Appendix 11

TEIGNBRIDGE DISTRICT COUNCIL TREASURY MANAGEMENT: POLICY STATEMENT, CLAUSES TO BE ADOPTED, STRATEGY STATEMENT AND AUTHORISED LENDING LIST FROM 28 FEBRUARY 2019 MINIMUM REVENUE PROVISION ANNUAL STATEMENT

Background

The Local Government Act 2003 requires local authorities to "have regard" to the Chartered Institute of Public Finance & Accountancy (CIPFA) Treasury Management (TM) Code and Prudential Code. Teignbridge District Council is guided by the CIPFA *Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2017,* which requires that local authorities report annually on their treasury strategy and plan before the start of the year. The *Prudential Code* requires local authorities to set and revise prudential indicators, while the Ministry of Housing, Communities and Local Government (MHCLG)'s 2018 *Statutory Guidance on Local Government Investments (3rd Edition)* requires authorities to produce a publicly available investment strategy setting out policies for managing investments.

Review of Treasury Management Policy Statement

The CIPFA *Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2017* recommends in Section 6 that an organisation's treasury management policy statement adopts the following form of words to define the policies and objectives of its treasury management activities. There has been no change since February 2018, however the statement is shown in full below:

1. Teignbridge District Council defines its treasury management activities as:
   The management of its investments and cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
2. Teignbridge District Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. Teignbridge District Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance management techniques, within the context of effective risk management.

Please see Strategy below for more information about policies for borrowing and investments.

The Code also recommends that all public service organisations adopt the following four clauses, which Teignbridge District Council did in February 2018. There has been no change since then.

Clauses adopted

1. Teignbridge District Council will create and maintain, as the cornerstones for effective treasury management:
   - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities

- Suitable treasury management practices (TMPs), setting out the manner in which Teignbridge District Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

2. Full Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed by its TMPs.
3. Teignbridge District Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Executive Committee, and for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with Teignbridge District Council's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
4. Teignbridge District Council nominates the Audit Scrutiny Committee to be responsible for ensuring the effective scrutiny of the treasury management strategy and policies.

Treasury Management Strategy

Managing Risk
It is CIPFA's view that the overriding aim of the treasury management function should be the effective identification, monitoring and control of risk. The TM Code identifies the main treasury management risks. These are considered in detail within Teignbridge District Council's TM Practices, which are available within Finance. This strategy sets out the council's approach to investments and borrowing and in particular, credit and counterparty risk, liquidity risk, interest rate risk and refinancing risk.

Interest rate risk
This is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on an organisation's finances, against which it has failed to protect itself adequately.

The treasury management team actively monitors interest rates and provides a monthly interest forecast report in order to regularly assess the impact of interest rate changes on the council's budgets.

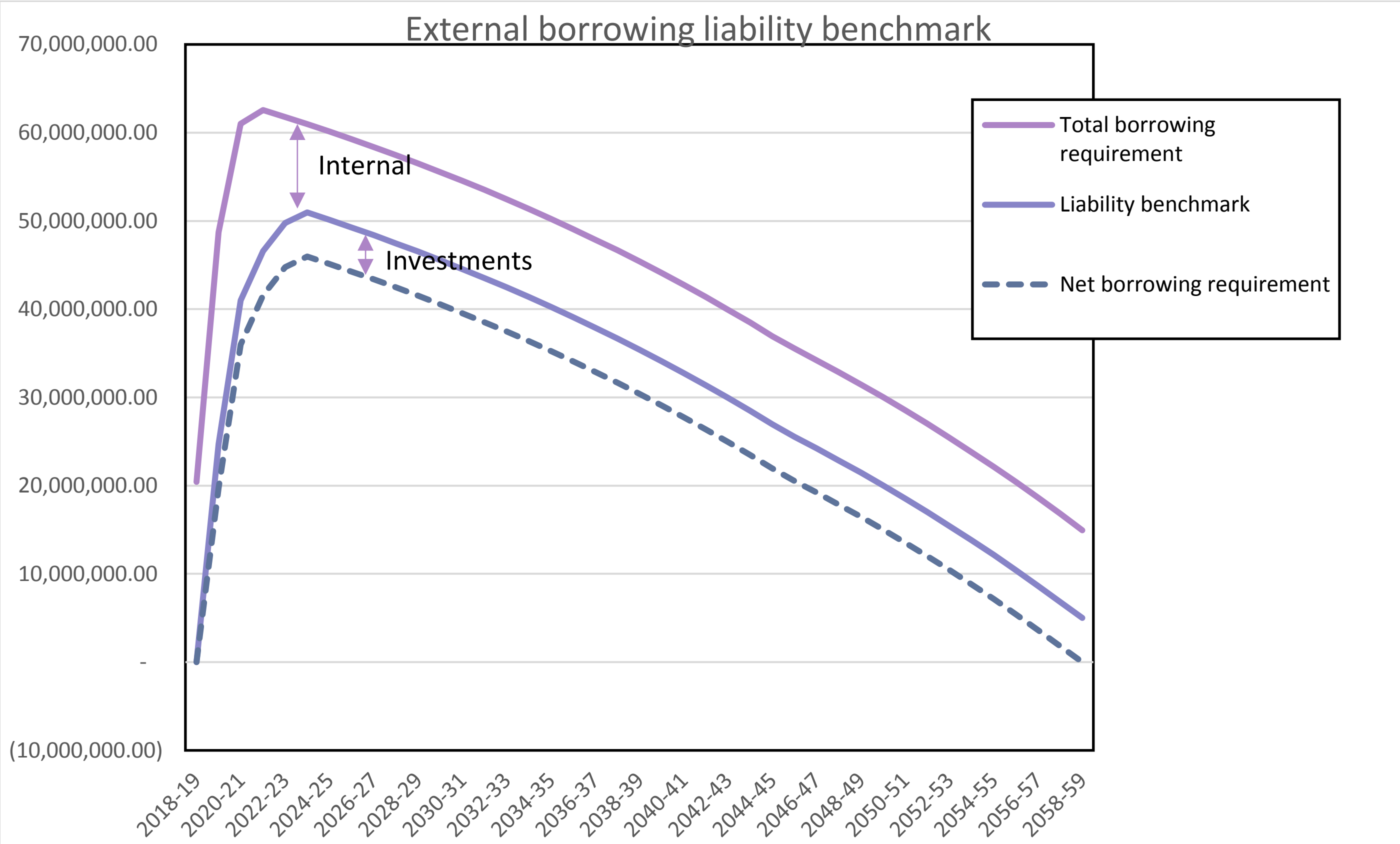
The council does not currently have any long-term external borrowing. However there are policies in place through the Prudential Indicators to ensure a planned and well-balanced spread of maturity dates. This is in order to reduce the prospect of having to negotiate refinancing at an unfavourable time.

The review of the Treasury Management Code has removed the requirement for an interest rate exposure indicator. However, the councils are encouraged to define their own "liability benchmark". This has been calculated by working out the total borrowing requirement should the provisional capital programme expenditure occur, then adjusting for sums which could be funded by internal borrowing. A liquidity allowance is factored in to ensure that funds are available for regular outgoings (see Liquidity below). This is currently assumed to be a minimum £5 million average daily lending.

The liability benchmark is a tool which allows measured borrowing decisions to be made in relation to the amount and maturity profile of loans, which manages interest rate exposure.

Appendix 11

TEIGNBRIDGE DISTRICT COUNCIL TREASURY MANAGEMENT: POLICY STATEMENT, CLAUSES TO BE ADOPTED, STRATEGY STATEMENT AND AUTHORISED LENDING LIST FROM 28 FEBRUARY 2019 MINIMUM REVENUE PROVISION ANNUAL STATEMENT



The council does not use financial instruments based on derivatives for interest rate risk management.

Investments
The Ministry of Housing, Communities and Local Government updated their investment guidance in 2018. In conjunction with the updated TM Code, the definition of “investments” covers all financial assets including those which are held primarily for financial return such as investment property portfolios. It is recognised that this may include investments which are not managed as part of normal treasury management.

Investments can fall into one of the following four categories:

Specified investments (short term, sterling investments made with a body of high quality, the UK government or local authorities). Teignbridge District Council’s treasury management transactions fall into this category. They contribute to the objectives stated above in the policy statement. The principles of the TM Code to prioritise security, liquidity and yield, in that order of importance, applies to these investments.

Loans (for local enterprises as part of a wider strategy for economic growth)

Non-specified investments (any financial investment that is not a loan and does not meet the criteria of specified investments).

TEIGNBRIDGE DISTRICT COUNCIL TREASURY MANAGEMENT: POLICY STATEMENT, CLAUSES TO BE ADOPTED, STRATEGY STATEMENT AND AUTHORISED LENDING LIST FROM 28 FEBRUARY 2019 MINIMUM REVENUE PROVISION ANNUAL STATEMENT

Non-financial investments (generally involving a physical asset that can be realised to recoup the capital investment). Teignbridge District Council does not hold any such investments purely for financial gain. However, the council recently invested in Newton Abbot town centre (Market Walk) for regeneration and local economic benefit purposes. Provisions in the capital programme are for projects which are for a combination of service delivery, regeneration and local economic benefits.

The Council's capital strategy sets out its approach to potential future non-financial investments resulting from commercial activity.

Security

As stated in the MHCLG investment guidance, the council's investment priorities are security of the principal sums and liquidity, keeping money readily available for expenditure when needed. Yield becomes a consideration after the priorities have been satisfied.

All investments made for treasury management purposes are "specified" investments as defined in the MHCLG investment guidance; in sterling, with a maturity of no more than one year, placed with the UK government, other local authorities or bodies and investment schemes of high credit quality, determined by the lending list.

In relation to treasury management, the maximum value and period of investment with any one organisation will be dependent on a score based on credit ratings. Institutions are graded to allow larger sums and longer investments with the strongest banks and building societies, capitalising on the better terms available while actively maintaining a breadth of counterparties, allowing us to spread our investments and achieve effective risk management.

One organisation is defined as a banking group or other institution, including any subsidiaries. If the maximum amount is invested with one subsidiary, no more will be invested within that group.

For non-financial investments, there is a requirement for proposed business cases to demonstrate rigorous due diligence checks prior to investment, followed by regular monitoring of the value and performance of the asset. While Teignbridge District Council's investment in Market Walk was primarily for regeneration and local economic benefit purposes, specialist consultants were involved in the extensive due diligence phase of this investment.

Annual assessments of fair value are carried out and monitored against the original capital investment, to take account of changes in the market and other conditions. In the case of Market Walk, the underlying assets continue to provide sufficient security for the capital investment to date. Minimum revenue provision is being set aside in relation to this investment, mitigating against the possibility of adverse valuation changes and also, ongoing refurbishment or replacements.

The revenue budgets arising from this investment are monitored as part of the budget monitoring which feeds into the regular reports provided by the Chief Finance Officer to SLT, CMT and Executive. In addition, the estates team track rent receipts and market conditions for early indications of potential problems.

Credit and counterparty risk

This is the risk of failure by a counterparty to meet its contractual obligations, particularly as a result of diminished creditworthiness.

Appendix 11

TEIGNBRIDGE DISTRICT COUNCIL TREASURY MANAGEMENT: POLICY STATEMENT, CLAUSES TO BE ADOPTED, STRATEGY STATEMENT AND AUTHORISED LENDING LIST FROM 28 FEBRUARY 2019 MINIMUM REVENUE PROVISION ANNUAL STATEMENT

Teignbridge District Council regularly monitors the standing of counterparties it does or may deal with and maintains an authorised lending list, which is updated quarterly.

Use of ratings
The MHCLG investment guidance requires that the annual strategy statement details the authority's use of ratings and external treasury advisors.

There are three main ratings agencies: Fitch, Moody's and Standard and Poor. These agencies provide an opinion on the ability of the institutions to repay short and long-term investments, whether there is likelihood of them receiving state support should they run into difficulties and their general financial strength.

The council's TM schedules require that institutions meet the following minimum ratings:

Ratings Agency	Long Term	Short Term	Baseline Credit Assessment/ Bank viability
Fitch	BBB	F2	bbb
Moody's	Baa2	P2	baa2

While ratings from all agencies are considered, our scoring system is based on those of Moody's and Fitch. Standard and Poor do not cover some of the institutions on our list. Ratings are reviewed quarterly. In addition, they are monitored if there is any news of changes in the press and before any investment. If ratings have fallen below the minimum acceptable level, an alternative would be sought.

In addition to considering ratings from agencies, use is made of market indicators, such as share prices where available. Financial news is monitored in sector journals and the quality press. Daily relevant financial news updates and market commentaries are received by email from brokers and the Council's bank. These enable assessment of future treasury risks and scenarios in order to develop suitable risk management strategies. Teignbridge District Council does not currently use external treasury management advisors.

Liquidity
Length of treasury management investments will take into consideration that monies are available to meet large regular outgoings such as BACS payments for creditors, benefits and salaries and other regular commitments such as precepts and non-domestic rates contributions. A cash flow planner is maintained with details of regular payments and receipts. Other information is recorded as it becomes available, for example payments in relation to capital projects. This is in order to identify whether Teignbridge District Council may be exposed to the effects of potential cash flow variations and shortfalls. The maximum length of an investment will depend both on when funds will be required and on the ratings of the institution with which the investment is placed.

Treasury management practices have been adopted in accordance with Teignbridge District Council's policy statement, whilst adhering to the approved borrowing limits and lending list.

These activities are carried out daily to ensure the current account bank balance is near to zero in order to maximise investment returns whilst minimising risk and protecting capital.

TEIGNBRIDGE DISTRICT COUNCIL TREASURY MANAGEMENT: POLICY STATEMENT, CLAUSES TO BE ADOPTED, STRATEGY STATEMENT AND AUTHORISED LENDING LIST FROM 28 FEBRUARY 2019 MINIMUM REVENUE PROVISION ANNUAL STATEMENT

In the case of non-financial investments, it is recognised that it may not be possible to give priority to security and liquidity over yield due to the nature of the assets. It is expected that the risks associated with non-financial investments are clearly set out as part of the reporting required in line with the capital approval process. This would include market assessments, the nature and level of competition, how market/customer needs will evolve over time and barriers to entry and exit. In the case of Market Walk, specialist consultants were appointed to provide detailed analysis.

Staff training

The MHCLG investment guidance requires that the annual strategy gives details of procedures for reviewing and addressing the training needs of the authority's treasury management staff and members.

All new members are offered a Budget and Financial Management Seminar, which includes an overview of Treasury Management.

Treasury staff receive internal training from experienced staff and managers. Staffing is arranged so that a bank signatory (all experienced managers), is always available for consultation on decisions. Procedure and system notes, together with official guidance from CIPFA and the MHCLG are maintained for consultation within the section. These are updated for any changes, which are also communicated to the relevant staff. Bank signatories are professionally qualified accountants, with the officers carrying out daily procedures either studying with or AAT-qualified. Cover staff have regular experience of carrying out the procedures.

In relation to non-financial investments, the Council's Estates team has the experience of RICS-qualified staff. The Council has working relationships with a range of specialist consultants whose areas of expertise include property management, development and infrastructure, investment and valuation.

Lending list

The current authorised lending list has been updated to take account of changes in ratings and banks and is shown below for approval.

Appendix 11

TEIGNBRIDGE DISTRICT COUNCIL TREASURY MANAGEMENT: POLICY STATEMENT, CLAUSES TO BE ADOPTED, STRATEGY STATEMENT AND AUTHORISED LENDING LIST FROM 28 FEBRUARY 2019 MINIMUM REVENUE PROVISION ANNUAL STATEMENT

Type of Lender	Details	
1. Current Banker	Lloyds Bank	£3,000,000 limit
2. Local Authorities	All	£5,000,000 limit
3. UK Debt Management Office Deposit Facility (UK government AA/Aa2/AA rated) no limit.		
4. UK Treasury Bills (UK government AA/Aa2/AA rated) no limit.		
5. Public Sector Deposit Fund	AAAmmf	£3,000,000 limit
6. Aberdeen Liquidity Fund	AAAmmf	£3,000,000 limit
7. Top UK-registered Banks and Building Societies, subject to satisfactory ratings.		

Institution	Tier	90 day limit	180 day limit	364 day limit	Overall limit
		£	£	£	£
Close Brothers Ltd	1	3,000,000	2,000,000	1,000,000	3,000,000
Santander UK plc	1	3,000,000	2,000,000	1,000,000	3,000,000
Nationwide Building Society	1	3,000,000	2,000,000	1,000,000	3,000,000
NatWest Bank	1	3,000,000	2,000,000	1,000,000	3,000,000
Lloyds Bank plc and Bank of Scotland plc	1	3,000,000	2,000,000	1,000,000	3,000,000
Coventry Building Society	2	2,000,000	1,000,000		2,000,000
Clydesdale Bank	3	1,000,000			1,000,000
Nottingham Building Society	3	1,000,000			1,000,000
Skipton Building Society	3	1,000,000			1,000,000
Yorkshire Building Society	3	1,000,000			1,000,000
Leeds Building Society	3	1,000,000			1,000,000
Principality	3	1,000,000			1,000,000
Royal Bank of Scotland	3	1,000,000			1,000,000

Officers will continue to seek the best rate, balanced against risk, at the time of investment. Use of call and notice accounts with Santander, Lloyds, Clydesdale and Close Brothers continue. These accounts provide access to flexible deposits, with a range of access options and interest rates. Treasury Bills, an AA/Aa2/AA (very securely) rated, short dated form of Government debt which are issued by the Debt Management Office via a weekly tender are also included on the lending list, offering the Council an additional secure investment option.

Bank regulations force banks to maintain “capital buffers”, classifying their deposits according to duration. Instant access accounts and short deposits are not attractive to banks as they cannot be counted towards those buffers. For this reason, interest rates on most “call” accounts remain low. Due to the internal financing of the Market Walk purchase, the daily

average available for lending has been reduced. However, analysts anticipate that the Bank of England will raise base rate by a further 0.25% to 1.00% around the third quarter of 2019.

Appendix 11

TEIGNBRIDGE DISTRICT COUNCIL TREASURY MANAGEMENT: POLICY STATEMENT, CLAUSES TO BE ADOPTED, STRATEGY STATEMENT AND AUTHORISED LENDING LIST FROM 28 FEBRUARY 2019 MINIMUM REVENUE PROVISION ANNUAL STATEMENT

Borrowing

Section 33 of the Local Government Finance Act 1992 requires each council to set a balanced budget. The treasury management function will comply with this requirement. This means that increases in capital expenditure must be limited to a level at which increases in financing charges from increased borrowing, such as interest and minimum revenue provision, and increases in running costs are affordable for the foreseeable future. Teignbridge District Council adheres to the Prudential Code, which underpins "prudential" borrowing by ensuring that the Council takes into account the following factors:

- Strategic service objectives (in line with the Teignbridge 10)
- Stewardship of assets
- Value for money (project appraisal as required by the capital approval process)
- Prudence and sustainability (factors such as the implications of external debt; looking at whole life costing and the impact on revenue budgets)
- Affordability
- Practicality (achievability of the capital programme and staff resource requirements)

Teignbridge District Council adheres to the MHCLG investment guidance which states that money may not be borrowed in advance of need in order to invest at a profit. Any decision to borrow in advance for capital projects or debt maturities would only occur if there was a clear business case to do so. Borrowing may occur to cover temporary shortfalls in cash balances.

The liability benchmark set out in the Interest Rate Risk section above allows management of interest rate exposure while ensuring that funds are kept available for cash flow requirements.

The Council will adopt a flexible approach to borrowing, making use of internal resources and keeping shorter term borrowing under review in comparison to longer term borrowing costs. This approach has minimised financing costs for capital projects where appropriate. Acceptable sources of loans as stated in the TM schedules are the PWLB, local authorities, public bodies and UK banks and building societies. Officers will also review alternative sources of borrowing and select those offering the best value for money to the Council at the time the funding is required.

Prudential indicators

The Prudential Code requires local authorities to set prudential indicators for capital finance for the forthcoming and following years, monitoring actual figures from previous years where required. This is done before the beginning of the forthcoming year, through the processes established for the setting and revising of the budget. The prudential indicators may be revised at any time, following due process and taking into account their affordability. The prudential and treasury indicators in appendix 10 take into account the affordability of the Council's capital finance plans, ensuring that borrowing remains within prudent and sustainable levels and that treasury management decisions are taken in accordance with good practice.

The Council's capital strategy takes a long-term view of proposed borrowing to fund capital expenditure, together with the financing costs (interest and Minimum Revenue Provision).

Minimum Revenue Position (MRP) Annual Statement:

Appendix 11

TEIGNBRIDGE DISTRICT COUNCIL TREASURY MANAGEMENT: POLICY STATEMENT, CLAUSES TO BE ADOPTED, STRATEGY STATEMENT AND AUTHORISED LENDING LIST FROM 28 FEBRUARY 2019

MINIMUM REVENUE PROVISION ANNUAL STATEMENT

Regulation 28 of The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 states that ‘A local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent’. The provision is made from revenue in respect of capital expenditure financed by borrowing or credit arrangements. These amounts make up the Council’s capital financing requirement (CFR).

With all options MRP should normally commence in the financial year following the one in which expenditure was incurred. Regulation 28 does not define ‘prudent’. However statutory guidance, which authorities must “have regard” to, has been issued by MHCLG. It makes recommendations to authorities on the interpretation of that term. The broad aim is to put aside revenue over time to cover the CFR. The MHCLG guidance was updated in 2018 (applicable from 1 April 2019) to include a number of clarifications on determining a prudent level of provision. MRP can only be nil if a local authority’s capital financing requirement is nil or negative on the last day of the preceding year, or a previous year’s overpayment is being offset. The Council has a positive capital financing requirement, mainly due to the purchase of Market Walk.

The first recommendation given by the guidance is to prepare, before the start of each financial year, an annual statement of the policy on making MRP in respect of that financial year and submit this to Full Council for approval. The guidance recommends that ‘prudent’ provision should be made in accordance to the following:

- That the provision should ensure that debt is repaid over a period similar to one over which the capital expenditure provides the benefit, or if it is government-supported borrowing, over the period in the grant determination.
- That the provision should be calculated by one of the four methods that the Secretary of State considers appropriate to making prudent provision although it is recognised that other approaches are not ruled out.

From 2019-20 it is proposed to adopt option 3, the asset life (annuity) method. The annuity method differs from the equal instalment method in that the amounts payable start low and increase over time. This is because it is a method often used to calculate loan repayments, where it is required that the total amount of principal and interest repaid each year is a common amount. It is therefore suited to investments where revenues will increase over time. It also takes into account the time value of money.

Investment assets may also be sold to repay any outstanding debt liabilities.