Birmingham City Council
Treasury risk management

22 November 2022

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PROUD HOST CITY

Birmingham City Council

Treasury risk management

- Audit Committee’s role
- Treasury and risk management
- The Council’s TM Strategy for 2023-24
- 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 Treasury Policy and Strategy are approved by full Council in accordance with CIPFA’s Treasury Management Code.

What is treasury management?

CIPFA Code definition:

- Management of borrowing, investments, and cashflows
- Management of banking, money market and capital market transactions
- Effective 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 (2021)
- CIPFA's Prudential Code for Local Authority Capital Finance (2021)
- The Government Guidance on Local Authority Investments (2018)

We comply with these

External professional advisers appointed

Arlingclose Ltd provide us with regular treasury advice and support – but BCC is responsible for TM decisions.

Headline figures for Birmingham City Council

	£m value
Total loan debt outstanding As at 31 October 2022	£3.282bn
Total treasury investments outstanding As at 31 October 2022	£101m
Total value of transactions to Q2 2022/23	£3.914bn
Total draft treasury revenue budget 2023/24	£258m

Key risks and issues we manage

Interest rate risk - the risk that future borrowing costs rise

- Controlling the costs of managing our cash (interest rate we pay)
- Ensure certainty in the budget – reduce volatility of costs
- 1% rise to forecast rates mean a £2.2m increase in interest cost to the General Fund

How?

- Optimal balance of short and long term debt - key objective is a stable charge to revenue, by having a limit of 30% on variable rate loan debt.
- Repay debt with any surplus receipts instead of investing
- Monitor the market and be flexible to take opportunities e.g. forward borrowing, repay loans early
- Not borrow too early or for too long (optimise cashflow)

Key risks and issues we manage

Liquidity and refinancing risk - the risk that the Council cannot obtain funds when needed

This is the main risk – would affect the functioning of the Council

How?

- Day to day Cash flow forecast – updated for planned daily payments and receipts
- Target a deposit balance of £40m for liquidity
- Maintain access to swift borrowing : Working Capital facility with Bank, good relationships with money brokers and other LA's
- 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

Credit risk - the risk of default in a Council investment

How?

- Regular review of investment grade credit criteria and investment limits (limit who we lend to/invest with and how much)

- Para 7.6 of Treasury Management Policy shows current criteria e.g. no more than £40m with any one financial institution, limit of £25m with other LA's

- Constantly monitor financial developments

- TM advisers monitor credit risk of financial institutions

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.

How?

- 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

TM Strategy for 2023/24

- Continue to maintain a short term loans portfolio:
  - Target around £500m due to interest cost savings – this is about 16% of net loan debt

- Longer term borrowing for capital programme
  - Around £50m from the PWLB (subject to meeting conditions of not borrowing to fund assets primarily for yield) or through better value/flexibility of market loans.

- Maintain £40m treasury investments for liquidity
  - Liquid investments in high credit quality institutions such as Money Market Funds (MMFs).

BCC treasury reporting and monitoring

- Cabinet monitors TM activity as part of quarterly financial reporting (Appx C to monitoring report)
  - The full Q2 report is in Audit Committee papers
  - includes summary dashboard to Cabinet - see next slide
  - includes decisions made by officers under delegations

- Prudential indicators reported as part of quarterly monitoring
  - Code requirement is only half yearly

- Monitoring from Treasury Management Panel
  - Regular meetings of senior finance officers has supportive role for treasury decision making

Cabinet summary dashboard: Q2 2022/23

Appendix C1

TREASURY MANAGEMENT MONITORING DASHBOARD: 30 SEPTEMBER 2022

		value	comparator	difference
1	**Gross loan debt**	**£m**	**£m**	**£m**
	at month end	**3,233**		
	year end Forecast (vs Plan)	3,272	3,452	-180
	year end Forecast (vs Pru Limit for loan debt)	3,272	4,126	-854

Forecast year end debt is currently below the year end plan. The Forecast year end debt is well within the prudential limit for loan debt, set for unplanned cashflow movements.

2	**short term borrowing**			
	at month end (vs Plan)	304	563	-259
	interest rate year to date on outstanding deals (vs assumption)	1.68%	1.00%	0.68%

Short term borrowing resumed in quarter 2 and is expected to increase further in the year, in line with the approved Strategy. Bank rate is expected to increase further having seen consecutive rises this year so future borrowing is likely to be above the planned rate.

3	**Treasury investments**			
	at month end (vs Plan)	71	40	31
	interest rate year to date on outstanding deals (vs assumption)	1.86%	0.75%	1.11%

Treasury investments are on average closer to the target of £40m although Bank Rate rises throughout the year mean that investment yields are higher than planned.

4	**Long term loans taken**			
	year to date (vs Plan)	25	90	-65
	ave. interest rate obtained (vs assumption)	4.02%	2.35%	1.67%

The £25m PWLB loan taken in September 2022 has been at a higher rate than planned due to the rise in gilt yields on the back of successive Bank Rate increases by the Bank of England. However this has reduced some refinancing risk from future interest rate rises.

BCC’s TM Policy (Appx to Financial Plan 2023+)

- 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 2023+)

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 (2021):
  - 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 (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