

Meeting date: 13th February 2023

Report to: Audit Committee

Report title: 2022/23 Quarter 3 Treasury Management Monitoring Report

Report from: Acting 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
-

Public/private report: Public

Exempt by virtue of paragraph: N/A

1. Executive Summary

- 1.1 To provide a monitoring report on the 2022/23 Treasury Management activities for quarter 3.

2. Decision(s) Recommended

- 2.1 The Committee is asked to note the Treasury Management activities for quarter 3 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 (21.3% of the Council's forecast overall capital financing requirement) by 31st March 2023. The current forecast assumes that the Council will externally borrow for £15.352million 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 31st December 2022.
- 3.6 For any borrowing that is required the Acting 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 – December 2022 (Source: Link Group)

Quarterly Forecast %	Bank Rate	Investment Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
Mar-23	4.25	4.30	4.70	4.30	4.70	4.40
Jun-23	4.50	4.50	4.70	4.20	4.60	4.30
Sep-23	4.50	4.50	4.50	4.10	4.50	4.20
Dec-23	4.50	4.50	4.30	4.00	4.40	4.10
Mar-24	4.00	4.00	4.20	3.90	4.30	4.00
Jun-24	3.75	3.80	4.00	3.80	4.10	3.80
Sep-24	3.50	3.30	3.50	3.60	4.00	3.70
Dec-24	3.25	3.00	3.20	3.50	3.90	3.60
Mar-25	3.00	3.00	3.10	3.40	3.80	3.50
Jun-25	2.75	2.80	3.00	3.30	3.70	3.40
Sep-25	2.50	2.50	2.70	3.20	3.60	3.30
Dec-25	2.50	2.50	2.70	3.10	3.50	3.20

- 3.9 The current forecast for market rates, reflects a view that the Monetary Policy Committee (MPC) will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases in coming months. This will follow the trend that occurred throughout 2022, however the current Government’s policy of tight fiscal control will likely mean Bank Rate does not now need to increase to further than 4.5%.
- 3.10 Further down the road, it is anticipated that the Bank of England will be keen to loosen monetary policy once the worst of the inflationary pressures have lessened – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- 3.11 The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.
- 3.12 Gilt yields / PWLB rates – under the current governments tighter financial controls yield curve movements have become less volatile leading to more stable borrowing rates. It is assumed that the markets have already built in all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook, but markets are volatile, and forecasts will be reviewed on a regular basis.

Investment Strategy 2022/23

- 3.13 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.

- 3.14 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.
- 3.15 The counterparty exposure analysis (Appendix A) summarises the Council's exposure to different institutions. The analysis as at 31st Decembers 2022 represents the deposits made and reflects the market exposure to investments which meet the requirements of the Investment Strategy. Overall, there is a 0.00269% 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 £2,963.

Investment Activity

- 3.16 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 several rate rises have occurred which have pushed market rates to a much higher level. Current forecasts and performance to date suggest that the average rate of return will be in the region of 1.60%-1.80% for 2022/23. Additional interest earned as a result of this increase will be used to support the overall council financial position or contributed to treasury reserves to support future Medium Term Financial Strategies' for the Council.
- 3.17 The current average SONIA (Sterling Overnight Interbank Average) rate, the Council's benchmark for investment returns, for 2022/23 is 1.743%.

Treasury and Prudential Limits

- 3.18 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.
- 3.19 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.

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:
<p>People and Communities:</p> <ol style="list-style-type: none">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.3. Take action to improve life chances and health outcomes in our most disadvantaged communities.4. Enable communities to thrive.	<p>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</p>
<p>Economy:</p> <ol style="list-style-type: none">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.	<p>As above</p>
<p>Environment:</p> <ol style="list-style-type: none">8. Enhance our natural environment, improve air quality and reduce net carbon emissions.	<p>As above</p>
<ol style="list-style-type: none">9. Promote employee wellbeing	<p>As above</p>

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