

Birmingham City Council Treasury risk management

26 January 2021

- Audit Committee's role
- Treasury and risk management
- The Council's TM Strategy for 2021-22
- Treasury Reporting and Monitoring

Audit Committee's role in relation to Treasury Management

Audit Committee's role: *(FP17 of BCC Financial Procedures)*

“(d) to review the adequacy of treasury risk management arrangements as set out in the Treasury Management Policy, Strategy and treasury management practices”.

The Policy and Strategy are approved by full Council in accordance with CIPFA's Treasury Management Code.

Cabinet monitors TM activity in quarterly financial monitoring.

What is treasury management?

CIPFA Code definition:

- management of borrowing, investments, and cashflows
- Banking, money market and capital market transactions
- Control of risks associated with these activities
- Pursuit of optimum performance consistent with risk appetite

The annual financial planning process decides how much the Council plans to borrow affordably or invest prudently;

The job of treasury management is to arrange and manage these borrowing and investments.

How we manage Treasury :

Statutory requirement to have regard to:

- CIPFA's Code of Practice for Treasury Management in the Public Services (revised December 2017)
- CIPFA's Prudential Code for Local Authority Capital Finance (revised December 2017)
- The Government Guidance on Local Authority Investments (revised February 2018)

We comply with these

External professional advisers appointed

Arlingclose Ltd provide us with regular treasury advice and support.

Key risks and issues we manage:

- **Interest rate risk - the risk that future borrowing costs rise**
 - Key objective for a stable charge to revenue, by having a limit of 30% on variable rate loan debt.
- **Credit risk - the risk of default in a Council investment**
 - Regular review of investment grade credit criteria and investment limits (who we lend to / invest with and how much)
- **Liquidity and refinancing risks - the risk that the Council cannot obtain funds when needed**
 - Target a deposit balance of £40m for liquidity
 - Have limits on the maturity profile for borrowing – ensure too many loans do not mature in one year creating a big refinancing risk

Headline figures for Birmingham City Council

	£m value
Total loan debt outstanding As at 31 December 2020	£3.42bn
Total treasury investments outstanding As at 31 December 2020	£265m
Total value of transactions to Q3 2020/21	£10.06bn
Total draft treasury revenue budget 2021/22	£243m

TM Strategy for 2021/22

- Continue to maintain a significant short term loans portfolio:
 - Target £500m to £600m due to interest cost savings
- Longer term borrowing for capital programme
 - Around £130m preferably through lower rates from the PWLB, subject to meeting new conditions of not borrowing to fund assets primarily for yield.
- Aim to maintain £40m target investments for liquidity
 - The Council's cash balances may be higher within the year if COVID funding is received in advance from government.

BCC treasury reporting and monitoring

- Quarterly reporting to Cabinet (Appx C to monitoring report)
 - The full Q2 report is in Audit Committee papers
 - includes summary dashboard to Cabinet - see next slide
 - Summary dashboard also taken monthly to Finance O&S Committee
- includes decisions made by officers under delegations
- Prudential indicators reported quarterly
 - Code requirement is only half yearly

Cabinet summary dashboard: Q2 2020/21

	value	comparator	difference
1 Gross loan debt	£m	£m	£m
at month end	3,454		
year end Forecast (vs Plan)	3,655	3,832	-177
year end Forecast (vs Pru Limit for loan debt*)	3,655	4,085	-430

*monitoring of the full set of prudential indicators is reported quarterly to Cabinet

Forecast year end debt is well below the year end plan and prudential limit. This is partly because of increased capital programme slippage due to Covid and Covid grants received in advance. Considerable uncertainty remains about the impact of Covid on cashflows over the coming months.

2 short term borrowing			
at month end (vs Guideline)	505	600	-95
interest rate year to date on outstanding deals (vs assumption)	0.79%	1.50%	-0.71%

Short term borrowing resumed towards the end of the quarter as the Council utilised more of the COVID grants received in advance. Interest rates achieved for new short term borrowing are lower than anticipated in the Plan.

3 Treasury investments			
at month end (vs Guideline)	153	40	113
interest rate year to date on outstanding deals (vs assumption)	0.10%	1.01%	-1%

Investments remain significantly higher than the Strategy's guideline of £40m, due to the favourable cashflows noted in 1 above.

4 Long term loans taken			
year to date (vs plan for year)	35	415	-380
ave. interest rate obtained (vs assumption)	1.66%	4.20%	-2.54%

Very little long term borrowing has been taken in the year to date, due to favourable cashflows deferring the need for long term borrowing. £35m of planned long term borrowing was taken to support the funding of the advance payment of pension contributions in April.

5 Assurance	
were Credit criteria complied with?	yes
were investment defaults avoided?	yes
was the TM Code complied with?	yes
were prudential limits complied with?	yes

BCC's TM Policy (Appx to Financial Plan 2021)

- Sets TM objectives and risk appetite

“To assist the achievement of the City Council’s service objectives by obtaining funding and managing the City Council’s debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of interest cost stability and a very low risk to sums invested.”

- Sets framework and controls for interest rate risk, credit risk, liquidity risk and other risks
- Describes Treasury delegations and reporting
- Outlines the Treasury Management Practices (TMPs)

BCC's TM Strategy (Appx to Financial Plan 2021)

Strategy for treasury management activity in the coming year:

- Identifies borrowing (and lending) need
- Reviews market outlook including impact of COVID and Brexit
- Proposes the types and sources of borrowing for the year
- Subject to change dependent on market conditions

TM Regulatory system in local government

- CIPFA Code for Treasury Management in local authorities (revd 2018):
 - Full Council must approve a Treasury Strategy and a Policy annually, including prudential indicators for treasury
 - Treasury Management Practices must be approved and maintained
 - Risk management is at the centre of the Code

- Government Guidance on local authority investments
 - Full Council must approve Investment Strategy (as part of Treasury Strategy)
 - Must set out arrangements for regulating use of investments of high credit quality and lower credit quality
 - Detailed requirements for managing and reporting non-treasury investments