2. Note the intention to secure classification as a “professional client” to allow existing products in the Treasury Management Strategy to continue to be utilised.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES
18 September 2017

The following appendix is attached
Appendix 1 – Cardiff Council Treasury Management Performance Report – 31 August 2017