**APPENDIX A**

**SUMMARY OF TREASURY MANAGEMENT ACTIVITIES 2022-23**

## 1. External Debt and Investment Position

On 31 March 2023, the Council held £99.93 million of external long-term borrowing and £74.50 million of investments. The Council's external debt and investment position for 1 April to 31 March 2023 is shown below in Table 1; more detail is provided in section 3 - Borrowing Strategy and Outturn - and section 4 - Investment Strategy and Outturn. The debt position includes Salix loans which are interest free and were formally show as Long Term Liabilities.

**Table 1: External debt and investment position 1 April 2022 to 31 March 2023**

| | Principal<br><br>01/04/2022<br>£m | Average rate<br>01/04/2022<br>% | Principal<br><br>31/03/2023<br>£m | Average rate<br>31/03/2023<br>% |
|---|---|---|---|---|
| ***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 | 3.06 | 0.00 |
| **Total External Borrowing** | **99.55** | **4.69*** | **99.93** | **4.69*** |
| ***Other Long-Term Liabilities (LTL)*** | | | | |
| Private Finance Initiative (PFI)* | 14.77 | | 13.90 | |
| Other LTL | 0.39 | | 0.23 | |
| **Total Other Long Term Liabilities** | **15.16** | | **14.13** | |
| **TOTAL Gross External Debt** | **114.71** | | **114.06** | |
| ***Treasury Investments*** | | | | |
| Local Authorities | 45.50 | 0.54 | 53.00 | 4.05 |
| Debt Management Office | 30.20 | 0.37 | 7.50 | 2.19 |
| Banks | 8.37 | 0.53 | 14.00 | 3.94 |
| **TOTAL Treasury Investments** | **84.07** | **0.43** | **74.50** | **2.55** |
| **NET DEBT** | **30.64** | | **39.56** | |

* *Excluding Salix loans, which are interest free*
** *PFI for the provision of a Secondary School in Maesteg with 11 years remaining term*

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. Going forward, the CFR is forecast to increase from 2022- 23 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) as at 31 March 2023 was £163.21 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 liability benchmark, or level of debt, as at 31 March 2023 was £32.29 million, which is lower than the estimate within the Treasury Management Strategy (TMS). Long-term borrowing as at 31 March 2023 was £99.93 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 actual capital spend and usable reserves for the 2022-23 financial year. Reserves are higher than had been expected due to slippage in the capital programme and contributions to new and existing reserves during the 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 Actual £m** |
|---|---|---|---|
| Loans Capital Financing Requirement | 162.31 | 180.02 | 163.21 |
| Less: Usable reserves | (141.69) | (76.29) | (140.93) |
| Plus: actual/minimum investments | 10.00 | 10.00 | 10.00 |
| **Liability Benchmark** | **30.62** | **113.73** | **32.29** |

## 2. Borrowing Strategy and Outturn for 1 April 2022 to 31 March 2023

At 31 March 2023, the Council held £99.93 million of long-term loans. The TMS 2022-23 forecast that the Council would need to borrow £9.36 million in 2022-23 however, as a result of both slippage in the capital programme and the level of reserves during the year, the Council did not need to take out new borrowing during 2022-23. Long-term borrowing increased slightly, but this was as a result of schemes funded via Salix interest free borrowing. The amounts are relatively low and have repayment periods of up to 10 years. More detail on forecast capital spend is provided in the Capital Strategy 2022-23 which was approved by Council on 23 February 2022 and the Capital Monitoring outturn report to Cabinet on 20 June 2023.

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. The major objectives followed in 2022-23 were:

- 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 secure 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 movements
- 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.

Given the impact of high inflation on the economy and public finances in general, as well as affecting local governments spending ability, and the uncertainty going forward in the financial market, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. There continues to be increasing uncertainty over future interest rates which increases the risks associated with treasury activity. As a result, the Council will take a cautious approach to its treasury management strategy.

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 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. 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 there be a need to borrow it is likely to be from the PWLB. For estimate purposes it has been assumed that this would be over 30 years. The Council may also take 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 during 2022-23. The loan portfolio will continue to be reviewed for any potential savings as a result of any loan rescheduling in conjunction with the Council's Treasury Management advisors.

The £19.25 million in Table 1 above 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 20 January 2023 and the next trigger point is 21 July 2023. There still may be a chance that the lender may exercise their option as interest rates are still expected to rise, therefore, 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 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 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 outturn for 2022-23 are:

**Table 3 Treasury management Indicator maturity Structure of Borrowing 2022-23**

| | TMS 2022-23 Upper limit % | TMS 2022-23 Lower limit % | Actual 31/03/2023 % |
|---|---|---|---|
| Under 12 months | 50 | - | 19.67 |
| Over 12 months and within 24 months | 25 | - | 5.98 |
| Over 24 months and within 5 years | 25 | - | 9.04 |
| Over 5 years and within 10 years | 40 | - | 15.75 |
| Over 10 years and within 20 years | 50 | - | 13.15 |
| 20 years and above | 60 | 25 | 36.42 |

The 19.67% shown in Table 3 above includes the £19.25 million LOBO loans which may be re-scheduled in advance of their maturity date of 2054, as detailed above. The TM 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 2023-24, so the maturity date is actually uncertain but is shown in the "Under 12 months" category as per the TM Code. The short-term element of

the Salix loans calculated at £0.4 million is also reflected within the 19.67%.

## 3. Investment Strategy and Outturn 1 April 2022 to 31 March 2023

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 were:

- 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 local and central government and short-term bank and building society unsecured deposits. 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. During the year the majority of the Council's surplus cash has been invested in Money Market Funds, Debt Management Office (DMO) 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. 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 31 March 2023 was £74.50 million with an average investment return rate at that date of 2.55%.

Table 4 details these investments by counterparty type. The weighted average investment rate for investments over the period 1 April 2022 to 31 March 2023 was 1.65%.

**Table 4: Investments Profile 1 April 2022 to 31 March 2023**

| Investment Counterparty Category | Balance 01 April 2022 | Investments raised | Investments Repaid | Balance 31 March 2023 | Investment Income received* | Average original duration of the investment | Weighted average investment balance Ap 2022 – Mar 2023 | Weighted average interest rate Apr 2022 – Mar 2023 |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £'000 | Days | £m | % |
| Government DMO | 30.20 | 435.10 | 457.80 | 7.50 | 575.90 | 21 | 29.36 | 1.93 |
| Local Authorities | 45.50 | 63.00 | 55.50 | 53.00 | 129.44 | 276 | 43.39 | 1.21 |
| Banks (fixed maturity) | 3.00 | 18.00 | 18.00 | 3.00 | 46.58 | 36 | 3.00 | 2.28 |
| Banks instant access/notice account | 5.38 | 90.70 | 85.09 | 11.01 | 80.55 | - | 7.96 | 1.39 |
| Money Market Funds | - | 44.95 | 44.95 | - | 462.65 | - | 21.82 | 2.16 |
| **Total/average** | **84.08** | **651.75** | **661.34** | **74.51** | **1,295.12** | **83** | **105.53** | **1.65** |

* actual income received in year including 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 | Actual 31/03/23 £m |
|---|---|---|
| **Limit on principal invested beyond financial year-end** | **15** | **5** |

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 was only one investment for a period longer than a year (original duration of 12 months or more) outstanding at 31 March 2023. This was with Medway Council and is due to be repaid in July 2024. All other investments at 31 March 2023 were short term deposits including Local Authorities, Government Debt

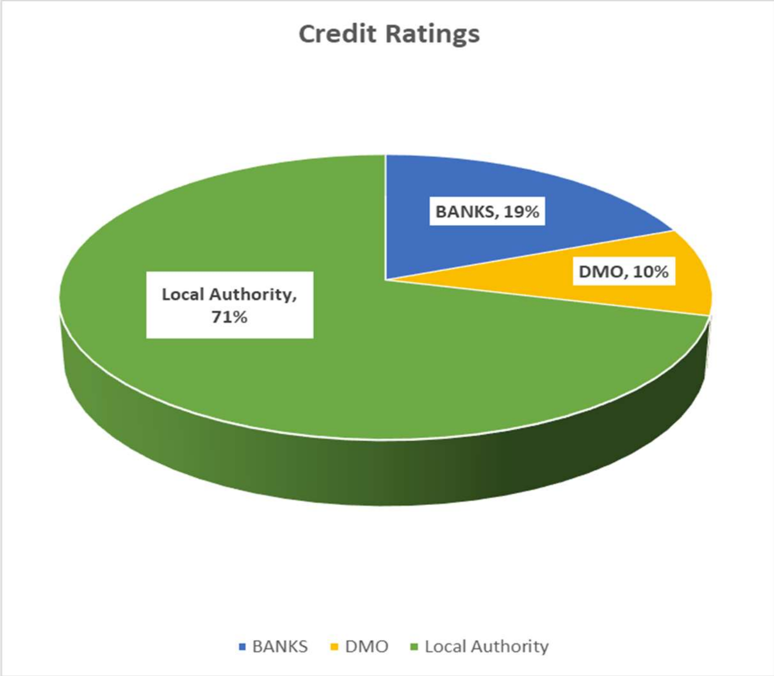
Management Office (DMO) and instant access and notice accounts. Table 6 details these investments by counterparty type based on the remaining maturity period at 31 March 2023:

**Table 6: Investments Outstanding Maturity Profile 31 March 2023**

| 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 | 7.50 | - | - | - | 7.50 |
| Local Authorities | - | 4.00 | 44.00 | 5.00 | 53.00 |
| Banks | 8.00 | 3.00 | 3.00 | - | 14.00 |
| **Total** | **15.50** | **7.00** | **47.00** | **5.00** | **74.50** |

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 considered. **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 £74.50 million of investments at 31 March 2023 by percentage. Most local authorities do not have credit ratings, whilst the remainder of the investments all had a credit rating of A or above. The Debt Management Office (DMO) is the UK sovereign government and rated AA as at 31 March 2023.




## 4. Interest Rate Exposure – 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 2022-23 £'000 | Actual 31/03/23 £'000 |
|---|---|---|
| One year revenue impact of a 1% rise in interest rates | (537) | (553) |
| One year revenue impact of a 1% fall in interest rates | 726 | 745 |

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.

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.

### Table 8: Interest Expenditure & Receipts

A comparison of interest expenditure against income for the period 1 April 2022 to 31 March 2023 is shown below

| | **2022/23 £'000** |
|---|---|
| Interest expenditure payable on long term borrowing | 4,538 |
| Interest income received in period | (1,761) |
| Net interest cost | 2,777 |

The figures in the table above include accrued interest. Actual payments may occur after this date.