

CARDIFF COUNCIL CYNGOR CAERDYDD

AUDIT COMMITTEE:

12 NOVEMBER 2019

TREASURY PERFORMANCE REPORT – POSITION AT 30 SEPTEMBER 2019; REVIEW OF TREASURY FUNCTION AND BENCHMARKING

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 10.1

Appendix 1, 2, 3 and 4 of this report are not for publication as it contains exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972.

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 30 September 2019 – Appendix 1
3. Audit committee have previously requested information from officers to support the effectiveness or otherwise of the Treasury Function operated by the Council and relevant officers. This report also provides additional information to committee in the form of:
 - An evaluation undertaken by an external Treasury Management expert on governance and compliance with codes of practice. This is in the form of a Compliance, Evidence, Delivery and Review (CEDR) Report – Appendix 2
 - Summary of the findings of the periodic internal audit review of the Treasury function which primarily covered internal controls – Appendix 3
 - Treasury Management benchmarking information collated by officers to support committee, albeit highlighting the risks of comparison – Appendix 4

The intention for this report is to support the work and core knowledge of the Audit Committee and meet some of the key requirements of scrutiny, including the following as extracted from the CIPFA practical guide for Audit Committees (2018):

- reviewing the treasury management policy and procedures to be satisfied that controls are satisfactory
- reviewing the treasury risk profile and adequacy of treasury risk management processes

- reviewing assurances on treasury management (for example, an internal audit report, external audit or other review).

Treasury Performance Report 30 September 2019

4. **Appendix 1** provides the Committee with position statements on investments and borrowing at 30 September 2019.

Performance

5. At 30 September 2019, investments total £98.6 million. The budgeted level of interest receivable from treasury investments is circa £900,000 based on current cash flow and interest rate assumptions. This is primarily as a result of timing of cash flows as well as interest on funds held on behalf of others.
6. Borrowing is £726.2 million, with the average rate being 4.50%. The total interest forecast to be payable is shown as that initially budgeted, £32.8 million and includes interest payable by the Housing Revenue Account.
7. The forecast level of internal borrowing at 31 March 2020 is £56 million, however this is subject to the level of capital expenditure and funding of that expenditure at the end of the year as well as the timing and quantum of external borrowing.

Investments

8. Pages 2 and 3 of Appendix 1 considers 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.
9. 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 2019 by a colour coding which indicates the perceived strength of the organisation.
10. 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.
11. 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. It should be noted that Coventry Building Society will be removed from the lending list on maturity of deposits.
 - **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

12. During the year to date, Welsh Government Repayable Loan funding of £2.810 million at nil interest has been received and is to be used specifically for town centre regeneration schemes in Butetown and Grangetown. In addition £5m of long term PWLB loans have been taken in September and a further £5m has been taken in early October towards part of the Council's overall borrowing requirement. This was as outlined in the previous performance report considered by Committee. Maturing loans of £3.51 million have been repaid.
13. The borrowing was undertaken as significant uncertainty in the UK financial markets, primarily as a result uncertainty in relation to Brexit, resulted in reduced borrowing rates as such rates are based on government gilt yields.
14. Whilst market movements cannot be predicted and uncertainty still remained, an opportunity to lock in to rates available was taken.

PWLB Rate Change

On the 9th October 2019, PWLB changed their lending policy with immediate effect, increasing the interest rate at which local authorities can borrow from them. An extract from their letter to all local authorities is below:

PWLB lending is offered at a fixed margin above the Government's cost of borrowing, as measured by gilt yields. The Treasury raised the margin over gilts to 100bps (one percentage point) in 2010, to better reflect the availability of capital finance, and lowered it to 80bps over gilts in 2013 for qualifying authorities.

Some local authorities have substantially increased their use of the PWLB in recent months, as the cost of borrowing has fallen to record lows. HM Treasury is therefore restoring interest rates to levels available in 2018, by increasing the margin that applies to new loans from the PWLB by 100bps (one percentage point) on top of usual lending terms.

This restoration of normal PWLB lending rates will apply to all new loans with immediate effect. The Government will monitor the impact of this change and keep rates policy under review.

The impact of this change on the Council will continue to be monitored closely.

Compliance, Evidence, Delivery and Review (CEDR) of Treasury Function

The purpose of the CEDR report is to undertake an independent examination of the following: -

- **Compliance:** do your policies / procedures comply with the CIPFA Code of Practice on Treasury Management, the CIPFA Prudential Code and Welsh Government investment guidance?
- **Evidence:** can you provide evidence to internal / external scrutiny that the above is the case?
- **Delivery:** how do your policies, procedures and level of staffing impact on the delivery of your treasury function?
- **Review:** following the outcomes of this health check will you review your processes and approach to how you do treasury management?

This report is intended to help those involved in monitoring the treasury management function, whether senior management, members, external auditors or internal auditors to gain insight into the way in which treasury management is carried out in the organisation. It is also intended to help in identifying areas where the treasury management function could be improved and strengthened and in most local authorities, it is likely that a health check of this nature will find such areas which, at the least, would be worth reviewing.

The report is attached at **Appendix 2** and has been undertaken by an individual independent of the authority with significant experience of Treasury Management in Local authorities as well having done similar reviews in other authorities throughout the UK. This looks independently at the team's skills, compliance with best practice, required regulations and professional guidance. The approach taken in the report generally is not to comment on an area if it is being done satisfactorily.

Where suggested areas of improvement have been identified in the report, options to take these forward will be considered by officers as part of future changes in policies and practices or have already been implemented as part of planned updates to policies and training such as Anti Money Laundering (AML). A review of the AML policy was underway at the time of the independent examination, and the new policy will meet all requirements.

Internal and external Audit Review

At its meeting of January 2019, Audit Committee requested and was provided with '*A briefing on the internal and external audit arrangements in place for Treasury Management.*'

The periodic internal audit review of the treasury management function was undertaken in the second quarter of the financial year. The report provided a level of assurance that was "Effective with opportunity for improvement". As well as compliance with requirements, this report will have looked at internal controls and systems in place for the Treasury team in which to operate. No internal control concerns were reported, and recommendations were consistent with those from the CEDR review. These are outlined in **Appendix 3**.

Any accepted recommendation will be taken forward in line with timescales set in the management response to recommendations.

No amending issues were raised as part of the Wales Audit Office external audit of the Council's Statement of Accounts for 2018/19 in relation to Treasury Management.

Data collection and Treasury Management Benchmarking

As part of their work, treasury management officers, have regularly taken opportunities to benchmark performance where there is a benefit to do so. This includes analysis of CIPFA statistics, Treasury Benchmarking Clubs as well as benchmarking activities offered by Treasury advisors. Audit committee received a report on borrowing benchmarking in 2018 as part of a previous performance report.

Whilst officers have analysed available data and undertaken their own research from publicly available data or data supplied to us in confidence in most cases, the risks of such comparison need to be acknowledged. Whilst ratios determined from local authority accounts can be useful to support benchmarking, scrutiny and challenge, there are significant risks to such comparison. The accuracy of data has not been reviewed and has not been confirmed with other local authorities. As such this data should not be quoted externally in accordance with the confidentiality of the appendix.

Some data collection and benchmarking in respect to treasury management is included in **Appendix 4** and split into the following for Committee to note:

- Risks of comparison
- Investments – Types of investment and return
- Borrowing – Types of borrowing, interest and maturity
- Capital Financing Requirement and updates on further work on ratio's being undertaken by Wales Audit Office, which will in due course provide information requested by audit committee on comparison of capital financing costs as a percentage of revenue budgets.

A previous request from Audit Committee was to review the availability of benchmarking data on Capital Financing Costs as a percentage of budget, and to highlight any risks of comparison in a future report. As this is part of a current Wales Audit Office exercise to capture a number of indicators of financial resilience across Welsh Authorities, this action will be captured as part of the output of that work expected in January / February 2020.

Reason for Report

15. To provide Audit Committee Members with a performance position statement at 30 September 2019 as well as other information to assess the effectiveness of the Treasury Function.

Legal Implications

16. No direct legal implications arise from this report.

Financial Implications

17. Treasury management activities undertaken by the Council are governed by a range of policies, codes of practice and legislation. This report has no direct financial implications.

RECOMMENDATIONS

18. That the Treasury Performance Report for 30 September 2019 as well as benchmarking and other review information included in the report to assess the effectiveness of the Treasury Function be noted.

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES
1 November 2019

The following appendices are attached

Appendix 1 – Cardiff Council Treasury Management Performance Report – 30 September 2019

Appendix 2 – Compliance, Evidence, Delivery and Review (CEDR) of Treasury Function

Appendix 3 – Draft Internal Audit Review 2019/20 recommendations

Appendix 4 – Data collection and Treasury Management Benchmarking