APPENDIX A

SUMMARY OF TREASURY MANAGEMENT ACTIVITIES 2022-23
1 APRIL TO 30 JUNE 2022

1. External Debt and Investment Position

On 30 June 2022, the Council held £99.78 million of external long-term borrowing and £102.20 million of investments. The Council's external debt and investment position for 1 April to 30 June 2022 is shown below in Table 1; more detail is provided in section 3 - Borrowing Strategy and Outturn - and section 4 - Investment Strategy and Outturn. It should be noted that the long term debt and liabilities figures shown below include the short term element of those long term liabilities.

Table 1: External debt and investment position 1 April 2022 to 30 June 2022

	Principal 01/04/2022 £m	Average Rate 01/04/2022 %	Principal 30/06/2022 £m	Average Rate 30/06/2022 %
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
Salix Loans	2.68	0.00	2.91	0.00
Total External Borrowing	**99.55**	**4.55**	**99.78**	**4.55**
Other Long Term Liabilities (LTL):				
Private Finance Initiative (PFI)*	14.77		14.55	
Other LTL	0.39		0.35	
Total Other Long Term Liabilities	**15.16**		**14.90**	
Total Gross External Debt	**114.71**		**114.68**	
Treasury Investments:				
Debt Management Office	30.20	0.54	25.50	0.76
Local Authorities	45.50	0.37	44.00	0.38
Banks	8.37	0.53	10.70	0.85
Money Market Fund**	0.00	0.00	22.00	0.83
Total Treasury Investments	**84.07**	**0.43**	**102.20**	**0.61**
Net Debt	**30.64**		**12.48**	

* (PFI) arrangement for the provision of a Secondary School in Maesteg 12 years remaining term
** these funds provide instant access

Where a Council finances capital expenditure by debt, it must put aside revenue resources to repay that debt in later years and this amount charged to revenue is called the Minimum Revenue Provision (MRP). The Local Authority (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2008 requires the Council to produce and approve an annual Minimum Revenue Provision (MRP) Statement before the start of the financial year that details the methodology for the MRP charge and this is detailed in the Council's Capital Strategy. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to delay the need to borrow externally by temporarily using cash it holds for other purposes such as earmarked reserves. This is known as internal borrowing. This strategy is prudent as investment returns are low and counterparty risk is relatively high. The CFR is forecast to increase from 2021-22 levels due to the amount of prudential borrowing in the capital programme in future years. The Loans CFR (which excludes PFI & Other Long-Term Liabilities) is estimated to be £167.78 million as shown in table 2 below.

The liability benchmark measures the Council's projected net debt requirement plus a short-term liquidity allowance in the form of minimum cash and investment balances. The purpose of the benchmark is to set the level of risk which the Council regards as its balanced or normal position. The forecast liability benchmark, or level of debt, as at 31 March 2023 is £57.47 million, which is lower than the estimate within the TMS. Long-term borrowing as at 30 June 2022 was £99.78 million. As the Council has available reserves it can use them to fund capital expenditure in the short term, which is a prudent approach to managing its cash resources. Table 2 below has been produced using estimates of capital spend and forecasts on usable reserves for the current financial year. The Loans CFR ignores cash balances and may be too high if the authority benefits from long term positive cash flows which this Council does benefit from. The benchmark assumes that cash and investment balances are kept to a minimum level of £10 million at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	2021-22 Actual £m	**2022-23 Estimate TMS £m**	**2022-23 Projection £m**
Loans Capital Financing Requirement	162.31	180.02	167.78
Less: Usable reserves	(141.69)	(76.29)	(120.31)
Plus: Actual/Minimum investments	10	10	10
Liability Benchmark	**30.62**	**113.73**	**57.47**

2. External Context

Having seen two interest rate rises toward the back end of 2021-22 of 0.25% each it took the base rate to 0.75%. During the first quarter of this year two further 0.25% rate increases were introduced in May 2022 and June 2022 raising the base rate to 1.25% the highest it had been since January 2009. During this period the Russian invasion of Ukraine continued and has exacerbated global inflation trends, particularly around food and energy. The rise in energy and fuel prices has been a significant factor behind the UK's

Consumer Price Index (CPI) moving up to 9% in June 2022. High substantial inflation is likely to lead to zero or negative GDP growth for Q2 2022 onwards in the UK, due to negative real household disposable income growth. Although fiscal intervention will assist it will not totally alleviate it. Data suggested that households were starting to curtail spending during the period and the use of built-up savings and wage growth would only partly offset the impact, although the latter is also likely to contribute to the sustained inflation. The Bank of England had thought that monetary tightening alongside the sharp fall in real income would pull inflation back to target over the medium term. Inflation has however exceeded the Bank's expectations with no immediate sign of stopping.

The Monetary Policy Committee (MPC) minutes for June 2022 indicated that larger upward moves in Bank Rate are a possibility if inflationary pressures continue. In response markets have priced in a much steeper path for Bank Rate, although some believe the MPC will be relatively more cautious, albeit to a higher level than previously expected.

3. Borrowing Strategy for 1 April to 30 June 2022

At 30 June 2022, the Council held £99.78 million of long-term loans as part of its strategy for funding previous years' capital programmes. The TMS 2022-23 forecast that the Council would need to borrow £9.36 million in 2022-23. Currently however it is anticipated that the Council will not need to enter into any new long-term borrowing in the current year (excluding any Salix energy schemes). Short term borrowing may be necessary as part of managing the Council's short-term cash flow needs, however this will be closely monitored throughout the year. This will be dependent on the progress of the Capital Programme expenditure and the use of available earmarked reserves during the remainder of the year. More detail on forecast capital spend is provided in the Capital Strategy 2022-23 which was approved by Council on 23 February 2022. The Capital Outturn and Quarter 1 Monitoring reports presented to Council on 20 July 2022 provide further updates in relation to the Capital Programme.

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans, should the Council's long-term plans change, is a secondary objective. Therefore the major objectives to be followed in 2022-23 are:

- to minimise the revenue costs of debt
- to manage the Council's debt maturity profile i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing
- to effect funding in any one year at the cheapest cost commensurate with future risk
- to monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movement

- to reschedule debt if appropriate, in order to take advantage of potential savings as interest rates change
- to optimise the use of all capital resources including borrowing, both supported and unsupported, usable capital receipts, revenue contributions to capital and grants and contributions

The impact of the Covid-19 pandemic and ongoing conflict in Ukraine have left, and is continuing to make, a defined imprint on the economy, public finances in general, as well as on local government funding in particular. With uncertainty going forward, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The ever-increasing uncertainty over future interest rates increases the risks associated with treasury activity. As a result, the Council will take a cautious approach to its treasury strategy. As short-term interest rates are currently much lower than long term rates, it is likely to be more cost effective in the short term to either use internal resources or take out short term loans instead.

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, but we will also investigate other sources of finance, such as Welsh Government and local authority loans and bank loans that may be available at more favourable rates. Following the increase in the numbers of local authorities taking out PWLB loans to buy commercial properties for yield, a UK government consultation by HM Treasury issued revised lending terms for PWLB borrowing by local authorities in November 2020. As a condition of accessing the PWLB, local authorities must 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. In December 2021, CIPFA published a new edition of the Prudential Code for Capital Finance in Local Authorities. A significant change to the Code is that, in order to comply with the Code, an authority must not borrow to invest primarily for financial return. It goes further to clarify that "*it is not prudent for local authorities to make any investment or spending that will increase the capital financing requirement, and so lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose*".

The last time the Council took out long term borrowing was £5 million from the PWLB in March 2012. Should the need to borrow materialise as expected it is likely that we would look to borrow from the PWLB. For estimate purposes it has been assumed that this would be over 30 years. The Council may also take out short term loans (normally for up to one month) to cover unexpected cash flow shortages. Market conditions have meant that there has been no rescheduling of the Council’s long term borrowing so far this year however, in conjunction with the Council’s Treasury Management advisors Arlingclose, the loan portfolio will continue to be reviewed for any potential savings as a result of any loan rescheduling.

The £19.25 million Lender’s Option Borrower’s Option (LOBO) loans in table 1 above 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 didn’t exercise their option on 22 July 2022. The lender is unlikely to exercise their option in the current low interest rate environment, however, an element of refinancing risk still remains. The Council would likely 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 premiums payable to renegotiate the Council’s Lender’s Option Borrower’s Option (LOBO) continues to be cost prohibitive.

The Treasury Management indicator shown in Table 3 below is for the Maturity Structure of Borrowing and is set for the forthcoming financial year to control the Council’s exposure to refinancing risk with respect to the maturity of the Council’s external borrowing 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. It is the amount of projected borrowing maturing in each period as a percentage of total projected borrowing. The upper and lower limits on the maturity structure of borrowing set out in the TMS 2022-23 and the projections for 2022-23 are set out below.

Table 3: Treasury Management Indicator Maturity Structure of Borrowing 2022-23

Refinancing rate risk indicator Maturity structure of borrowing 2020-21	TMS 2022-23 Upper limit %	TMS 2022-23 Lower limit %	Projection 31-06-23 %
Under 12 months	50	-	19.50
12 months and within 24 months	25	-	0.43
24 months and within 5 years	25	-	13.38
5 years and within 10 years	40	-	14.07
10 years and within 20 years	50	-	16.15
20 years and above	60	25	36.47

The 19.50% shown in Table 3 above includes £19.25 million LOBO loans which may be re-scheduled in advance of their maturity date of 2054, as detailed in the paragraph above. The CIPFA Code requires the maturity of LOBO loans to be shown as the earliest date on which the lender can require payment, i.e. the option/call dates in 2022-23, so the maturity date is actually uncertain but is shown in the “Under 12 months” category as per the Code.

4. Investment Strategy and Outturn 1 April to 30 June 2022

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 2022-23 are to:

- Maintain capital **security**
- Maintain **liquidity** so funds are available when expenditure is needed
- Achieve a **yield** on investments commensurate with the proper levels of security and liquidity

The Annual Investment Strategy incorporated in the Council's TMS 2022-23 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 Money Market Funds and with other local authorities, but the Council will continue to look at investment options in line with the limits detailed in the Investment Strategy. Arlingclose constantly stress test the financial institutions on its recommended counterparty list, as a result removing or in some cases adding back a number of those removed during the pandemic on its recommended list for unsecured deposits and revising the credit rating, outlook and recommended deposit period for a number of others. The Council takes into account updated advice from its advisors before making any investment decisions.

The Council holds surplus funds representing income received in advance of expenditure plus balances and reserves and as shown in Table 1 above, the balance on investments at 30 June 2022 was £102.20 million. Table 4 below details these investments by counterparty type. The average investment rate in the period 1 April to 30 June 2022 was 0.61% (Table 4).

Table 4: Investments Profile 1 April to 30 June 2022

Investment Counterparty Category	Balance 01 April 2022 (A) £m	Investments raised (B) £m	Investments Repaid (C) £m	Balance 30 June 2022 (A+B-C) £m	Investment income received* Apr - Jun 2022 £'000	Average original duration of the Investment Days	Weighted average investment balance Apr - Jun 2022 £m	Weighted average interest rate Apr - Jun 2022 %
Government DMO	30.20	127.30	132.00	25.50	42.62	20	30.34	0.76%
Local Authorities	45.50	11.00	12.50	44.00	16.95	270	45.94	0.38%
Banks (Fixed Maturity)	3.00	9.00	9.00	3.00	6.08	39	3.00	0.85%
Banks Instant Access/Notice Period Account	5.37	28.00	25.67	7.70	6.86	-	7.17	0.57%
Money Market Fund (Instant Access)	-	27.50	5.50	22.00	29.57		22.66	0.83%
Total/Average	**84.07**	**202.80**	**184.67**	**102.20**	**102.08**	**82**	**109.11**	**0.61%**

*actual income received in year excluding accruals

The Treasury Management indicator shown below in Table 5 is for Principal Sums Invested for periods longer than a year. Where the Council invests, or plans to invest, for periods longer than a year, an upper limit is set for each forward financial year period for the maturing of such investments. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of long-term investments. The limit on the long-term principal sum invested to final maturities beyond the period end are set out in the TMS 2022-23.

Table 5: Treasury Management Indicator Principal Sums Invested for periods longer than a year

Price risk indicator	TMS 2022-23 £m	Projection 31-3-23 £m
Limit on principal invested beyond financial year end	15	Nil

All investments longer than 365 days (non-specified) will be made with a cautious approach to cash flow requirements and advice from Arlingclose will be sought as necessary.

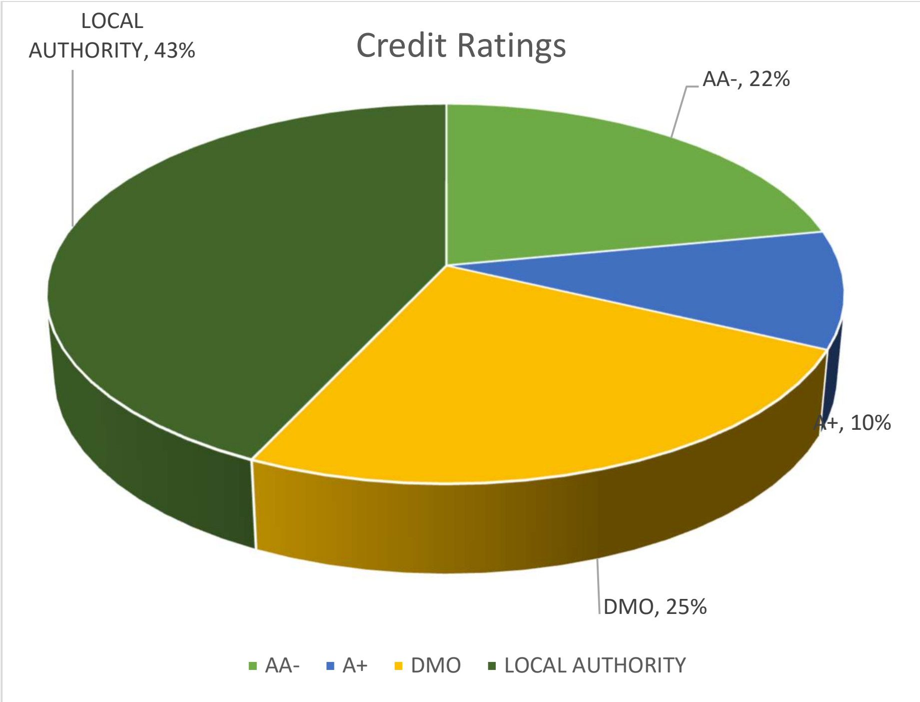
There were no long-term investments (original duration of 12 months or more) outstanding at 30 June 2022. All investments at 30 June 2022 were short term deposits including Government Debt Management Office (DMO), Money Market Funds, Local Authorities, instant access and notice accounts. Table 6 below details these investments by counterparty type based on the remaining maturity period at 30 June 2022.

Table 6: Investments Outstanding Maturity Profile 30 June 2022

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		25.50			25.50
Local Authorities		3.00	9.00	32.00	44.00
Banks	4.70		6.00		10.70
Money Market Funds	22.00				22.00
TOTAL	**26.70**	**28.50**	**15.00**	**32.00**	**102.20**

Investment decisions are made by reference to the lowest published long-term credit rating from a selection of external rating agencies to ensure that this lies within the Council's agreed minimum credit rating. Where available the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account. **Appendix B** shows the equivalence table for credit ratings for three of the main rating agencies: Fitch, Moody's, and Standard & Poor's, and explains the different investment grades. The Council defines high credit quality as organisations and securities having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

The pie chart below summarises Table 6 by credit ratings and shows the £102.20 million investments at 30 June 2022 by percentage. Most Local Authorities do not have credit ratings and the 22% invested with AA- rated MMF's were on an approved counterparty by Arlingclose, whilst the remainder of the investments all had a credit rating of A or above. Arlingclose continually monitor approved counterparties and will issue advice as appropriate should any counterparty cause any concerns. This includes temporarily suspending any new investments in counterparties if appropriate.



5. Interest Rate Exposures – Borrowing and Investments

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 7 below to manage Interest Rate Exposures.

Table 7: Treasury Management Indicator Interest Rate Exposures

Interest rate risk indicator	Indicator £'000	As at 30.06.2022 £'000
One year revenue impact of a 1% rise in interest rates	(537)	(807)
One year revenue impact of a 1% fall in interest rates	726	999

This 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 and, given the current economic climate, this may well be the case for the UK during 2022-23.

The figures for the 1% fall in interest rates indicator are not the same figures as the 1% rise in interest rates (but reversed) as the borrowing relates to variable LOBO loans where it is assumed that the lender would not exercise their option if there was a fall in interest rates. All other borrowing does not have a rate reset in the next year and is with the PWLB at fixed rates

APPENDIX B

Credit Rating Equivalence Table

	Description	Fitch Long	Fitch Short	Moody's Long	Moody's Short	Standard & Poor's Long	Standard & Poor's Short
INVESTMENT GRADE	Extremely strong	AAA		Aaa		AAA	
	Very strong	AA+	F1+	Aa1		AA+	A-1+
		AA		Aa2	P-1	AA	
		AA-		Aa3		AA-	
	Strong	A+		A1		A+	
		A	F1	A2		A	A-1
		A-		A3		A-	A-2
	Adequate	BBB+	F2	Baa1	P-2	BBB+	
		BBB		Baa2		BBB	
		BBB-	F3	Baa3	P-3	BBB-	A-3
SPECULATIVE GRADE	Speculative	BB+		Ba1		BB+	
		BB		Ba2		BB	
		BB-	B	Ba3		BB-	B
	Very speculative	B+		B1		B+	
		B		B2		B	
		B-		B3	Not Prime (NP)	B-	
	Vulnerable	CCC+		Caa1		CCC+	
		CCC		Caa2		CCC	
		CCC-	C	Caa3		CCC-	C
		CC		Ca		CC	
		C				C	
	Defaulting	D	D	C		D	D

Standard & Poor's (S&P), Moody's and Fitch are the three most significant rating agencies in the world. These agencies rate the creditworthiness of countries and private enterprises.

"AAA" or "Aaa" is the highest rating across all three rating agencies and indicates the highest level of creditworthiness. A "D" rating ("C" rating from Moody's) indicates poor creditworthiness of a company or government. A difference is made between short-term and long-term ratings.