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. For Teignbridge District Council, this is the Treasury Management Strategy Statement.

Purpose

The Teignbridge Medium Term Financial Plan shows how the council prepared for grant reductions and reduced central government funding by making savings, benefiting from restructuring efficiencies and income generation. The proposals within it allow for capital investment over the next 3 years, including infrastructure delivery, affordable homes and provisions for investments in town centres and employment land. The capital strategy sits alongside the Medium Term Financial Plan and Capital Programme. It is intended to give an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, along with an overview of how associated risk is managed.

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 Teignbridge District Council ten year strategy**, or “Teignbridge Ten”. These overarching projects aim to focus our resources to shape services to withstand future technological, economic and social changes, championing the district, our people, environment, business and heritage. Projects within the capital programme which reflect this include provisions for significant investment in town centres and employment land, flood alleviation, housing grants and affordable housing.
>
> **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, education in South West Exeter and the wider Teignbridge area, 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 heating improvement at Forde House. 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 fourth year of Business Efficiency Service Transition 2020. This process incorporates service business plans. In addition to identifying potential savings, the focus is on defining strategic direction in the context of the Teignbridge 10. As part of this, future projects and asset management options are considered, which will determine the future shape of the capital programme.

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.

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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.

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. 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, including the Corporate Management Team (CMT).   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.

Teignbridge District Council Capital Strategy

Commercial Activity

The council is investigating investment options, the aim of which would be to increase revenue streams to contribute to the financial sustainability of the Council, enabling it to continue to deliver and/or improve frontline services in line with the ten-year “Teignbridge 10” strategy. Any such investments are likely to be funded through borrowing. Business cases would need to demonstrate an agreed minimum investment yield. Rigorous due diligence procedure would show how the risks of investment are mitigated in order to protect the Council against loss. The Council use a mixture of internal expertise and external advice as described in section 3. Work is ongoing to identify categories of investment which are suitable for use. Actual yields and market values would be monitored to identify any loss of value or revenue consequences of yields not performing as anticipated.

While Teignbridge District Council’s investment in Market Walk is primarily for regeneration and local economic benefit purposes, 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. To date, the underlying assets continue to provide sufficient security for the capital investment.

In addition, the estates team monitor the condition of the various property markets for early indications of potential problems, such as uncertainty around European trade post Brexit.

Minimum revenue provision is set aside in relation to expenditure at Market Walk and would be set aside in relation to all commercial investments funded by borrowing. This mitigates against the possibility of adverse valuation changes and also, ongoing refurbishment or replacement of asset components.

The revenue budgets arising from investments are monitored as part of the budget monitoring which feeds into the regular reports provided by the Chief Finance Officer to SLT, CMT and Executive. The Medium Term Financial Plan explains that revenue budgets benefit significantly from the ongoing returns from Market Walk, where they form part of the Property Income budget lines.

1.3 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.

Teignbridge District Council Capital Strategy

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.

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.

1.4 Capital Expenditure Plans and Financing Strategies

The Council's capital expenditure plans for the 3 years of the Medium Term Financial Plan and capital programme amount to £59.0 million, summarised in the table below:

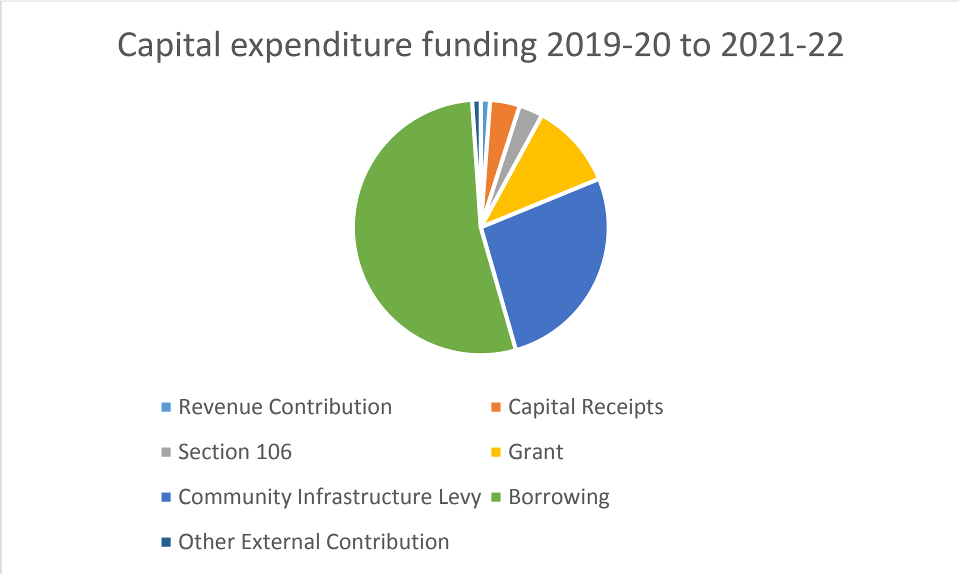
Capital Expenditure and Financing (Estimate)	2019-20	2020-21	2021-22	2019-22 Total
	£'000	£'000	£'000	£'000
Total Expenditure	27,849	22,601	8,550	59,000
Revenue Contribution	(128)	(180)	(386)	(694)
Capital Receipts	(1,395)	(441)	(384)	(2,220)
Section 106	(1,459)	(187)	(130)	(1,776)
Other External Contribution	(134)	(510)	-	(644)
Grant	(2,899)	(2,505)	(1,000)	(6,404)
Community Infrastructure Levy	(3,461)	(7,978)	(4,350)	(15,789)
Borrowing	(18,373)	(10,800)	(2,300)	(31,473)
Total Funding	(27,849)	(22,601)	(8,550)	(59,000)

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.

Appendix 11a

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 council is aware that the government is committed to responding to the recent CIL review, which may address this issue. 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

Teignbridge District Council Capital Strategy

£4.6 million capital receipts at the start of 2018-19. It is currently forecast that the Council will have £1.9 million capital receipts relating to General Fund by the end of the Medium Term Financial Plan. In order for Teignbridge to continue to benefit from capital investment, the council is budgeting £1.4 million **Revenue Contribution** to capital over the same period, towards both projects on the forward programme and earlier expenditure which has not yet been funded by the methods above. Projects funded by capital receipts and revenue contributions include contributions to superfast Broadband provision, car park improvements, improvements to Council buildings and equipment including IT projects, discretionary housing grants, affordable housing contributions, contributions to grant schemes as “match” funding.

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 are driven by the Teignbridge 10 “Investing in Prosperity” goal and the council’s developing Investment Strategy. They 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 and commercial and industrial estates.

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 Leader is the Executive member with responsibility for assets. The Head of 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.

Teignbridge District Council Capital Strategy

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, 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.

Teignbridge District Council Capital Strategy

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

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

Teignbridge District Council Capital Strategy

We deliver these priorities by:

	One Teignbridge Transformation Programme		Compliance with statutory and health & safety legislation	Clear **Property Policies** and Procedures

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.

Teignbridge District Council Capital Strategy

2. Debt, Borrowing and Treasury Management

2.1 Projection of borrowing requirements

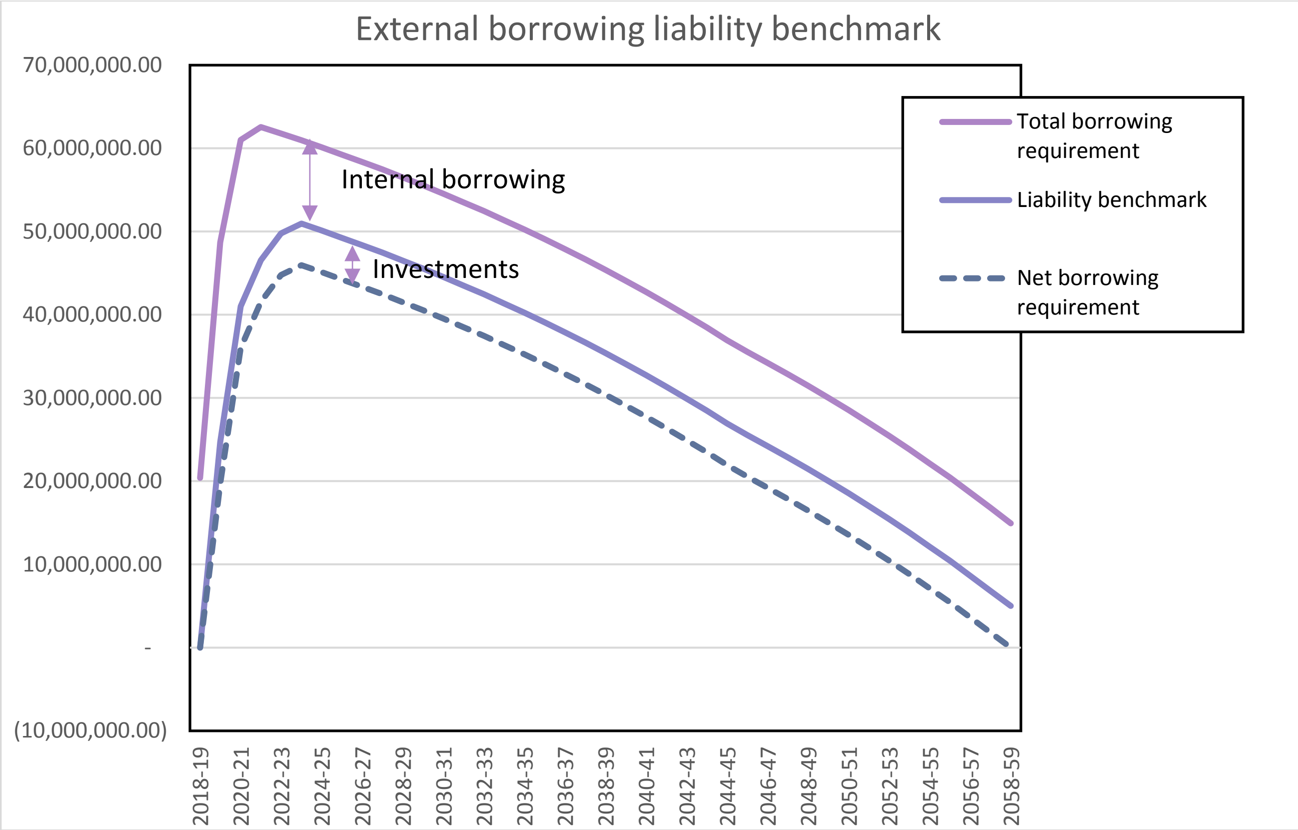
Previous capital projects such as the purchase of Market Walk mean that Teignbridge District Council has an underlying need to borrow. In addition, the capital programme contains projects which would not be immediately funded by grants, contributions, capital receipts or revenue contributions. When taken 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.

	2019-20	2020-21	2021-22
	£'000	£'000	£'000
Estimated Capital Financing Requirement should provisional schemes be approved (total cumulative underlying need to borrow).	40,632	52,923	54,487
Estimated internal borrowing	-24,000	-20,000	-16,000
Liquidity cash flow buffer & contingency	8,078	8,078	8,078
Estimated external borrowing	24,710	41,001	46,565

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.

Teignbridge District Council Capital Strategy



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:

	2019-20	2020-21	2021-22
	£'000	£'000	£'000
Operational boundary	25,000	41,000	47,000
Authorised limit	30,000	48,000	53,000

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.

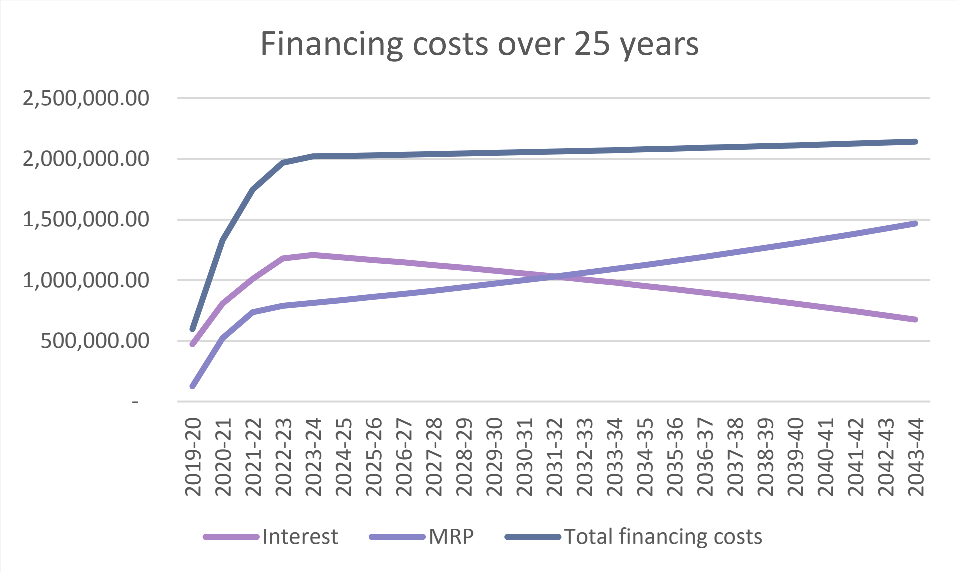
From 2019-20 the Council's MRP statement adopts option 3, the asset life (annuity) method. This is a method often used to calculate loan repayments, where it is required that the total amount of principal and interest repaid each year is a common amount. Principal amounts start low and increase over 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.

Teignbridge District Council Capital Strategy

2.2.2 Interest payable

Based on the projected borrowing discussed above (should provisional schemes be approved) and a maturity structure which is spread to mitigate against interest rate risk, it is calculated that interest payable would be £0.47 million in 2019-20, rising to £0.81 million in 2020-21 and £1.01 million in 2021-22. 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 Council's purchase of Market Walk was not a purely commercial investment, as it contributes to regeneration and the economic benefit of the local area in addition to providing an income stream. It is however an investment which creates an underlying need to borrow and contributes to the Capital Financing Requirement.

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 2018-19, interest foregone would be in the region of £80,910 per annum. However, it should be noted that base rate has risen and is likely to rise again, which would increase this figure.

Teignbridge District Council Capital Strategy

Current debt to net service expenditure ratio:

	2018-19
	£'000
External debt	0
Net service expenditure	16,764
Ratio	0

Should all forecast borrowing occur during 2019-20:

	2019-20
	£'000
External debt	24,710
Net service expenditure	15,983
Ratio	1.5

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.

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

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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.

Teignbridge District Council Capital Strategy

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. 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 council's Treasury Management schedules require that 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, use is made of market indicators such as share prices where available. Financial news is monitored in sector journals and the quality press. Daily relevant financial news updates are received by email from brokers and the Council's bank. Teignbridge District Council does not currently use external treasury management advisors.

The Treasury Management strategy also sets out the Council's approach to borrowing and 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.

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, local authorities, public bodies and UK banks and building societies. Officers will also review alternative sources of borrowing and select those offering the best value for money to the Council at the time the funding is required.

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, Strategic Leadership Team and Corporate Management Team. To date, these have 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. However, from 2019-20, the 7-day London Interbank Offer Rate (LIBOR, or the interest rate at which a bank will lend) will be used. This is because LIBOR is readily available and published, whereas LIBID is not standardized or publicly available.

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.

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.

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.

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).