

Birmingham City Council Treasury risk management

Outline of presentation

- Director of Finance introduction
- TM Regulatory system in local government
- The Council's TM Policy and TM Practices
- How the main risks are managed
- Strategy for 2020-21
- Reporting and Monitoring
- Questions and discussion

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 the risks

Headline figures for Birmingham City Council

	number	£m value
Total loan debt outstanding	208	£3,281m
Total treasury investments outstanding	10	£159m
Total transactions made in 2018/19	2,022	£6,936m
Total revenue budget		£270m

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

... more on this in the 27 April training

BCC's TM Policy (Appx O to Financial Plan 2020)

- 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 and other risks

see slides on each below

- Describes Treasury delegations and reporting

See slide on reporting and monitoring below

BCC's Treasury Management Practices

the framework for officer processes and controls, as required by CIPFA Code

TMP1	Treasury risk management
TMP2	Performance measurement
TMP3	Decision-making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Treasury management organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance

CREDIT RISK

The risk of default (or accounting write down) of investments

- Write off would hit revenue account immediately: high impact
- TM Policy section 7 sets risk management framework:
 - Investment grade credit criteria (with investment limits) – next slide
 - Credit Default Swap prices and other information also taken into account
 - Longer term investment subject to further limits
- Controlled in daily dealing by lending list which checks limits and ratings before dealing
- Staff always have discretion not to lend if they have doubts
- Regular team meetings agree tactics and activity

Investment credit rating criteria (Policy 7.4)

'Specified' short-term loan investments (all in Sterling)	Minimum Short-term rating*	Minimum Long-term rating*	Maximum investment per counterparty
Banks (including overseas banks) and Building Societies	F1+ /A1+ /P1	AA- /AA- /Aa3	£25m
	F1+ /A1+ /P1	A- / A- /A3	£20m
	F1 /A1 /P1	A- / A- /A3	£15m
	F2 /A2 /P2	BBB+ /BBB+ /Baa1	£10m
Sterling commercial paper and corporate bonds	F1+ /A1+ /P1	A- / A- /A3	£15m
Sterling Money Market Funds (short-term and Enhanced)	AAA (with rating indicating lowest level of volatility where applicable)		£40m
Local authorities	n/a	n/a	£25m
UK Government and supranational bonds	n/a	n/a	none
UK Nationalised Banks and Government controlled agencies	n/a	n/a	£25m
Secured investments including repo and covered bonds	Lending limits determined as for banks (above) using the rating of the collateral or individual investment		

LIQUIDITY RISK

The risk that the Council cannot obtain funds when needed

- Daily dealing aims to maintain funds in bank account
- Target deposit balance of £40m at month end, for liquidity
- Prudential limits for maturity structure of borrowing
 - To avoid too many loans maturing in one year creating big refinancing risk
- Keep a variety of borrowing options and sources open
 - Develop options which may never be used - just in case

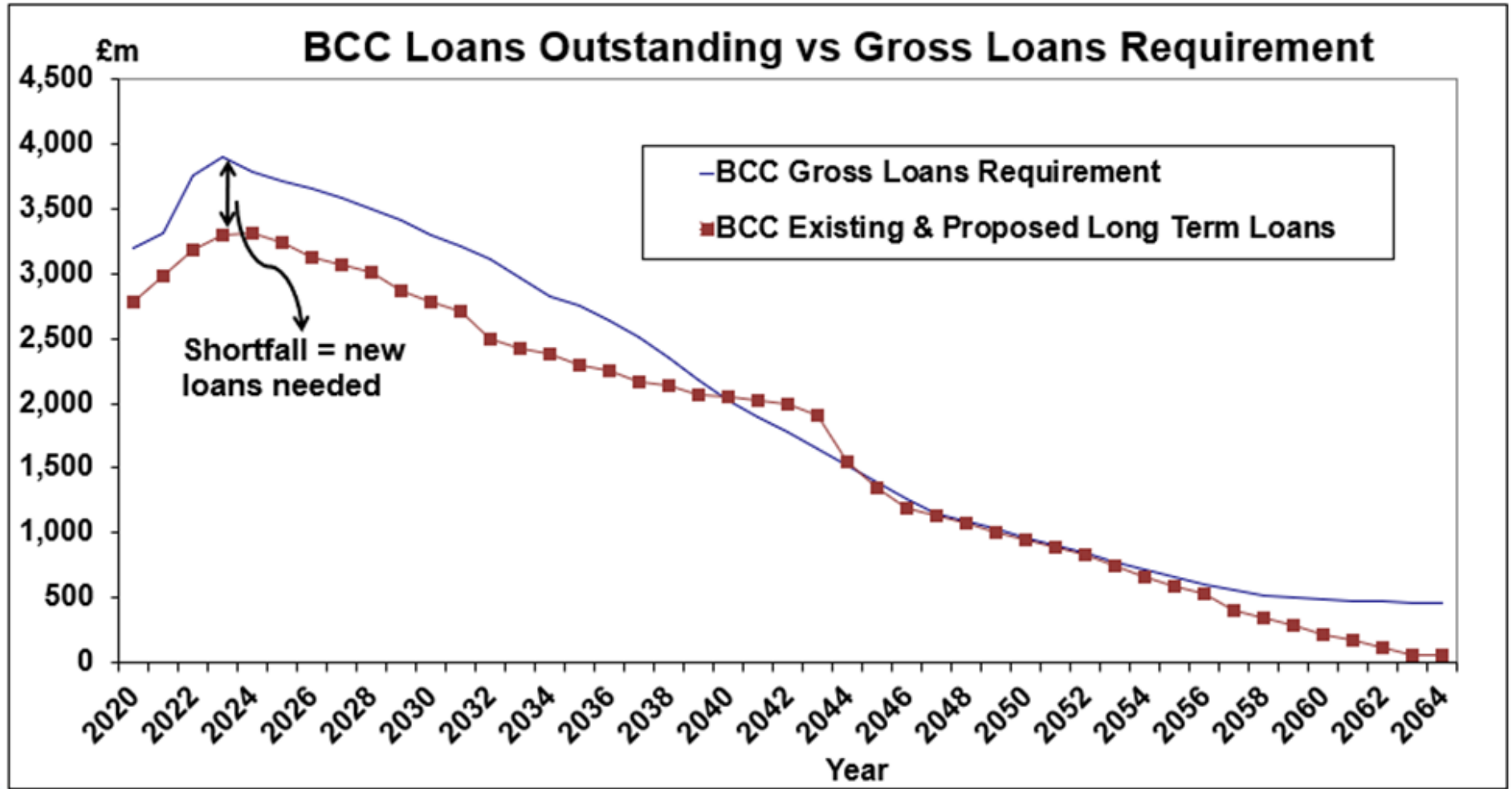
INTEREST RATE RISK

The risk of loss due to future interest rate changes

- Probably the biggest financial risk, but costs may be slow burn over many years

- TM Policy and Strategy set risk management framework:
 - 30% limit on variable rate loan debt
 - Key element of annual Strategy:
 - Target £500m short term loans portfolio closely monitored
 - Prudential limit on maturities (already described above)
 - Spreading loan maturities over long term: next slide

Spreading maturity risks



OTHER TREASURY RISKS

- Human error, fraud, and contingency planning
 - Treasury Management Practices set out procedures
 - Internal controls and check built into processes
 - Maintaining a culture of check and supervision
- Exchange rate risk
 - Not significant to BCC – little foreign currency
- Legal and regulatory risks
 - Ensure legal advice is obtained for complex transactions

BCC's TM Strategy (Appx N to Financial Plan 2020)

Strategy for treasury management activity in the coming year:

- Identifies borrowing need
- Reviews market outlook
- Proposes the types and sources of borrowing for the year
- Subject to change dependent on market conditions

Strategy for 2020/21

- Continue to maintain a significant short term loans portfolio:
 - Target £500m to £600m
- Borrowing to fund advance pension contribution:
 - £245m up to 3 years maturity
- Longer term borrowing for capital programme
 - Probably Private Placement of bonds rather than PWLB, around £150m
- Maintain £40m target investments for liquidity

BCC treasury reporting and monitoring

- Quarterly reporting to Cabinet (Appx C to monitoring report)
 - The full Q3 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: Q3 2019/20

	value	comparator	difference
1 gross loan debt	£m	£m	£m
at month end	3,149		
year end Forecast (vs Plan)	3,201	3,573	-372
year end Forecast (vs Pru Limit for loan debt*)	3,201	3,867	-666
<i>*monitoring of the full set of prudential indicators is reported quarterly to Cabinet</i>			
2 short term borrowing			
at month end (vs Guideline)	236	500	-264
interest rate year to date on outstanding deals (vs assumption)	0.74%	0.85%	-0.11%
3 Treasury investments			
at month end (vs Guideline)	23	40	-17
interest rate year to date on outstanding deals (vs assumption)	0.62%	0.55%	0.07%
4 Long term loans taken			
year to date (vs plan for year)	150	225	-75
ave. interest rate obtained (vs assumption)	1.87%	2.85%	-0.98%
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		