Southend-on-Sea Borough Council

Report of Executive Director (Finance & Resources)
to
Cabinet
on
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Agenda Item No.

11

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Annual Treasury Management Report – 2019/20
Policy and Resources Scrutiny Committee
Cabinet Member: Councillor Ron Woodley
A Part 1 Public Agenda Item

1. Purpose of Report

1.1. The Annual Treasury Management Report covers the treasury activity for the period from April 2019 to March 2020 and reviews performance against the Prudential Indicators for 2019/20.

2. Recommendation

That Cabinet;

1.2. **Approves the Annual Treasury Management Report for 2019/20 and the outturn Prudential Indicators for 2019/20.**

1.3. **Notes that the financing of 2019/20 capital expenditure of £59.451m has been funded in accordance with the schedule set out in Table 1 of section 4.**

1.4. **Notes that Capital Financing and Treasury Management were carried out in accordance with statutory requirements, good practice and in compliance with the CIPFA (The Chartered Institute of Public Finance and Accountancy) Prudential Code during 2019/20.**

1.5. **Notes the following in respect of the return on investment and borrowing;**

- **The loan and investment portfolios were actively managed to minimise cost and maximise interest earned, whilst maintaining a low level of risk.**
- **£2.174m of interest and income distributions were received during 2019/20. The total investment income (including the movement on the**

unit price of externally managed funds) was £0.882m, giving a combined return of 0.70%. This is 0.16% over the average 7 day LIBID rate (London Interbank Bid Rate) and 0.02% under the average bank base rate. (Section 7).

- **The level of borrowing from the Public Works Loan Board (PWLB) (excluding debt relating to services transferred from Essex County Council on 1st April 1998) increased from £267.8m to £310.3m (Housing Revenue Account (HRA): £75.0m, General Fund (GF): £235.3m) by the end of 2019/20.**

- **The level of financing for 'invest to save' schemes decreased from £8.73m to £8.64m by the end of 2019/20.**

3. Background

1.6. The CIPFA Prudential Code requires the Council to set Prudential Indicators for its capital expenditure and treasury management activities and to report on them after the end of the financial year.

1.7. This Council has adopted the 'CIPFA Code of Practice for Treasury Management in the Public Sector' and operates its treasury management service in compliance with this Code. The Code requires the reporting of treasury management activities to:

- Review actual activity for the preceding year (this report); and
- Forecast the likely activity for the forthcoming year (in the Treasury Management and Prudential Indicators Report in February).

1.8. The Prudential Code is the key element in the system of capital finance that was introduced from 1st April 2004 as set out in the Local Government Act 2003. The Code has been developed to support Local Authorities in taking capital investment decisions and to ensure that these decisions are supported by a framework which ensures prudence, affordability and sustainability.

1.9. To demonstrate compliance with these objectives of prudence, affordability and sustainability each local authority is required to produce a set of prudential indicators and to update these annually as part of setting the Council's budget.

4. Prudential Indicators

1.10. Appendix A provides a schedule of the prudential indicators.

1.11. Capital Expenditure

The first of these is the amount of capital expenditure in the year on long term assets. The table below shows this and the ways it has been financed.

Table 1: Capital Expenditure and Financing

	2019/20 Revised Budget £000s	2019/20 Actual £000s	2019/20 Variance £000s
Total Capital Expenditure	**70,957**	**59,451**	**(11,506)**
Financed by:			
Borrowing(1)	21,869	14,661	(7,208)
Invest to Save Financing(1)	3,132	2,276	(856)
Capital Receipts	3,197	2,340	(857)
Capital Grants Utilised	21,929	28,146	6,217
Major Repairs Reserve	8,408	5,929	(2,479)
Other Revenue/ Capital Reserve Contributions	10,294	5,549	(4,745)
Other Contributions	2,128	550	(1,578)
Total Financing	**70,957**	**59,451**	**(11,506)**

Note 1 - this relates to both internal and external borrowing

The capital expenditure financed by borrowing is lower than budgeted and the capital expenditure financed by grants is higher than budgeted. This is mainly due to the project for the increased provision of secondary school places where the grant funding is paid in instalments over several years. Last year this project had been notionally financed by borrowing whilst awaiting the grant funding. This year the grant funding has been received and used to finance most of the years spend.

As at 31 March 2020 actual borrowing by the HRA was £98.816m, comprising £74.993m external borrowing and £23.823m internal borrowing.

The HRA can also finance its capital spend from the major repairs reserve, from grants and directly from the HRA by way of revenue contributions to capital.

1.12. Capital Financing Requirement (CFR)

The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a measure of the Council's debt position and represents capital expenditure up to the end of 2019/20 which has not yet been charged to revenue. The process of charging the capital expenditure to revenue is a statutory requirement and is done by means of the Minimum Revenue Provision (MRP). The Council's CFR is shown in table 2 and is a key prudential indicator.

Table 2: Capital Financing Requirement (CFR)

	31st March 2020 Revised Budget £000s	**31st March 2020 Actual £000s**
Balance 1st April 2019	359,962	359,962
Plus: capital expenditure financed by borrowing (internal and invest to save financing)	25,001	16,937
Plus: fixed assets subject to finance leases	0	0
Less: Capital Receipts used to repay borrowing	0	0
Less: Minimum Revenue Provision	(4,343)	(4,343)
Balance 31st March 2020	380,620	372,556

The CFR is the Council's theoretical need to borrow but the Section 151 Officer can manage the Council's actual borrowing position by either borrowing to the CFR, choosing to use temporary cash flow funds instead of borrowing (internal borrowing) or borrowing for future increases in the CFR (borrowing in advance of need). The Section 151 Officer currently manages the Council's actual borrowing position in the second of the above CFR scenarios.

Of the sum in table 2 above, the Council has already addressed the theoretical need to borrow by having undertaken external borrowing and credit arrangements of £321.537m and by internally borrowing the remaining £51.019m.

1.13. Treasury Position on Borrowing and Investments

The overall treasury position at 31 March 2020 compared with the previous year is set out in the table on the next page.

Table 3: Treasury Position

	31 March 2020 Revised Budget	31 March 2020 Actual	
	Principal £000s	Principal £000s	Average Rate (%)
Total gross Debt# (excluding ECC transferred debt)	321,668	321,537	3.93

This includes PWLB borrowing of £310.332m with the balance being invest to save financing, short term borrowing for cash flow purposes and finance leases (as these are credit arrangements).

In order to ensure that borrowing levels are prudent over the medium term, the Council's gross external borrowing must only be for a capital purpose. Gross borrowing should not therefore, except in the short term, exceed the CFR for 2019/20 plus the expected changes to the CFR over 2020/21 and 2021/22. The table below shows that the Council has complied with this requirement.

Table 4: CFR compared to Gross Borrowing Position

	31 March 2020 Revised Budget £000s	31 March 2020 Actual £000s
Gross borrowing position	321,668	321,537
Estimated Capital Financing Requirement at 31 March 2022		427,081

1.14. Authorised Limit, Operational Boundary and Ratio of Financing Costs

In addition to ensuring that the net borrowing position is lower than the CFR, the Council is required to set gross borrowing limits. These are detailed below with the actual positions during the year.

Table 5: Borrowing limits

	2019/20 (£000s)
Authorised Limit	360,000
Operational Boundary	350,000
Maximum gross borrowing position during the year	329,351
Financing costs as a proportion of net revenue stream	9.70%

The Authorised Limit is the "Affordable Borrowing Limit" required by the Local Government Act 2003. This is the outer boundary of the Council's borrowing based on a realistic assessment of the risks. The table above demonstrates that during 2019/20 the Council has maintained gross borrowing within its Authorised Limit.

The Operational Boundary is the expected borrowing position of the Council during the year, and periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached. The Council has maintained borrowing within the boundary throughout 2019/20.

The indicator "financing costs as a proportion of net revenue stream" identifies the cost of capital (borrowing costs net of investment income) as a proportion of the Council's total budget. For the General Fund the actual figure in 2019/20 was 9.70%.

1.15. Maturity structure of borrowing (against maximum position)

The table below shows the upper limits for which the Council delegates its length of borrowing decisions to the Executive Director (Finance and Resources)/Section 151 Officer in 2019/20 and the actual maturity structure of the borrowing as at 31st March 2020.

Table 6: Maturity Structure of Borrowing

	Upper limit %	**Outstanding debt maturity at 31st March 2020 %**
Under 12 months	20	0
12 months and within 24 months	30	1
24 months and within 5 years	40	3
5 years and within 10 years	60	18
10 years and within 20 years	100	32
20 years and within 30 years	100	8
30 years and above	80	38

The percentages in each category for the upper limits do not add up to 100% as they do not represent an actual allocation.

5. Treasury Management Strategy

1.16. During 2019/20 the Council complied with all of the relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of the Code of Practice for Treasury Management means its treasury practices demonstrate a low risk approach.

1.17. The Council is aware of the risks of passive management of the treasury portfolio and has taken steps to improve the proactive management of the debt and investments over the year with the support of its treasury management advisers.

1.18. Shorter-term variable rates and likely future movements in these rates predominantly determine the Council's in-house investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

1.19. UK interest rates continued to be low throughout 2019/20. The bank base rate stayed at 0.75% until 10th March when the Bank of England decreased the rate to 0.25% as one of a package of measures in response to the economic disruption associated with Covid-19. On 19th March the Bank of England took further action to protect the UK economy from the economic effects of the Covid-19 outbreak and decreased the rate to 0.10%. With growing uncertainty in the financial markets and over future cashflows, most of the monies held in the Money Market Funds were brought back into the Council's main current account over the year end. As this was done in late March and the interest rates by that time were very low this did not impact on investment returns for the year.

1.20. The monies being managed by external fund managers were impacted by the effects of Covid-19 in the last month or quarter, depending on the fund. The income distributions were only slightly affected for one of the property funds as these are based on property rental income, although most were paid a quarter in advance. The unit value of all external funds decreased but in line with the capital finance and accounting regulations the Financial Instrument Revaluation reserve is used to capture all the changes in the unit value of the funds so they do not affect the General Fund balance. (See sections 8 and 9 for the performance of the externally managed funds.

1.21. Long term interest rates from the Public Works Loans Board (PWLB) fluctuated throughout 2019/20 in response to economic events: 10 year PWLB rates between 1.15% and 2.79%; 25 year PWLB rates between 1.73% and 3.25% and 50 year PWLB rates between 1.57% and 3.05%. These rates are after the PWLB 'certainty rate' discount of 0.20%.

1.22. The current levels of external borrowing are well below the Council's underlying need to borrow. Given the political situation throughout the year with the uncertainty around the expected Brexit leave date and a general election, the PWLB rates fluctuated quite widely. Within those fluctuations the long term rates have at times reached historic lows and when this happens it can be economically advantageous to take out loans at those exceptionally low rates. This happened in June and August, with the following new PWLB loans taken out:

- £10m at 2.16% for 48 years;
- £10m at 1.99% for 45 years and one month;
- £10m at 1.99% for 46 years;
- £10m at 1.84% for 47½ years;
- £10m at 1.84% for 49 years;

Additionally, a £7.5m loan taken out in December 1989 at 9.875% matured in September and was repaid. No debt restructuring was carried out during the quarter.

1.23. Since 1 November 2012 HM Treasury implemented a 'certainty rate' of the Government gilt rate plus 0.8% for those authorities providing improved information and transparency on their locally-determined long-term borrowing and associated capital spending plans. This Council provided the necessary information again in 2019/20 and was therefore eligible for this 'certainty rate'. As the cost of borrowing has fallen to record lows and local authorities had been increasing their use of the PWLB, HM Treasury took the decision to increase the margin that applies to new loans from the PWLB by 1% on top of the usual lending terms, with immediate effect from 9th October.

1.24. At the beginning of the 2019/20 financial year the average rate of the Council's overall PWLB borrowing was 4.61%. After the above borrowing and repayment in 2019 this average rate for 2019/20 has fallen to 3.93%.

1.25. The level of PWLB borrowing at £310.3m is in line with the financing requirements of the capital investment programme and the revenue costs of this borrowing are fully accounted for in the revenue budget. The current level of borrowing is also in line with the Council's prudential indicators and is prudent, affordable and sustainable.

6. Borrowing

PWLB and short term borrowing

1.26. The table below summarises the PWLB borrowing activities during the financial year 2019/20:

Table 7: PWLB borrowing

Quarter	Borrowing at beginning of quarter (£m)	New Borrowing (£m)	Re-financing (£m)	Borrowing repaid (£m)	Borrowing at end of quarter (£m)
April to June 2019	267.8	10	0	(0)	277.8
July to September 2019	277.8	40	0	(7.5)	310.3
October to December 2019	310.3	0	0	(0)	310.3
January to March 2020	310.3	0	0	(0)	310.3

1.27. The Council's outstanding PWLB borrowing as at 31st March 2020 was:

- Southend-on-Sea Borough Council £310.3m*
- ECC transferred debt £10.7m

* £235.3m General Fund and £75.0m Housing Revenue Account.

1.28. Repayments in 2019/20 were:

- Southend-on-Sea Borough Council £7.5m
- ECC transferred debt £0.6m

1.29. Outstanding debt relating to services transferred from Essex County Council (ECC) on 1st April 1998, remains under the management of ECC. Southend Borough Council reimburses the debt costs incurred by the County. The debt is recognised as a deferred liability on our balance sheet.

1.30. The table below summarises our PWLB borrowing position as at the end of 2019/20:

Table 8: Debt position

	31 March 2020		31 March 2019	
	Principal (£000s)	Average Rate (%)	Principal (£000s)	Average Rate (%)
-PWLB – Fixed	310,332*	3.93	267,816	4.61
-ECC Transferred Debt	10,707	2.43	11,282	2.55

* £235.3m General Fund and £75.0m Housing Revenue Account.

1.31. Some of the Council's borrowings are at a higher interest rate than the current rate of borrowing. To redeem these loans before their maturity date (i.e. to redeem them early) the Council would be required to pay a premium (this is like paying to redeem a mortgage early except the amount of the penalty depends on the prevailing rate of interest). New loans could then be taken out at the current rate.

1.32. In November 2007 the PWLB changed its structure of interest rates so that any early repayment of PWLB debt has a higher repayment rate applied. No PWLB restructuring was carried out in 2019/20 due to the higher cost of PWLB repayments making it uneconomical and giving no benefit to the Council.

1.33. The total interest payments during the year were £11.7m, compared to the original budget of £11.1m. The original budget assumed that the Council would take out £31m of loans during 2019/20. Due to the advantageously low rates £50m of new loans were taken out by the Section 151 Officer in June and August, earlier in the financial year than anticipated but at lower rates than anticipated. This therefore led to the overspend on the interest payments against the original budget.

1.34. During the year no short term borrowing was undertaken for cash flow purposes.

Funding for Invest to Save Schemes

1.35. Capital projects were completed on energy efficiency improvements at the Beecroft Art Gallery, replacement lighting on Southend Pier, draughtproofing of windows, lighting replacements at University Square Car Park and Westcliff Library which will generate on-going energy savings. These are invest-to-save projects and the predicted revenue streams cover as a minimum the financing costs of the project.

1.36. To finance these projects in total the Council has taken out interest free loans of £0.295 with Salix Finance Ltd which is an independent, not for profit company, funded by the Department for Energy and Climate Change that delivers interest-free capital to the public sector to improve their energy efficiency and reduce their carbon emissions. The loans are for periods of four and five years with equal instalments to be repaid every six months. There are no revenue budget implications of this funding as there are no interest payments to be made and the revenue savings generated are expected to exceed the amount needed for the repayments. £0.047m of these loans were repaid during the year.

1.37. At the meeting of Cabinet on 23rd June 2015 the LED Street Lighting and Illuminated Street Furniture Replacement Project was approved which was to be partly funded by 25 year reducing balance ‘invest to save’ finance from L1 Renewables Ltd. Repayments of £0.052m were made during the year and the balance outstanding at 31 March 2020 was £8.54m.

7. Investments

1.38. The table below summarises the Council's investment position at the end of 2019/20:

Table 9: Investment position

	31 March 2020	2019/20		31 March 2019	2018/19	
	Principal (£000s)	Average Balance (£000s)	Average Rate (%)	Principal (£000s)	Average Balance (£000s)	Average Rate (%)
Call accounts #	34,936	5,450	0.23	8,080	8,456	0.64
Money Market Funds	4,000	34,088	0.86	33,000	12,921	0.78
Fixed Term Deposits	35,000	37,008	1.04	0	0	N/A
Total investments managed in-house	**73,936**	**76,546**	**0.90**	**41,080**	**21,377**	**0.74**
Enhanced Cash Funds	4,990	5,080	(0.52)	5,066	5,053	0.81
Short Dated Bond Funds	14,992	15,465	(0.49)	15,377	15,272	2.20
Property Funds	27,554	28,284	1.05	28,385	28,296	5.34
Total externally managed funds	**47,536**	**48,829**	**0.40**	**48,828**	**48,621**	**3.88**
Total investments@	**121,472**	**125,375**	**0.70**	**89,908**	**69,998**	**2.93**

This includes the council's main current account.
@ This excludes the cash held by schools.

1.39. In summary the key factors to note are:

- An average of £76.5m of investments were managed in-house. These earned £0.689m of interest during the year at an average rate of 0.90%. This is 0.36% over the average 7 day LIBID and 0.18% over the average bank base rate;

- An average of £5.1m was managed by an enhanced cash fund manager. This lost £0.027m during the year from a combination of a decrease in the value of units offset by income distributions, giving a combined return of (0.52)%;

- An average of £15.5m was managed by two short dated bond fund managers. This lost £0.076m during the year from a combination of a decrease in the value of the units offset by income distributions, giving a combined return of (0.49)%;

- An average of £28.3m was managed by two property fund managers. This earned £0.296m during the year from a combination of an increase in the value of the units and income distributions, giving a combined return of 1.05%.

1.40. In line with the capital finance and accounting regulations a Financial Instrument Revaluation reserve will be used to capture all the changes in the unit value of the externally managed funds and these will not impact the revenue account, with only the income distributions impacting that. As a total over all the investments, £2.174m of interest and income distributions were received during the year. The total investment income (including the movement on the unit price of externally managed funds) was £0.882m, giving a combined return of 0.70%.

1.41. The actual rate on investments earned in 2019/20 was 0.70% compared to a forecast of 2.23% which was included in the budget. This forecast was based on the best estimates of balances and future interest rates at the time the budget was set and did not envisage a global pandemic.

1.42. The Council earned a total of £0.882m of interest through the investment of surplus funds both in-house and with the fund managers. The interest earned was £0.562m lower than the budgeted figure of £1.444m. Although there were higher levels of in-house balances to invest, this was more than offset by the decrease in the unit value of the externally managed funds. These forecasts were based on the best estimates at the time the budget was set.

1.43. The Council's investment policy is governed by the CIPFA Code of Practice for Treasury Management in the Public Sector, which has been implemented in the Annual Treasury Management Investment Strategy approved by the Council on 21 February 2019. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

7.7 The majority of the cash balances held by the Council are required to meet short term cash flow requirements and therefore throughout the year monies were placed 42 times for periods of one year or less. In the light of the banking crisis and the prevailing financial market conditions there has been greater emphasis on counterparty risk and the security of the principal sums invested.

The table on the next page shows the most used counterparties overall and the countries in which they are based. All deals are in sterling despite the country the counterparties are based in.

Table 10: Counterparties used

Counterparty	Country	No. of Deals	Value of Deals (£m)
Goldman Sachs	Money Market Fund (Various Counterparties)	14	76
Blackrock	Money Market Fund (Various Counterparties)	12	74
Insight Investment Management Ltd	Money Market Fund (Various Counterparties)	10	60
Aberdeen Liquidity Fund	Money Market Fund (Various Counterparties)	6	44
Total		**42**	**254**

7.8 In addition to the above, use was also made of call accounts during the year, because they provide instant access to funds. This meant that funds were available for unexpected cash flow events to avoid having to pay higher rates to borrow from the market. During 2019/20 an average of £5.5m was held in such accounts.

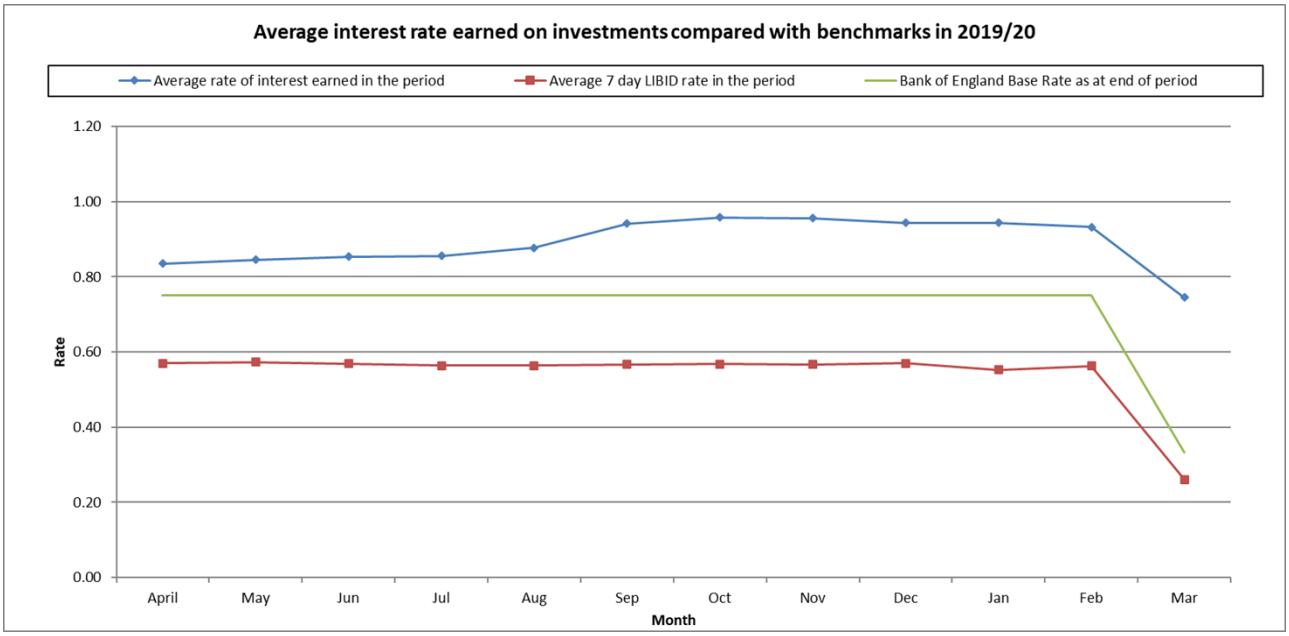
7.9 For cash balances that are not needed to meet immediate or very short term cash flow requirements, monies were invested in fixed term deposits of up to one year, depending on the liquidity requirements. The table below shows the fixed term deposits held during the year:

Table 11: Fixed Term Deposits

Counterparty	Date of Deposit	Return Date	Number of days	Interest rate (%)	Amount (£m)
Lloyds Bank plc	01/05/2019	05/08/2019	96	0.95	10
Goldman Sachs International	12/06/2019	11/12/2019	182	0.95	10
Santander UK plc	15/07/2019	15/01/2020	184	1.00	10
Goldman Sachs International	15/08/2019	14/02/2020	184	0.90	10
Santander UK plc	14/08/2019	14/08/2020	366	1.15	10
Lloyds Bank plc	14/08/2019	14/08/2020	366	1.10	20
Santander	27/02/2020	01/03/2021	368	1.10	5

7.10 The in-house performance during the year is compared to the average 7 day LIBID rate. The graph on the next page shows the Council's performance month by month compared to this benchmark and the bank base rate.

Graph1: In-house investment performance compared to benchmarks



7.11 Overall, performance on in-house managed funds was 0.36% over the average 7 day LIBID rate for the year and averaged 0.18% over the average base rate for the year. The performance and their associated benchmarks reduced during March as a result of the events outlined in paragraph 5.4. If performance had been maintained at the February levels, the average rate of return on in-house investments would have been 0.92% compared to an outturn of 0.90%, which is a reduction in expected investment income of £0.015m due to the Coronavirus pandemic. The effects will be reflected more in the investment performance in 2020/21.

7.12 There is a lot of uncertainty about how the financial markets will react as the lockdown is further eased and the economy enters the recovery phase. Some economists are forecasting low interest rate for up to five years with even the possibility of negative interest rates being discussed. It is likely that a very low interest rate environment will continue into the medium term which will mean lower levels of in-house investment income than in previous years. However, the investment in fixed term deposits at over 1% will provide enhanced returns for part of 2020/21 which will lessen this effect.

7.13 An average of £5.1m was managed by the enhanced cash fund manager Payden & Rygel. During the year the value of the fund decreased by £0.076m due to a decrease in the unit value. There was also income distribution relating to the year of £0.049m. The combined return was (0.52)%

7.14 The Payden & Rygel fund started the year at £5.066m and decreased in value due to the decrease in the value of the units, with the fund at the end of the year at £4.990m.

8. Short Dated Bond Funds

1.44. Throughout the year medium term funds were invested in two short dated bond funds: Royal London Investment Grade Short Dated Credit Fund and the AXA Sterling Credit Short Duration Bond Fund.

1.45. The monies are invested in units in the fund, the fund is then invested as a whole by the fund managers into corporate bonds in the one to five year range. An income distribution will be generated from the coupon on the bond and income distributions are paid to the Council. The price of units can rise and fall, depending on the price of bonds in the fund so these funds are invested over the medium term with the aim of realising higher yields than short term investments.

1.46. In line with the capital finance and accounting regulations the Financial Instrument Revaluation reserve will be used to capture all the changes in the unit value of the funds. Members should be aware that the investment returns in some quarters will look very good and in other quarters there may be losses reported, but these will not impact the revenue account as only the income distributions will impact that and not the change in the unit price.

1.47. An average of £7.7m was managed by AXA Investment Managers UK Limited. During the year the value of the fund decreased by £0.199m due to a decrease in the unit value. There were also income distributions relating to that period of £0.119m. The combined return was (1.05)%.

1.48. The AXA fund started the year at £7.636m and decreased in value due to the decrease in the value of the units, with the fund ending the year at £7.437m.

1.49. An average of £7.8m was managed by Royal London Asset Management. During the year, the value of the fund decreased by £0.185m due to a decrease in the unit value. There were also income distributions relating to that period of £0.191m. The combined return was 0.07%.

1.50. The Royal London fund started the year at £7.740m. The fund decreased in value due to the decrease in the value of the units, with the fund ending the year at £7.555m.

9. Property Funds

1.51. Throughout the year long term funds were invested in two property funds: Patrizia Hanover Property Unit Trust and Lothbury Property Trust.

1.52. The monies are invested in units in the fund, the fund is then invested as a whole by the fund managers into properties. An income distribution is generated from the rental income streams from the properties in the fund. Income distributions are paid to the Council. There are high entrance and exit fees and the price of the units can rise and fall, depending on the value of the properties in the fund, so these funds are invested over the long term with the aim of realising higher yields than other investments.

1.53. In line with the capital finance and accounting regulations the Financial Instrument Revaluation reserve will be used to capture all the changes in the unit value of the funds. Members should be aware that the investment returns in some quarters will look very good and in other quarters there may be losses reported, but these will not impact the revenue account as only the income distributions will impact that and not the change in unit price.

1.54. An average of £14.7m was managed by Patrizia Property Investment Managers LLP. During the year the value of the fund decreased by £0.371m due to a decrease in the unit value. There were also income distributions relating to that period of £0.706m. The combined return was 2.27%.

1.55. The Patrizia fund started the year at £14.825m and decreased in value due to the decrease in the value of the units, with the fund ending the year at £14.454m.

1.56. An average of £13.6m was managed by Lothbury Investment Management Limited. During the year the value of the fund decreased by £0.459m due to a decrease in the unit value. There were also income distributions relating to that period of £0.421m. The combined return was (0.28)%.

1.57. The Lothbury fund started the year at £13.559m and decreased in value due to the decrease in the value of the units, with the fund ending the year at £13.100m.

10. Other Options

1.58. There are many options available for the operation of the Treasury Management function, with varying degrees of risk associated with them. The Treasury Management Policy aims to effectively control risk to within a prudent level, whilst providing optimum performance consistent with that level of risk.

11. Reasons for Recommendations

1.59. The CIPFA Code of Practice on Treasury Management recommends that Local Authorities should submit reports regularly. The Treasury Management Policy Statement for 2019/20 set out that reports would be submitted to Cabinet quarterly on the activities of the treasury management operation.

12. Corporate Implications

1.60. Contribution to Council's Vision & Critical Priorities

Treasury Management practices in accordance with statutory requirements, together with compliance with the prudential indicators acknowledge how effective treasury management provides support towards the achievement of the Council's ambition and desired outcomes.

1.61. Financial Implications

The financial implications of Treasury Management are dealt with throughout this report.

1.62. Legal Implications

This Council has adopted the 'CIPFA Code of Practice for Treasury Management in the Public Sector' and operates its treasury management service in compliance with this code.

1.63. People Implications

None.

1.64. Property Implications

None.

1.65. Consultation

The key Treasury Management decisions are taken in consultation with our Treasury Management advisers.

1.66. Equalities Impact Assessment

None.

1.67. Risk Assessment

The Treasury Management Policy acknowledges that the successful identification, monitoring and management of risk are fundamental to the effectiveness of its activities.

1.68. Value for Money

Treasury Management activities include the pursuit of optimum performance consistent with effective control of the risks associated with those activities.

1.69. Community Safety Implications

None.

1.70. Environmental Impact

None.

13. Background Papers

None.

14. Appendices

Appendix A - Prudential Indicators 2019/20

Appendix A

Prudential Indicators 2019/20

	Figures are for the financial year unless otherwise titled in italics	2019/20 Revised Indicator	2019/20 Actual
1	Capital Expenditure	£70.957m	£59.451m
2	Capital Financing Requirement (CFR)	£380.620m	£372.556m
3	Gross Borrowing at 31 March	£321.668m	£321.537m
4	Authorised Limit *(against maximum position)*	£360.000m	£360.000m
5	Operational Boundary	£350.000m	£350.000m
6	Ratio of financing costs to net revenue stream	9.53%	9.70%
7	Maturity structure of fixed rate borrowing: *(against maximum position)*		
	Under 12 months	20%	0%
	12 months to 2 years	30%	1%
	2 years to 5 years	40%	3%
	5 years to 10 years	60%	18%
	10 years to 20 years	100%	32%
	20 years to 30 years	100%	8%
	30 years and above	80%	38%
	Total	N/A	100%