Treasury Management Update Report

AUDIT COMMITTEE MEETING DATE 2020/21 **14 October 2020**	**CLASSIFICATION:** **Open**
WARD(S) AFFECTED **All Wards**	
Ian Williams, Group Director Finance and Corporate Resources	

1. INTRODUCTION AND PURPOSE

1.1 The report, at Appendix 1, introduces the treasury management outturn report and the actual prudential indicators for 2019/20 for the Audit Committee setting out the background for treasury management activity over the previous financial year and confirming compliance with treasury limits and prudential indicators.

1.2 The report, at Appendix 2, provides a quarterly update on treasury management activity for the period June 2020 to August 2020 of 2020/21.

2. RECOMMENDATION(S)

The Audit Committee is recommended to:

- There are no immediate recommendations arising from this report as the purpose is to update the Audit Committee on the past events.

3. BACKGROUND

3.1 Policy Context

Treasury management and ensuring that the function is governed effectively means that it is essential for those charged with governance to review the operations of treasury management on a regular basis. This report sets out the prior year's outturn and forms part of the regular reporting cycle for Audit Committee along with the second of the in-year updates for the current financial year covering period from June 2020 to August 2020.

3.2 Equality Impact Assessment

There are no equality impact issues arising from this report.

3.3 Sustainability

There are no sustainability issues arising from this report.

3.4 Consultations

No consultations are required in respect of this report.

3.5 Risk Assessment

There are no risks arising from this report as it reports on past events. Clearly though the treasury management function is a significant area of potential risk for the Council if the function were not properly carried out and monitored by those charged with responsibility for oversight. Regular reporting on treasury management ensures that the Committee is kept informed.

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

4.1 There are no direct financial consequences arising from this report as it reflects past performance through 2019/20 and for the period from June 2020 to August 2020. The information contained in this report will assist Members of this Committee in monitoring the treasury management activities and enable better understanding of such operations. Committee is requested to note this report.

5. COMMENTS OF THE DIRECTOR OF LEGAL

5.1 The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for management of risk. In addition, the Council within its Annual Treasury Management Strategy has agreed to comply with the CIPFA Code of Practice on Treasury Management. This report demonstrates that Treasury Management is meeting these requirements and adapting to changes as they arise.

5.2 There are no immediate legal implications arising from the report.

6. BACKGROUND PAPERS

6.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).

6.2 The Authority's Treasury Management Strategy for 2019/20 was approved by full Council on 28th January 2019 which can be accessed on the Council website:

http://mginternet.hackney.gov.uk/documents/s63777/Treasury%20Management%20Strategy%20201819%20FINAL.pdf

6.3 The Authority's Treasury Management Strategy for 2020/21 was approved by full Council on 15th January 2020 which can be accessed on the Council website:

http://mginternet.hackney.gov.uk/documents/s68240/FINAL%20-%20Treasury%20Management%20Strategy%202020_21%201.pdf

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APPENDIX 1: Annual Treasury Management Outturn Report 2019/20

1. External Context

1.1 **Economic background:** The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a $2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

1.2 **Financial markets:** Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touch its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31st March. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

Since the start of the calendar 2020, the yield on 2-year US treasuries had fallen from 1.573% to 0.20% and from 1.877% to 0.61% for 10-year treasuries. German bund yields remain negative.

1.3 **Credit background:** In Q4 2019 Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to stable from negative. The Bank of England announced its latest stress tests results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

After remaining flat in January and February and between a range of 30-55bps, Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March and through to mid-April but remain above their initial 2020 levels. NatWest Markets Plc (non-ringfenced) remains the highest at 128bps and National Westminster Bank Plc (ringfenced) still the lowest at 56bps. The other main UK banks are between 65bps and 123bps, with the latter being the thinly traded and volatile Santander UK CDS.

While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days in mid-March.

Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-. Having revised their outlooks to negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks. HSBC Bank and HSBC UK Bank, however, had their long-term ratings increased by Fitch to AA-.

2 The Borrowing Requirement and Debt Management

2.1 The Council currently had one £2.4m LEEF (London Energy Efficient Fund) loan from the European Investment Bank to fund housing regeneration. This loan is below market rate and was taken out in July 2014.

2.2 The LEEF loan is an EIP (Equal Instalment of Principle) loan where each payment includes an equal amount in respect of loan principle throughout the duration of the loan. Therefore the interest due with each payment reduces as the principle is eroded, and so the total amount reduces with each instalment. Consequently, part of the loan is short term in duration, the amount which will be paid via instalments within one year with the remainder of loan maturing beyond 1 year (long term).

2.3 In addition, the Authority had £123.7m in external borrowing. This was made up of £45m short term to cover liquid cash flow requirements and £78.7m long term to finance part of the borrowing requirement within the Housing Revenue Account associated with the delivery of the housing capital programme, particularly in respect of regeneration.

Table 1: Capital Financing Requirement (CFR) & Total External Debt

	Balance as at 31/03/19 £'000	**New Borrowing £'000**	**Debt Maturing £'000**	**Debt Repaid £'000**	**Balance as at 31/03/20 £'000**	**Average Rate %**
CFR	484,185				493,014	
	80,400	-	35,000	-	45,400	1%

Short Term Borrowing*						
Long Term Borrowing	2,400	80,000	-	1,700	80,700	1.92%
TOTAL BORROWING	**82,800**	**80,000**	**35,000**	**1,700**	**126,100**	
Other Long Term Liabilities	14,112	-	-	-	14,332	
TOTAL EXTERNAL DEBT	**96,912**	-	-	0	**140,432**	

2.4 The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31/03/2020 was £493.014m.

2.5 External Borrowing – During the year 80m was borrowed from the Public Work Loan Board to be paid in equal instalments over a 10 and 25 year period. This long term borrowing is being used to finance part of the borrowing requirement within the Housing Revenue Account associated with the delivery of the housing capital programme, particularly in respect of regeneration. This new borrowing has been entered into in order to take advantage of the low rates currently available from PWLB, thereby locking these in and providing some certainty over financing costs for the future, whilst also taking account of the Council's current liquidity position.

3. Investment Activity

3.1 MHCLG's Investment Guidance requires local authorities to focus on security and liquidity, rather than yield.

3.2 Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2019/20 Investments during the year included:

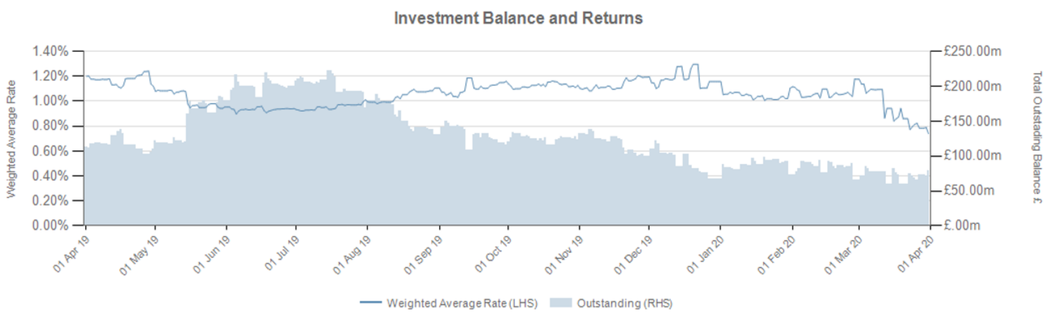
- Deposits with other Local Authorities
- Investments in AAA-rated Constant Net Asset Value Money Market Funds

- Investments in AAA-rated Variable Net Asset Value Cash Enhanced Money Market Funds
- Call accounts, deposits and
- Housing Associations

<u>Table 2: Investment Balances</u>

Investments	**Balance as at 31/03/19 £'000**	**Average Rate %**	**Balance as at 31/03/20 £'000**	**Average Rate %**
Short Term Investments	32,296		28,429	
Long Term Investments	6,500		3,700	
Corporate Bonds	2,356		0	
Housing Associations	35,000		15,000	
Investments in VNAV MMF's (Money Market Funds)	3,000		13,000	
Investments in CNAV MMF's (Money Market Funds)	27,923		19,250	
TOTAL INVESTMENTS	**107,075**	**1.3**	**79,379**	**0.74**

3.3 The Council's investment balance reduced by £28m to £79m at the end of the financial year with weighted average rate (investment return) of 0.74%. The Council is forecasting a further downward trend in cash balances as when the Council progresses on a number of major capital schemes requiring forward funding. The movement of cash balances (thick grey block) and yield (thin blue line) throughout the year is represented in the graph below:



3.4 Credit Risk- Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price. The minimum long-term counterparty credit rating determined for the 2019/20 treasury strategy was A- across rating agencies Fitch, S&P and Moody's.

<u>Table 3: Credit Score Analysis</u>

Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating
31/03/2019	4.9	A+	4.7	A+
30/06/2019	4.9	A+	5.4	A+
30/09/2019	5.4	A+	5.8	A
31/12/2019	5.1	A+	5.9	A
31/03/2020	5.0	A+	5.9	A

Scoring: - Aim = AA- or higher credit rating, with a score of 4 or lower, to reflect current investment approach with main focus on security
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 27

3.5 Liquidity - In keeping with the MHCLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds/overnight deposits/call accounts.

3.6 Yield - The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate changed from 0.25% to 0.1% in March 2020.

4. Compliance

4.1 The Council can confirm that it has complied with its Prudential Indicators for 2019/20, which were approved on 28th January 2019 as part of the Council's Treasury Management Strategy Statement.

4.2 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2019/20. None of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

4.3 The Authority can confirm that during 2019/20 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

5. Prudential Indicators

5.1 Capital Financing Requirement (CFR)

The Council's cumulative maximum external borrowing requirement for 2017/18 to 2019/20 are shown in the table below. The estimates for the 2020/21 are currently being reworked, in conjunction with the first review of the authority's capital programme and financing.

	31/03/18 Actual £'000	31/03/19 Actual £'000	31/03/20 Actual £'000	31/03/21 Estimated £'000
Gross CFR	398,854	484,185	493,014	486,535
Less: Other Long Term Liabilities	14,822	14,112	14,332	13,200
Borrowing CFR	**384,032**	**470,073**	**478,682**	**473,335**
Less: Existing Profile of Borrowing	33,086	82,800	126,100	121,000
Gross Borrowing Requirement/Internal Borrowing	**350,946**	**387,273**	**352,582**	**352,335**
Usable Reserves	295,064	307,447	318,364	279,480
Net Borrowing Requirement/(Investment Capacity)	**55,882**	**79,826**	**34,218**	**72,855**

In the Prudential Code Amendment (November 2012), it states that the Chief Finance Officer should make arrangements for monitoring with respect to gross debt and the capital financing requirement such that any deviation is reported to him/her, since any such deviation may be significant and should lead to further investigation and action as appropriate.

	2017/18 Actual £'000	2018/19 Actual £'000	2019/20 Actual £'000	2020/21 Estimate £'000
Gross Debt	47,908	96,953	140,432	135,000
CFR	398,854	484,185	493,014	486,535
Borrowed in excess of CFR? (Y/N)	N	N	N	N

5.2 Prudential Indicator Compliance

(a) Authorised Limit and Operational Boundary for External Debt

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.

- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

- The Group Director of Finance and Corporate Resources confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year.

	Operational Boundary (Approved) as at 31/03/20 £'000	**Authorised Limit (Approved) as at 31/03/20 £'000**	**Actual External Debt as at 31/03/20 £'000**
Borrowing	502,000	532,000	126,100
Other Long-term Liabilities	20,000	20,000	14,332
Total	**522,000**	**552,000**	**140,432**

(b) Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on Council tax and in the case of the HRA, housing rent levels. The three year capital programme is being re-profiled and reviewed at the time of this report being prepared. Annual spend has reduced in 2019/20 (we have spent around £270m a year in the previous three years), but the 2020/21 position will be considerably lower. Covid 19 brings an element of uncertainty into planning at this point.

	2018/19 Actual £000	**2019/20 Actual £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**
Capital Expenditure					
Housing	120,026	122,120	107,879	149,831	178,127
Non-Housing	148,852	108,346	107,512	90,303	79,605
Total spend	268,878	230,466	215,391	240,134	257,732

Capital expenditure has been and will be financed or funded as follows:

Capital Financing	**2019/20 Actual £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**
Prudential Borrowing	38,933	56,842	128,854	134,621

S106/CIL	7,590	4,939	7,096	-
Capital receipts	104,655	43,832	32,454	31,373
Grants	25,879	24,420	12,557	17,832
Reserves/ Discretionary	-	34,104	19,964	20,582
RCCO	53,409	51,254	39,209	53,324
Total Financing	**230,466**	**215,391**	**240,134**	**257,732**

The table shows that the capital expenditure plans of the Authority could not be funded entirely from sources other than borrowing.

(c) Ratio of Financing Costs to Net Revenue Stream

- This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs.
- The ratio is based on costs net of investment income.
- As mentioned above there is a reworking of the capital financing requirement in train currently, which also drives this indicator and hence 2020/21 and 2021/22 figures will be updated at a point after the date this report is being discussed.

Ratio of Financing Costs to Net Revenue Stream	2018/19 Actual	2019/20 Actual	2020/21 Estimate	2021/22 Estimate
Non-HRA	1.0%	1.0%	1.2%	1.4%
HRA	30%	32%	32%	32%

(d) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Authority adopted the principles of best practice via approval of the CIPFA Treasury Management Code

Appendix 2 – Treasury Management Update Report

Treasury Management Activities from June 2020 to August 2020

1. Economic Highlights

1.1 **Growth:** The ONS first estimate for GDP in Quarter 2 2020 is estimated to have fallen by a record 20.4%. When compared with the same quarter a year ago, the UK economy decreased by 21.7%. This decline in quarterly GDP marks the second consecutive quarterly decline after the 2.2% fall in Quarter 1 2020. In Quarter 2 there have been record falls in services, production, and construction output. Declining private consumption accounted for more than 70% of the fall in the expenditure measure of GDP which fell by 23.1%. Although the Quarter 2 GDP figures paint a grim picture for the UK's output, it is important to note that the overall decline in GDP masks May's 2.4% and June's 8.7% month on month growth in GDP.

1.2 **Inflation:** The Consumer Price Index (CPI) 12-month rate was 1.0% in July 2020 up from 0.6% in June. The Consumer Price Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 1.1% in July 2020 increasing from 0.8% in June. Core inflation increased to 1.8% from 1.4%.

1.3 **Labour Market:** In the three months to June 2020, the estimated employment rate was 76.4% down 0.2% from the previous quarter, while the unemployment rate remained at 3.9%, unchanged from the previous quarter. The statistics show that in the three months to June 2020 the rate of pay growth fell to -1.2% for total pay and also decreased by -0.2% for regular pay which is the first time it has been negative since records began in 2001. The rate of pay growth in real terms fell to -2.0% for total pay and -1.0% for regular pay.

1.4 **Monetary Policy Committee:** At the conclusion of the MPC meeting held on the 4th August 2020, the committee voted unanimously to maintain the Bank Rate at 0.1%. They also voted unanimously to continue with the existing asset purchase programme, financed by the issuance of central bank reserves, to maintain the target for these purchases at £745 billion.

2. Borrowing & Debt Activity

2.1 The Authority currently has £127.6m in external borrowing. This is made up as a single LEEF loan of £2.2m from the European Investment Bank to fund housing regeneration and £48m short-term borrowing from Local Authorities for day to day cash management purposes and £77.4m borrowed from Public Work Loan Board for housing capital programme, particularly in respect of housing regeneration.

3. Investment Policy and Activity

3.1 The Council held average cash balances of £127 million during the reported period, compared to an average £175 million for the same period last financial year.

Movement in Investment Balances 01/06/20 to 31/08/20

	Balance as at 01/06/2020 £'000	Average Rate of Interest %	Balance as at 31/08/2020 £'000	Average Rate of Interest %
Short Term Investments	28,444	-	25,455	-
Long Term Investments	3,700	-	3,700	-
Housing Associations	15,000	-	15,000	-
Investments in VNAV MMF's (Money Market Funds)	13,000	-	13,000	-
Investments in CNAV MMF's (Money Market Funds)	48,750	-	81,600	-
	108,894	**0.58**	**138,755**	**0.37**

3.2 Due to the volatility of available creditworthy counterparties, longer and short term investments have been placed in highly rated UK Government institutions, thus ensuring creditworthiness of investments.

4. Counterparty Update

4.1 Fitch has affirmed its AAA sovereign rating for USA but revised the outlook to Negative. Arlingclose remains comfortable with clients making deposits with UK and Non-UK institutions on our counterparty list for a period up to 35 days, where strategies permit.

4.2 Arlingclose have stress tested the UK banks and building societies on our counterparty list in case the credit impact of the coronavirus pandemic is similar to the global financial crisis (GFC) of 2007-09. As a result, they have removed five smaller financial institutions from our recommended list.

4.3 Arlingclose has suspended Close Brothers, Coventry Building Society, Goldman Sachs International Bank, Handelsbanken UK and Leeds Building Society from our counterparty list for unsecured deposits.

4.4 Whilst the ongoing investment strategy remained cautious counterparty credit quality remains strong, as can be demonstrated by the Credit Score Analysis summarised below:

5. Credit Score Analysis

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating Score	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating Score
30/06/2020	A+	4.9	A	6.5
31/07/2020	A+	4.7	A	5.9
31/08/2020	A+	4.7	A	6.0

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 27
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

5.1 The Council continues to utilise AAAmmf/Aaa/AAAm rated Money Market Funds for its very short, liquidity-related surplus balances. This type of investment vehicle has continued to provide very good security and liquidity, although yield suffers as a result.

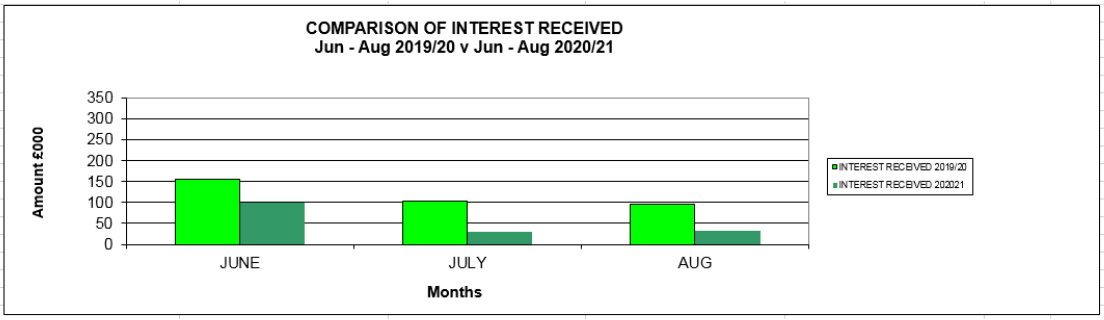
5.2 In light of legislative changes and bail-in risk for unsecured bank deposits, as set out in previous monitoring reports, the Council continues to invest in highly rated UK Government institutions, Building Societies and Housing Associations. This investment vehicle offers good level of security and increases diversification for the Council's portfolio whilst achieving a reasonable yield.

6. Comparison of Interest Earnings

6.1 The Council continues to adopt a fairly cautious strategy in terms of investment counterparties and periods. Due to the volatility of available creditworthy counterparties, longer term and short term investments have been placed in highly rated UK Government institution and Housing Associations, thus ensuring creditworthiness whilst increasing yield's through the duration of the deposits.

6.2 The graph below provides a comparison of interest earnings for June 2020 and August 2020 against the same period for 2019/20.

6.3 Average interest received for the period June 2020 to Aug 2020 was £53k compared to £118k for the same period last financial year. Less interest received this year is a clear indication of falling interest rates.



7. Movement in Investment Portfolio

7.1 Investment levels have decreased to £139 million at the end of Aug 2020 in comparison to the end of Aug 2019 last year of £156 million. It is anticipated that overall levels of investment balance will reduce as and when the capital programmes are delivered, although we need to maintain liquidity for day-to day operational purposes.