Southend-on-Sea Borough Council

Agenda Item No.

14

Report of Executive Director (Finance & Resources)
to
Cabinet
on
15 June 2021

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Annual Treasury Management Report – 2020/21
Policy and Resources Scrutiny Committee
Cabinet Member: Councillor Paul Collins
A Part 1 Public Agenda Item

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1. Purpose of Report

1.1. The Annual Treasury Management Report covers the treasury activity for the period from April 2020 to March 2021 and reviews performance against the Prudential Indicators for 2020/21.

2. Recommendation

That Cabinet;

2.1. **Approves the Annual Treasury Management Report for 2020/21 and the outturn Prudential Indicators for 2020/21.**

2.2. **Notes that the financing of 2020/21 capital expenditure of £66.085m has been funded in accordance with the schedule set out in Table 1 of section 4.**

2.3. **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 2020/21.**

2.4. **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.**
- **£1.606m of interest and income distributions for all investments were earned during 2020/21 at an average rate of 1.06%. This is 1.13% over**

the average 7 day LIBID rate (London Interbank Bid Rate) and 0.96% over the average bank base rate. Also the value of the externally managed funds decreased by a net of £0.353m due to the changes in the unit price, giving a combined return of 0.83%. (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) remained at £310.3m (Housing Revenue Account (HRA): £75.0m, General Fund (GF): £235.3m) throughout 2020/21.**

- **The level of financing for 'invest to save' schemes decreased from £8.64m to £8.53m by the end of 2020/21.**

3. Background

3.1. 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.

3.2. 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).

3.3. 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.

3.4. 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

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

4.2. 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

	2020/21 Revised Budget £000s	**2020/21 Actual £000s**	**2020/21 Variance £000s**
Total Capital Expenditure	**71,936**	**66,085**	**(5,851)**
Financed by:			
Borrowing(1)	21,626	18,759	(2,867)
Invest to Save Financing(1)	15,194	15,262	68
Capital Receipts	3,729	3,466	(263)
Capital Grants Utilised	17,370	18,443	1,073
Major Repairs Reserve	7,259	6,221	(1,038)
Other Revenue/ Capital Reserve Contributions	5,209	2,426	(2,783)
Other Contributions	1,549	1,508	(41)
Total Financing	**71,936**	**66,085**	**(5,851)**

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 partly due to the project for the increased provision of secondary school places where the grant funding in paid in instalments over several years and borrowing is used until the grant funding becomes available. This year grant funding was available instead of borrowing. There was also less spend than anticipated on other schemes financed by borrowing such as ICT and culture and tourism where the projects will continue into 2021/22. The lower than budgeted capital expenditure financed by reserve contributions was due to the Council Housing refurbishment, acquisitions and construction programmes proceeding slower than expected due to the pandemic.

As at 31 March 2021 actual borrowing by the HRA was £99.091m, comprising £74.993m external borrowing and £24.098m 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.

4.3. 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 2020/21 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 2021 Revised Budget £000s	**31st March 2021 Actual £000s**
Balance 1st April 2020	372,555	372,555
Plus: capital expenditure financed by borrowing (internal and invest to save financing)	36,820	34,021
Less: Minimum Revenue Provision	(8,934)	(8,806)
Balance 31st March 2021	400,441	397,770

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 £321.148m and by internally borrowing the remaining £76.622m.

4.4. Treasury Position on Borrowing and Investments

The overall treasury position at 31 March 2021 compared with the previous year is set out in the table on the next page.

Table 3: Treasury Position

	31 March 2021 Revised Budget	31 March 2021 Actual	
	Principal £000s	Principal £000s	Average Rate (%)
Total gross Debt# (excluding ECC transferred debt)	321,288	321,148	3.77

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 2020/21 plus the expected changes to the CFR over 2021/22 and 2022/23. The table below shows that the Council has complied with this requirement.

Table 4: CFR compared to Gross Borrowing Position

	31 March 2021 Revised Budget £000s	31 March 2021 Actual £000s
Gross borrowing position	321,288	321,148
Estimated Capital Financing Requirement at 31 March 2023		425,525

4.5. 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

	2020/21 (£000s)
Authorised Limit	385,000
Operational Boundary	375,000
Maximum gross borrowing position during the year	321,536
Financing costs as a proportion of net revenue stream	12.51%

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 2020/21 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 2020/21.

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 2020/21 was 12.51%.

4.6. 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 2020/21 and the actual maturity structure of the borrowing as at 31st March 2021.

Table 6: Maturity Structure of Borrowing

	Upper limit %	**Outstanding debt maturity at 31st March 2021 %**
Under 12 months	20	1
12 months and within 24 months	30	0
24 months and within 5 years	40	3
5 years and within 10 years	60	23
10 years and within 20 years	100	32
20 years and within 30 years	100	3
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

5.1. During 2020/21 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.

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

5.3. 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.

5.4. UK interest rates continued to be low throughout 2020/21. The bank base rate stayed at 0.10% throughout the year which adversely impacted the investment return on monies being managed in-house.

5.5. The monies being managed by external fund managers were impacted by the effects of Covid-19 throughout the year. The impact on the short dated bond funds was short term in nature and their investment performance recovered quite quickly to pre-pandemic levels. The property fund income distributions were affected by the pandemic as these are based on property rental income. The size and extent of the effect on income depended on the properties in their portfolios, the quality of the tenants and any special arrangements put in place by the fund managers so that they could keep rental payment defaults to a minimum. Mostly the impact on the income distributions has been to delay part of the payment until later quarters, so that the fund managers could protect their cashflow positions. The property funds were impacted more by the value of the units being adversely affected by lower property valuations in some sectors, with the impact depending on the mix of properties in each fund. 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.)

5.6. Long term interest rates from the Public Works Loans Board (PWLB) fluctuated throughout 2020/21 in response to economic events: 10 year PWLB rates between 1.04% and 2.31%; 25 year PWLB rates between 1.53% and 2.87% and 50 year PWLB rates between 1.31% and 2.70%. These rates are after the PWLB ‘certainty rate’ discount of 0.20%.

5.7. No new PWLB loans were taken out during 2020/21 and no loans matured during that period.

5.8. 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

6.1. The table on the next page summarises the PWLB borrowing activities during the financial year 2020/21:

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 2020	310.3	0	0	(0)	310.3
July to September 2020	310.3	0	0	(0)	310.3
October to December 2020	310.3	0	0	(0)	310.3
January to March 2021	310.3	0	0	(0)	310.3

6.2. The Council's outstanding PWLB borrowing as at 31st March 2021 was:

- Southend-on-Sea Borough Council £310.3m*
- ECC transferred debt £10.2m

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

6.3. Repayments in 2020/21 were:

- Southend-on-Sea Borough Council £0m
- ECC transferred debt £0.6m

6.4. 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.

6.5. The table below summarises our PWLB borrowing position as at the end of 2020/21:

Table 8: Debt position

	31 March 2021		31 March 2020	
	Principal (£000s)	Average Rate (%)	Principal (£000s)	Average Rate (%)
-PWLB – Fixed	310,332*	3.77	310,332	3.93
-ECC Transferred Debt	10,154	2.31	10,707	2.43

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

6.6. 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.

6.7. 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 2020/21 due to the higher cost of PWLB repayments making it uneconomical and giving no benefit to the Council.

6.8. The total interest payments during the year were £11.7m, compared to the original budget of £12.5m. This underspend is due to the assumption in the original budget being that the Council would take out £45m of loans during 2020/21 but no new loans were taken out.

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

Funding for Invest to Save Schemes

6.10. 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.

6.11. To finance these projects in total the Council has taken out interest free loans of £0.161 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. £0.031m of these loans were repaid during the year.

6.12. 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 £0.080m were made during the year and the balance outstanding at 31 March 2021 was £8.46m.

7. Investments

7.1. The table below summarises the Council's investment position at the end of 2020/21:

Table 9: Investment position

	31 March 2021	2020/21		31 March 2020	2019/20	
	Principal (£000s)	Average Balance (£000s)	Average Rate (%)	Principal (£000s)	Average Balance (£000s)	Average Rate (%)
Call accounts #	15,816	22,269	0.00	34,936	5,450	0.23
Money Market Funds	49,000	50,742	0.16	4,000	34,088	0.86
Notice accounts	10,000	5,750	0.30	0	0	0.00
Fixed Term Deposits	15,000	25,134	0.90	35,000	37,008	1.04
Total investments managed in-house	**89,816**	**103,895**	**0.31**	**73,936**	**76,546**	**0.90**
Enhanced Cash Funds	5,098	5,080	2.70	4,990	5,080	(0.52)
Short Dated Bond Funds	15,546	15,432	5.42	14,992	15,465	(0.49)
Property Funds	26,539	26,708	(0.17)	27,554	28,284	1.05
Total externally managed funds	**47,183**	**47,220**	**1.96**	**47,536**	**48,829**	**0.40**
Total investments@	**136,999**	**151,115**	**0.83**	**121,472**	**125,375**	**0.70**

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

7.2. In summary the key factors to note are:

- An average of £103.9m of investments were managed in-house. These earned £0.325m of interest during the year at an average rate of 0.31%. This is 0.38% over the average 7 day LIBID and 0.21% over the average bank base rate;

- An average of £5.1m was managed by an enhanced cash fund manager. During the year this earned £0.029m in income distributions at an average rate of 0.56% and the value of the fund increased by £0.108m at an average rate of 2.14%, giving a combined return of 2.70%;

- An average of £15.4m was managed by two short dated bond fund managers. During the year these earned £0.282m in income distributions at an average rate of 1.83% and the value of the funds increased by £0.554m at an average rate of 3.59%, giving a combined return of 5.42%;

- An average of £26.7m was managed by two property fund managers. During the year these earned £0.970m in income distributions at an average rate of 3.63% and the value of the funds decreased by £1.015m at an average rate of (3.80)%, giving a combined return of (0.17)%.

- In total the value of the externally managed funds decreased by a net of £0.353m due to the changes in the unit price. This is set out in the table below:

Table 10: Externally managed funds – changes in unit price

Fund	**Table Number**	**Amount (£m)**
Payden Sterling Reserve Fund	13	108
AXA Sterling Credit Short Duration Bond Fund	14	296
Royal London Investment Grade Short Dated Credit Fund	15	258
Patrizia Hanover Property Unit Trust	16	(791)
Lothbury Property Trust	17	(224)
Total net decrease due to changes in unit price		**(353)**

7.3. 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, £1.606m 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 £1.253m, giving a combined return of 0.83%.

7.4. The actual rate on investments earned in 2020/21 was 0.83% compared to a forecast of 1.92% 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.

7.5. The Council earned a total of £1.253m of interest through the investment of surplus funds both in-house and with the fund managers. The interest earned was £0.941m lower than the budgeted figure of £2.194m. Although there were higher levels of in-house balances to invest, this was more than offset by the decreases in bank base rate and the decreases in the unit value of the externally managed funds. These forecasts were based on the best estimates at the time the budget was set.

7.6. 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 2020/21 Annual Treasury Management Investment Strategy approved by the Council on 20 February 2020. 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 17 times into Money Market Funds. 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 below 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 11: Counterparties used

Counterparty	Country	No. of Deals	Value of Deals (£m)
Insight Investment Management Ltd	Money Market Fund (Various Counterparties)	6	59
Goldman Sachs	Money Market Fund (Various Counterparties)	4	31
Blackrock	Money Market Fund (Various Counterparties)	5	29
Aberdeen Liquidity Fund	Money Market Fund (Various Counterparties)	2	19
Total		**17**	**138**

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 2020/21 an average of £22.3m was held in such accounts.

7.9 During 2020/21 an average of £5.8m was also invested in a 95-day notice account.

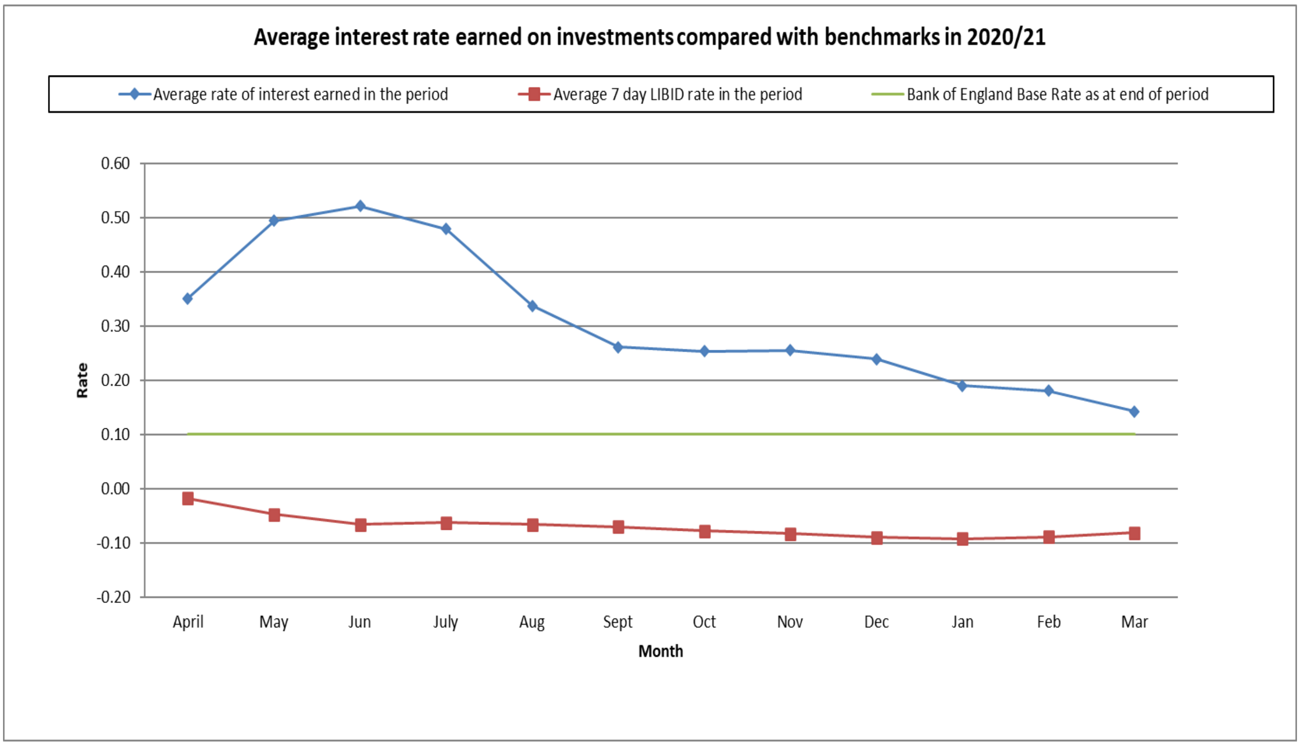
7.10 For cash balances that are not needed to meet immediate or very short term cash flow requirements, monies were invested in fixed term deposits of up to one year, depending on the liquidity requirements. The table on the next page shows the fixed term deposits held during the year:

Table 12: Fixed Term Deposits

Counterparty	Date of Deposit	Return Date	Number of days	Interest rate (%)	Amount (£m)
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 UK plc	27/02/2020	01/03/2021	368	1.10	5
Santander UK plc	12/08/2020	12/08/2021	365	0.55	5
Santander UK plc	14/08/2020	16/08/2021	367	0.55	10

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

Graph1: In-house investment performance compared to benchmarks



7.12 Overall, performance on in-house managed funds was 0.38% over the average 7 day LIBID rate for the year and averaged 0.21% over the average base rate for the year. Performance reduced from August when the two fixed term deposits at 1.15% and 1.10% matured. These monies were originally invested pre-pandemic and could not be reinvested at those rates, as the prevailing rates had fallen significantly in response to the decreases in bank base rate in March 2020.

7.13 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. It is likely that a very low interest rate environment will continue into the medium term which will mean the continuation of the lower levels of in-house investment income than in previous years.

7.14 During the year the Council used the enhanced cash fund manager Payden & Rygel to manage monies on our behalf. An average balance of £5.1m was invested in these funds during the year. The table below shows the movement in the fund value over the year, the income distributions for the year, the returns both for each element and the combined return.

Table 13: Payden Sterling Reserve Fund

2020/21	£m	Investment return (%)
Value of fund at start of year	4.990	
Increase/decrease in fund due to value of unit price	0.108	2.14
Value of fund at end of year	5.098	
Income distributions	0.029	0.56
Combined investment income (income distribution plus change in fund value due to unit price)	0.137	2.70

8. Short Dated Bond Funds

8.1. 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.

8.2. 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.

8.3. 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.

8.4. An average of £7.7m was managed by AXA Investment Managers UK Limited. The table on the next page shows the movement in the fund value over the year, the income distributions for the year, the returns both for each element and the combined return.

Table 14: AXA Sterling Credit Short Duration Bond Fund

2020/21	£m	Investment return (%)
Value of fund at start of year	7.437	
Increase/decrease in fund due to value of unit price	0.296	3.87
Value of fund at end of year	7.733	
Income distributions*	0.107	1.40
Combined investment income (income distribution plus change in fund value due to unit price)	0.403	5.27

*Part of this income distribution is an estimate which will be confirmed and distributed in quarter 1 of 2021/22.

8.5. An average of £7.8m was managed by Royal London Asset Management. The table below shows the movement in the fund value over the quarter, the income distributions for that quarter, the returns both for each element and the combined return.

Table 15: Royal London Investment Grade Short Dated Credit Fund

2020/21	£m	Investment return (%)
Value of fund at start of year	7.555	
Increase/decrease in fund due to value of unit price	0.258	3.32
Value of fund at end of year	7.813	
Income distributions	0.175	2.25
Combined investment income (income distribution plus change in fund value due to unit price)	0.433	5.57

9. Property Funds

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

9.2. 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.

9.3. 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.

9.4. An average of £13.9m was managed by Patrizia Property Investment Managers LLP. The table below shows the movement in the fund value over the year, the income distributions for the year, the returns both for each element and the combined return.

Table 16: Patrizia Hanover Property Unit Trust

2020/21	**£m**	**Investment return (%)**
Value of fund at start of year	14.454	
Increase/decrease in fund due to value of unit price	(0.791)	(5.70)
Value of fund at end of year	13.663	
Income distributions*	0.612	4.41
Combined investment income (income distribution plus change in fund value due to unit price)	(0.179)	(1.29)

* Part of this income distribution is an estimate which will be confirmed and distributed in quarter 1 of 2021/22.

9.5. An average of £12.8m was managed by Lothbury Investment Management Limited. The table below shows the movement in the fund value over the year, the income distributions for the year, the returns both for each element and the combined return.

Table 17: Lothbury Property Trust

2020/21	**£m**	**Investment return (%)**
Value of fund at start of year	13.100	
Increase/decrease in fund due to value of unit price	(0.224)	(1.75)
Value of fund at end of year	12.876	
Income distributions	0.358	2.79
Combined investment income (income distribution plus change in fund value due to unit price)	0.134	1.04

10. Other Options

10.1. 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

11.1. The CIPFA Code of Practice on Treasury Management recommends that Local Authorities should submit reports regularly. The Treasury Management Policy Statement for 2020/21 set out that reports would be submitted to Cabinet quarterly on the activities of the treasury management operation.

12. Corporate Implications

12.1. 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.

12.2. Financial Implications

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

12.3. 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.

12.4. People Implications

None.

12.5. Property Implications

None.

12.6. Consultation

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

12.7. Equalities Impact Assessment

None.

12.8. Risk Assessment

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

12.9. Value for Money

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

12.10. Community Safety Implications

None.

12.11. Environmental Impact

None.

13. Background Papers

None.

14. Appendices

Appendix A - Prudential Indicators 2020/21

Prudential Indicators 2020/21

	Figures are for the financial year unless otherwise titled in italics	2020/21 Revised Indicator	2020/21 Actual
1	Capital Expenditure	£71.936m	£66.085m
2	Capital Financing Requirement (CFR)	£400.441m	£397.770m
3	Gross Borrowing at 31 March	£321.288m	£321.148m
4	Authorised Limit *(against maximum position)*	£385.000m	£385.000m
5	Operational Boundary	£375.000m	£375.000m
6	Ratio of financing costs to net revenue stream	12.90%	12.51%
7	Maturity structure of fixed rate borrowing: *(against maximum position)*		
	Under 12 months	20%	1%
	12 months to 2 years	30%	0%
	2 years to 5 years	40%	3%
	5 years to 10 years	60%	23%
	10 years to 20 years	100%	32%
	20 years to 30 years	100%	3%
	30 years and above	80%	38%
	Total	N/A	100%