

TEIGNBRIDGE DISTRICT COUNCIL TREASURY MANAGEMENT: POLICY STATEMENT, CLAUSES TO BE ADOPTED, STRATEGY STATEMENT AND AUTHORISED LENDING LIST FROM 24 FEBRUARY 2020
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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 2017* requires local authorities to report annually to Council on their treasury strategy and plan before the start of the year. 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. 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 2017* requires local authorities to set and revise prudential indicators (Appendix 10) and to prepare a capital strategy (Appendix 11a) to provide a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.

1.3 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 2019, 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.

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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.

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.

1.4 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.

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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 **Non-financial 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.

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. 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. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.

As a result of the change in accounting standards for 2019/20 under 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 Ministry of Housing, Communities and Local Government, [MHCLG], 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 commencing from 1.4.18.)

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 £70m for 2020-21).

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.

Non-financial 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 for regeneration and local economic benefit purposes which also benefit the Council financially.

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

Where there are projects which would deliver social value, but where equivalent opportunities do not exist within the local functional economic area (for example, renewable energy), then investments outside the area will also be considered.

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 would be considered in detail as part of the due diligence process required by the Capital Review Group process and Commercial Property Investment Board process. The Council's Commercial Strategy and Capital Strategy set out its approach to potential future non-financial investments of this type. Business cases would include 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 CLT 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 MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. Guidance from MHCLG 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, 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: -

Minimum acceptable **credit criteria** are applied in order to generate a lending list of counterparties with acceptable creditworthiness. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are detailed at 2.2.5 below.

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2.2.2 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.

2.2.3 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.

On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.00%

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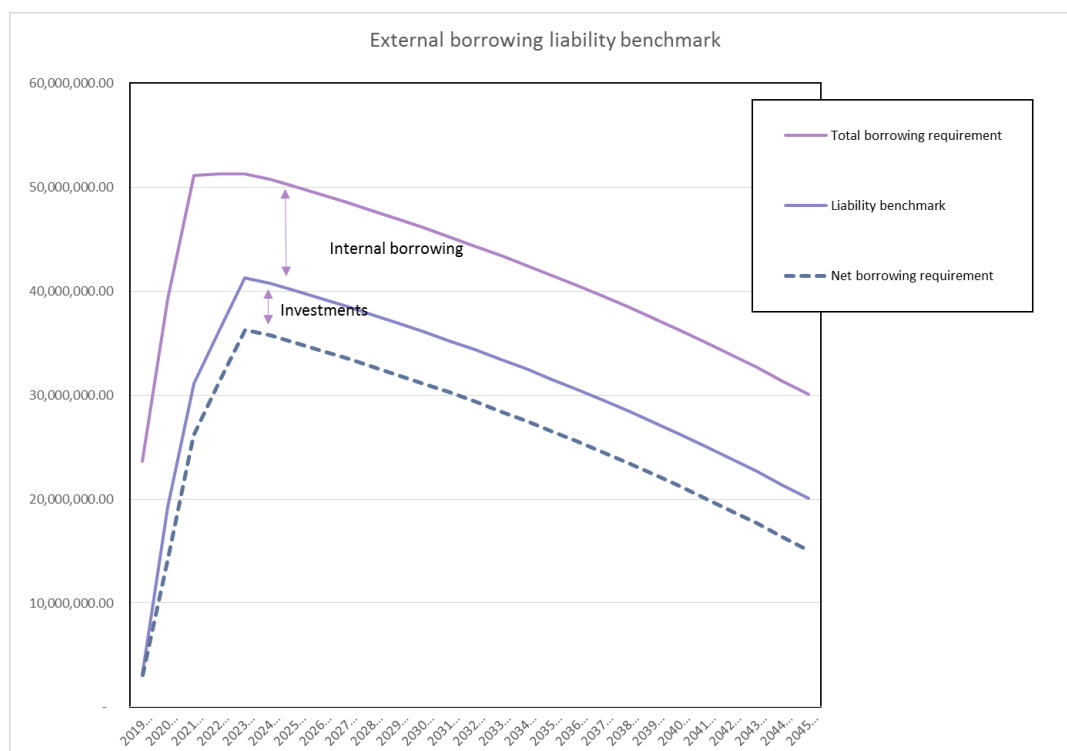
- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

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 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 above). 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.



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

2.2.4 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.

"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 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.

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.

2.2.5 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.

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 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.

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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 currently 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; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. Daily relevant financial news updates and market commentaries are received by email from treasury advisors, brokers and the Council's bank. These enable assessment of future treasury risks and scenarios in order to develop suitable risk management strategies.

2.2.6 Staff training and treasury management advisors

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.

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

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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 more commercial non-financial investments, such as investment in properties.

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 commercial investments. The process for this is set out in the Commercial Strategy.

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3. 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.

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/Aa2/AA rated) no limit. | | |
| 4. UK Treasury Bills (UK government AA/Aa2/AA rated) no limit. | | |
| 5. Money market funds, subject to maintenance of LNAV status and AAmmf rating. | | |
| CCLA Public Sector Deposit Fund | AAmmf | £3,000,000 limit |
| Aberdeen Liquidity Fund | AAmmf | £3,000,000 limit |
| Blackrock Liquidity Fund | AAmmf | £3,000,000 limit |
| LGIM Liquidity Fund | AAmmf | £3,000,000 limit |
| 7. Top UK-registered Banks and Building Societies, subject to satisfactory ratings. Updated below to reflect information provided by treasury advisors. | | |
| 8. Non-specified: CCLA Property and Diversified Income Funds - £2,000,000 limit | | |

| Institution | Tier | 90 day limit | 180 day limit | 364 day limit | Overall limit |
|--|------|--------------|---------------|---------------|---------------|
| | | £ | £ | £ | £ |
| HSBC Bank plc | 1 | 3,000,000 | 2,000,000 | 1,000,000 | 3,000,000 |
| 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 |
| Lloyds Bank plc and Bank of Scotland plc | 1 | 3,000,000 | 2,000,000 | 1,000,000 | 3,000,000 |
| Handelsbanken plc | 1 | 3,000,000 | 2,000,000 | 1,000,000 | 3,000,000 |
| Sumitomo Mitsui Banking Corporation Europe Ltd | 1 | 3,000,000 | 2,000,000 | 1,000,000 | 3,000,000 |
| | | | | | |
| Goldman Sachs International Bank | 2 | 2,000,000 | 1,000,000 | | 2,000,000 |
| Standard Chartered Bank | 2 | 2,000,000 | 1,000,000 | | 2,000,000 |
| NatWest Bank | 2 | 2,000,000 | 1,000,000 | | 2,000,000 |
| Royal Bank of Scotland | 2 | 2,000,000 | 1,000,000 | | 2,000,000 |
| 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 Building Society | 3 | 1,000,000 | | | 1,000,000 |

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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.

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 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.

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 does not foresee undertaking any external borrowing during the remainder of the 2019-20 financial year.

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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
- 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.

In October 2019, the Public Works Loans Board increased their margin over gilt yields by 100 basis points (1%) to 180 basis points (1.8%) on loans lent to local authorities, meaning they may no longer be the lender of first choice. Officers will review alternative sources of borrowing in conjunction with its 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.

The Council's Commercial Strategy and Capital Strategy also sets a proportional debt limit, which has been assessed as approximately £70 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 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.

5. 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.

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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.

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 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.

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).

6. 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).

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.

In 2020-21 it is proposed to continue to adopt option 3, the asset life (annuity) method. The annuity method differs from the equal instalment method in that the amounts

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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.