

**Meeting date:** 14<sup>th</sup> November 2022

**Report to:** Audit Committee

**Report title:** 2022/23 Quarter 2 Treasury Management Monitoring Report

**Report from:** Director of Resources and Deputy Chief Executive

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**Wards affected:**

- All Wards |  Bickenhill |  Blythe |  Castle Bromwich |  Chelmsley Wood |  
 Dorridge/Hockley Heath |  Elmdon |  Kingshurst/Fordbridge |  Knowle |  
 Lyndon |  Meriden |  Olton |  Shirley East |  Shirley South |  
 Shirley West |  Silhill |  Smith's Wood |  St Alphege
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**Public/private report:** Public

**Exempt by virtue of paragraph:** N/A

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**1. Executive Summary**

- 1.1 To provide a monitoring report on the 2022/23 Treasury Management activities for quarter 2.

**2. Decision(s) Recommended**

- 2.1 The Committee is asked to note the Treasury Management activities for quarter 2 of 2022/23.

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**3. Matters for Consideration**

- 3.1 The Treasury Management Practices introduced by the CIPFA Code of Practice and Cross-Sectoral Guidance notes and adopted by the Council require that members are regularly updated on Treasury Management activities and risks.
- 3.2 In accordance with the Code, a quarterly report on Treasury Management activities is presented to members.

Debt Activity 2022/23

- 3.3 The Council is currently forecast to be under borrowed by £102.466million (20.9% of the Council's forecast overall capital financing requirement) by 31<sup>st</sup> March 2023. The current forecast assumes that the Council will externally borrow for £24.449 million of new borrowing requirement in 2022/23, however if it is deemed most efficient not to physically borrow for these schemes under borrowing levels would increase.
- 3.4 Internal borrowing is used to address investment counterparty risk and the cost of carry (where the cost of borrowing exceeds the investment rate). The use of internal borrowing has been a beneficial strategy for a number of years and has helped deliver a number of savings for the Council. There is an interest rate risk in pursuing this strategy as long-term borrowing rates may remain high when the Council seeks to reduce the under borrowed position. This position is being carefully monitored.
- 3.5 No debt rescheduling or new borrowing took place during the quarter ended 30<sup>th</sup> September 2022.
- 3.6 For any borrowing that is required the Director of Resources and Deputy Chief Executive, under delegated powers, will consider the most appropriate form of borrowing depending on the prevailing interest rates at the time.

Economic Forecast

- 3.7 Forecast rates for money market investment and long-term borrowing are given in the table in 3.8. Officers continually review these forecasts with reference to activities in the market and will continue to pursue the optimum position for both debt and investments in accordance with the Council's Treasury Management Strategy.
- 3.8 Medium-Term Rate Estimates – September 2022 (Source: Link Group)

Quarterly Forecast %	Bank Rate	Investment Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
Dec-22	4.00	4.50	5.30	5.00	5.10	4.80
Mar-23	5.00	5.00	5.30	4.90	4.90	4.60
Jun-23	5.00	5.00	5.20	4.70	4.80	4.50
Sep-23	5.00	5.00	5.00	4.50	4.50	4.20

Dec-23	4.50	4.50	4.70	4.20	4.30	4.00
Mar-24	4.00	4.00	4.20	3.90	4.10	3.80
Jun-24	3.75	3.80	4.00	3.70	3.90	3.60
Sep-24	3.25	3.30	3.50	3.50	3.70	3.40
Dec-24	3.00	3.00	3.20	3.40	3.60	3.30
Mar-25	2.75	2.80	3.10	3.30	3.60	3.30

- 3.9 Since the start of 2022 it has been clear that central banks in the developed economies have placed the dampening down of inflation pressures front and centre of their primary objectives, even if it comes at the cost of sluggish growth. In August 2022, the Bank of England's Monetary Policy Committee (MPC) increased the official Bank Rate to 1.75%, and on 22<sup>nd</sup> September 2022 moved rates up a further 50 basis points to 2.25%.
- 3.10 The CPI measure of inflation is forecast to rise to above 10% in Q4 2022 and the Monetary Policy Committee (MPC) will be keen to stifle the prospect of average earnings providing further upside risk to inflationary factors that are primarily being driven by supply-side shortages. As such rates are expected to continue to rise steadily over the remainder of this financial year, before levelling off.
- 3.11 Gilt yields have risen significantly in recent months based on market anticipation of future bank rate increases. It is forecast the markets have already built in nearly all the effects on gilt yields of the likely increases in the official Bank Rate and the poor inflation outlook. On this basis rates are likely to fall gradually as inflation and the official Bank Rate reduce.

#### Investment Strategy 2022/23

- 3.12 The Council's investment strategy is to safeguard the repayment of the principal and interest of its investments on time, with the investment return being a secondary objective. The current investment climate has one overriding risk consideration, that of counterparty risk. As a result of these underlying concerns, officers continue to implement stringent controls on the counterparties the Council deals with.
- 3.13 Counterparty risk arises when the Council places investments with banks and financial institutions. The risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria in accordance with Fitch, Moody's and Standard and Poor's Rating Service. The Annual Investment Strategy also imposes a maximum amount and duration for investments with a financial institution located within each category.
- 3.14 The counterparty exposure analysis (Appendix A) summarises the Council's exposure to different institutions. The analysis as at 30<sup>th</sup> September 2022 represents the deposits made and reflects the market exposure to investments which meet the requirements of the Investment Strategy. Overall, there is a 0.00474% chance of default against the entire portfolio and this is then adjusted for the maturity period

remaining on the investment, identifying a notional cash exposure to default of £5,393.

#### Investment Activity

- 3.15 The initial budget for 2022/23 assumed a return for in-house investments of 0.25% in line with interest rate forecasts at the time, however since then a number of rate rises have occurred which have pushed market rates to a much higher level. Current forecasts and performance to date suggest that the rate of return will be in the region of 1.50% for 2022/23. Additional interest earned as a result of this increase will be contributed to treasury reserves to support future savings plans.
- 3.16 The current average SONIA (Sterling Overnight Interbank Average) rate, the Council's benchmark for investment returns, for 2022/23 is 1.238%.

#### Treasury and Prudential Limits

- 3.17 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy.
- 3.18 During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The current prudential and treasury indicators are shown in Appendix B.
- 3.19 No amendments to the Treasury Management Strategy are proposed as a result of this report.

#### **4. What options have been considered and what is the evidence telling us about them?**

4.1 N/A

#### **5. Reasons for recommending preferred option**

5.1 N/A

#### **6. Implications and Considerations**

6.1 State how the proposals in this report contribute to the priorities in the [Council Plan](#):

Priority:	Contribution:
People and Communities: 1. Improving outcomes for children and young people in Solihull. 2. Good quality, responsive, and dignified care and support for Adults in Solihull when they need it.	The Treasury Management Strategy provides the framework to ensure Council funds are managed in an appropriate manner, thus supporting the delivery of the Council Plan priorities

Priority:	Contribution:
3. Take action to improve life chances and health outcomes in our most disadvantaged communities. 4. Enable communities to thrive.	
<b>Economy:</b> 5. Develop and promote the borough's economy, with a focus on revitalising our town and local centres. 6. Maximising the opportunities of UK Central and HS2. 7. Increase the supply of affordable and social housing that is environmentally sustainable.	As above
<b>Environment:</b> 8. Enhance our natural environment, improve air quality and reduce net carbon emissions.	As above
9. Promote employee wellbeing	As above

## 6.2 Consultation and Scrutiny:

6.2.1 Audit Committee fulfils the scrutiny role for all treasury activity undertaken by the council.

## 6.3 Financial implications:

6.3.1 As set out in the report and appendices.

## 6.4 Legal implications:

6.4.1 Statutory requirements are set out in the report and appendices.

## 6.5 Risk implications, including Risk Appetite:

6.5.1 The Council's Treasury Management Strategy provides a robust framework for managing all of the risks associated with the Treasury Management function. The Council maintains a low risk appetite in its treasury activities and its approach is consistent with Department for Levelling Up, Housing and Communities (DLUHC) guidance that security of principal must be the primary concern when making

investments. Any breaches of Treasury limits must be reported to members.

6.6 Equality implications:

6.6.1 There are no direct equality or diversity implications.

6.7 Linkages to our work with the West Midlands Combined Authority (WMCA), Local Enterprise Partnership or the Birmingham & Solihull Integrated Care System (ICS):

6.7.1 N/A

## **7. List of appendices referred to**

7.1 Appendix A - Counterparty Exposure Analysis.

7.2 Appendix B – Estimated and Forecast Treasury Position and Prudential Indicators.

## **8. Background papers used to compile this report**

8.1 None

## **9. List of Other Relevant Documents**

9.1 None