Appendix 4

TVCA GROUP BORROWING REQUIREMENTS 2023-24 TO 2027-28

SUMMARY

The purpose of this appendix is to support the Treasury Management Strategy request for approval in respect of TVCA lending to both the Middlesbrough Development Corporation and the Hartlepool Development Corporation ("the MDCs") and to potential strategic economic regeneration projects across the Tees Valley. All projects would be in support of the delivery of the respective TVCA Strategic Economic Plan and two MDCs Vision and Masterplan designed to drive investment and support transformation by stimulating private sector investment and growth, creating partnerships to unlock opportunities and promoting both areas to investors.

This report sets out how proposed updates to the TVCA Group Treasury Management Strategy and associated indicators will reflect these changes to the TVCA Group structure specifically ensuring that the following additional Group entities and any of their subsidiaries are all factored into the existing plans, strategies and limits: -

- Middlesbrough Development Corporation (MDC)
- Hartlepool Development Corporation (HDC)

The approval is to support commercially viable development and regeneration projects across TVCA commercial regeneration projects and the two Development Corporations whilst ensuring the necessary controls and processes are in place to deliver value for money.

The TVCA Treasury Management Strategy sets out three strategies that support and enable compliance with the Chartered Institute of Public Finance and Accountancy Treasury Management Code updated in 2021.

These three strategies are: -

- Treasury Management Strategy - the management of the Authority's cash flows, borrowing, investments, and the associated risks.
- Capital Strategy a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the functions of the Authority. Including an overview of how associated risk is managed and the implications for future financial sustainability.
- Investment Strategy – investments held by the Authority that are not managed as part of normal treasury management processes

Both Hartlepool and Middlesbrough MDCs will also produce and approve their own respective Treasury Management Strategies.

This paper sets out how TVCA and both MDC and HDC will access, manage and repay borrowing via these strategies and associated policies and procedures.

BACKGROUND

<u>TVCA current position</u>

1. The current proposals for Commercial projects are identified as part of the Annual Budget process and updated quarterly with the MTFP each year. Any TVCA Commercial projects are separately identifiable underneath the TVCA Investment Plan.

2. The financing of Mayoral Development Corporations and Commercial projects are a Treasury Management activity subject to financial governance and controls led by the s73 officer working under parameters approved by TVCA Cabinet as part of the Treasury Management Strategy set each financial year.

3. Any commercial proposals are assessed on their own merits to determine if the provision of debt/grant, or any combination thereof, is appropriate and affordable and represents value for money. TVCA Cabinet approve the Treasury Management Strategy each year to provide the framework under which the statutory officers operate. Individual proposals and requests for financing adhere to this framework and report back throughout the year both as part of the Treasury Management mid-year review process and the quarterly financial updates.

<u>Proposal</u>

4. The proposal is for all Mayoral Development Corporation and Local Authority financing requirements for their respective commercial Business Cases to be presented under the "Commercial projects" section of quarterly MTFP reporting, providing a full overview of all Commercial activities across the TVCA Group. Any such activities cannot be undertaken solely for yield and will only be considered and approved providing they represent a strong case for economic regeneration for the Tees Valley.

5. The respective Local Authority Cabinet's or Mayoral Development Corporation Boards will be responsible for review and approval of any Business Cases/Plans in support of proposed investments that are seeking financing solutions from TVCA. Once the respective Cabinet/Board has approved proposals a full copy of the Business Case/Plan for each proposal will be provided to the TVCA s73 officer for consideration of the financing request.

6. The TVCA s73 officer will work in consultation with other TVCA statutory officers and in partnership with HDC/MDC Board representatives or Local Authority s151 officers to review the proposals and the financing request in line with the TVCA Treasury Management Strategy. The s73 officer will be responsible for engaging external specialist advice as required to fulfil these responsibilities. The s73 officer will consider how any proposals pass the required financial/commercial parameters that must be met in order for any financing request to be approved.

<u>Limits and thresholds</u>

7. Whilst projects are in development it is anticipated that a level of debt finance from each Development Corporation and Local Authorities will be required for potential projects. The specific project details are still to be determined. To enable momentum to be maintained in

the delivery of projects it is recommended that an appropriate level of facility is made available to each Development Corporation and Local Authorities via TVCA. These levels will be kept under review and any proposals for accessing these facilities will be subject to the appropriate robust due diligence and decision-making controls (see later in this report). The proposed facility for each Development Corporation is set out below: -

Middlesbrough Development Corporation	-	£75m
Hartlepool Development Corporation	-	£75m
Other three TVCA/local authority area commercial projects	-	£225m

The updated TVCA Treasury Management indicators are provided as Appendices to the Treasury Management Strategy report.

Monitoring and Reporting

8. All approved financing requests will be reported as part of the Quarterly Finance update process to TVCA Cabinet and clearly shown as part of the Commercial Projects section of these reports.

9. The proposed project expenditure will be shown in the expenditure analysis. The financing solution will be shown in the funding section with any exception reporting in respect of the terms of the agreements and performance explained in the report. This reporting will also incorporate the previously approved STDC Regeneration Business Case facility of up to £350m ensuring all commercial regeneration investments are presented and reported in a consistent format.

Governance and key considerations

10. Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. The latest TVCA Treasury Management Strategy was approved by TVCA Cabinet on 17th March 2023 and can be found here.

11. The management of the proposed borrowing facilities for both Development Corporations will adhere to the CIPFA Code and the TVCA Treasury Management Strategy. The components of the TVCA Treasury Management Strategy are set out below: -

Capital Strategy

12. Capital expenditure is where the Authority spends money on assets, such as land, property or vehicles that will be used for more than one year. In local government ***this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets***, this is predominantly the nature of the Authority's capital expenditure.

13. The proposals set out in this paper are for TVCA to provide loans to MDC/HDC/Tees Valley Local Authorities enabling them to buy/invest in assets for economic regeneration purposes.

Investment Strategy

14. TVCA is proposed to secure borrowing to onward lend to both MDC, HDC and the other Tees Valley Local Authorities. TVCA will be following the TVCA Investment Strategy to discharge this process. The TVCA Investment Strategy states: -

"..The Authority can lend money to its subsidiaries, constituent Local Authorities and local businesses to support delivery of the Strategic Economic Plan and stimulate local economic growth. Loans are not issued by the Authority for purely financial return, they are provided if the proposal meets the priorities set out in the Investment Plan and related strategies.."

15. Both MDC, HDC and the other Tees Valley Local Authority activities are designed to stimulate local economic growth and regeneration.

TREASURY MANAGEMENT STRATEGY, POLICIES AND PROCEDURES

16. The TVCA Group has Treasury Management Strategy, Policies and Procedures provide the detailed approach that TVCA will take to its Treasury Management activities.

17. The latest approved version was approved by TVCA Cabinet on 17 March 2023 with a link provided here. There are key elements of these procedures that govern the transacting of borrowing and investment decisions by TVCA and specifically those that will govern how the arrangements with MDC and HDC will operate. These provide for what TVCA will take into consideration: -

    - In respect of **every decision made**
    - In respect of **borrowing and other funding decisions**
    - In respect of **investment decisions**

18. TVCA will adhere to the policies and procedures set out in detail within the Treasury Management Practices. These guidelines in addition to the key limits and metrics in the following section will govern how TVCA administers any lending to MDC and HDC and the other Tees Valley Local Authorities respectively.

    In respect of **every decision made** TVCA will:

    a) Above all be clear about the nature and extent of the risks to which the Authority may become exposed.
    b) Be certain about the legality of the decision reached and the nature of the transaction and that all authorities to proceed have been obtained.
    c) Be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained
    d) Be satisfied that the documentation is appropriate to deliver the Authority's objectives, protect the Authority's interests, and to maintain an effective audit trail.
    e) Ensure that third parties are judged satisfactory in the context of the Authority's creditworthiness policies, and that limits have not been exceeded.
    f) Be content that the terms of any transactions have been fully checked against the market and have been found to be competitive.
    g) Follow best practice in implementing the treasury transaction

INVESTMENT AND BORROWING ROLES AND LIMITS

TVCA role – borrowing to source funds

19. TVCA as a branch of Local Government has access to the Public Works Loans Board (PWLB) that provides lower cost financial products than the wider markets. The lending

market to public bodies has developed further with the introduction of the UK Infrastructure Bank who also provide lending products to local authorities at discounted rates to the PWLB rates for certain categories of project(s). The UKIB products are linked to UK infrastructure needs their products have additional flexibilities that may not be available under the PWLB.

20. TVCA sources its long-term borrowing from either PWLB or UKIB (depending on the nature of the project) to meet the investment needs of the TVCA Investment Plan and Commercial projects that are developed with stakeholders.

21. In making loans (investing funds) the Authority is exposing itself to the risk that the borrower defaults on repayments. The Authority therefore ensures they are prudent and fully considers the risk implications, with regard to both the individual loan and that the cumulative exposure of the Authority is proportionate and prudent. For clarity any lending to the Group entities would be predicated on robust proposals with clear commercial returns and cashflows that are identifiable to repay the debt.

22. In terms of timing of any borrowing Government guidance is that Authority's must not borrow more than, or in advance of, their needs purely in order to profit from the investment of the extra sums borrowed. The Authority has not borrowed and has no plans to borrow in advance of need or purely for profit purposes in relation to both MDC/HDC and the other Tees Valley Local Authorities.

23. The key matters that TVCA will consider **in respect of borrowing and other funding decisions** are set out below. TVCA will:

    a) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund
    b) Evaluate the amount, structure, and duration of new borrowing and the timing thereof in relation to the Authority's planned borrowing needs (e.g. by use of a liability benchmark)
    c) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
    d) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
    e) Consider the ongoing revenue liabilities created, and the implications for the Authority's future plans and budgets
    f) Where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years

<u>TVCA role – investing to provide funds to MDC/HDC</u>

24. The TVCA Group Treasury Management Strategy, and specifically the Investment Strategy, sets out to ***"..assist in delivering the Strategic Economic Plan by lending to or buying shares in other organisations (investments). This investment strategy meets the requirements of statutory guidance on local government investments issued by the government in January 2018 (issued under section 15(1)(a) of the Local Government Act 2003).."***

25. TVCA will also ensure that a full due diligence exercise is undertaken, and adequate security is in place. The business case will balance the benefits and risks. All loans are approved in line with the constitution and approved policies. All loans will be subject to close, regular monitoring.

26. TVCA will have its own advisors with responsibility for conducting due diligence on any other Local Authority/MDC/HDC projects requesting borrowing. As part of the assessment process a full financial, legal, and commercial evaluation will be carried out in line with the TVCA Investment Strategy. The cumulative effect of programmes/projects will be taken into consideration to assess the overall impact on total borrowing against approved Treasury limits and relevant performance ratios.

27. The key matters that TVCA will consider **in respect of investment decisions** are set out below. TVCA will:

    a) Determine that the investment is within the Authority's pre-determined strategy and comply with instruments (set out in TMP 4) and any credit criteria (set out in TMP 1) as well as the credit risk associated with unsecured investments with banks and building societies
    b) Consider the risks to capital and returns and the implications for the Authority's future plans and budgets, including implications of any market-related changes to the value of the capital invested
    c) Consider whether monies can be used in lieu of externally borrowing
    d) Consider the optimum period, in the light of cash flow availability and prevailing market conditions
    e) Consider alternative investment products and techniques available, if appropriate

28. As part of the consideration of the risks to capital and returns and the implications for the Authority's future plans additional decision controls are proposed. These decision controls would apply to all requests for borrowing from MDC/HDC: -

    - Loan to value ratio (security)
    - Debt service cover ratio (affordability)
    - Financing costs as % revenue (affordability)
    - Debt yield level (sustainability)
    - Treasury Management limits and boundaries (prudence)
    - Step-in rights
    - Exit strategy

<u>MDC and HDC borrowing additional provisions</u>

29. Where MDC and HDC have a borrowing requirement, it is proposed that they will source this from TVCA. Both Development Corporation Boards will be responsible for considering and approving programme/project proposals including appropriate risk assessment and value for money assessment activity. These proposals will require robust work with appropriate expertise to provide the necessary assurances to TVCA regarding any request for debt finance.

30. The existing TVCA Treasury Management systems provide the framework over which any such borrowing and lending would take place and both Mayoral Development Corporations are expected to follow this framework and the associated guidance.

31. All Tees Valley Mayoral Development Corporations have the power to borrow as set out in the Localism Act 2011: -

    201Object and powers

    (1)The object of an MDC is to secure the regeneration of its area.

(2)An MDC may do anything it considers appropriate for the purposes of its object or for purposes incidental to those purposes.

32. The CIPFA Code titled "CIPFA Treasury Management in the Public Services – Code of practice and cross-sectoral guidance notes" governs the definition of treasury management activities and how these activities should be managed. The TVCA Treasury Management Strategy and associated strategies set out how TVCA will comply with the code in terms of its activities.

33. Access to debt finance costs and transaction details will be dependent on the funders requirements and the relative strength of the counterparty borrowing. Both MDC and HDC have the powers to borrow however this does not necessarily mean they will be able to secure the necessary finance on appropriate terms that represent value for money due to being recently established without a significant balance sheet. It is therefore unlikely that both MDC and HDC will be able to access the PWLB and UKIB funding solutions available to local authorities due to this lack of balance sheet strength and or other security. The Mayoral Development Corporations can approach TVCA for funding in line with the proposals in this report or the alternative would be to attempt to access the private sector lending markets at a far higher cost of capital thereby eroding the spending power both MDC/HDC can generate for investment to support both Masterplans.

34. It is clear to deliver both visions for Hartlepool and Middlesbrough respectively will require access to public and private sector finance. The programmes and projects identified to deliver the Masterplan will need to be assessed on their relative merits and consider the most efficient and effective way of delivering a value for money funding solution.

Appendix A

TREASURY MANAGEMENT POLICY STATEMENT EXTRACT

TMP 3 Decision-making and analysis

In respect of **every decision made** TVCA will:

a) Above all be clear about the nature and extent of the risks to which the Authority may become exposed.
b) Be certain about the legality of the decision reached and the nature of the transaction and that all authorities to proceed have been obtained.
c) Be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained
d) Be satisfied that the documentation is appropriate to deliver the Authority's objectives, protect the Authority's interests, and to maintain an effective audit trail.
e) Ensure that third parties are judged satisfactory in the context of the Authority's creditworthiness policies, and that limits have not been exceeded.
f) Be content that the terms of any transactions have been fully checked against the market and have been found to be competitive.
g) Follow best practice in implementing the treasury transaction

In respect of **borrowing and other funding decisions**, TVCA will:
a) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund
b) Evaluate the amount, structure, and duration of new borrowing and the timing thereof in relation to the Authority's planned borrowing needs (e.g. by use of a liability benchmark)
c) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
d) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
e) Consider the ongoing revenue liabilities created, and the implications for the Authority's future plans and budgets
f) Where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years

In respect of **investment decisions**, TVCA will:
a) Determine that the investment is within the Authority's pre-determined strategy and comply with instruments (set out in TMP 4) and any credit criteria (set out in TMP 1) as well as the credit risk associated with unsecured investments with banks and building societies
b) Consider the risks to capital and returns and the implications for the Authority's future plans and budgets, including implications of any market-related changes to the value of the capital invested
c) Consider whether monies can be used in lieu of externally borrowing
d) Consider the optimum period, in the light of cash flow availability and prevailing market conditions
e) Consider alternative investment products and techniques available, if appropriate