

# Birmingham City Council Treasury risk management

## 29 November 2021

- Audit Committee's role
- Treasury and risk management
- The Council's TM Strategy for 2022-23
- Treasury Reporting and Monitoring

# Audit Committee's role in relation to Treasury Management (TM)

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.

Monthly TM Panel has supportive role for treasury decision making

# What is treasury management?

*Cost & risk effective way of having sufficient cash*

CIPFA Code definition:

- Management of borrowing, investments, and cashflows
- Management of 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 determines how much the Council plans to borrow affordably or invest prudently;

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

# Guidance for managing treasury activities :

Statutory requirement to have regard to:

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

**We comply with these**

\*Revised Codes are currently under consultation to be fully implemented for 2023/24 strategies.

## External professional advisers appointed

Arlingclose Ltd provide us with regular treasury advice and support - but BCC always responsible for TM

# Key risks and issues we manage:

- **Interest rate risk - the risk that future borrowing costs rise**
  - Key objective is 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 risk - 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 refinancing risk

# Key risks and issues we manage:

- **Environmental, Social & Governance (ESG) risk** - the risk that the Council's treasury activities negatively impact sustainability and climate change.
  - Ensure investment counterparties such as money market funds are engaged with ESG as an issue for their investors.
  - Consider ESG bonds such as green bonds as part of the Council's long term borrowing strategy.
  - When making investment and borrowing decisions, the Council will seek positive ESG benefits alongside managing other treasury risks

# Headline figures for Birmingham City Council

	£m value
Total loan debt outstanding As at 31 October 2021	£3.18bn
Total treasury investments outstanding As at 31 October 2021	£193m
Total value of treasury transactions to Q2 2021/22	£3.753bn
Total draft treasury revenue budget 2022/23	£233m

# TM Strategy for 2022/23

- Continue to maintain a significant short term loans portfolio:
  - Target around £600m due to interest cost savings – this is about 18% of net loan debt.
  
- Longer term borrowing for capital programme
  - Around £140m required through lower rates from potential ESG bond issuance or from the PWLB (subject to meeting conditions of not borrowing to fund assets primarily for yield).
  
- Aim to maintain £40m target investments for liquidity
  - Liquid investments in high credit quality institutions such as Money Market Funds (MMFs).



# Draft Prudential indicators

Key Prudential Indicators	2022/23 £m	2023/24 £m	2024/25 £m
<b>Capital Financing Requirement (CFR)</b> The Council's underlying need to borrow to finance capital expenditure, including from previous years – internal and external	4,723.4	4,686.5	4,670.3
<b>Operational Boundary for external debt</b> The Council's most likely estimate for external debt Actual external debt should not exceed CFR	4,035.9	3,958.3	3,871.0
<b>Authorised Limit for external debt</b> The Council's statutory external debt limit that should not be breached – includes headroom for uncertain cash movements	4,600.0	4,600.0	4,600.0
<b>GF financing costs as % of net revenue</b> Indicator of affordability	26.3%	28.2%	27.0%
<b>GF impact of 1% rise in interest rates</b> Indicator for interest rate exposure	3.6	2.9	3.4

# 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 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 2021/22

	value	comparator	difference
<b>1 Gross loan debt</b>	£m	£m	£m
at month end	3,190		
year end Forecast (vs Plan)	3,568	3,722	-154
year end Forecast (vs Pru Limit for loan debt)	3,568	4,103	-535
Forecast year end debt is below the year end plan and prudential limit due to the impact of Covid and reduced borrowing required for the capital programme. Some uncertainty remains about the continued impact of Covid on the Council's cashflow.			
<b>2 short term borrowing</b>			
at month end (vs Guideline)	214	588	-374
interest rate year to date on outstanding deals (vs assumption)	0.25%	0.50%	-0.25%
Short term borrowing is currently lower than forecast. Covid grants received in advance has allowed the Council to temporarily use internal borrowing to meet its borrowing needs. As these grants are utilised, the Council expects to resume short term borrowing later in the year.			
<b>3 Treasury investments</b>			
at month end (vs Guideline)	199	40	159
interest rate year to date on outstanding deals (vs assumption)	0.01%	0.20%	-0.19%
Treasury investments remain temporarily higher than the guideline, before commitments made to expenditure of Covid grants are actually spent.			
<b>4 Long term loans taken</b>			
year to date (vs Plan)	-	130	-130
ave. interest rate obtained (vs assumption)	-	2.40%	-2.40%
No long term borrowing has been taken in the year to date, due to favourable cashflows deferring the need for long term borrowing.			
<b>5 Assurance</b>			
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 2022)

- 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, ESG risk and other risks
- Describes Treasury delegations and reporting
- Outlines the Treasury Management Practices (TMPs)

# BCC's TM Strategy (Appx to Financial Plan 2022)

Strategy for treasury management activity in the coming year:

- Identifies borrowing (and lending) needs
- Provides market outlook including interest rates and credit
- 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 (2017):
  - Full Council must approve a Treasury Strategy and a Policy annually, including prudential indicators for treasury
  - Treasury Management Practices must be maintained
  - Risk management is at the centre of the Code
  
- Government Guidance on local authority investments (2018)
  - 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