Appendix 11a

Teignbridge District Council Capital Strategy

Background

Local authorities are required by regulation to have regard for the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code 2017 edition and Treasury Management Code 2017 edition. The updated 2017 Prudential Code requires that local authorities have in place a capital strategy. This is in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and overall organisational strategy and resources. The aim is to ensure decisions are being made with sufficient regard to the long run financing implications and potential risks to the authority. Local authorities must also have regard to the Statutory Guidance on Local Government Investments, the updated 3rd edition of which applies from 1 April 2018. This requires the production of at least one investment strategy. Teignbridge District Council have:

a Treasury Management Strategy Statement which is primarily concerned with treasury (financial) investments

a Capital Strategy, which also covers non-financial investments (for example, investments in property).

Purpose

The capital strategy is intended to give an overview of how the Council plans and delivers its capital expenditure, capital financing, treasury management and investment activities. It shows how these activities are carried out with the aim of fulfilling the priorities set out in key strategic documents such as the ten year council strategy and local plan. It is a key document for the Council and forms part of the annual budget papers.

As part of its budget papers, the Council produces a Medium Term Financial Plan. It shows how in recent years the Council has been demonstrating a prudent approach to prepare for grant reductions. For 2021-22, the Medium Term Financial Plan is heavily influenced by the Covid-19 pandemic. As well as loss of income for the Council, the pandemic has affected the provisional local government finance settlement, which is short-term for one year only due to the uncertainties in the economic landscape. The ongoing Business Efficiency Service Transition programme (BEST 2020), is now focused on recovery and relabelled "Better 2022". Previous savings plans and restructuring efficiencies continue to benefit the Council. However, the future funding scenario and significant impact of Covid-19 mean that a savings exercise was needed in addition to Government support for losses from sales, fees and charges. The savings have been have been built into future years where appropriate to ensure the Council's future financial stability.

The Capital Strategy shows how the Council intends to focus its capital investment to further meet its strategic objectives, including investment in infrastructure, housing and reducing the impacts of climate change. It provides the framework which will allow the Council to achieve its vision of shaping Teignbridge as a place which is economically resilient, delivering good quality services while addressing the funding challenges outlined above.

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The Treasury Management Strategy and performance indicators, along with the Capital Strategy provide information on Teignbridge's approach to managing the risks associated with capital investment and financing decisions taken.

1. Capital Expenditure

1.1 Strategic factors

The capital programme is included at Appendix 7 of the budget papers. The capital strategy which underpins it is driven by a number of factors:

The ten year Council strategy. Recently updated to cover the period 2020-2030, this sets out the Council's key objectives:

- A carbon neutral district
- Better quality and affordable housing
- Wages and jobs growth
- Active and sustainable travel choices
- Encouraging our young people to stay
- A healthier population living in resilient communities
- A clean, green and safe environment
- An open council

The capital programme is continually reviewed with a particular focus on the primary goals of affordable housing, carbon neutrality and wages and jobs growth.

A provision of £6.6 million is included for the first half of the Teignbridge 100 housing scheme for affordable and social housing. This work has already commenced as the programme covers schemes at Drake Road and East Street Newton Abbot, which are underway. The pipeline covers a range of urban and rural sites, including the Dartmoor National Park. Houses, apartments and bungalows are included and scheme sizes range from 2 to 30. The intention is to deliver a rented programme across urban and rural locations on Teignbridge land.

The Council's Climate Change Officer continues to develop the Carbon Action Plan, supported in the capital programme with a provision of £3.6 million over 3 years for measures to reduce the authority's carbon footprint. This investment, to be funded from borrowing, is in addition to grant bids under the Public Sector Decarbonisation Scheme covering leisure sites Newton Abbot Leisure Centre, Broadmeadow Sports Centre and Teignmouth Lido. A separate bid is being pursued to cover the cost of replacing the Forde House gas boiler system.

There are also significant provisions for town centre investment, including the successful Future High Streets Fund bid, for which the Council has received an in-principle funding offer of £9.2 million. This was 69% of the original bid due to the funding being oversubscribed. It will make a significant contribution to the infrastructure of Newton Abbot town centre. Along with a provision of £2 million for employment infrastructure, the aim is to help stimulate growth in the local economy and ensure it is an attractive and well-connected environment for local businesses.

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The Local Plan, which guides development in the district, setting out policies, proposals and actions to meet the environmental, social and economic challenges facing the area. This includes supporting infrastructure for proposed developments. The capital programme shows contributions to a new railway station at Marsh Barton and provisions for improvements to the A382 and enabling a new bridge and link road in Dawlish and a link road at Houghton Barton. There are provisions for contributions to education facilities in South West Exeter and the wider Teignbridge area, and projects to create and improve green spaces, sports and leisure facilities and cycle routes.

The council's asset management plan, which sets out the council's approach to the strategic management of its land and building assets. It aims to ensure the council maximises use and efficiency of its property portfolio, making a long term positive contribution to service delivery. The capital programme includes items which invest in council buildings, such as the provision for carbon reduction projects, including fabric and heating improvement at Forde House and provisions refurbishment and carbon reduction measures at leisure sites. The capital programme is supported by any capital receipts arising from the disposal of assets.

The council's Medium Term Financial Plan – the programme must be affordable within the council's overall budget plans. This means that business cases for projects funded by borrowing must demonstrate that they will cover the revenue costs associated with borrowing over the life of the asset.

Strategic Service Planning – The council is in the sixth year of Business Efficiency Service Transition (BEST) 2020, now being refined and relabelled as "Better 2022" This process incorporates service business plans. In addition to identifying potential savings, the focus is on defining strategic direction, examining the nature of services provided and whether they provide clear social or economic value. As part of this, future projects and asset management options are considered, which will shape the future shape of the capital programme.

Commercial Strategy – The commercial strategy is intended to support the Council's financial sustainability. It takes a broad view of the concept of commercialisation, to include service and charging reviews and process redesigns; financial management, investment and procurement initiatives; housing and regeneration projects, asset management and income generation. While it does not relate exclusively to the capital programme, it has links to the capital strategy in terms of the larger projects within the Key Priorities of Regeneration and Commercial Property, Asset Management and Housing. Delivery of these projects is integral to the Council strategy aims of providing affordable housing and delivering jobs and wages growth. They are supported by the Council's approach to investments and the borrowing which is critical to funding them. This is relevant to the Key Priority of Financial Management and must be taken into account within the Council's treasury management strategy.

Teignbridge District Council Capital Strategy

CIPFA and Government guidance – the council must have regard to both CIPFA's Prudential Code (capital expenditure and financing) and its Treasury Management Code (the management of borrowing, investments and cash flow). Both of these Codes were recently updated at the end of 2017. In addition the Ministry of Housing, Communities and Local Government (MHCLG) issued updated statutory guidance on investments and minimum revenue provision in February 2018.

1.2 Governance

Responsibility for decision-making and ongoing monitoring in respect of capital expenditure, investment and borrowing, including prudential indicators remains with Full Council. Each year, the budget process reports to Full Council across a range of strategies and information which is relevant to capital expenditure, investment plans and financing implications, to ensure that decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

The capital programme is considered annually by Full Council. Updates are reported to CMT and Executive throughout the year, with any budgetary changes approved by reference to the virement rules in the financial instructions. Separate reports are brought back to Full Council for approval for any larger projects (over £250k).

The Treasury Management strategy, which sets out policies relating to the management of investments, balancing security, liquidity and yield. This is approved annually by Full Council and includes the approved lending list and the council's approach to borrowing. Updates are brought to Executive throughout the year as necessary.

The Minimum Revenue Provision Statement sets out the council's method of making prudent provision from revenue in respect of capital expenditure financed by borrowing or credit arrangements. Any changes are required to be approved by Full Council.

The Prudential Indicators aim to demonstrate whether the Council has fulfilled the objectives of an affordable, prudent and sustainable approach to capital expenditure, investment and debt. Any revisions are required to be approved by Full Council.

The Commercial Strategy, as approved by Full Council in February 2020. It includes an explanation of the role of the **Commercial Property Investment Board.**

Role of the Capital Review Group

Teignbridge District Council operates a Capital Review Group (CRG), with members including senior officers across a range of services. This allows a corporate approach to capital planning and expenditure, along with the use of property assets throughout the organisation. Its role is to consider and prioritise capital proposals, ensuring that proper option appraisals are carried out and that they have considered in sufficient detail those matters which are required to be taken into account by the Prudential Code:

- Strategic service objectives
- Stewardship of assets
- Value for money (option appraisals)
- Prudence and sustainability (including external debt implications and impact on revenue budgets)

- Affordability
- Practicality (including staff resource requirements)

Proposals must follow the Capital project reporting flow chart as per the Financial Instructions. An initial Outline Proposal Form is followed up by a financial appraisal and Project Initiation Document (PID) as required. The CRG ensures early wide consideration. Stage 2 of the flow chart ensures the correct level of approval as per the Council's constitution.

Basis of cost estimates – Council project managers are experienced in providing cost estimates in line with best practice, to include surveys, preliminaries, project and design team fees, risk allowances, contingency and other development and project costs. Previous similar schemes can be reviewed on SPAR.net (the council's performance and risk management system). For certain projects, external quantity surveyors may be appointed either on a one-off basis or as part of a multi-disciplinary project management team. Financial appraisals look at the whole life cost of projects including both capital and long term revenue costs, with inflation factored in.

The CRG also monitors the existing capital programme to ensure its continued relevance, consider the progress of schemes including variations and re-phasing and to identify or reallocate unused resources.

SPAR.net is used to identify potential risks and to highlight causes for concern, whether budgetary or progress-related. In addition, it provides a reference resource of historical information which can help to inform current decisions and allows lessons to be learned from past experience.

The role of the CRG is crucial to ensuring that the risks associated with capital investments are mitigated. It ensures that projects demonstrate affordability, that there is wide consultation to ensure proper procedures are followed, for example tender processes, legal and financial matters. It also considers whether there are sufficient resources for effective project management and delivery.

1.3 Commercial Activity

The Council's approach to commercial activity is dealt with in its Commercial Strategy. This takes a broad view of commercialisation, so as well as capital investments such as housing and regeneration projects, it also deals with service and charging reviews and process redesigns, financial investments, asset management and income generation.

The goal of the commercial strategy is to enable the Council to become financially self-sufficient against the backdrop of reduced central government funding for local authorities. This is essential to providing the stability which will allow it to focus on the provision of good quality services and achieving the key objectives of the Council strategy.

During 2020-21, the Covid-19 pandemic has resulted in significant loss of income for the Council, but also focused attention on recovery. A budget gap of £1.2 million is forecast from 2022-23, rising to £2.6m in 2023-24. As part of a savings exercise, revenue contributions to the capital programme have been eliminated over the duration of the medium term financial plan. By acting in a commercially aware manner, the Council aims to contribute towards its vision for Teignbridge and reduce the significant budget gap which has been identified.

The core aim of the commercial strategy which most directly relates to the capital plans of the Council is:

- Increasing financial and social benefits through delivery of regeneration initiatives which stimulate economic growth, and local Housing. This will help ensure local residents find the support they need to thrive and that the right conditions are created for existing and new businesses to grow and be financially independent.

The core aims which underpin the Council's approach to these investments are as follows:

- Being socially responsible – investments and practices which support local prosperity, social and environmental benefits. In line with the Public Services (Social Values) Act 2012 – if business cases have similar returns, look to deliver those initiatives which provide best social or environmental outcome whilst paying due attention to equality, wellbeing and safeguarding.
- Investing within the district is the first priority, but it is recognised that there are benefits to investing within the local functional economic area. Many residents and businesses commute or trade between Teignbridge and the area of the Greater Exeter Strategic Plan (GESP), or the wider Heart of the South West Local Enterprise Partnership area, comprising Devon, Plymouth, Somerset and Torbay.
- Securing external funding and working in partnership

Following the core aims are five specific key priority areas. Relating to capital are the following:

Key Priority 1: Regeneration and Commercial Property Investment

Within the capital programme are significant town centre regeneration projects which focus on the transformation of our town centres away from places simply to shop and towards being destinations for leisure and focal points for communities. As well as delivering new hotels in Newton Abbot and Teignmouth the Council is working towards broader regeneration of Newton Abbot town centre and has received in principle approval of £9.2m funding from the Future High Street fund. This will positively influence the economic prosperity of the district, helping to provide growth in local jobs, attracting businesses to the area and contributing towards local vibrancy. In turn, this encourages people to both work and spend leisure time locally, which should help reduce carbon emissions.

Key Priority 2: Asset Management

To ensure the Council maximises the available benefits of its assets, whether as operational sites, to generate rental income, to re-purpose or sell. Carbon neutrality is considered in relation to asset management, with provisions for measures from the Carbon Action Plan to be implemented.

Key Priority 3: Commercialisation and strong, agile operating practices

Although largely relating to operational procedures, there are links to the capital programme via the purchase of the equipment and software to enable digital transformation projects.

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Key Priority 4: Financial Management

Treasury management is crucial to ensuring cash is available when needed, including longer term for capital projects which may be funded from borrowing. Investments which are not covered by the Treasury Strategy lending list follow the approvals route described within the commercial strategy. This also encompasses activity which falls outside the treasury management function, including loans to key partners and stakeholders which deliver social value or economic growth within the district.

Key Priority 5: Housing

The Teignbridge 100 will deliver affordable and social housing across a range of urban and rural sites on Teignbridge land.

Due diligence and risk

The council is working to develop commercial skills, promoting risk-awareness. Teignbridge's appetite for risk seeks to be proportional to its role as a district council. The commercial strategy promotes the development of risk awareness by the use of business cases which must demonstrate the consideration and mitigation of risk factors (an appendix is provided to aid this process), focus on due diligence and consultation where appropriate

Governance and decision-making

Commercial activity is subject to the Council's governance arrangements, with legal advice to be sought on a case-by-case basis. There are provisions for urgent decisions to be taken by the Chief Finance Officer in consultation with the Commercial Property Investment Board, if it would be contrary to the financial interests of the Council to delay. The intention is to allow a quick response to opportunities where appropriate, while adhering to a strict due diligence process.

1.4 Policies on Capitalisation

The Council's accounts are required to be prepared in accordance with proper accounting practices. For capital, these practices are governed by the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003 No 3146, as amended) supported by International Financial Reporting Standards (IFRS). Local authorities must also have regard to CIPFA's Prudential Code.

The Council's Statement of Accounts includes detailed policies on the treatment of different asset classes. Capital documentation such as the outline proposal form is considered by the Capital Review Group to ensure that projects meet the requirements for capital expenditure. There are three routes by which expenditure might qualify as capital:

The expenditure results in the acquisition of, or the addition of subsequent costs to non-current assets in accordance with proper practices.

REFCUS expenditure (Revenue Expenditure Funded from Capital Under Statute): These are arrangements which recognise that some expenditure incurred by local authorities has a wider, lasting public benefit than is reflected in the accounting rules for non-current assets, for example grants and loans and expenditure on non-Council assets.

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The Secretary of State makes a direction that the expenditure can be treated as capital expenditure.

The Council's de minimus for capital is £10,000.

The Council has not used the capitalisation flexibilities issued by the Secretary of State for the Ministry of Housing, Communities and Local Government. These give authorities the continued freedom to use capital receipts to help fund the revenue costs of transformation projects and release savings. These flexibilities are due to continue until 2021-22.

1.5 Capital Expenditure Plans and Financing Strategies

The Capital Programme – the capital programme sets out planned capital expenditure over the medium term financial plan period of 3 years. It shows how each project is linked to a Council Strategy priority and summarises planned expenditure and funding. It is approved annually along with the budget papers, with quarterly updates to Executive Committee

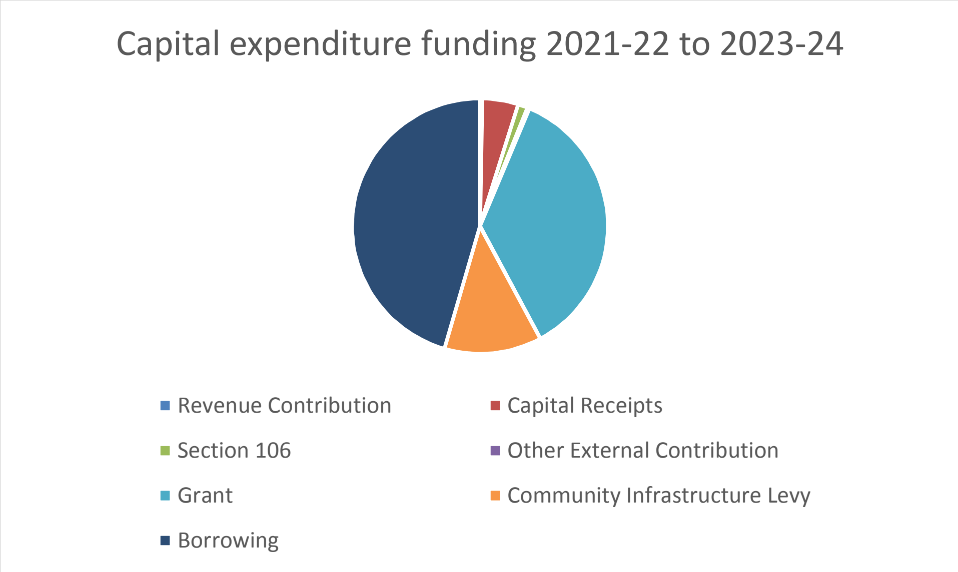
The Council's capital expenditure plans for the current 3 years of the Medium Term Financial Plan amount to £87.5 million, summarised in the table below:

Capital Expenditure and Financing (Estimate)	2021-22	2022-23	2023-24	2021-24 Total
	£'000	£'000	£'000	£'000
Planning and Development	20,461	19,740	4,604	44,805
Flood Alleviation and Environment	5,471	11,883	3,194	20,548
Open spaces and Leisure	6,896	644	2,002	9,542
Central support services / IT	490	397	41	928
Housing grants and affordable housing	5,159	3,247	3,247	11,653
Total Expenditure	38,477	35,911	13,088	87,476
Revenue Contribution (earmarked reserve)	-	-250	-	-250
Capital Receipts	-2,594	-813	-576	-3,983
Section 106	-758	-186	-146	-1,090
Other External Contribution	-	-180	-24	-204
Grant	-14,466	-11,333	-5,555	-31,354
Community Infrastructure Levy	-2,740	-4,750	-3,291	-10,781
Borrowing	-17,919	-18,399	-3,496	-39,814
Total Funding	-38,477	-35,911	-13,088	-87,476

Sources of funding

The programme is funded from a combination of capital receipts, revenue contributions, grants and external contributions, Community Infrastructure Levy (CIL) and borrowing. These are explained in further detail below.

Teignbridge District Council Capital Strategy



Community Infrastructure Levy (CIL) is a charge on new development which aims to ensure that it contributes to the provision of essential local facilities. It must be spent on infrastructure. Under the current system, local authorities are not permitted to borrow against the receipt of future CIL. The government's white paper "Planning for the Future" suggests this issue will be addressed as part of future reforms. Teignbridge's priorities for CIL expenditure are available on the Council's website and reflect the needs identified in the Infrastructure Delivery Plan which supports the Teignbridge Local Plan. Projects include provision of Suitable Alternative Natural Green Spaces, habitat mitigation, leisure provision such as playing pitches and parks, education infrastructure and improvements to local roads and rail, infrastructure for cycling, walking and public transport. CIL projects often involve working together with other organisations, such as the Habitat Mitigation Executive and Devon County Council to achieve improvements across a wide range of infrastructure.

Section 106 contributions are received from developers in relation to specific needs such as leisure and open space improvements, affordable housing, air quality and drainage improvements.

Grants and external contributions are received from a range of government and agency sources towards expenditure such as Disabled Facilities Grants, flood alleviation and prevention and open space and leisure improvements.

Capital schemes funded by CIL, Section 106 contributions, grants or external contributions are required to follow the capital approval process to ensure that the matters which the Prudential Code requires to be taken into account are considered. For example, strategic service objectives, revenue budget implications and the practicalities of delivery.

Teignbridge Capital Funding. There are two ways in which the council can directly contribute to capital projects. **Capital Receipts** are funds which result from events such as the disposal of assets or the repayment of loans which were made for a capital purpose. The Council also receives Right to Buy receipts, allocated to Housing. The council had

£5.8 million capital receipts at the start of 2020-21. It is currently forecast that General Fund capital receipts will be £0.6 million by the end of the current Medium Term Financial Plan. In order for Teignbridge to continue to benefit from capital investment in the future, the council will look to reinstate **Revenue Contribution** to capital. This has been withdrawn (with limited earmarked exceptions) due to revenue pressures caused by the loss of income attributable to the Covid-19 pandemic. Projects funded by capital receipts and revenue contributions include contributions to superfast Broadband provision, improvements to Council buildings and equipment including IT projects and waste management, discretionary housing grants and affordable housing.

Borrowing

Projects which are not funded by one of the sources above are initially funded by borrowing and must first demonstrate a sound business case during the capital approval process. This is because there are revenue budget implications associated with borrowing. Both the principal borrowed and interest costs will have to be repaid and it is essential that the capital programme remains affordable, prudent and sustainable with regard to:

- Capital financing costs, eg. interest
- Loss of investment income
- Other income and costs eg. rent, fees & charges, salaries, rates, energy and maintenance arising from the investment
- MRP – this is the statutory requirement to charge the revenue account with the principal cost of capital expenditure which has not been met from grants, contributions or capital receipts. It is explained in the Council's Minimum Revenue Provision statement.

Business cases must demonstrate a scheme's ability to cover all the relevant costs above for the whole life of the asset.

Projects funded from borrowing aim to bring a broad range of economic benefits such as continued growth in local jobs, business expansion and wealth creation as well as improving the Council's income resilience against the challenge of lower government funding. Projects include town centre improvements, industrial sites, affordable housing and carbon reduction measures.

The council's approach to borrowing is laid out in Appendix 11 of the budget papers – the Treasury Management Strategy. See also Section 2 below for a projection of the Council's borrowing requirements.

1.5 Asset Management Planning

The Executive member for Business, Economy and Tourism has responsibility for assets. The Head of Place and Commercial Services is the current designated Corporate Property Officer (CPO). The CPO is authorised to take the lead on asset management planning across all services thus ensuring that property assets are regarded throughout the Council as corporate assets.

This strategic approach ensures that the Council's business and property plans support its key objectives and inform its spending decisions. The alignment of the corporate vision with service business plans, the Medium Term Financial Plan and Capital Strategy provides a stable context in which to make informed decisions and deliver the right outcomes. Further, it provides the opportunity to shape the property portfolio to efficiently support the delivery of services and to hold, acquire or occupy only those properties that support the aims of the Council. Property assets represent the Council's largest physical resource in financial terms and they underpin all service activities;

a) For the purpose of direct service delivery (such as parks, gardens and leisure centres);

b) To support service delivery (for example administrative offices and depots); and

c) To support the Council's wider policy objectives. This part of the portfolio is varied: Many assets have been made available for social or sporting purposes or are retained for a range of reasons such as a potential to contribute to future regeneration schemes or provide workspace for local employment provision. In addition, the portfolio provides a valuable revenue income, (approx. £3 million), which in turn helps to support the Council in delivering important services to its residents.

The Council's corporate property function sits as part of the Economy and Assets Service and is overseen and supported by the Capital Review Group. The overview below summarises the Council's strategic property aims, asset priorities and how they are managed and monitored.

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TEIGNBRIDGE COUNCIL CORPORATE ASSET MANAGEMENT OVERVIEW

Our Strategic Property aim is:	ENSURE THAT TDC LAND AND BUILDING ASSETS ARE EFFICIENTLY MANAGED, MAINTAINED, REDEVELOPED, ACQUIRED AND DISPOSED OF IN A CONSISTENT, STRATEGIC MANNER THAT SUPPORTS CORPORATE OBJECTIVES AND SERVICE DELIVERY

Our asset priorities are:	Understand our assets and how they perform	Challenge whether we have the right assets in the right place and in a condition to meet service delivery needs	Dispose of the assets we no longer need	Acquire new assets if we need them	Maintain and invest in property	Make assets more efficient to run	Reduce the carbon footprint of our assets	Make the most of our assets

We deliver these priorities by:	Retention of a Corporate Asset Database with continued programme to rationalise property information into one place	Asset Challenge Review	Compliance with Property Disposal & Acquisition Policy and Procedures	Investing in a prioritised programme of Planned Maintenance and Capital Programme projects	Proactive estates management
	Measuring and monitoring asset data and information to show how our assets perform	Service Business Planning		Delivery of a prioritised programme of strategic property projects set out in the **Capital Programme**	Ensuring 'best consideration' in all our property transactions
		One Teignbridge Transformation Programme		Compliance with statutory and health & safety legislation	Clear **Property Policies** and Procedures

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We keep track of progress & performance with:

Capital Programme - monitoring of delivery by the Capital Review Group					
Performance indicators					
Budget monitoring/ SPAR risk register					
	An Asset Review Schedule	Asset Disposal	Asset Acquisition	Capital Programme monitoring	Capital receipts and revenue income
				Planned & Reactive Maintenance monitoring	
				Property Inspection Regimes	

This work is led by:

The Corporate Property Officer (Head of Commercial Services)				
Economy & Assets Housing & Health Environment & Leisure	All Services	Economy & Assets - Estates	Economy & Assets Housing & Health Environment & Leisure	Economy & Assets

The ongoing costs associated with existing assets are reflected in the Medium Term Financial Plan and mainly comprise repairs and maintenance, utilities, non-domestic rates, property insurance, furniture and fittings and contracts such as cleaning and grounds maintenance. When considering new capital projects, these long-term costs would be considered as part of the proposal and appraisal process.

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2. Debt, Borrowing and Treasury Management

2.1 Projection of borrowing requirements

Previous capital projects such as the purchase of Market Walk mean that Teignbridge District Council has an underlying need to borrow. In addition, the capital programme contains projects which would not be immediately funded by grants, contributions, capital receipts or revenue contributions. When taken together, the current underlying need to borrow and projected borrowing from the capital programme give an estimate of the council's future borrowing requirements. The table below divides this between the amount it is estimated we could fund internally from our other cash balances and the amount we would seek to borrow externally.

	2021-22	2022-23	2023-24
	£'000	£'000	£'000
Estimated Capital Financing Requirement should provisional schemes be approved (total cumulative underlying need to borrow).	40,871	58,569	58,749
Estimated internal borrowing	-13,000	-13,000	-13,000
Liquidity cash flow buffer & contingency	7,000	7,000	7,000
Estimated external borrowing	34,871	52,569	52,749

In the longer term, the calculation of a liability benchmark as recommended by CIPFA, extends this information and allows measured borrowing decisions to be made in relation to the amount and maturity profile of loans, which manages interest rate exposure:

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. This is currently assumed to be a minimum £5 million average daily lending.

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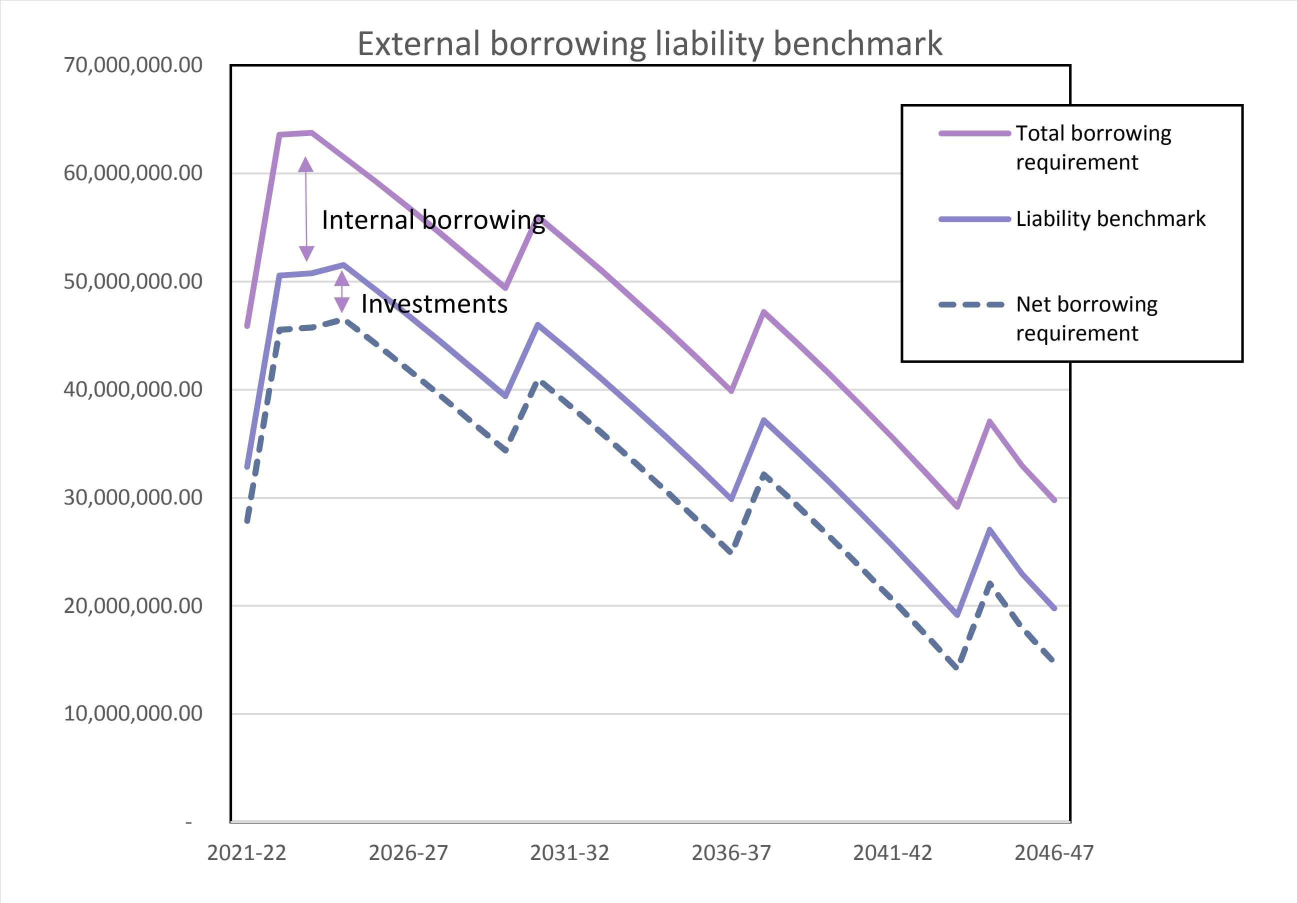

Acceptable sources of loans are the Public Works Loans Board, local authorities, public bodies and UK banks and building societies.

The estimated sums for external borrowing relating to capital are taken account of, along with contingency sums for possible temporary borrowing, in the Prudential Indicators authorised limit and operational boundary. The operational boundary represents a prudent estimate of the maximum level of external debt, whereas the authorised limit provides headroom over and above the operational boundary sufficient for unusual cash movements:

	2021-22	2022-23	2023-24
	£'000	£'000	£'000
Operational boundary	35,000	55,000	55,000
Authorised limit	40,000	60,000	60,000

The Council's Commercial 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 Capital Strategy

2.2 Implications of borrowing

2.2.1 Minimum Revenue Provision (MRP)

All capital expenditure has to be financed from capital receipts, grants and contributions (such as S106 and CIL) or eventually from revenue income. Where local authorities borrow to fund capital expenditure, there is a requirement to ensure that they put aside enough revenue money over time to cover those debts. This is MRP and the broad aim is to ensure that the period over which it is charged is commensurate with the period over which the capital expenditure provides benefits.

The Local Government Act 2003 requires the council to have regard to the Ministry of Housing, Communities and Local Government's (MHCLG) Guidance on MRP. This guidance requires the council to approve an annual MRP statement and recommends a number of options for calculating the required prudent provision, while also not ruling out other methods should they be deemed more appropriate. This is discussed in more depth in the council's Minimum Revenue Provision Statement.

The updated MHCLG Statutory Guidance on Minimum Revenue Provision includes 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.

For 2021-22 the Council's MRP statement continues to adopt option 3, the asset life (annuity) method. This 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. Principal amounts start low and increase over time. 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.

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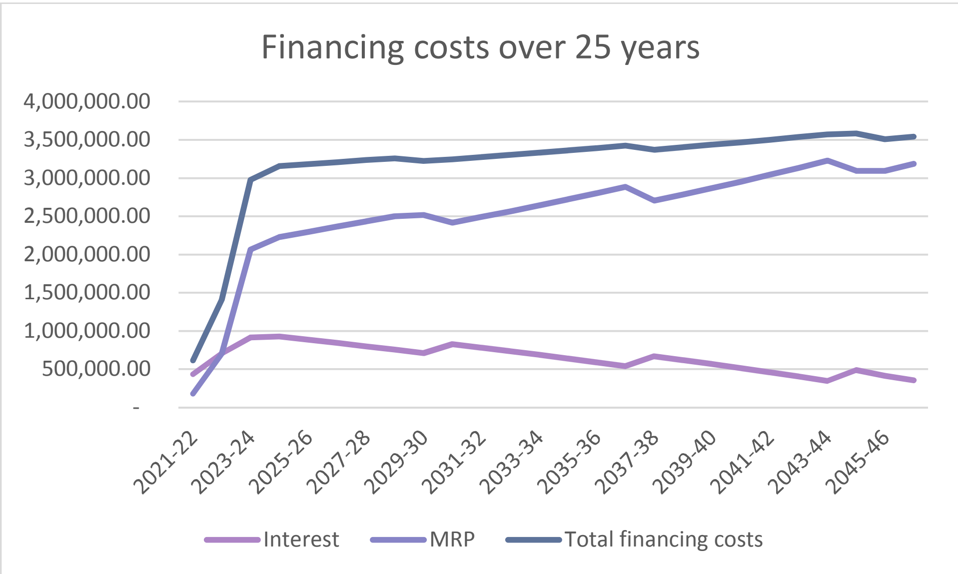
2.2.2 Interest payable

Based on the projected borrowing discussed above (should provisional schemes be approved and all schemes delivered without slippage) and a maturity structure which is spread to mitigate against interest rate risk, it is calculated that interest payable would be £434k in 2021-22, rising to £708k in 2022-23 and £913k in 2023-24. The following chart shows financing costs (interest and MRP) over 25 years. It should be borne in mind that the business cases for each project would need to demonstrate that they would achieve sufficient return to cover interest costs and any MRP.



2.2.3 Proportionality

In its new investment guidance, MHCLG introduces the concept of proportionality. This is to allow assessment of the contribution of yield-bearing investments to the achievement of a balanced budget. It also requires that quantitative indicators are provided to allow risk exposure as a result of investments to be assessed.

The proportional debt limit for the council 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.

Neither the Council's historic investments nor its future capital investment plans are purely commercial. They are focused on delivering the housing, regeneration and economic benefits laid out in the Council's Strategy. They do however create an underlying need to borrow and contribute to the Capital Financing Requirement (CFR). The three main items which make up the Council's existing CFR are the costs of purchasing Market Walk, Sherborne House and an industrial unit in Newton Abbot. The Council has chosen to forego treasury management interest in order to fund the underlying need to borrow from other balances in the medium term. Based on the average treasury management interest rate received during the first half of 2020-21, interest foregone would be in the region of £11,966 per annum. Investment interest rates are at historic lows and should base rate rise again, this figure would increase. 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 2020, the annual cost would have been £425k.

Current debt to net service expenditure ratio:

	2020-21
	£'000
External debt	0
Net service expenditure	15,984
Ratio	0

Should all forecast borrowing occur during 2021-22:

	2021-22
	£'000
External debt	34,871
Net service expenditure	15,295
Ratio	2.3

Commercial income

Teignbridge District Council does not currently hold property investments purely to profit from the income. Assets are held for a combination of service delivery, regeneration and economic benefit to the area.

The remaining indicators recommended by MHCLG relate to commercial property investments and are therefore not currently applicable.

2.2.4 Prudential Indicators

The Local Government Act 2003 requires the council to have regard to CIPFA's Prudential Code. Its objectives are to ensure, within a clear framework, that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice, with an understanding of the risks involved. Local authorities must look at capital expenditure and investment plans in the light of overall organisational strategy and resources, ensuring decisions are made with sufficient regard to the long run financing implications and potential risks to the authority.

To that end, the Prudential Code sets out indicators which must be approved by Full Council and factors which must be taken into account. The factors which must be taken into account underpin the work of the Capital Review Group (see above).

In setting its Prudential Indicators, the council sets borrowing limits which are affordable and sustainable. The authorised (absolute) limit and operational (day-to-day) boundary are consistent with the council's capital programme and treasury management strategy. In addition, they identify long-term liabilities relating to capital (and as set out in the relevant note to the annual Statement of Accounts) in order to arrive at prudent limits on external borrowing.

Teignbridge District Council Capital Strategy

Estimates of capital expenditure and the capital financing requirement bring together past and future capital commitments for consideration of affordability.

The treasury management prudential indicators are designed to deliver accountability in taking capital financing, borrowing and treasury management decisions. They also highlight possible risks such as interest rate exposure and demonstrate the policies in place to mitigate the risks, for example, limiting the length of investments and the maturity structure of borrowing.

2.3 Treasury Management

The Council has regard to CIPFA's *Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2017.* In doing so, it follows three key principles:

- Maintaining comprehensive policies, practices, strategies and reporting arrangements for the effective management and control of treasury management activities
- The effective management and control of risk are prime objectives and responsibility for these lies clearly within the Council. Risk appetite forms part of the annual Treasury Management Strategy. The council's investment priorities relating to this area are security of the principal sums and liquidity, keeping money readily available for expenditure when needed.
- The pursuit of value for money and the use of suitable performance indicators are valid and important tools. Within the context of effective risk management, the Council's policies and practices reflect this.

The Council has adopted four clauses as recommended in the Treasury Management Code, as follows:

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.

Yield becomes a consideration after the priorities have been satisfied. The majority of treasury management investments are "specified" as defined in the MHCLG 2018 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, which is reviewed quarterly and updated as necessary.

The treasury management strategy is designed to be "risk aware" rather than the traditional "risk averse". This has been approached in a measured way to mitigate against risk, recognising a balance within the overall priorities of security, liquidity and yield. Property and diversified income funds are included as non-specified investments within the authorised lending list, while other non-specified investments such as renewable energy/social impact investments and on-lending to key partners and stakeholders would follow the approvals route laid out in the Commercial Strategy.

The council's Treasury Management schedules require that specified investment institutions meet the following minimum ratings from the ratings agencies:

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

In addition to considering ratings from agencies 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.

The Treasury Management strategy also sets out the Council's approach to borrowing. It is underpinned by the Prudential Code and MHCLG investment guidance. Any decision to borrow in advance for capital projects or debt maturities would only occur if there was a clear business case to do so. Borrowing may occur to cover temporary shortfalls in cash balances.

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

Teignbridge District Council Capital Strategy

The Council will adopt a flexible approach to borrowing, making use of internal resources and keeping shorter term borrowing under review in comparison to longer term borrowing costs. This approach is to minimise financing costs and to spread re-financing risk. Acceptable sources of loans as stated in the Treasury Management schedules are the PWLB, UK Municipal Bonds Agency, local authorities, public bodies, UK banks and building societies and debt capital markets.

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 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. 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.

The Treasury Management Mid-Year and Year End Reviews report on activities undertaken and provides key information on performance including average interest rates achieved. In addition, the Chief Finance Officer receives regular reports, which form part of financial reports received by the Executive and Corporate Leadership Team. Historically, these used the 7-day London Interbank Bid Rate (LIBID, or the interest rate at which banks are willing to borrow from other banks) as a benchmark. This has been reinstated following a brief period of using LIBOR (which relates to bank lending) because it was a publicly-available indicator. The Council's treasury advisors now provide the LIBID rate, which is a more appropriate benchmark for lending.

The latest Treasury Management Code includes investments which fall outside normal treasury management activity. Commercial investments for financial benefit rather than for service outcomes are sometimes entered into outside of normal treasury management activity. These need careful financial risk assessment. Where such investments do not give priority for security and liquidity over yield, CIPFA recommends that such a decision should be explicit, setting out the risks and the impact on financial sustainability. This is a critical purpose of due diligence procedures. The Council's current CFR and projected borrowing relate to projects whose central purpose is for the provision of services or regeneration. The Commercial Strategy highlights the crucial role of risk assessment and due diligence before entering into any non-specified investment.

3. Knowledge and Skills

The Prudential Code requires that the capital strategy gives details of the knowledge and skills available to the authority and confirmation that they are commensurate with its risk appetite.

As a district council, Teignbridge strikes a balance between the retention of suitably qualified staff and the use of external expertise where this offers best value and flexible use of resources.

Teignbridge District Council Capital Strategy

Treasury management 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.

During 2019-20, a tender process was undertaken to appoint treasury management advisors. The Council uses Link Asset Services. This decision recognises the value in employing external providers to acquire access to specialist skills and resources, especially in the light of the Council's anticipated borrowing requirement. However, responsibility for treasury management decisions remains with Teignbridge District Council at all times and officers 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.

In terms of capital expenditure, the Council has the benefit of the experience of three fully qualified chartered accountants and six AAT-qualified members of staff. It also has access to specialist advice through subscription to consultants who specialise in local authority accounting and capital finance. In addition, knowledge and skills are shared throughout the region via the Devon Accounting Development Group.

In relation to the investment strategy, as well as 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.

The Council has a Legal team, experienced in a comprehensive range of legal work relevant to local authority and also works with external legal service providers where other expertise is required.

Council officers across a range of disciplines, including Property and Assets, Planning, Housing and Finance as well as other service areas, make up the Capital Review Group to ensure project appraisal is subject to wide early scrutiny and practical considerations.

The Council's constitution ensures an effective governance process. The chief finance officer is responsible for ensuring that all matters required to be taken into account are reported to the decision-making body (normally Full Council).