

TREASURY MANAGEMENT MID-YEAR REPORT 2019/20

1. Treasury Management Activity

1.1 The Council's treasury management strategy and associated policies and practices for 2019/20 were approved in February 2019 by Full Council. The Council manages its investments in-house and invests with institutions on its approved lending list, aiming to achieve the optimum return on investments commensurate with appropriate levels of security and liquidity.

1.2 Table 1 below provides a monthly analysis of the Council's treasury management activity to the end of September:

1.3

Table 1	Fixed Term		MMF		Monthly
	Invested	Redeemed	Invested	Redeemed	Total
	£	£	£	£	£
Total b/f	0		60,300,000		60,300,000
April	0	0	69,000,000	(41,900,000)	27,100,000
May	0	0	67,900,000	(76,800,000)	(8,900,000)
June	0	0	14,500,000	(58,450,000)	(43,950,000)
July	0	0	79,000,000	(56,800,000)	22,200,000
August	0	0	56,600,000	(58,850,000)	(2,250,000)
September	0	0	72,450,000	(59,950,000)	12,500,000
Total c/f	0	0	419,750,000	(352,750,000)	67,000,000

1.4 This shows that active use has been made of the instant-access money market funds (MMFs) on the Council's counterparty list, but no use has been made of fixed-term deposits. This approach stems from having relatively low cash balances and the need to keep the Council's cash liquid. The Council continues to delay its borrowing in order to reduce the risk and cost of carrying high cash balances.

1.5 The Council's investment return (total interest receivable divided by the average outstanding principal) for the first half of the financial year was 0.74%. Over the same period the average 7 day LIBID was 0.57%.

1.6 A snapshot of the Council's money market fund investments outstanding as at 30 September is shown in the table below.

Table 2: Snapshot return on Investments	Balance	Return
	£m	%
Insight	8.6	0.71
Black Rock	2.4	0.68
LGIM	1.0	0.69
JP Morgan	20.0	0.72
Aberdeen Standard	20.0	0.74
Total	43.4	0.73

1.7 There were no changes made to the Council’s lending criteria during the first half of the year. The lending list itself is regularly monitored, and a daily update is provided by Link, the Council’s treasury management advisors.

2. Long Term Borrowing

2.1 Over the past several years the Council has partly financed the capital programme by using its cash balances (referred to as ‘internal borrowing’). This utilises earmarked reserves, general fund reserves and net movement on current assets until the cash is required for their specific purposes.

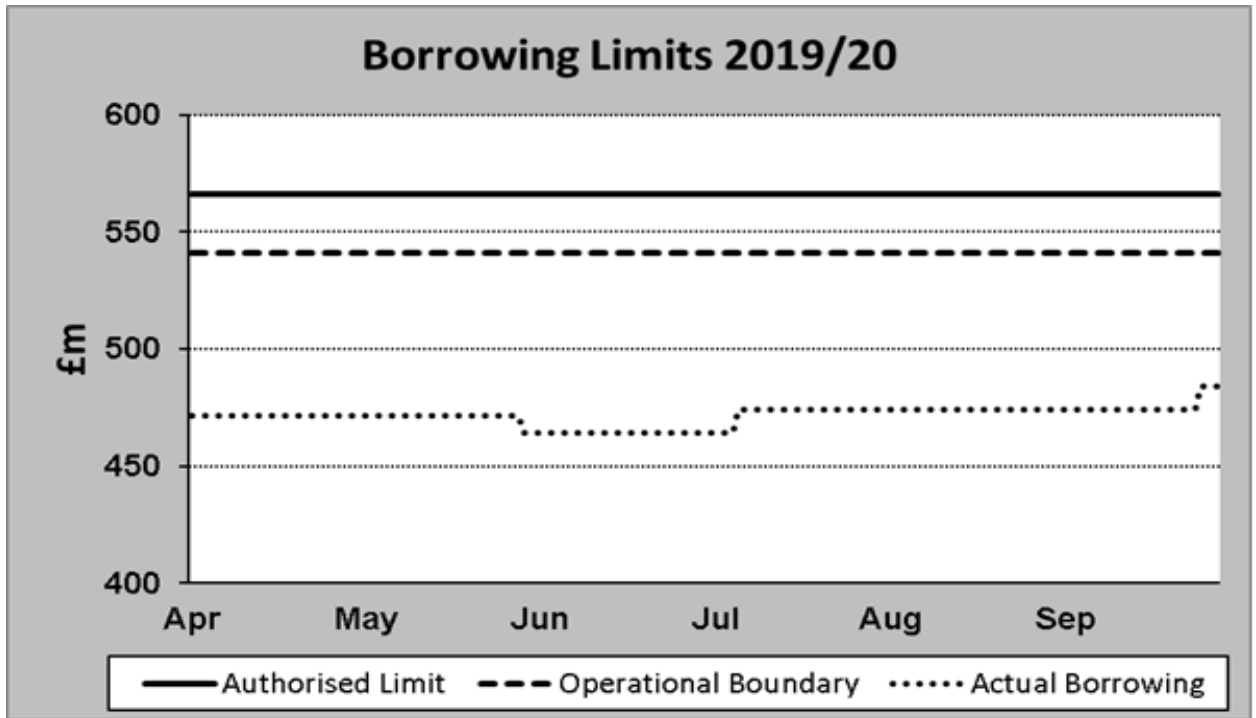
2.2 This strategy has the effect of postponing external borrowing, thereby making short-term savings for the Council. It also reduces credit risk since we hold lower cash balances. However, this cashable benefit has to be weighed against the risk of not borrowing and taking advantage of lower interest rates now which may increase in future. Delaying borrowing could therefore potentially lead to increased long-term costs. Therefore, it sometimes might be necessary for the Council to borrow before the cash is demanded from a simple cashflow perspective.

2.3 Since the Council’s Treasury Management Strategy was approved in February 2019, the borrowing requirement has been revised (due mainly to slippage in the capital programme from 2018/19 to 2019/20). Two loans of £10m each have been raised from PWLB, and £7.5m of PWLB debt has matured. An update is provided in the table below:

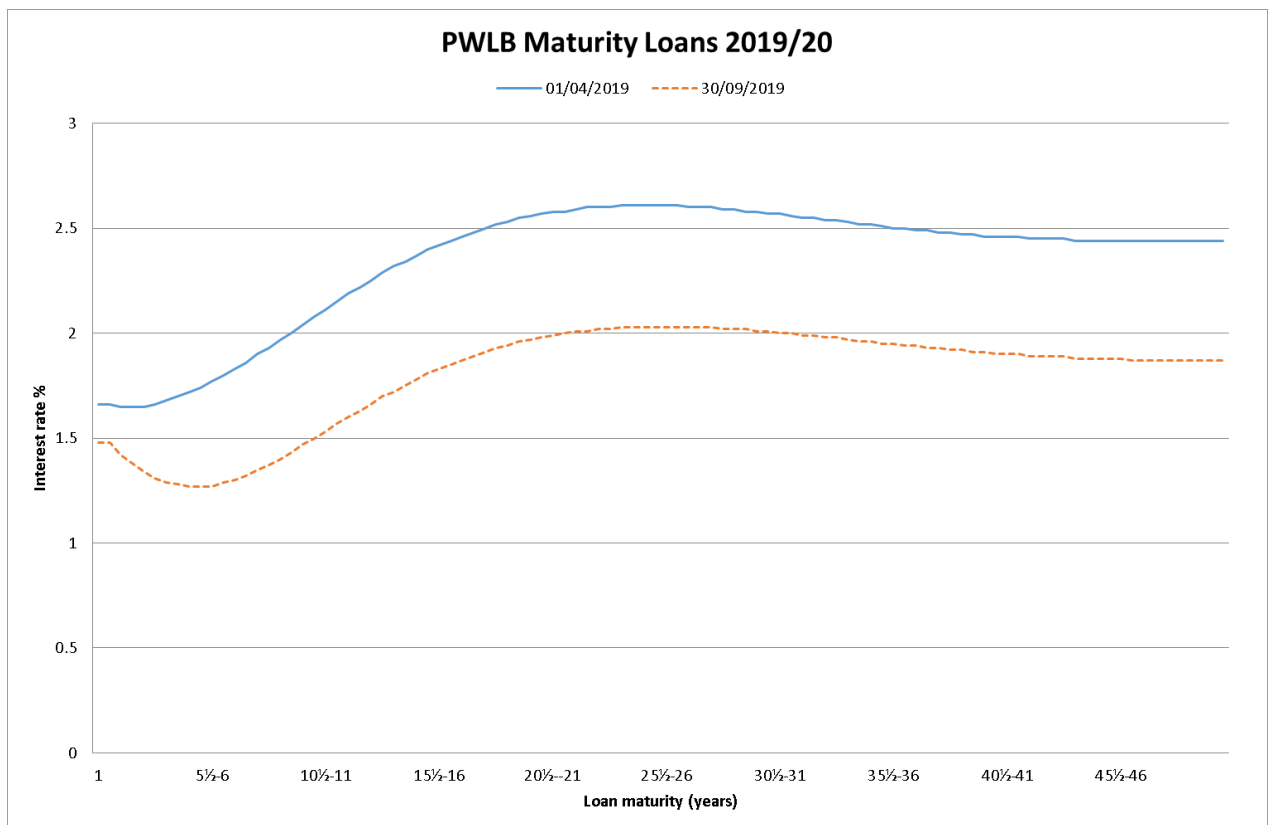
Table 3	2019/20 Estimate	2019/20 Revised
	£m	£m
Closing Capital Financing Requirement	800.0	804.1
Less:		
- Long-term liabilities	-114.0	-114.9
- Existing borrowing	-457.8	-477.8
- Cap Ex to be financed by borrowing (a)	-44.9	-66.0
- Replenishment/Replacement borrowing (b)	38.4	44.0
Internal borrowing (A)	221.6	189.3
Cash and cash equivalents	20.0	20.0
Fixed investments	0.0	0.0
Y/E investment balances (B)	20.0	20.0
Cash deployed (A+B)	241.6	209.3
Cumulative minimum borrowing requirement (a+b)	6.6	22.0

2.4 This table shows that by the year-end the Council expects to be under-borrowed by approximately £189m relative to its Capital Finance Requirement. It also indicated that further borrowing of around £22m will be required during 2019/20. However, if interest rates for borrowers appear favourable, or if cashflow dictates, then an amount greater than this may be taken. Conversely, slippage in the capital programme may reduce the amount of borrowing required.

2.5 The chart below shows how current borrowing compares with the prudential indicators and shows that borrowing has been managed within these limits. The operational boundary for 2019/20 was set at £541m and the authorised limit at £566m.



2.6 The following chart shows that PWLB interest rates have decreased over the first half of the financial year. This decrease included a degree of instability due to Brexit.



- 2.7** Since the end of the period in early October 2019, PWLB took the decision to increase rates by 100 basis points across the board. In other words, for every £1m borrowed an additional £10,000 per annum will be charged in interest fees.
- 2.8** Treasury officers, assisted by the Council's treasury management advisors, continue to monitor rates from PWLB and the market with a view to borrowing when these become relatively favourable.