APPENDIX A

SUMMARY OF TREASURY MANAGEMENT ACTIVITIES 2020-21

1. External Debt and Investment Position

The Council's external debt and investment position for 1 April 2020 to 31 March 2021 is shown below in Table 1; more detail is provided in section 2, Borrowing Strategy and Outturn, and section 3, Investment Strategy and Outturn:

Table 1: External debt and investment position 1 April 2020 to 31 March 2021

	Principal 01/04/2020 £m	Average Rate 01/04/2020 %	Principal 31/03/2021 £m	Average Rate 31/03/2021 %
External Long Term Borrowing:				
Public Works Loan Board	77.62	4.70	77.62	4.70
Lender's Option Borrower's Option	19.25	4.65	19.25	4.65
Total External Borrowing	**96.87**	**4.69**	**96.87**	**4.69**
Other Long Term Liabilities (LTL):				
Private Finance Initiative (PFI)*	**16.30**		**15.57**	
Other LTL	**1.10**		**1.66**	
Total Other Long Term Liabilities	**17.40**		**17.22**	
Total Gross External Debt	**114.27**		**114.09**	
Treasury Investments:				
Debt Management Office	37.00	0.06	0.00	0.00
Local Authorities	18.00	0.97	48.50	0.22
Banks	5.00	0.34	1.00	0.05
Building Societies	2.00	0.78	0.00	0.00
Money Market Fund***	-	-	2.05	0.02
Total Treasury Investments	**62.00**	**0.37**	**51.55**	**0.21**
Net Debt	**52.27**		**62.54**	

* (PFI) arrangement for the provision of a Secondary School in Maesteg 13 years remaining term

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the WG Guidance, the Council may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing, or as equity investments and loans to the Council's subsidiaries. Such loans and investments will be subject to the Council's normal approval processes for revenue and capital expenditure and need not comply with the TMS. The Council's existing non-treasury investments relate to investment properties and the balance as at 31 March 2021 was £5.09 million.

It should be noted that the accounting practice to be followed by the Council requires financial instruments in the accounts (debt and investments) to be measured in a method compliant with International Financial Reporting Standards (IFRS). The figures shown in the above table and throughout the report are based on the actual amounts borrowed and invested and so may differ from those in the Statement of Accounts which include accrued interest or other different accounting adjustments.

The other long term liabilities figure of £17.22 million as at 31 March 2021 includes £15.57 million for the Council's Private Finance Initiative (PFI) arrangement (for the provision of a Secondary School in Maesteg – thirteen years remaining term) which includes the short term PFI liability of £0.801 million which is included as current liabilities in the Council's balance sheet in the Statement of Accounts. It also includes an increase in respect of increased Salix borrowing for phase 2 of the Street Lighting replacement programme.

2. Borrowing Strategy and Outturn for 1 April 2020 to 31 March 2021

The Council's primary objective for the management of its debt is to ensure its long term affordability. The majority of its loans have therefore been borrowed from the Public Works Loan Board (PWLB) at long term fixed rates of interest.

The last time the Council took out long term borrowing was £5 million from the PWLB in March 2012. With short-term interest rates remaining much lower than long-term rates, the Authority considered it more cost effective in the near term to use internal resources or would, if necessary, take out temporary short term loans. The capital programme is anticipating new borrowing for 2021-22 and that it would likely be from the PWLB. For estimate purposes it has been assumed that this will be over 30 years.

HM Treasury issued revised lending terms for PWLB borrowing by local authorities in November 2020. As a condition of accessing the PWLB, local authorities will be asked to confirm that there is no intention to buy investment assets primarily for yield in the current or next two financial years. Local authorities' Section 151 Officers, or equivalent, will be required to confirm that capital expenditure plans are current and that the plans are within acceptable use of the PWLB. Whilst this in itself does not preclude the Council from investing in commercial activities, investing in assets for yield would preclude the Council from accessing PWLB borrowing. Given the investment and borrowing requirement to support the Capital Programme, the Council is unlikely to consider any investments in commercial assets primarily for yield.

The £19.25 million in Table 1 relates to Lender's Option Borrower's Option (LOBO) loans which have a maturity date of 2054, however these may be re-scheduled in advance of this maturity date. The LOBO rate and term may vary in the future depending upon the prevailing market rates, the lender exercising their option to increase rates at one of the bi-annual trigger points (the trigger dates being July and January) and therefore, the Council being given the option to accept the increase or to repay the loan without incurring a penalty. The lender did not exercise their option on 22 January 2021, the next trigger point is 22 July 2022. The lender is unlikely to exercise their option in the current low interest rate environment, however, an element of refinancing risk remains. The Council would take the option to repay these loans at no cost if it has the opportunity to do so in the future. The current average interest rate for these LOBO's is 4.65% compared to the PWLB Loans average interest rate of 4.70%.

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This is known as Internal Borrowing. This strategy is prudent as investment returns are low and counterparty risk is relatively high in the current economic climate.

3. Investment Strategy and Outturn 1 April 2020 to 31 March 2021

Both the CIPFA Code and the WG Guidance require the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, balancing the risk of incurring losses from defaults against receiving unsuitably low investment income.

The major objectives during 2020-21 were:

- To maintain capital **security**
- To maintain **liquidity** so funds are available when expenditure is needed
- To achieve the **yield** on investments commensurate with the proper levels of security and liquidity

The Annual Investment Strategy incorporated in the Council's TMS 2020-21 includes the credit ratings defined for each category of investments and the liquidity of investments. The Council's investments have historically been placed in mainly short term bank and building society unsecured deposits and local and central government. However, investments may be made with any public or private sector organisations that meet the minimum credit criteria and investment limits specified in the Investment Strategy. The majority of the Council's surplus cash is currently invested in other local authorities but the Council will continue to look at investment options in line with the limits detailed in the Investment Strategy.

Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's to ensure that this lies within our agreed minimum credit rating. **Appendix B** shows the equivalence table for these published ratings and explains the different investment grades. Where available the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. In the current climate, relying mainly on credit ratings is considered to be inappropriate and the Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard is therefore given to other available information on the credit quality of the organisations in which it invests, including financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

On a day to day basis, the Council potentially has positive cash balances arising from its cash flows e.g. timing differences between grants being received and making various payments. These are invested on the market via brokers, direct with the institution or held in deposit accounts or a money market fund with instant access. The Council usually invests for a range of periods dependent on cash flow requirements and the interest rates on offer having regard to the Investment Strategy.

The Council's primary objective for the management of its investment portfolio is to give priority to the security and liquidity of its funds before seeking the best rate of return. As shown in the tables below, the majority of investments have been held as short term investments with UK Local Authorities and banks of high credit quality. This has therefore resulted in more of the investment portfolio being moved into investment instruments with lower rates of return but higher security and liquidity.

Occasionally, investments are placed with the UK Debt Management Office (DMO - Executive Agency of UK Government) but only for very short term deposits and after all other options have been explored. The interest rates offered by this facility are lower than most other counterparties but this is commensurate with the high level of security and reduced risk offered. It provides another option when examining potential investments and ensures compliance with the Council's investment objective that security takes priority over yield. There were no deposits outstanding with the DMO as at the 31 March 2021.

Favourable cash flows have provided positive cash balances for investment and the balance on investments at 31 March 2021 was £51.55 million as shown in Table 2 below which details these investments by counterparty type.

Table 2: Investments Profile 1 April 2020 to 31 March 2021

Investment Counterparty Category	Balance 01 April 2020 (A) £m	Investments raised (B) £m	Investments Repaid (C) £m	Balance 31 March 21 (A+B-C) £m	Investment income received** Apr-Mar 2021 £'000	Average original duration of the Investment Days	Weighted average investment balance Apr-Mar 2021 £m	Weighted average interest rate Apr-Mar 2021 %
Government DMO	37.00	676.22	713.22	-	5.32	15	19.89	0.03
Local Authorities	18.00	92.00	61.50	48.50	183.50	238	30.35	0.50
Banks (Fixed Maturity)	2.00	8.00	9.00	1.00	14.50	58	2.10	0.26
Banks Instant Access/Notice Period Account*	3.00	55.00	58.00	-	-	-	3.86	0.02
Building Societies	2.00		2.00	-	7.78	182	0.17	0.78
Money Market Fund (Instant Access)*	-	59.96	57.91	2.05	14.27	-	15.22	0.09
Total/Average	**62.00**	**891.18**	**901.63**	**51.55**	**225.37**	**123**	**71.59**	**0.25**

* An average duration is not shown as there is no original duration as instant access or notice period and money is added and withdrawn to/from these accounts as required by cash-flow

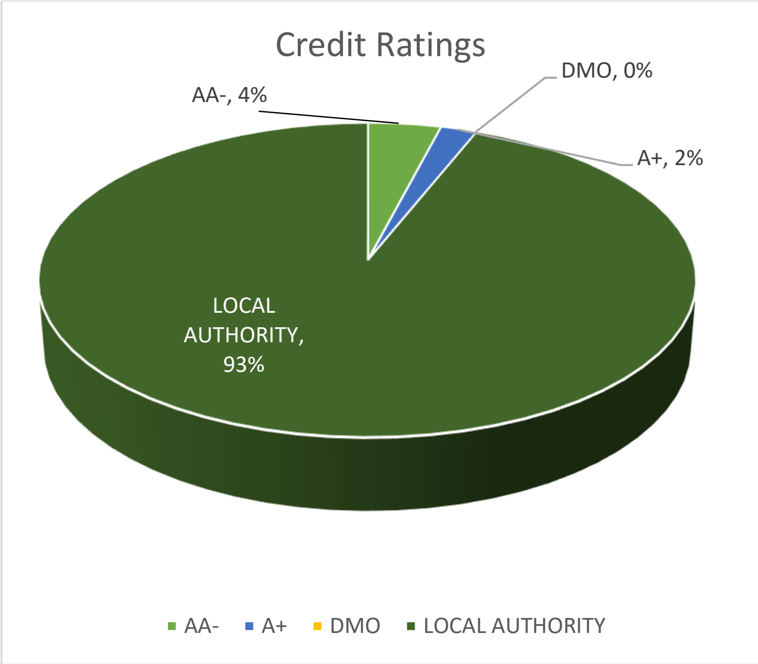
** Received in the Council's bank account not interest earned

There were no long term investments (original duration of 12 months or more) outstanding at 31 March 2021. All investments at 31 March 2021 were short term deposits (including instant access and notice accounts). Table 3 below details these investments by counterparty type based on the remaining maturity period as at 31 March 2021:

Table 3: Investments Outstanding Maturity Profile 31 March 2021

Counterparty Category	Instant Access £m	Deposits Maturing Within 1 Month £m	Deposits Maturing Within 2-3 Months £m	Deposits Maturing Within 4-12 Months £m	Total £m
Government DMO					
Local Authorities		2.00	23.50	23.00	48.50
Banks	1.00				1.00
Building Societies					0.00
Money Market Fund	2.05				2.05
Total	**3.05**	**2.00**	**23.50**	**23.00**	**51.55**

The Council defines high credit quality as organisations and securities having a credit rating of A- or higher. The pie chart summarises the above table by credit ratings and shows the £51.55 million investments at 31 March 2021 by percentage outstanding. Most Local Authorities do not have credit ratings but they are regarded as very low credit risk investment counterparties and the TMS contains limits on the amounts and time period for which investments can be placed in a single local authority, to spread the risk.



4. Treasury Management Indicators 2020-21

The following indicators (which are forward looking parameters) form part of the CIPFA Code of Practice on Treasury Management. They enable the Council to measure and manage its exposure to Treasury Management risks.

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council depending on how variable and fixed interest rates move across differing financial instrument periods. Short term and variable rate loans expose the Council to the risk of short term interest rate rises and are therefore subject to the Treasury Management indicator in Table 4 below to manage Interest Rate Exposures.

Table 4: Interest rate risk indicator as at 31 March 2021

No.	Interest rate risk indicator	Indicator £'000	Actual 31-03-21 £'000
1	One year revenue impact of a 1% rise in interest rates	(140)	(214)
2	One year revenue impact of a 1% fall in interest rates	315	347

This indicator has been set as an indicator (not a limit) to measure the net impact over one year on the revenue account of both a 1% rise and a 1% fall in all interest rates for borrowing net of treasury investments. This is calculated at a point in time on the assumption that maturing loans and investments will be replaced at rates 1% higher or lower than they would otherwise have been on their maturity dates and that the treasury investment and borrowing portfolios remain unchanged over the coming year. Interest rates can move by more than 1% over the course of a year, although such instances are rare.

A further indicator for Treasury Management measures the Maturity Structure of Borrowing and is the amount of projected borrowing that is fixed rate, maturing in each period as a percentage of total projected fixed rate borrowing. This indicator is set to control the Council's exposure to refinancing risk and has been set to allow for the possible restructuring of long term debt where this is expected to lead to an overall saving or reduction in risk.

The 19.87% shown in the table below relates to £19.25 million Lender's Option Borrower's Option (LOBO) loans which may be re-scheduled in advance of their maturity date of 2054. The Code requires the maturity of LOBO loans to be shown as the earliest date on which the lender can require payment, i.e. the call date of July 2021 in 2021-22 so the maturity date is actually uncertain but is shown in the "Under 12 months" category as per the Code.

Table 5. Maturity structure of borrowing indicator as at 31 March 2021

No.	Maturity structure of fixed rate borrowing during 2020-21	TMS 20-21 Upper limit	TMS 20-21 Lower limit	Projection 31-03-21 %
3.	Under 12 months	50%	0%	**19.87%**
	12 months and within 24 months	25%	0%	**-**
	24 months and within 5 years	25%	0%	**9.59%**
	5 years and within 10 years	40%	0%	**16.33%**
	10 years and within 20 years	50%	0%	**11.48%**
	20 years and above	60%	25%	**42.73%**

The Upper Limit for Total Principal Sums invested longer than 1 year indicator controls the amount of longer term investments which mature beyond the period end. This is set to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

Table 6. Upper limit for total principal sums invested as at 31 March 2021

No.		TMS 2020-21 (Limit) £m	Principal Outstanding Over 1 year as at 31-03-21 £m
4.	**Upper Limit for Total Principal Sums Invested for more than 1 year**	15	**0**

5. Review of the Treasury Management Strategy 2020-21

CIPFA's Code of Practice for Treasury Management requires all local authorities to conduct an annual review of its treasury management policies, practices and activities. A review was carried out in quarter 2 from which the following changes were approved and made to investment limits as detailed below:

- increase the investment limit to Registered Providers from £3 million to £5 million. As the Council had positive cash balances this would provide the Council with wider scope in making investments at a practical level.

- increase the total amount that can be invested in Money Market Funds (MMFs) from £20 million to £30 million. This was to enable the Council to increase the number of MMFs available to it thus assisting Treasury Management activities on a practical level, whilst also providing greater diversity of funds available to the Council.

Further changes were made to the Treasury Management Strategy for 2021-22 which were approved by Council in February 2021.