

TEIGNBRIDGE DISTRICT COUNCIL TREASURY MANAGEMENT: POLICY STATEMENT, CLAUSES TO BE ADOPTED, STRATEGY STATEMENT AND AUTHORISED LENDING LIST FROM 27 FEBRUARY 2024
MINIMUM REVENUE PROVISION ANNUAL STATEMENT

1.1 Background

The Council is required to operate a balanced budget so that cash raised during the year will meet cash expenditure. Part of the treasury management function is to ensure that this cash flow is adequately planned, with cash being available when it is needed to meet spending commitments as they fall due, either on day-to-day revenue or in the longer term for larger capital projects. The capital programme gives an indication of the borrowing need of the Council, essentially longer-term cash flow planning. Management of longer-term cash may involve arranging long or short-term borrowing. Surplus monies are invested in counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return. It is paramount to ensure adequate security of the sums invested, as a loss of principal would result in a loss to the General Fund Balance.

1.2 Reporting requirements

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.

CIPFA's *Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2021* requires local authorities to report annually to Council on their treasury strategy and plan before the start of the year. The Department of Levelling Up, Housing and Communities (DLUHC) 2018 *Statutory Guidance on Local Government Investments (3rd Edition)* requires authorities to produce a publicly available investment strategy setting out policies for managing investments. The DLUHC 2018 *Statutory Guidance on Minimum Revenue Provision (MRP)* requires a statement of policy on making MRP in respect of that financial year to be submitted to full Council for approval. This report fulfils those requirements. A mid-year review and year-end results report are also required and provided to Council at the appropriate time of year.

The *Prudential Code 2021* requires local authorities to set and revise prudential indicators (Appendix 11) and to prepare a capital strategy (Appendix 12a) to provide a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services. From 2023-24, reporting against forward-looking prudential indicators is required to be included in the Chief Finance Officer's (CFO's) regular budget monitoring reports.

CIPFA published the revised Treasury Management and Prudential Codes on 20th December 2021, with formal adoption in 2023-24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and related reports to Full Council during the financial year.

Teignbridge has adopted the updated requirements, which include formal adoption of the debt liability benchmark treasury indicator as in paragraph 2.2.5 below to support the financing risk management of the capital financing requirement. The codes clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. They require environmental sustainability to be addressed within the Capital Strategy and

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amend the treasury management practices to address environmental, social and governance (ESG) policy within the treasury management risk framework.

Investment Management Practices (IMPs) are also required and are intended to manage risks associated with non-treasury investment. They sit alongside the Treasury Management Practices, with further reporting requirements for service and commercial investment. There are enhanced requirements around the effective management of liquidity and longer term cash flow requirements, with long term treasury investments to be supported by a business model. The knowledge and skills register for individuals involved in the treasury management function is to be proportionate to the size and complexity of the treasury management conducted by each council. In addition, all investments and investment income must be attributed to one of the following three purposes: -

Treasury management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

Adoption of Treasury Management Policy Statement

The CIPFA *Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2021* 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. It has been updated slightly to include borrowing in point 1.

1. Teignbridge District Council defines its treasury management activities as:
The management of its borrowing, investments and cash flows, including 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

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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 measurement techniques within the context of effective risk management.

The Code also recommends that all public service organisations adopt the following four clauses.

1.3 Clauses to be 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.
 - Investment management practices (IMPs) for investments that are not for treasury management purposes.

The content of the policy statement, TMPs and IMPs will follow the recommendations contained in Sections 6, 7 and 8 of the TM Code, subject only to amendment where necessary to reflect the particular circumstances of Teignbridge District Council. Such amendments will not result in Teignbridge District Council materially deviating from the TM Code's key principles.
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 and IMPs.
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, TMPs and IMPs, and if they are 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 effective scrutiny of the treasury management strategy and policies.

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2. Annual Investment Strategy

2.1 Investment categories

Investments can fall into one of the following four categories as listed below – **Loans** and **Service and Commercial Investments** fall outside of the treasury management function and are dealt with in the Commercial Strategy and Capital Strategy.

This authority has defined the list of types of investment instruments that the treasury management team are authorised to use within the **lending list**. There are two categories within the list: '**specified**' and '**non-specified**' investments.

Treasury Management Investments

Specified investments (sterling investments with a maturity of less than one year, made with counterparties of high credit 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. The lending list within this report sets out which counterparties the Council may invest with and the lending limits which apply.

Non-specified investments (any financial investment that is not a loan and does not meet the criteria of specified investments). They could potentially be of less high credit quality, for periods in excess of one year, and/or more complex instruments which require greater consideration by members and officers before being authorised for use.

As a result of the change in accounting standards relating to IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG (now DLUHC) concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23). DLUHC have now extended the override period to 31.3.25.

The Council has determined that its exposure to non-specified investments will be managed through the decision-making framework laid out in its Commercial Strategy, subject to an overall limit of 15% of its agreed borrowing cap (determined as £60m for 2024-25).

Non-Treasury Management Investments

Loans (for local enterprises as part of a wider strategy for economic growth). Teignbridge District Council may make loans to public bodies and other organisations which deliver social value or economic growth within the district. These loans should follow the governance procedures laid out in Teignbridge District Council's commercial strategy. If the Council borrows to finance such loans, they will follow the Department for Levelling Up, Housing and Communities (DLUHC) guidance on Minimum Revenue Provision (MRP).

Service and Commercial Investments (generally involving a physical asset that can be realised to recoup the capital investment). Teignbridge District Council does not currently hold any investments purely for financial gain. However, the council has invested in property

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for regeneration and local economic benefit purposes which also benefit the Council financially. There are provisions in the capital programme for projects which are for a combination of service delivery, regeneration and local economic benefits.

In the case of service and commercial 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 these non-financial investments would be considered in detail as part of the due diligence process required by the Corporate Projects Board process and/or Commercial Property Investment Board process. The Council's Commercial Strategy, Capital Strategy and Investment Management Practices set out its approach to potential future service and commercial investments of this type. Business cases would include financial appraisal, cost benefit analysis and dependent on investment type, may also feature market assessments, the nature and level of competition, how market/customer needs will evolve over time and barriers to entry and exit. Specialist consultants will be appointed as necessary to provide detailed analysis required for the due diligence process.

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. Minimum revenue provision is set aside in relation to these investments, mitigating against the possibility of adverse valuation changes and also, ongoing refurbishment or replacements. Revenue budgets are monitored as part of the budget monitoring which feeds into the regular reports provided by the Chief Finance Officer to CMT and Executive. In addition, the estates team track rent receipts and market conditions for early indications of potential problems.

2.2. Managing risk

2.2.1 Risk appetite

The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial (treasury management) and non-financial (service and commercial) investments. Guidance from DLUHC and CIPFA places a high priority on 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 and Investment Management (IM) Practices, which are available within Finance. This strategy sets out the council's approach to investments and borrowing, including credit and counterparty risk, liquidity risk, interest rate risk and refinancing risk.

This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

2.2.2 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.

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

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Minimum acceptable **credit criteria** are applied in order to generate a **lending list** of counterparties with acceptable creditworthiness at Section 3. This also enables diversification and avoidance of concentration risk. The key ratings used to monitor counterparties are detailed at 2.2.3 below. **Lending limits** (amount and duration of investment) within the list are tiered dependent on relative counterparty strength.

A limit is set within the Prudential indicators for investments which are longer than 365 days.

All investments are denominated in sterling.

- 2.2.3** 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, with reference to credit ratings and other information provided by its treasury advisors.

Use of ratings

The DLUHC 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.

Other information – ratings will not be the sole determinant of the quality of an institution. In assessing and monitoring the financial sector in relation to economic and political environments in which the Council operates, the Council will engage with its advisors to maintain a monitor on market pricing. Other information sources include share prices, the financial press and commentary received from brokers, establishing a robust scrutiny process on the suitability of potential investment counterparties.

Environmental, Social and Governance Issues (ESG)

In terms of treasury management, ESG investment considerations involve understanding the ESG risks that entities are exposed to. It is distinct from socially responsible investing (where negative screens are applied) and sustainable investing (investing in products / companies based on expected sustainable and beneficial societal impact, alongside a financial return).

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The methodologies for measuring ESG investments are still developing, and it is important to recognise that screening investments for environmental or social concerns could lead to unintended consequences around the Council's primary investment objectives of security, liquidity and yield.

Our treasury advisors note that the "G" or Governance element is by far the most important when considering treasury investments, the majority of which will be shorter-term in nature. Poor governance can have a more immediate impact on the financial circumstances of an entity and the potential for a default event that would impact the amount the local authorities receive back from their investments.

In general, we expect all financial institutions and investment counterparties to move towards full Carbon neutral and ESG compliance. The majority of institutions on the Council's approved lending list are signatories to the UN's principles for responsible banking. ESG ratings are beginning to be incorporated into credit rating information, however there is a lack of consistency which means they cannot yet meaningfully be used as a basis for assessment. This is a developing area which the Council will monitor in conjunction with its treasury advisors.

The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's strategy. This would include, among other things, avoiding direct investment in institutions with material links to:

- a. Human rights abuse (e.g., child labour, political oppression)
- b. Environmentally harmful activities (e.g., pollutants, destruction of habitat, fossil fuels)
- c. Socially harmful activities (e.g., tobacco, gambling)

The Council is working towards taking advantage of some green deposit accounts with institutions on the approved lending list.

2.2.4 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. In addition, the treasury team will take into account the likely path of interest rates (see interest rate risk below). 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.

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2.2.5 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.

Greater returns are usually obtainable by investing for longer periods.

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. Where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed. If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable. Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Officers will continue to seek the best rate, balanced against risk, at the time of investment, whether this is for a fixed term deposit with counterparties from the lending list, or use of call, notice and money market fund accounts. These accounts provide access to flexible deposits, with a range of access options and interest rates.

Investment returns expectations.

At its latest meeting in February, the Bank of England's monetary policy committee (MPC) held interest rates at 5.25% for the fourth time. Inflation remains above the bank's 2% target, with the Consumer Price Index for December (released January 2024) at 4.0%. The Bank of England have indicated that they expect inflation to briefly reach the target of 2% in the spring before increasing again towards the end of the 2024, only falling below 2% in 2026.

While cuts to bank rate are widely expected, forecasts of when that might occur have been volatile. Current expectations are that this may happen in the third quarter of 2024, perhaps falling to 4.5% by the end of the year. In the upcoming months, forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe and the on-going conflict between Russia and Ukraine, and Gaza and Israel.

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

Against the backdrop of interest rates which are forecast to fall, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated.

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As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

The Authority's investment priorities remain security first, portfolio liquidity second and then yield (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Authority's risk appetite.

Investment performance benchmarking

Due to the phasing out of LIBOR/LIBID rates, the Council will assess the investment performance of its portfolio against overnight SONIA. SONIA (Sterling Overnight Index Average) is administered by the Bank of England. It is based on actual transactions and reflects the average interest rates banks pay to borrow sterling overnight from other financial institutions and investors.

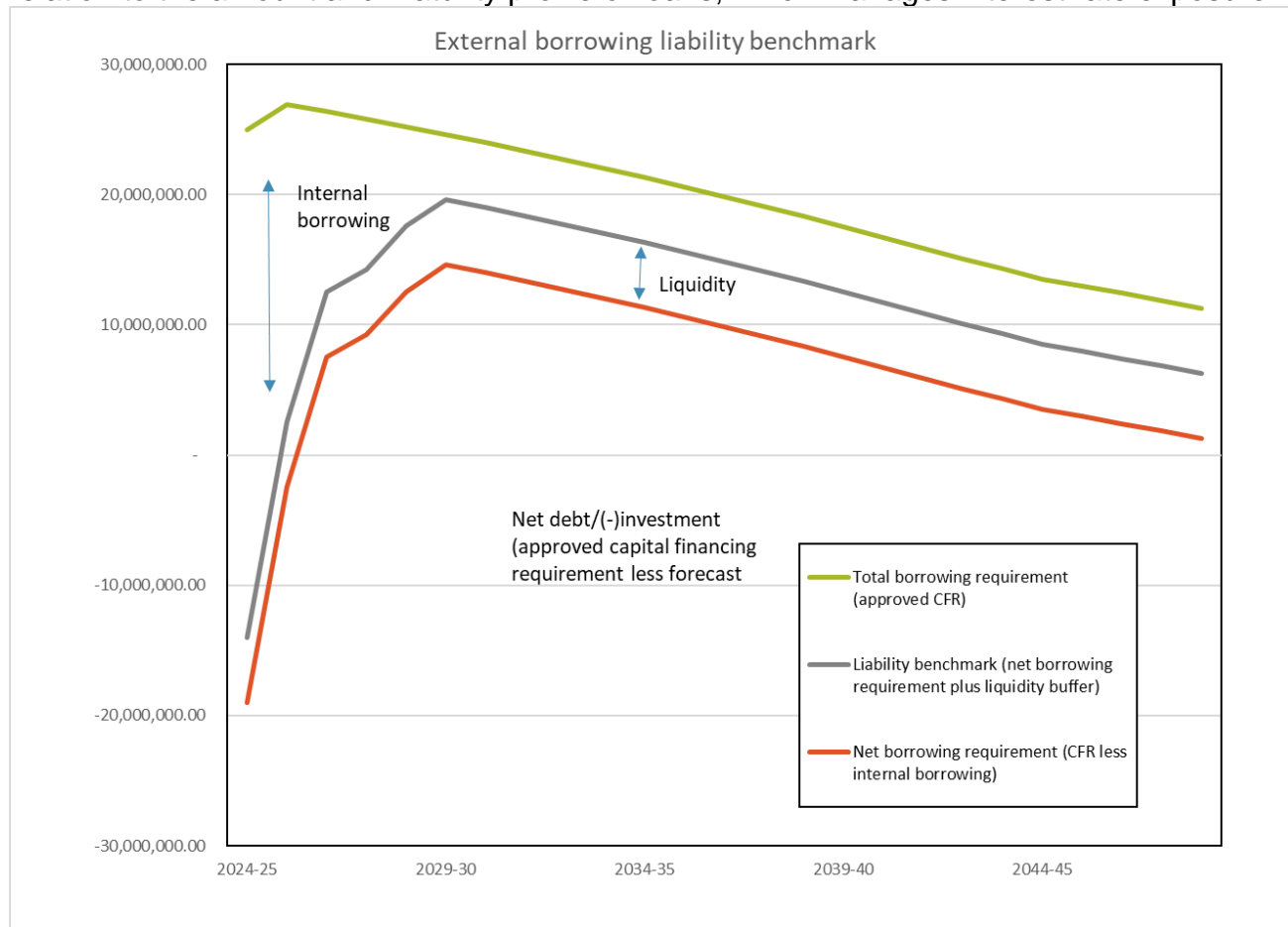
External borrowing liability

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 following liability benchmark is part of the range of Prudential Indicators required by CIPFA. This has been calculated by working out the total borrowing requirement should the approved (only) 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 above). This is currently assumed to be a minimum £5 million average daily lending.

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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.



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

2.2.6 Security

As stated in the DLUHC 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.

“Specified” investments as defined in the DLUHC 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 specified investments with any one organisation is 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.

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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.

Non-specified investments require further due diligence analysis to arrive at an assessment of the security of Council funds and follow the decision-making process laid out in the Commercial Strategy.

2.2.7 Staff training and treasury management advisors

The DLUHC 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.

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. All new members are offered a Budget and Financial Management Seminar, which includes an overview of Treasury Management. CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

Treasury staff receive internal training from experienced staff and managers as well as attending regular training courses provided by the Council's treasury advisors. Staffing is arranged so that a bank signatory, is always available for consultation on decisions. Procedure and system notes, together with official guidance from CIPFA and the DLUHC are maintained for consultation within the section. These are updated for any changes, which are also communicated to the relevant staff. Bank signatories are either professionally qualified accountants or studying for professional-level qualifications. Officers carrying out daily procedures either studying with or AAT-qualified. Cover staff have regular experience of carrying out the procedures.

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and non-financial investments, such as investment in properties.

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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. This is crucial for the due diligence required in assessing potential service and commercial investments. The process for this is set out in the Commercial Strategy.

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3.0 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. The list applies both to investments made direct with counterparties and those placed via agency or custody arrangements with third parties such as treasury advisors or financial management companies. The use of such arrangements provides access to a wider range of counterparties (all of which must be included on the list below and assessed on the same security criteria).

Specified Investments

| Type of Lender | Details | |
|---|-------------|------------------|
| 1. Current Banker | Lloyds Bank | £3,000,000 limit |
| 2. Local Authorities | All | No limit |
| 3. UK Debt Management Office Deposit Facility (UK government AA-/Aa3/AA rated) no limit. | | |
| 4. UK Treasury Bills (UK government AA-/Aa3/AA rated) no limit. | | |
| 5. Top UK-registered Banks and Building Societies, subject to satisfactory ratings. Updated below to reflect information provided by treasury advisors. | | |

| Institution | Tier | 90 day limit | 180 day limit | 364 day limit | Overall limit |
|--|------|--------------|---------------|---------------|---------------|
| | | £ | £ | £ | £ |
| Handelsbanken plc | 1 | 3,000,000 | 2,000,000 | 1,000,000 | 3,000,000 |
| HSBC Bank plc | 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 |
| 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 |
| Royal Bank of Scotland | 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 |
| | | | | | |
| Close Brothers Ltd | 2 | 2,000,000 | 1,000,000 | | 2,000,000 |
| Coventry Building Society | 2 | 2,000,000 | 1,000,000 | | 2,000,000 |
| Skipton Building Society | 2 | 2,000,000 | 1,000,000 | | 2,000,000 |
| Standard Chartered Bank | 2 | 2,000,000 | 1,000,000 | | 2,000,000 |
| Sumitomo Mitsui Banking Corporation Europe Ltd | 2 | 2,000,000 | 1,000,000 | | 2,000,000 |
| | | | | | |
| Clydesdale Bank | 3 | 1,000,000 | | | 1,000,000 |
| Goldman Sachs International Bank | 3 | 1,000,000 | | | 1,000,000 |
| Leeds Building Society | 3 | 1,000,000 | | | 1,000,000 |
| Principality Building Society | 3 | 1,000,000 | | | 1,000,000 |
| Yorkshire Building Society | 3 | 1,000,000 | | | 1,000,000 |

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| | | |
|--|--------|------------------|
| 6. Money market funds, subject to maintenance of AAAMf rating. | | |
| CCLA Public Sector Deposit Fund | AAAMmf | £3,000,000 limit |
| Abrdn Liquidity Fund | AAAMmf | £3,000,000 limit |
| Blackrock Liquidity Fund | AAAMmf | £3,000,000 limit |
| LGIM Liquidity Fund | AAAMmf | £3,000,000 limit |
| Morgan Stanley Liquidity Fund | AAAMmf | £3,000,000 limit |
| 7. Non-specified: CCLA Property and Diversified Income Funds - £2,000,000 limit | | |

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.

Other Non-specified investments

These will be considered on a case-by case basis, using the decision-making framework laid out in the Commercial Strategy and the requirements of the Prudential Code and Statutory Guidance on Investments and Minimum Revenue Provision.

Investments which may be considered include

- Renewable energy/social impact investments
- On-lending to key partners/stakeholders in relation to jointly beneficial projects
- Lending in instances where doing so would protect the local economy

4. 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 council strategy)
- 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)

4.1 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded

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with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. Based on the average treasury management interest rate received during Q1 to Q3 of 2022-23 (4.56%), interest foregone due to internal borrowing to cover the Council's Capital Financing Requirement would be in the region of £958,449 per annum. This figure has risen over the year due to the rise in interest rates. This approach represents good value for money. Had the Council externally borrowed the equivalent amount at (for example) the PWLB's 10-year rate on 1st April 2023 (4.76%), the annual cost would have been £1,000,486.

The Council will continue to 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. The Council currently has no external borrowing and based on the current approved capital programme does not foresee undertaking any long-term external borrowing until 2026-27.

Medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy (base rate is now viewed to have peaked). It is therefore felt to be appropriate to maintain an under-borrowed position. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

It is anticipated that as external borrowing is required, it will be undertaken as a mixture of short-term funding through money markets (often intra-local authority lending) and longer-term borrowing, for which the PWLB currently offers terms which are most favourable and appropriate to the Council's likely level of requirement. This is in line with the Prudential Indicators, which set limits for the maturity spread of external debt.

Policy on Borrowing in Advance of Need

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

The overall treasury management portfolio as at 31.3.23 and for the position as at 31.12.23 are shown below for both borrowing and investments.

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| Treasury Portfolio | | | | |
|---|---------------|---------|---------------|----------|
| | Actual | Actual | Current | Current |
| | 31.3.23 | 31.3.23 | 31.12.23 | 31.12.23 |
| | £'000 | % | £'000 | % |
| Treasury Investments | | | | |
| Banks | 3,181 | 11% | 3,316 | 7% |
| Building Societies - rated | 1,000 | 3% | 2,000 | 4% |
| Local authorities | 7,000 | 24% | 5,000 | 11% |
| DMADF (H.M. Treasury) | 12,500 | 42% | 29,000 | 64% |
| Money market funds | 6,000 | 20% | 6,000 | 13% |
| Total treasury investments | 29,681 | | 45,316 | |
| Treasury external borrowing | | | | |
| Local authorities | - | | - | |
| PWLB | - | | - | |
| Other | - | | - | |
| Total external borrowing | - | | - | |
| Net treasury investments (borrowing) | 29,681 | | 45,316 | |

Forward projections of borrowing are summarised in the Prudential Indicators at appendix 11 and considered in more detail in the capital strategy at appendix 12a. 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.

Acceptable sources of loans as stated in the TM schedules are:

- Public Works Loans Board
- UK Municipal Bonds Agency
- Community municipal (local) investment bonds
- Finance leases
- UK Infrastructure Bank
- Local authorities
- Public bodies
- UK banks and building societies

Debt capital markets (a market where companies raise funds by trading debit securities such as corporate and government bonds). This could include, for example, insurance companies or pension funds.

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

In October 2019, the Public Works Loans Board (PWLB) increased the margin over gilt yields by 100 basis points (1%) to 180 basis points (1.8%) on loans lent to local authorities. Following a consultation process, this was reversed in November 2020. At the same time, government implemented a reform of its lending terms with the aim of ending the situation in which a minority of local authorities used PWLB loans to support

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the acquisition of investment assets primarily for yield. In order to be able to benefit from PWLB lending, local authorities must now provide information about the level and type of planned capital activity, project descriptions and an assurance from the Section 151 officer that the local authority is not borrowing in advance of need and does not intend to buy investment assets primarily for yield. This approach is further clarified in the updated Treasury Management Code and Prudential Code. The Council is mindful of these requirements. Officers will keep sources of borrowing under review in conjunction with the Council's treasury management advisors and select those offering the best value for money to the Council at the time the funding is required.

4.2 Limits to borrowing activity

Borrowing limits are included within the Prudential Indicators. The operational boundary is the limit which external debt is not normally expected to exceed. The authorised limit represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited.

Further, the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024-25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

The Council's Commercial Strategy and Capital Strategy also sets a proportional debt limit, which has been assessed as approximately £60 million. This figure has been arrived at after consideration of benchmarking provided by external expertise, based on overall debt compared to cost of service and the financing liabilities this would place upon the council. This overall limit encompasses both internal and external borrowing activity.

Teignbridge District Council adheres to the DLUHC 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.

3.0 Prudential indicators

The Council's capital expenditure plans are the key driver of treasury management activity. They are reflected in the prudential indicators, which include both capital and treasury elements.

The Prudential Code requires local authorities to set prudential indicators for capital finance for the forthcoming and following years and to monitor actual figures from previous years where required.

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The setting of indicators is done before the beginning of the forthcoming year as part of the budget process. 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 11 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.

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

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4.0 Minimum Revenue Position (MRP) 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).

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. The four methods are:
 - Option 1 – regulatory method.
 - Option 2 – CFR method

Both option 1 and option 2 are only available in relation to capital expenditure incurred before 1 April 2008 or after April 2008 that the authority is satisfied forms part of its Supported Capital Expenditure for Revenue Support Grant purposes. Neither of these applies to Teignbridge.

Option 3 – asset life method

This option is applied to particular items of capital expenditure and sets up a simple framework for spreading the expenditure over the estimated useful life of the asset. Revenue provision is then calculated one of two ways – equal instalments or annuity method. The equal instalments method divides the cost equally over a number of years. 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 by growing approximately with inflation over time.

Option 4 – the depreciation method

This method places reliance on standard depreciation accounting procedures in setting MRP charges. This means the future profile of charges will be matched to the consumption of the relevant assets, however potentially creates uncertainty in the charges which would apply each year as assessments of useful life change over time.

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 DLUHC. 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 DLUHC guidance

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was updated in 2018 (applicable from 1 April 2019) to include a number of clarifications on determining a prudent level of provision. Following sector feedback to a consultation launched in 2021 on changes to MRP provision, a revised consultation took place in 2022. This covers further elements of regulation, including the need for providing MRP on loans to third parties and not using capital receipts in place of MRP (now revised to allow in the case of loans where capital receipts from payments under the arrangement are available). This consultation is ongoing at the time of writing.

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.

In 2024-25 it is proposed to continue to adopt option 3, the asset life (annuity) method.

Following the implementation of IFRS 16, where the authority has acquired assets under leases (for example, waste vehicles) an MRP charge will be made for an amount equal to the principal element of the annual repayment relating to liabilities recognised on the balance sheet. The overall impact of this policy is that the annual charge against the General Fund Balance for leases will be the rents/principal payable for each financial year.

For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

The following table illustrates MRP made and forecast for approved projects only.

| MRP Summary | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Actual | Actual | Forecast | Forecast | Forecast | Forecast |
| Market Walk | - 153,346 | - 157,318 | - 161,392 | - 165,572 | - 169,861 | - 174,260 |
| Minerva Building, Brunel Road | - 48,991 | - 50,255 | - 51,552 | - 52,882 | - 54,246 | - 55,645 |
| Sherborne House | - 28,343 | - 28,050 | - 28,776 | - 29,521 | - 30,286 | - 31,070 |
| Forde House decarbonisation | - | - 41,796 | - 42,874 | - 43,981 | - 45,115 | - 46,279 |
| Forde House decarbonisation | - | - | - 29,238 | - 29,992 | - 30,766 | - 31,560 |
| Future High Streets - Market | - | - | - | - | - | - 67,557 |
| PSDS Phase 3 (Broadmeadow) | - | - | - | - | - 96,437 | - 99,330 |
| Newton Abbot Hotel | - | - | - | - | - 11,266 | - 11,604 |
| Employment sites | - | - | - | - 477 | - 492 | - 506 |
| Cattle Market Enabling Works | - | - | - | - | - 5,486 | - 5,650 |
| Chudleigh purchases | - | - | - | - 1,961 | - 2,020 | - 2,081 |
| TDC100 - Sherborne House | - | - | - | - 7,131 | - 7,345 | - 7,566 |
| Refugee Accommodation | - | - | - | - 25,115 | - 25,869 | - 26,645 |
| Total approved MRP only | - 230,680 | - 277,418 | - 313,832 | - 356,633 | - 479,188 | - 559,753 |

The Council does not rule out alternative methods of prudent provision as per the regulations.