

# CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD

**AUDIT COMMITTEE: 22 JUNE 2015**

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## **TREASURY MANAGEMENT BENCHMARKING ACTIVITIES**

### **REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 8.2**

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**Appendix 1 and 2 of this report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972**

#### **Reason for this Report**

1. To update Audit Committee on benchmarking opportunities undertaken and use of information available as part of Treasury Management activities to assess the Council's Treasury position and performance.

#### **Background**

2. Where possible the Council uses information available from a number of sources to assess the Council's Treasury Management activities with other authorities and also to ensure that staff involved in Treasury activities are kept up to date in respect of new developments and changes in Treasury Management.
3. Sources of Treasury Management data may have limitations and often further analysis or interpretation of the detail needs to be undertaken to make the data more relevant. Limitations include:-
  - Choosing right comparators - Differing size, structure and responsibilities of local authorities e.g some with or without Private Finance Initiative, Housing Revenue Accounts (HRA), different legislative requirements such as devolved administrations
  - Different Treasury Management risk appetites of local authorities
  - Historic positions on investments and borrowing are built up over many years, data collected and available is at a point in time only
  - Reliance on quality and accuracy of data included in submissions
  - Completeness of submissions e.g not all authorities may contribute data, where submission is not mandatory
  - Cost versus benefit of completion of benchmarking data
4. Accordingly comparison is very difficult and needs to be done with care where done so to ensure that reasoning behind variances are understood if that information is to be used for decision making.

5. The CIPFA Prudential Code highlights these limitations in relation to Treasury Management indicators required to be produced and periodically reported on to Council. "Indicators are not designed to be used for comparative performance and using them in this way is likely to be misleading and counter productive".

### **Comparative Information / Sources**

6. The Council utilises information from a number of sources to help it determine its position in relation to Treasury Management. Sources of information we have used historically include the following:-

### **CIPFA Treasury Management and Capital Expenditure Statistics 2013/14**

7. The Council has undertaken an analytical review since 2010/11 using such statistics, which are submitted by the Council each year. The value of output is dependant on numbers of authorities completing the statistics as completion is voluntary. We often include additional columns (highlighted) to support interpretation and make the raw data more meaningful. Data from a number of English Authorities who submit data is also included. Bearing in mind the limitations of any comparison, the output for 2013/14 is shown in Appendix 1.

8. Key inferences from the benchmarking in respect of investments and borrowing are:-

- The Councils approach to making provision for debt repayment is prudent in line with its policy.
- Average rate of interest earned on investments is joint 5<sup>th</sup> highest of 14 authorities in Wales who submitted data. This reflects a security first approach to investments, keeping investments short at beginning of 2013/14.
- Average rate of interest on external debt is joint 4<sup>th</sup> lowest compared to the 14 Welsh local authorities who provided data. However Cardiff's average is higher than the English data. This could be due to high levels of Lender Option Borrower Option (LOBO) type loans or other debt reduction strategies which could have penalty costs shown elsewhere e.g. premiums for early repayment of debt etc. HRA reform may have had an impact, which took place for English Authorities from April 2012.
- The Council uses as its measure of internal borrowing, the difference between the Capital Financing Requirement (CFR) and total external Debt. The data indicates that at 31 March 2014, the Council is undertaking less internal borrowing than others.
- We have previously highlighted the risk of LOBO's having to be repaid at short notice. Given the size of its debt, Cardiff does not appear to be significantly exposed to LOBO's given size of its debt.

### **CIPFA Treasury Benchmarking Club**

9. Cardiff Council was a member of CIPFA's Treasury Management Benchmarking Club until 2013 at which point it was judged to be adding insufficient value. Sixty five Local authorities of all sizes took part in the survey compared to ninety five in 2010/11 and fifty seven in 2011/12.

10. Many of those responding were not comparable to Cardiff and few if any other Welsh Local authorities data was submitted. Following a review of the output over a number of years the Council decided to withdraw its involvement in the Club for future years.

### **Use of Treasury Management Advisors**

11. The Council's Treasury Management advisors, Capita, are one of the largest Treasury Management advisors to local authorities and this scale and expertise does provide opportunities for sharing information. Staff can attend seminars to receive updates on key issues affecting treasury activities and also take the opportunity to engage with other practitioners to identify key issues. A dedicated relationship manager also supports the Council in assessing performance and sharing information on treasury management and practice.
12. The Council has for 2015/16 joined a regional benchmarking club organised by Capita. The focus of the group is primarily in relation to investments, however it is hoped that this can be expanded to cover borrowing and a wider range of treasury issues of relevance.

### **Balance Sheet Review**

13. As part of its final accounts the Council has for a number of years undertaken a balance sheet review. These are now drafted for the Council by Capita as part of their service and in 2013/14 they undertook a similar review for 277 of its client local authorities.
14. Whilst it has its limitations in respect of being at a point in time and providing an overview rather than any detail, the benefits do include:-
  - Identification of the areas of the balance sheet contributing to the cash balances available for investment
  - Identification of potential future treasury management financial resilience risks
  - Internal borrowing position comparison (How capital expenditure is being financed)
15. Members of the Audit Committee have previously expressed concerns about the level of internal borrowing. The Council's actual internal borrowing as a percentage of the underlying need to borrow (Capital Financing Requirement) was 4.2% in 2012/13, 2.5% in 2013/14 and is provisionally 5.0% for 2014/15.
16. Output from the 277 authorities balance sheet review at 31 March 2014 indicates the average percentage for 2012/13 is 13.1% and for 2013/14 14.4%.
17. Further comparative detail is included in Appendix 2 across types of public body and location and shows that the Council's exposure to internal borrowing is less than the average of other local authorities who were reviewed at that date.

## Review of PWLB Data to compare borrowing position

18. As part of its annual public reporting requirements, the Public Works Loan Board (PWLB) provides details of loans outstanding for all public authorities whom it has provided loans. Using the information held at 31 March 2015, data can be manipulated to compare Cardiff's borrowing to that of other Welsh Authorities. Whilst the data can be manipulated further, what follows is only an analysis of the types of loans and average rate of interest so that an assessment can be made of Cardiff's position, having regard to the various risk warnings to comparison.
19. Total borrowing undertaken from the PWLB by all 22 Welsh Local Authorities at 31 March 2015 is as follows:-

Loan Type	Sum of Balance Outstanding
	£M
Annuity	65.8
Equal Instalment of Principle (EIP)	56.7
Maturity	2,641.5
<b>Grand Total</b>	<b>2,764.0</b>

20. Similar to other Welsh Local Authorities, Cardiff's loan portfolio consists primarily of a spread of loans, with original loaned amounts payable at a future maturity date.
21. The confidential Appendix 2 provides further detail on maturity loans only, by interpreting the data and providing an annual cost of loans and then determining an average rate of interest. This data shows the Council's average rate of interest on Maturity loans at 31 March 2015 is below the Welsh average. This is clearly a position in time that will change as loans are repaid and taken over time. The costs of any premiums or discounts payable for restructuring debt are not known.

### Summary

22. Comparing Treasury activities is difficult, but where opportunities do arise and where there is a cost benefit in doing so, such comparison is undertaken for Cardiff and reported to the Corporate Director Resources.
23. The report above has provided some data to allow Audit Committee to compare Cardiff's position and performance on a range of issues such as return on investments, internal borrowing exposure, average rate of interest on outstanding debt etc. However it should be noted that such comparisons should be made with care.

### Reason for Report

24. To provide Audit Committee Members with information on benchmarking opportunities undertaken and use of information available as part of treasury activities to assess position and performance.

### Legal Implications

25. No direct legal implications arise from this report.

**Financial Implications**

26. No direct financial implications arise from this report.

**RECOMMENDATIONS**

That Audit Committee note the contents of the report.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**10 June 2015**

*The following confidential appendices are attached*

- Appendix 1 – CIPFA Treasury Management and Capital Expenditure Statistics  
2013/14
- Appendix 2 – A - Balance Sheet Review  
B - PWLB Loans