Appendix A

TREASURY MANAGEMENT MID-YEAR REPORT 2020/21

1. Treasury Management Activity

1.1 The Council's treasury management strategy and associated policies and practices for 2020/21 were approved in February 2020 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:

Table 1	**MMF Invested**	**MMF Redeemed**	**Monthly Total**
	£	£	£
Balance brought forward	44,200,000		44,200,000
April	79,150,000	(67,700,000)	11,450,000
May	64,350,000	(46,150,000)	18,200,000
June	27,550,000	(63,450,000)	(35,900,000)
July	82,400,000	(50,900,000)	31,500,000
August	50,850,000	(52,500,000)	(1,650,000)
September	65,450,000	(51,500,000)	13,950,000
Total carried forward	**413,950,000**	**(332,200,000)**	**81,750,000**

1.3 This shows that daily 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 the Council aiming to maintain relatively low cash balances and the consequent 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.

1.4 During the first few months of the Covid-19 pandemic there were concerns that some receipts might by delayed and additional costs incurred. As a precaution the Council decided to take some of its required long-term PWLB borrowing earlier than normal, to cover any risk of a cash shortfall. As the concerns did not materialise, higher than normal cash balances are being held by the Council at the mid-year point.

1.5 The Council's policy is to benchmark its cash returns against the average 7-day LIBID rate. UK interest rates remain at an historic low, and this has impacted both the Council's rate of return and the benchmark. The rate of return (total interest receivable divided by the average outstanding principal) for the first half of the financial year was 0.17%. Over the same period the average 7-day LIBID was effectively zero.

1.6 A snapshot of the Council's money market fund investments outstanding as at 30 September is shown in the table below, together with the (very low) rates of return.

Table 2: Snapshot return on Investments	**Balance**	**Return**
	£000	**%**
Insight MMF	14,600	0.01
Black Rock MMF	1,300	0.01
LGIM MMF	5,950	0.04
JP Morgan MMF	20,000	0.01
Aberdeen Standard MMF	19,900	0.08
Federated MMF	20,000	0.05
Total	**81,750**	**0.04**

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 updates are provided by LGPS Central.

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.

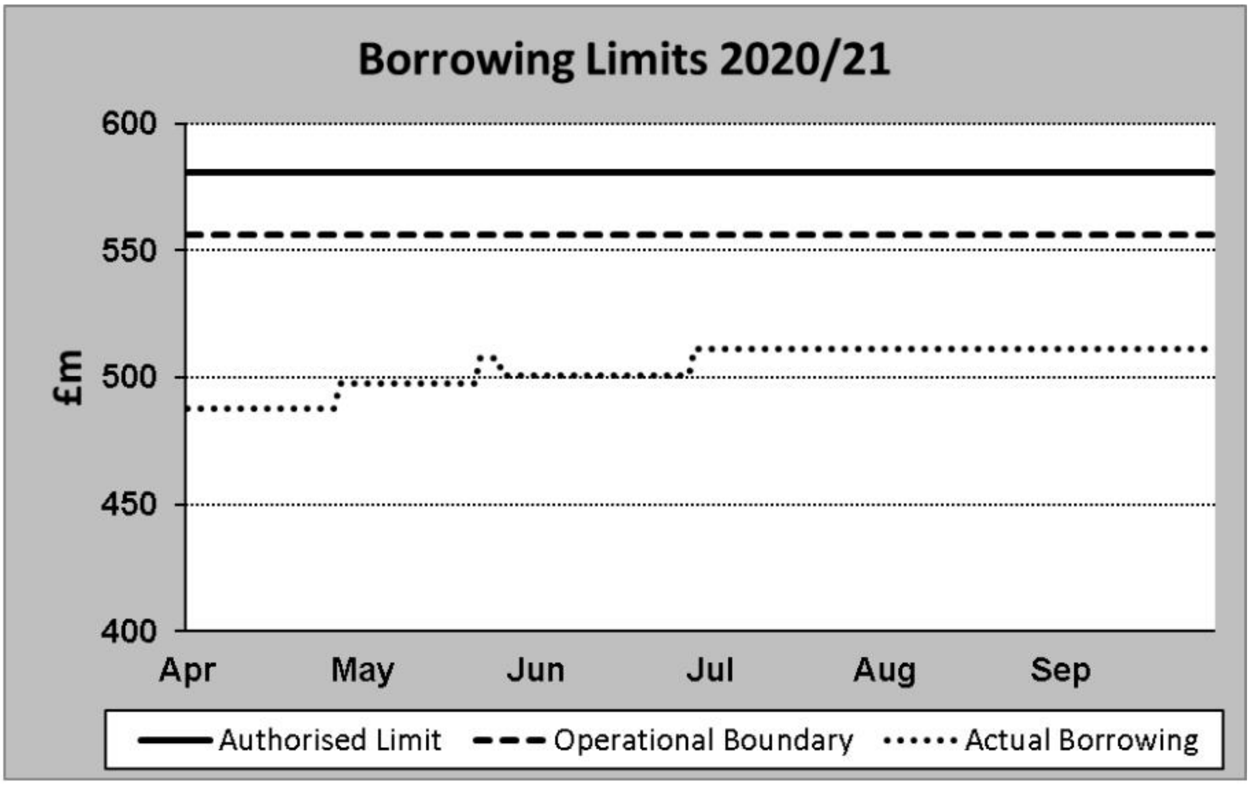
2.2 This strategy has the effect of postponing external borrowing, thereby making short-term savings for the Council. It also reduces credit risk since we hold lower cash balances. However, this cashable benefit has to be weighed against the risk of not borrowing and taking advantage of lower interest 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 liquidity perspective.

2.3 Since the Council's Treasury Management Strategy was approved in February 2020, the borrowing requirement has been revised in line with slippage in the capital programme, and any changes in the forecast use of reserves. Three loans of £10m each have been raised from PWLB, and £6.8m of PWLB debt has matured. An update is provided in the table overleaf:

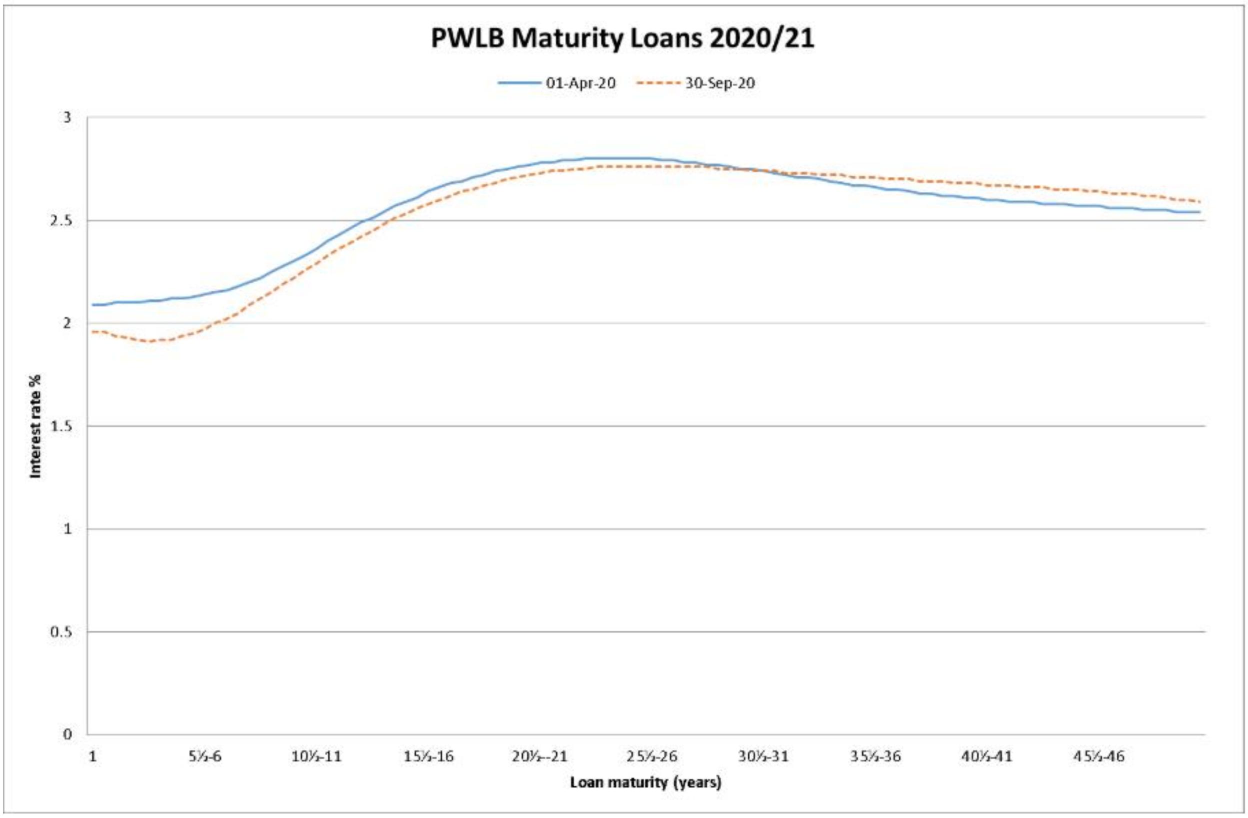
Table 3	**2020/21 Estimate**	**2020/21 Revised**
	£m	**£m**
Closing Capital Financing Requirement	843.9	845.0
Less:		
- Long-term liabilities	-112.1	-110.1
- Existing borrowing	-475.2	-505.2
- Cap Ex to be financed by borrowing (a)	-53.4	-55.0
- Replenishment/Replacement borrowing (b)	4.6	46.3
Internal borrowing (A)	**207.8**	**221.0**
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)	**227.8**	**241.0**
Cumulative minimum borrowing requirement (a+b)	**48.8**	**8.7**

2.4 This table shows that by the year-end the Council expects to be under-borrowed by approximately £221m relative to its Capital Finance Requirement. It also indicated that further borrowing of around £9m will be required during 2020/21, although it is likely that even this will dwindle to zero with further slippage. Usually, if interest rates for borrowers appear favourable, then any amount up to £221m may be taken. However, as shown in paragraph 1.5, interest rates on cash reserves are now so low that borrowing further sums while reserves appear adequate might be imprudent.

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 2020/21 was set at £556m and the authorised limit at £581m.



2.6 The following chart shows that PWLB interest rates have changed very little over the first half of the financial year. Longer-term loans continue to provide the best value for financing the Council's capital programme, but the advantage is slight.



2.7 Treasury officers, guided by the Treasury Management Group, continue to monitor rates from both the PWLB and the market with a view to borrowing when this becomes necessary and the rates favourable.