Southend-on-Sea City Council

Agenda Item No.

Report of Deputy Chief Executive and Executive Director (Finance & Resources)
to
Cabinet
on
14th June 2022

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Annual Treasury Management Report – 2021/22
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 2021 to March 2022 and reviews performance against the Prudential Indicators for 2021/22.

2. Recommendation

That Cabinet;

2.1. **Approves the Annual Treasury Management Report for 2021/22 and the outturn Prudential Indicators for 2021/22.**

2.2. **Notes that the financing of 2021/22 capital expenditure of £68.969m 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 2021/22.**

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.**

- **£1.593m of interest and income distributions for all investments were earned during 2021/22 at an average rate of 0.97%. This is 0.83% over the SONIA rate (Sterling Overnight Index Average) and 0.78% over the average bank base rate. Also, the value of the externally managed funds increased by a net of £4.801m due to the changes in the unit price, giving a combined return of 3.89%. (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) started the year at £310.3m and increased to £347.3m (Housing Revenue Account (HRA): £74.2m, General Fund (GF): £273.1m) by the end of 2021/22.**

- **The level of financing for 'invest to save' schemes decreased from £8.53m to £8.39m by the end of 2021/22.**

2.5. **Approves the limit on deposits with any one Property Fund be increased from £25m to £30m. (Paragraph 9.5)**

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 proportionality, prudence, affordability and sustainability.

3.4. To demonstrate compliance with these objectives of proportionality, 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

	2021/22 Revised Budget £000s	2021/22 Actual £000s	2021/22 Variance £000s
Total Capital Expenditure	**78,632**	**68,969**	**(9,663)**
Financed by:			
Borrowing(1)	33,493	29,378	(4,115)
Invest to Save Financing(1)	10,475	9,301	(1,174)
Capital Receipts	1,304	1,156	(148)
Capital Grants Utilised	19,084	17,565	(1,519)
Major Repairs Reserve	7,166	6,489	(677)
Other Revenue/ Capital Reserve Contributions	5,269	3,610	(1,659)
Other Contributions	1,841	1,470	(371)
Total Financing	**78,632**	**68,969**	**(9,663)**

Note 1 - this relates to both internal and external borrowing

The capital expenditure financed by all types of funding was lower than budgeted but the largest underspend is the capital expenditure financed by borrowing. This is partly due to the project for school improvement and 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 which has been used to ‘pay back’ some of the borrowing used in prior years.

As at 31 March 2022 actual borrowing by the HRA was £99.189m, comprising £74.168m external borrowing and £25.021m 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 2021/22 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 2022 Revised Budget £000s	**31st March 2022 Actual £000s**
Balance 1st April 2021	397,771	397,771
Plus: capital expenditure financed by borrowing (internal and invest to save financing)	43,968	38,679
Plus: fixed assets subject to finance leases	0	246
Less: Minimum Revenue Provision	(10,043)	(9,953)
Balance 31st March 2022	431,696	426,743

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 £357.994m and by internally borrowing the remaining £68.749m.

4.4. Treasury Position on Borrowing and Investments

The overall treasury position at 31 March 2022 compared with the revised budget is set out in the table on the next page.

Table 3: Treasury Position

	31 March 2022 Revised Budget	31 March 2022 Actual	
	Principal £000s	Principal £000s	Average Rate (%)
Total gross Debt[#] (excluding ECC transferred debt)	359,521	357,994	3.67

[#] This includes PWLB borrowing of £347.332m 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 2021/22 plus the expected changes to the CFR over 2022/23 and 2023/24. The table below shows that the Council has complied with this requirement.

Table 4: CFR compared to Gross Borrowing Position

	31 March 2022 Revised Budget £000s	31 March 2022 Actual £000s
Gross borrowing position	359,521	357,994
Estimated Capital Financing Requirement at 31 March 2024		454,093

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

	2021/22 (£000s)
Authorised Limit	385,000
Operational Boundary	375,000
Maximum gross borrowing position during the year	360,919
Financing costs as a proportion of net revenue stream	13.39%

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 2021/22 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 2021/22.

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 2021/22 was 13.39%.

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 2021/22 and the actual maturity structure of the borrowing as at 31st March 2022.

Table 6: Maturity Structure of Borrowing

	Upper limit %	**Outstanding debt maturity at 31st March 2022 %**
Under 12 months	20	0
12 months and within 24 months	30	0
24 months and within 5 years	40	8
5 years and within 10 years	60	19
10 years and within 20 years	100	24
20 years and within 30 years	100	3
30 years and above	80	46

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 2021/22 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 2021/22. However, the bank base rate increased incrementally from 0.10% to 0.75% during the year which positively impacted the investment return on monies being managed in-house.

5.5. The monies being managed by external fund managers were impacted by the prevailing market conditions in different ways. The income distributions held up well across the fund managers, with higher returns achieved the longer the term of the underlying assets. Property funds had higher income distributions than the short-dated bond funds, which in turn had higher income distributions than the enhanced cash fund. The externally managed funds were impacted differently with regard to the value of the units. The enhanced cash fund and short-dated bond funds were adversely affected in these difficult market conditions. However, the property fund unit values were positively affected by higher property valuations in some sectors, particularly the industrials sector, 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 7, 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 2021/22 in response to economic events: 10 year PWLB rates between 1.42% and 2.55%; 25 year PWLB rates between 1.67% and 2.75% and 50 year PWLB rates between 1.25% and 2.48%. These rates are after the PWLB 'certainty rate' discount of 0.20%.

5.7. Four new PWLB loans were taken out during 2021/22. A £3m loan taken out in March 1992 at 10.625% matured in March and was repaid. The average rate of borrowing over all the PWLB loans at the end of the year was 3.66% which is lower than the average of 3.77% at the end of the previous year, due to the borrowing activities described above.

5.8. The level of PWLB borrowing at £347.332m 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 proportionate, prudent, affordable and sustainable.

6. Borrowing

PWLB and short-term borrowing

6.1. The table below summarises the PWLB borrowing activities during the financial year 2021/22:

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 2021	310.3	0.0	0.0	0.0	310.3
July to September 2021	310.3	0.0	0.0	0.0	310.3
October to December 2021	310.3	40.0	0.0	0.0	350.3
January to March 2022	350.3	0.0	0.0	(3.0)	347.3

6.2. The Council's outstanding PWLB borrowing as at 31st March 2022 was:

- Southend-on-Sea Borough Council £347.3m*
- ECC transferred debt £9.6m

* £273.1m General Fund and £74.2m Housing Revenue Account.

6.3. Repayments in 2021/22 were:

- Southend-on-Sea Borough Council £3.0m
- ECC transferred debt £0.5m

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 on the next page summarises our PWLB borrowing position as at the end of 2021/22:

Table 8: Debt position

	31 March 2022		31 March 2021	
	Principal (£000s)	Average Rate (%)	Principal (£000s)	Average Rate (%)
-PWLB – Fixed	347,332*	3.66	310,332	3.77
-ECC Transferred Debt	9,641	2.34	10,154	2.31

* £273.1m General Fund and £74.2m 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 2021/22 due to the higher cost of PWLB repayments making it uneconomical and giving no benefit to the Council.

6.8. The total PWLB interest payments during the year were £11.925m, compared to the original budget of £11.677m. It had been assumed in the original budget that the Council would not take out any loans during 2021/22 but four new loans totalling of £40m were taken out to take advantageous of the exceptionally low PWLB interest rates available.

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 have been completed on energy efficiency improvements at the Beecroft Art Gallery, replacement lighting on Southend Pier, lighting replacements at University Square Car Park and Westcliff Library and LED lighting at the Priory Park workshop 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 £0.161m 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. £0.032m 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 £0.111m were made during the year and the balance outstanding at 31 March 2022 was £8.35m.

7. Investments

7.1. The table below summarises the Council's investment position at the end of 2021/22:

Table 9: Investment position

	31 March 2022	2021/22		31 March 2021	2020/21	
	Principal (£000s)	Average Balance (£000s)	Average Rate (%)	Principal (£000s)	Average Balance (£000s)	Average Rate (%)
Call accounts #	19,922	15,485	0.04	15,816	22,269	0.00
Money Market Funds	30,000	48,657	0.13	49,000	50,742	0.16
Notice accounts	27,500	22,308	0.30	10,000	5,750	0.30
Fixed Term Deposits	32,500	28,973	0.31	15,000	25,134	0.90
Total investments managed in-house	**109,922**	**115,423**	**0.20**	**89,816**	**103,895**	**0.31**
Enhanced Cash Funds	5,032	5,087	(0.83)	5,098	5,080	2.70
Short Dated Bond Funds	14,972	15,432	(1.99)	15,546	15,432	5.42
Property Funds	37,059	28,399	22.94	26,539	26,708	(0.17)
Total externally managed funds	**57,063**	**48,918**	**12.60**	**47,183**	**47,220**	**1.96**
Total investments@	**166,985**	**164,341**	**3.89**	**136,999**	**151,115**	**0.83**

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 £115.4m of investments were managed in-house. These earned £0.227m of interest during the year at an average rate of 0.20%. This is 0.06% over the average SONIA Rate 0.01% over the average bank base rate;

- An average of £5.1m was managed by an enhanced cash fund manager. During the year this earned £0.025m in income distributions at an average rate of 0.48% and the value of the fund decreased by £0.067m at an average rate of -1.31%, giving a combined return of –0.83%.

- An average of £15.4m was managed by two short-dated bond fund managers. During the year these earned £0.268m in income distributions at an average rate of 1.73% and the value of the funds decreased by £0.574m at an average rate of -3.72%, giving a combined return of -1.99%.

- An average of £28.4m was managed by two property fund managers. During the year these earned £1.073m in income distributions at an average rate of 3.78%, £5.079m of units were purchased and the value of the funds increased by £5.442m at an average rate of 19.16%, giving a combined return of 22.94%.

- In total the value of the externally managed funds increased by a net of £4.801m 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	(0.067)
AXA Sterling Credit Short Duration Bond Fund	14	(0.215)
Royal London Investment Grade Short Dated Credit Fund	15	(0.359)
Patrizia Hanover Property Unit Trust	16	3.566
Lothbury Property Trust	17	1.876
Total net increase due to changes in unit price		**4.801**

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, £1.593m 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 £6.394m, giving a combined return of 3.89%.

7.4. Overall, the actual rate on investments earned in 2021/22 was 3.89% compared to a forecast of 1.50% 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 the successive bank base rate rises as a reaction to the increasing inflationary pressures or how well the property funds would perform post pandemic.

7.5. The Council earned a total of £1.593m of interest and investment income through the investment of surplus funds both in-house and with the fund managers. The interest earned was £0.247m higher than the budgeted figure of £1.346m. This was due to higher levels of in-house balances to invest and the increases in bank base rate. 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 2021/22 Annual Treasury Management Investment Strategy approved by the Council on 25 February 2021. 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 12 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)
Goldman Sachs	Money Market Fund (Various Counterparties)	4	39
Insight Investment Management Ltd	Money Market Fund (Various Counterparties)	3	34
Blackrock	Money Market Fund (Various Counterparties)	5	31
Total		**12**	**104**

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 2021/22 an average of £19.9m was held in such accounts.

7.9 During 2021/22 for cash balances that are not needed to meet immediate or very short term cash flow requirements an average of £22.3m was invested across the following notice accounts:

- a 95-day notice account with Barclays.
- a 95-day notice account with Santander.
- a 185-day notice account with Goldman Sachs.

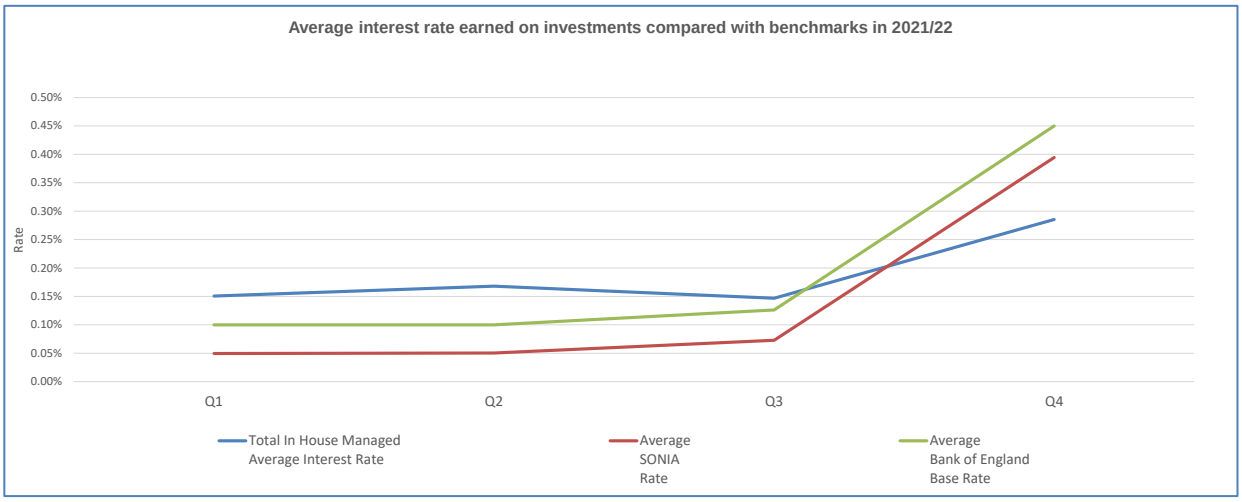
7.10 An average of £29.0m was also invested in fixed term deposits, with the length of deposit depending on the liquidity requirements. The table below shows the fixed term deposits held during the year:

Table 12: Fixed Term Deposits

Counterparty	Date of Deposit	Return Date	Number of days	Interest rate (%)	Amount (£m)
Santander	12/08/2020	12/08/2021	365	0.550	5
Santander	14/08/2020	16/08/2021	367	0.550	10
Santander	12/07/2021	12/04/2022	274	0.250	5
Goldman Sachs International	27/05/2021	28/02/2022	277	0.275	5
Goldman Sachs International	09/07/2021	08/04/2022	273	0.225	2.5
Standard Chartered	12/07/2021	12/01/2022	184	0.120	10
Standard Chartered	19/11/2021	19/05/2022	181	0.290	10
National Bank of Kuwait (International) plc	19/11/2021	19/05/2022	181	0.340	15

7.11 The in-house performance during the year is compared to the average SONIA rate. The graph on the next page 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 Averaged over the year, performance on in-house managed funds was 0.06% over the average SONIA rate for the year and 0.01% over the average base rate for the year. Performance reduced in quarter four as the average bank rate and average SONIA rate increased at a faster rate than our average investment return. This was due to some of the fixed term deposits that were taken out earlier in the financial year, prevailing rates have since increased. These fixed term deposits either matured during quarter four or will mature in quarter one of 2022/23. The monies will be re-invested at the higher prevailing rates of interest.

7.13 There is a lot of uncertainty about how much more the inflation will increase and how long the high rates will be sustained before dropping back to more manageable levels. It is likely that the Bank of England with further increase the bank base rate but the amount and timing of any increases is very uncertain.

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

2021/22	**£m**	**Investment return (%)**
Value of fund at start of year	5.098	
Decrease in fund due to value of unit price	(0.067)	(1.31)
Value of fund at end of year	5.031	
Income distributions	0.025	0.48
Combined investment income (income distribution plus change in fund value due to unit price)	(0.042)	(0.83)

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 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 14: AXA Sterling Credit Short Duration Bond Fund

2021/22	**£m**	**Investment return (%)**
Value of fund at start of year	7.733	
Decrease in fund due to value of unit price	(0.215)	(2.80)
Value of fund at end of year	7.518	
Income distributions*	0.096	1.25
Combined investment income (income distribution plus change in fund value due to unit price)	(0.119)	(1.55)

*Part of this income distribution is an estimate which will be confirmed and distributed in quarter 1 of 2022/23.

8.5. An average of £7.8m was managed by Royal London Asset Management. The table on the next page 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

2021/22	**£m**	**Investment return (%)**
Value of fund at start of year	7.813	
Decrease in fund due to value of unit price	(0.359)	(4.64)
Value of fund at end of year	7.454	
Income distributions	0.172	2.22
Combined investment income (income distribution plus change in fund value due to unit price)	(0.187)	(2.42)

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 £14.9m 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

2021/22	**£m**	**Investment return (%)**
Value of fund at start of year	13.663	
Increase in fund due to value of unit price	3.566	23.94
Increase in fund due to purchase of units	5.079	
Value of fund at end of year	22.308	
Income distributions*	0.710	4.77
Combined investment income (income distribution plus change in fund value due to unit price)	4.276	28.71

* Part of this income distribution is an estimate which will be confirmed and distributed in quarter 1 of 2022/23.

9.5. The approved limit on deposits in any one Property Fund is currently £25m. As shown in Table 16 above, the Patrizia Hanover Property Unit Trust had a closing value at 31st March 2022 of £22.3m. If the 2021/22 performance of the fund continues into 2022/23 the closing value at 31st March 2023 could be higher than £25m. Therefore, a recommendation has been included as part of this report to approve that the limit on deposits with any one Property Fund be increased from £25m to £30m. This is to ensure that the value of the current investment does not exceed the approved limit and to allow some headroom if any new investment was deemed appropriate, following the necessary due diligence and consultation with the Council's Treasury Management advisers.

9.6. An average of £13.5m 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

2021/22	**£m**	**Investment return (%)**
Value of fund at start of year	12.876	
Increase in fund due to value of unit price	1.876	13.89
Value of fund at end of year	14.752	
Income distributions*	0.363	2.69
Combined investment income (income distribution plus change in fund value due to unit price)	2.239	16.58

* Part of this income distribution is an estimate which will be confirmed and distributed in quarter 1 of 2022/23.

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 2021/22 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 2021/22

Appendix A

Prudential Indicators 2021/22

	Figures are for the financial year unless otherwise titled in italics	2021/22 Revised Indicator	2021/22 Actual
1	Capital Expenditure	£78.632m	£68.969m
2	Capital Financing Requirement (CFR)	£431.696m	£426.743m
3	Gross Borrowing at 31 March	£359.521m	£357.994m
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	13.59%	13.39 %
7	Maturity structure of fixed rate borrowing: *(against maximum position)*		
	Under 12 months	20%	0%
	12 months to 2 years	30%	0%
	2 years to 5 years	40%	8%
	5 years to 10 years	60%	19%
	10 years to 20 years	100%	24%
	20 years to 30 years	100%	3%
	30 years and above	80%	46%
	Total	N/A	100%