

Meeting date: 26th July 2021
Report to: Audit Committee



Subject/report title: 2021/22 Quarter 1 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

Public/private report: Public

Exempt by virtue of paragraph:

1. Purpose of Report

1.1 To provide a monitoring report on the 2021/22 Treasury Management activities for quarter 1.

2. Decision(s) recommended

2.1 The Committee is asked to note the Treasury Management activities for quarter 1 of 2021/22.

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.

3.1.1 In accordance with the Code, a quarterly report on Treasury Management activities is presented to members.

Debt Activity 2021/22

3.2 The Council is currently forecast to be under borrowed by £97.779 million (19.8% of the Council's forecast overall capital financing requirement) by 31st March 2022. The current forecast assumes that the Council will externally borrow for £59.093 million of

new borrowing requirement in 2021/22, however if it is deemed most efficient not to physically borrow for these schemes under borrowing levels would increase.

- 3.3 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 rise when the Council seeks to address the under borrowed position. This position is being carefully monitored.
- 3.4 During April 2021, in light of significant capital expenditure requirements, the Director of Resources and Deputy Chief Executive approved £40.000 million of borrowing through the Public Works Loans Board (PWLB). The Debt was taken at a rate of 2.01% (significantly lower than the Council's average borrowing rate of 3.915%) ensuring an affordable borrowing rate for key council capital schemes. No other rescheduling or new borrowing took place during the quarter ended 30th June 2021.
- 3.5 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

- 3.6 Forecast rates for money market investment and long-term borrowing are given in the table in 3.7. 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.
- 3.7 Medium-Term Rate Estimates – May 2021 (Source: Link Asset Services)

Quarterly Forecast %	Bank Rate	Investment Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
Current	0.10	0.05	0.15	1.20	2.20	2.00
Sep-21	0.10	0.10	0.20	1.20	2.20	2.00
Dec-21	0.10	0.10	0.20	1.30	2.30	2.10
Mar-22	0.10	0.10	0.20	1.30	2.40	2.20
Jun-22	0.10	0.10	0.20	1.30	2.40	2.20
Sep-22	0.10	0.10	0.20	1.40	2.40	2.20
Dec-22	0.10	0.10	0.30	1.40	2.50	2.30
Mar-23	0.10	0.10	0.30	1.40	2.50	2.30
Jun-23	0.10	0.10	0.40	1.40	2.50	2.30
Sep-23	0.25	0.30	0.50	1.50	2.50	2.30
Dec-23	0.25	0.30	0.50	1.50	2.50	2.30
Mar-24	0.25	0.30	0.50	1.50	2.60	2.40

- 3.8 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. The Bank of England took emergency action in March

2020 to cut the official Bank Rate to first 0.25%, and then to 0.10%. It has left the official Bank Rate unchanged at subsequent meetings, although some forecasters had suggested that a cut into negative territory could happen at some point in the future. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary.

- 3.9 As shown in the forecast table above, one tentative increase in the official Bank Rate from 0.10% to 0.25% has now been estimated for quarter 2 of 2023/24 as an indication that the Bank of England will be moving towards some form of monetary tightening around this time. However, it could well opt for reducing its stock of quantitative easing purchases of gilts as a first measure to use before increasing the official Bank Rate so it is quite possible that we will not see any increase in the official Bank Rate in the three-year forecast period shown.
- 3.10 As the interest forecast table for PWLB certainty rates (gilts plus 80bps) above shows, there is likely to be little upward movement in PWLB rates over the next three years as the Bank of England is not expected to raise Bank Rate above 0.25% during this period as inflation is not expected to be sustainably over 2%.

Investment Strategy 2021/22

- 3.11 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.
- 3.12 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.
- 3.13 The counterparty exposure analysis (Appendix A) summarises the Council's exposure to different institutions. The analysis as at 30th June 2021 represents the deposits made and reflects the market exposure to investments which meet the requirements of the Investment Strategy. Overall, there is a 0.00402% 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 £5,009.

Investment Activity

- 3.14 The initial budget for 2021/22 assumed a return for in-house investments of 0.10% in line with interest rate forecasts at the time. The ability to deliver this rate of return will largely depend on the economic recovery as the country comes out of the Covid restrictions which remain in place at the time of writing. Current forecasts and performance to date suggest that the rate of return will be in the region of 0.07% and 0.10% for 2021/22. Any shortfall against the budget will be met from treasury reserves.

3.15 The current average SONIA (Sterling Overnight Interbank Average) rate, the Council's benchmark for investment returns, for 2021/22 is 0.0493%.

Treasury and Prudential Limits

3.16 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.

3.17 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.

3.18 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>Economy:</p> <ol style="list-style-type: none"> 1. Revitalising our towns and local centres. 2. UK Central (UKC) and maximising the opportunities of HS2. 3. Increase the supply of housing, especially affordable and social housing. 	<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>Environment:</p> <ol style="list-style-type: none"> 4. Enhance Solihull's natural environment. 5. Improve Solihull's air quality. 6. Reduce Solihull's net carbon emissions. 	<p>As above</p>
<p>People and Communities:</p> <ol style="list-style-type: none"> 7. Take action to improve life chances in our most disadvantaged communities. 8. Enable communities to thrive. 	<p>As above</p>

9. Sustainable, quality, affordable provision for adults & children with complex needs.	
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6.2 Consultation and Scrutiny:

6.2.1 N/A

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:

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 Ministry for Housing, Communities and Local Government (MHCLG) 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.

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