



# Teignbridge District Council

## Commercial Strategy

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## 1. INTRODUCTION

- 1.1** This commercial strategy 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 faced following the overhaul of public sector finances during the era of “austerity”. It sets the tone for Teignbridge as a commercially aware Council which will be essential to allow us to meet our Council vision, *“Making the district a healthy and desirable place where people want to live, work and visit”*.
- 1.2** 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.
- 1.3** The commercial strategy will be updated annually to include progress reviews and changes to delivery priorities. This will be reported to Full Council in February each year as part of the suite of Budget papers.

## 2. OVERALL GOAL AND CONTEXT

- 2.1** The goal of the commercial strategy is to enable the Council to become financially self-sufficient. 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:
- 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
- 2.2** Nationally, austerity has driven a reduction in local authority funding. For Teignbridge, revenue support grant has been nil for Teignbridge since 2019-20. In addition, the business rates retention “baseline” is forecast to be reset, meaning the loss of significant business rates income associated with positive growth in the district. New Homes Bonus has been reduced and may potentially be scrapped. It is not yet clear whether there will be a replacement funding stream. This has created a forecast revenue budget gap of around £1.5 million from 2022-23. However, the Council also wishes to ensure the continuation of its capital programme with an increase in its revenue contribution to capital of £0.8 million per annum. This means that the overall budget gap is currently approximately £2.3 million. Further loss of Housing Right to Buy receipts after 2023 will increase the gap in our revenue and capital funding. While the Council currently has reserves, they will be depleted unless savings or income can be found.

- 2.3** There is a requirement for the Council to produce a balanced budget each year. By acting commercially, the Council aims to fulfil its vision for Teignbridge and contribute towards the reducing the significant budget gap which has been identified from 2022-23 onwards.
- 2.4** Regionally, the South West is a diverse area, with a mix of coast, countryside and urban areas. Key economic sectors are tourism, farming, advanced manufacturing and renewable energy – all dynamic industries susceptible to both economic opportunity and change. The population is ageing, with more than 1 in 5 people being over state pension age. The population is well educated, with more than a third being educated to degree level or higher (Office for National Statistics, Graduate in the UK labour market: 2017).
- 2.5** Teignbridge itself boasts busy market towns, coastal resorts and rural countryside. It is in close proximity to the major cities of Exeter and Plymouth, with close links to the Torbay area and access to the wilds of Dartmoor. Locally, this picture presents both financial and demographic challenges and opportunities. In order to respond, Teignbridge is looking at the opportunities to develop new ways of generating the income required, as well as more agile and efficient ways of delivering services. An effective and financially sustainable council is at the heart of its vision to make the district a healthy and desirable place where people want to live, work and visit.
- 2.6** The goal of financial self-sufficiency is being sought in the context of meeting the social, economic and environmental needs of the residents and district. This means that the Council needs to be clear about the services it must provide (statutory) and those it opts to provide (discretionary), whether they offer good value for money and whether they are meeting the needs of customers. Defining the role of the Council is key to ensuring that it focuses on services unique to it and does not squander resources on those which are the responsibility of other public sector organisations, or which can be provided by the private sector or open market. The emphasis is on providing services which significantly contribute to the delivery of Council Strategy, or where there is market failure and social and/or economic value of Council intervention has been identified.
- 2.7** There are complex legal and financial considerations, such as tax, procurement and State Aid rules. Appendix 1 provides examples of these for information. However, it is expected that the relevant advice would be sought on a case-by-case basis to ensure the Council enters into any commercial venture in full knowledge of the legal powers which enables it to do so.

### **3. STRATEGIC FIT AND CORE AIMS**

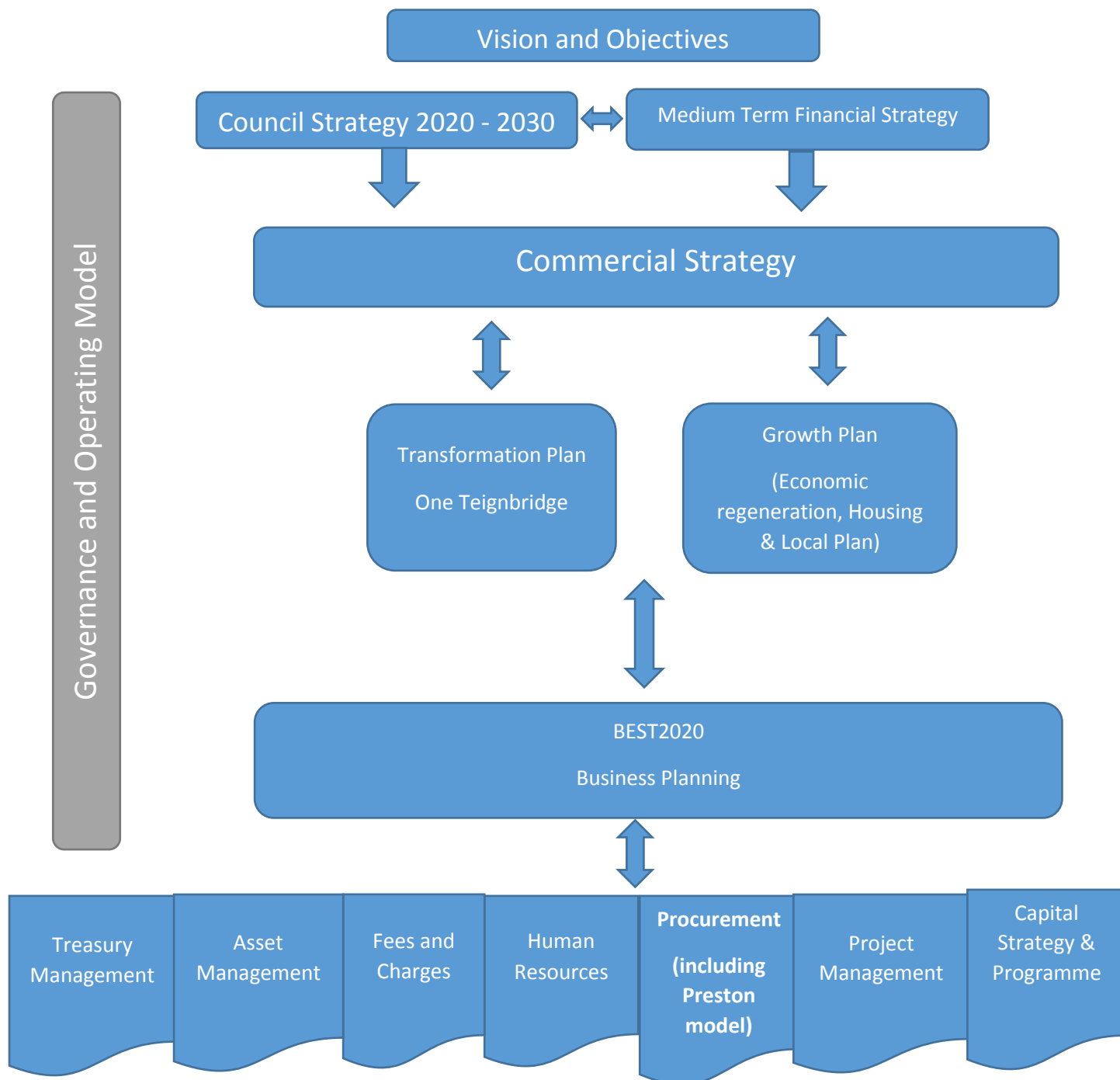
- 3.1** The Teignbridge Council strategy 2020- 2030 sets out the Council's overall vision, objectives and details of the ten programmes the Council will be focusing its efforts on. The programmes are set to ensure managers and members focus on delivering services that ultimately will ensure Teignbridge is fit and sustainable for now and the future ahead.
- 3.2** The commercial strategy is one of the key cross-cutting strategic documents that supports managers and members to ensure there is true understanding of how to shape, plan and deliver services commercially. The transition to a more commercial approach applies across the council. 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. They are supported by the Council's approach to investments and the borrowing which is critical to funding them, so must be taken into account within the Council's treasury management strategy. Key Priority 4: Financial Management underpins this, as well as ensuring that project stream implications can be drawn together within the requirement of producing a balanced budget for the Medium Term Financial Strategy.

- 3.3** The commercial strategy is not limited to capital projects and has strong links to both the One Teignbridge digital transformation process, and BEST2020 business planning process, as outlined in Key Priority 3: Commercialisation and strong, agile working processes. These activities align with the goal of creating an operating model for the Council which focuses on fostering a commercial approach, selecting the most efficient delivery models for each service.

Digital and process redesigns achieved under the One Teignbridge project are key to delivering our transformation programme. Shifting access to self-serve where possible (internally and externally) allows resources to be available for face-to-face or phone support for those residents who truly need them.

Use of data generated by systems helps to predict future service needs and demands.



**3.4** In order to achieve the overall goal of financial sustainability and contributing to the closure of the identified budget gap, while adhering to council priorities and sound governance, the commercial strategy will focus on the following core aims:

- 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.
- Increasing the council's financial sustainability, resilience and continuing ability to provide statutory functions. This will be achieved by analysis of appropriate service provision, generating additional income through trading, fees and charges and investment, within the relevant legal framework as outlined in Appendix 1.

- Fees and charges should deliver full cost recovery unless a specific reason has been identified where there is a social or economic benefit in not doing so. Any subsidies must be deliberate. See section 7.3.1 for more information on how the Council will implement this process.
- 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. However, 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. Therefore, investments within these boundaries will in turn encourage the growth of business rates and Council Tax. Investments outside the area will also be considered, especially where equivalent opportunities are not available within the district.
- Securing external funding and working in partnership

#### **4. KEY PRIORITIES**

**4.0** The latest BEST2020 process generated a database setting out areas where savings have already been identified and those to be investigated and progressed. This has been added to following advice obtained via the Local Government Association's scheme to assist councils in improving their approach to commercialisation. The Council's capital programme sets out existing projects in relation to the priorities of Housing and regeneration. There are 5 key priority areas:

##### **4.1 Key Priority 1: Regeneration and Commercial Property Investment**

- Enabling the district to continue to thrive in evolving economic times. The Council is currently working on 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. Delivering new hotels in Newton Abbot and Teignmouth as well as working towards broader regeneration of Newton Abbot town centre 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.

##### **4.2 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 will be considered in relation to asset management. The recent move of the Department for Work and Pensions to Forde House makes efficient use of

Teignbridge property assets. Officers are currently working on schemes to ensure we are obtaining best use of other assets, such as leisure facilities, with provisions in the capital programme for leisure centre improvements.

#### **4.3 Key Priority 3: Commercialisation and strong, agile operating practices**

- Grow those activities which provide income through fees and charges, ensuring cost recovery unless deliberately providing subsidy. New trading services, for example using departmental specialisms to generate income to support service delivery and capital investment. The BEST2020 process enables departments to take a commercially-aware overview of existing services to ensure they are delivering good value for money.
- One Teignbridge is the name of the digital transformation programme which supports the Council to act, think and behave as a digital first organisation, delivering continuous improvement to benefit customers. The One Teignbridge project team includes specialists from across the council and they are led by the Transformation Programme Board made up of senior management staff and a portfolio-holding member of the administration. The team is working with departments to analyse processes, identifying strengths and opportunities for improvement, ensuring optimum efficiency. In many ways, the BEST2020 and One Teignbridge processes have already laid the groundwork. This will continue, with work-streams being taken forward to realise further benefits.
- This area also encompasses human resources, delivery models and systems.

#### **4.4 Key Priority 4: Financial Management**

- Financial management: The treasury investment strategy is being reviewed with a view to including an element of commercial investment such as a property fund to provide improved returns. This involves a move away from the traditional “risk averse” strategy towards one which is “risk aware”. This will be approached in a measured way to mitigate against risk, while recognising a shift in balance within the overall priorities of security, liquidity and yield. The council is also taking advice on investment and borrowing strategies against the backdrop of a capital programme which assumes future prudential borrowing.
- Pension deficit reduction is being investigated.
- Procurement and contract management offer opportunities to continuously improve services and control costs, avoiding arrangements which “roll on” to the disadvantage of the council and its residents. Income generation – a local lottery is potentially a route to “crowd-funding” schemes which would otherwise be unlikely to attract funding.

#### **4.5 Key Priority 5: Housing**

- The provision of affordable/social rented accommodation (in acceptance that this may not provide optimum return, but fulfils social priorities).
- While keeping an open mind, the council does not currently intend to set up a housing company.
- The Council is currently working on projects to deliver accommodation for social rent in Newton Abbot town centre, both independently and through working with a development partner. It also seeks to enable solutions for those seeking affordable home ownership and to deliver services efficiently through asset management.

## **5. COMMERCIAL STRATEGY PRINCIPLES**

### **5.1 Team Teignbridge**

- Enhancing the council's commercial capability by working together, learning and harnessing the necessary external expertise is essential. The success of the commercial strategy will rely on the all staff and elected Members playing their role. Senior management will encourage a commercial approach, both within the council and in its interactions with partners and outside bodies. The council recognises that the demands of commercial projects require time and resources and a skill-set which may require development. Where specific expertise is required, this will mean seeking external advice where appropriate.

### **5.2 Due diligence and risk**

- Venturing into new areas inevitably carries a degree of risk. While this cannot be eliminated and it must be acknowledged that some ideas may fail, the council is working to develop commercial skills, promoting risk-awareness – a change from the past culture of being risk-averse. Teignbridge's appetite for risk seeks to be proportional to its role as a district council.
- The council seeks to minimise risk by the development of business cases. Due diligence and financial appraisal are key to ensuring there is a sound basis for initiatives and investments.
- Teignbridge will consider each initiative on its own merit, using an appropriate period for whole-life appraisal based on the asset type and regulatory guidance. For example, the following ranges might be used, dependent on the dynamics of particular schemes:
  - Land and property: 25 to 40 years
  - Plant and equipment: 5 to 10 years
  - Intangible: 5 to 10 years
- Business cases must be sound and demonstrate consideration and mitigation of risk factors as per the risk policy at appendix 2. Progression of schemes is dependent on either the Capital Review Group or the Transformation Board being satisfied that business cases meet the investment criteria in the flow chart at Appendix 3.

### **5.3 Rate of return**

- In order to ensure that an initiative will make an appropriate contribution to the council's finances, it will seek a rate of return which provides a margin above costs, including financing costs such as borrowing interest and Minimum Revenue Provision (MRP). The guideline minimum is 1%.
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#### **5.4 Corporate governance**

- Activities will comply with the council's governance arrangements, including the Code of Conduct, Contract Procedure Rules and Financial Instructions including Committee approval requirements and the Capital Review Group and project management process.

#### **5.5 Legal compliance**

- Local authorities' freedom to act to generate income is governed by legislation and case law. See Appendix 1 for examples. However, expert advice must be obtained on a case-by-case basis.

#### **5.6 Prudent borrowing**

- The council seeks to gain best value through its treasury management practices. This may include a range of borrowing options, including "internal" borrowing. However, external borrowing will be necessary and will be undertaken in line with CIPFA's Prudential Code and with the benefit of external advice where appropriate. The Council will remain flexible in considering the most appropriate sources of borrowing. This might include the Public Works Loans Board (PWLB), other local authorities, bond finance or alternative more specialist sources.

### **6 DECISION MAKING**

#### **Commercial Property Investment Board (CPIB)**

The Commercial Property Investment Board consists of:

- Chief Finance Officer or deputy
- Head of Place and Commercial Services
- Solicitor to the Council or deputy
- The Leader of the Council or deputy
- Executive PH for Corporate Resources
- Chair of Overview & Scrutiny Committee
- Chair of Audit Scrutiny

Other service representatives, relevant executive members or expert external assistance will be called upon as required.

Commercial investments bring an imperative to respond quickly in order to maintain a strong negotiating position in a competitive market. Therefore, delegated authority is to be sought from Full Council within the Budget papers 2020-21 as follows:

Subject to prior consultation with all CPIB members (or in their absence their deputies), or a minimum of four Board members including the Chief Finance Officer (or deputy) and Leader of the Council (or deputy), in the event of any Board

member being unavailable, delegated authority be given to the Chief Finance Officer (or deputy)

To:

- (a) Approve the purchase of assets (including feasibility costs if necessary) where the investment is in line with the principles of the commercial strategy and meets the following criteria, as laid out in the flow-chart at Appendix 3:
- The purchase is within the established borrowing cap of £70 million.
  - The business case demonstrates a return of at least 1% after all costs, including financing items
  - There is a sufficient return for the level of risk (as determined by the CFO in consultation with the Board)
  - The asset falls into one of the acceptable asset classes as detailed at 7.1.3

And

- (b) Complete all associated agreements (including but not limited to professional appointments to advise on relevant matters).

PROVIDED THAT this delegation shall only apply in cases where it would be contrary to the financial interests of the Council to delay making a decision on the matters in (a) as a result of Financial Instructions Rules (e.g. due to timing of the next available meeting of a relevant committee / Full Council).

The intention is to allow a quick response to opportunities where appropriate, while adhering to a strict due diligence process.

## **7 DELIVERY AND PRIORITY OPPORTUNITIES**

The following summary includes relevant extracts from the BEST2020 database of actions where appropriate.

### **7.1 Key Priority 1: Regeneration and Commercial Property Investment).**

**7.1.1** The Council will continue to monitor opportunities to add value and diversity to its property portfolio within the constraints of the Commercial Strategy Principles and the proportionality and prudential limits as outlined in the capital strategy.

**7.1.2** It will prioritise capital investment which focuses on supporting outcomes in the Council strategy 2020 - 2030 and Commercial Strategy Core Aims and which yield optimal rental growth and stable income.

#### **7.1.3 Acceptable investment classes:**

- Regeneration and Housing
- Economic Benefit/business rate growth
- Support for local business growth; creating or safeguarding jobs
- Energy/low carbon projects
- Creation or protection of social value in the district or LEP area
- Responding to local market failures

- Ancillary contributions to the financial sustainability of the council, including out of area investments where opportunities are not available within the district.

- 7.1.4** Decisions will be made with reference to the defined framework for risk management and ensure appropriate exit strategies and contingency plans are in place to protect the Council's long-term position.
- 7.1.5** The council will work within the governance arrangements as described within the Commercial Strategy Principles. Developing from the basis already formed by the capital review group process, use of the capital proposal form and financial appraisal has been taken up and will continue to ensure a competitive system for project approval, which considers risk, value for money and resource implications.
- 7.1.6** The focus as projects progress and new opportunities arise will be to develop detailed business cases including whole life costings, financing implications and cost benefit analysis. The minimum appropriate yield which must be demonstrated is 1% after all costs, including financing costs.
- 7.1.7** It is intended that the Cost Benefit Analysis Model will help to identify both financial, environmental and social benefits of projects, taking into account the core aims of social responsibility and investing within the district and LEP area. Where returns on projects are similar, preference will be given to those demonstrating greater social benefits.
- 7.1.8** The proportional debt limit for the council has been assessed as approximately £70 million. See 7.4.2 for more details. Projects must be considered with regard to this limit.
- 7.1.9** Monitoring and review: the capital review group uses the corporate SPAR performance management system to monitor progress and learn from issues arising during the delivery phase. This also acts as the key project management tool for capital projects, identifying areas of concern.
- 7.1.10** Ongoing financial outcomes (actual yields and market values) will be monitored and reported as part of the requirement to identify the contribution of commercial activities to council budgets in the capital strategy. This process will identify any loss of value or revenue consequences of yields not performing as anticipated and contribute to an open learning culture.

## **7.2 Key Priority 2: Asset management**

- 7.2.1** The following priority areas have been identified to ensure that assets are being managed in line with the Teignbridge Corporate Asset Management Overview as outlined within the Capital Strategy.

**7.2.2** A long-term review of the current use of existing assets, identifying their contribution, in order to classify as over-performing, performing or under-performing. This information will be used to determine the best future path for each asset:

- Investment to cut costs/improve efficiency/generate additional income
- Review of rents and subsidies, including maintenance responsibilities, in order to achieve market rents and prices for assets
- Identify surplus assets for disposal, being mindful that planning permission can increase the value to potential developers. This maintains a fund of capital receipts to supplement revenue contributions and prudential borrowing in the long term, especially for corporate priorities which cannot demonstrate a business case.
- Transfer to town and parish councils where appropriate
- Do not keep any asset with no income, development value, marriage value or operational need.

**7.2.3** Identify land/buildings to purchase to deliver priorities in terms of the economy, environmental and social wellbeing of the area and financial return (refer to 7.1.6), ensuring that a disposal plan or exit strategy is included within proposals for consideration by the Capital Review Group and Commercial Investment Board

### **7.3 Key Priority 3: Commercialisation and strong, agile operating practices**

#### **7.3.1 BEST 2020**

- The BEST 2020 process contributes to robust service planning by encouraging services to examine
  - The nature of services provided: are they statutory or discretionary; if discretionary, is there a clear social or economic benefit to the Council providing the service; is the service the responsibility of other public sector organisations or can it be provided by the private sector?
  - The potential for trading and income; assessing whether there is market appetite to sell or share services and considering alternative delivery models such as partnership, outsourcing, contracting or stopping.
- Over the next twelve months, business managers and accountants will analyse non-statutory services to determine the level of cost recovery through fees and charges.
- Alongside this work, a refreshed “inflation plus” pricing strategy, with an approvals process for exceptions, will ensure that any subsidies (for example, where there are notable affordability issues for residents) are conscious and deliberate and their impacts understood.

Projects are progressing to review and expand the range of discretionary, chargeable services, such as:

- Planning – drawing on in-house expertise to market neighbourhood planning support

- Developing training resources to sell training places to external candidates to help cover cost of courses and improve efficiency (leisure/food safety)
- Reviewing the programming of leisure facilities to increase income potential

### **7.3.2 One Teignbridge**

- The One Teignbridge programme continues with investment in staff and structure to analyse processes, performance and productivity, benchmarking where appropriate. Key elements are the use of digital solutions and demand management (use of Firmstep encourages customers to self-serve and the council to get its response right first time – job done).

### **7.3.3 Human Resources, delivery models and external expertise**

- Teignbridge is benefiting from savings from the recent restructuring of its Senior Leadership Team. Over the long term, the One Teignbridge process provides the opportunity to extend this across other functions, taking into account organisational structure, spans of responsibility, etc. In addition, it has been identified as a priority to consider the impact of reviewing terms and conditions of employment relating to the length of the working week, grading structure and increments. This also includes examining alternative delivery models such as local authority trading companies which can reduce pension liabilities by taking employees out of the scope of the local government pension scheme. Role-sharing to reduce costs and improve co-ordination of shared activities eg. habitat regulations/strategic infrastructure/cash processing will be considered where appropriate. The use of “locality teams” rather than dedicated resources for cleansing and other tasks will also be assessed.
- There is continued emphasis on training and development, with a review of current provision underway.
- Teignbridge will continue to make use of peer networks and external expertise. This is vital in the context of the specialised knowledge and capacity required relating to due diligence around commercial property investments.

### **7.3.4 Systems**

- New payroll and finance systems – accessible and up to date, with the emphasis on being 100% digital wherever possible. This will provide new efficiencies such as electronic invoicing and billing, self-service, etc.

## **7.4 Key Priority 4: Financial Management**

### **7.4.1 Investments**

The Treasury Management Investment Strategy is being revised as part of the 2020 Budget papers. This involves a move away from the traditional “risk averse” strategy towards one which is “risk aware”. This will be approached in a measured way to mitigate against risk, while recognising a shift in balance within

the overall priorities of security, liquidity and yield. Key suggestions which will be made for consideration are:

- Inclusion of property and diversified income funds
- Inclusion of renewable energy/social impact investments
- On-lending to key partners/stakeholders in order to make a return and support jointly beneficial projects, for example housing associations, NHS
- Provision to lend in instances where doing so would protect the local economy (eg. in relation to significant supply chains).
- Investigation of peer-to-peer lending

#### **7.4.2 Borrowing**

- The strategy will also review the Council's ability to borrow, including the overall limit and relating to existing schemes and likely headroom. 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. This is balanced against the council's stated intention to generate in excess of £2 million in savings and income.
- Assuming the robustness of business cases delivers the stated minimum 1% return, £70 million of investment will provide £700,000 per annum. £70 million is 4.4 times the council's average annual cost of services over the 4-year period covered by the medium term financial plan (2019-20 to 2022-23).
- Assuming the full £70 million were borrowed and loans were secured at 3%, interest costs would represent 13.2% of the current average cost of service.
- Following the rise in PWLB interest rates, Finance will investigate and secure where appropriate, other sources of funding, recognising the time, resource and due diligence required to implement.
- The continuing use of internal versus external borrowing for capital projects will be assessed, to ensure that the Council is making best use of its resources (for example in relation to investments and additional pension payments).

#### **7.4.3 Pensions**

- The Council will continue to review its approach to managing its pension liabilities, including one-off contributions, payments in advance, borrowing to reduce the overall liability and investigating the use of local authority trading companies to remove certain functions from the scope of the Local Government Pension Scheme.

#### **7.4.4 Payment methods**

- Use of direct debits will be prioritised where possible as the most cost efficient method of taking payments. Back-office procedures will be digital wherever possible. Where appropriate, arrangements with customers might include fixed or minimum terms for contracts e.g. green waste/leisure, to minimise administrative burden.

#### **7.4.5 Insurance**

- Excess levels will be reviewed against existing premiums. Consideration will also be given to expanding the existing shared service to other local authorities.

#### **7.4.6 Procurement**

- There will be continued focus on reviewing contracts, including those highlighted in BEST2020 to ensure high quality service provision while ensuring value for money and that the council is only paying for the required services. For example, considering frequency of service and specifications.
- Where possible, the option of purchasing with others to obtain economies of scale will be considered.
- Procurement channels may also reveal new opportunities for trading and shared services.
- Contract management to ensure best quality balanced against cost
- Administrative good practice will be reviewed to reduce the use of “cheque” requests (retrospective orders).
- The creation of concession contracts to earn more money for the council.
- Provide more opportunities to local businesses by holding “meet the buyer” events, talking the suppliers through the technical aspects of submitting a tender and gearing the tender towards local suppliers where appropriate whilst adhering to The Public Contracts Regulations 2015.
- Promoting investment in the district by encouraging community wealth-building along the lines of the “Preston model”. This applies not just to the Council but a range of local “anchor” institutions and employers. The award of contracts to local firms where possible leads to the retention of wealth within the local economy, with associated employment and social benefits.

#### **7.4.7 External funding**

- Teignbridge intends to utilise the authorised percentage of Community Infrastructure Levy (CIL) towards administrative costs in recognition of the significant burden this task places on the authority. Section 106 agreements will include a contribution towards administration costs where appropriate.
- Grant funding - the council has a good track record of maintaining awareness of funding availability and recent examples include the Housing Infrastructure Fund application to contribute to the purchase, instatement and maintenance of SANGS at South West Exeter. Several heating initiative grants have been sought and delivered, providing significant benefits to vulnerable customers and the overall carbon footprint of the district. The Future High Street fund bid has the potential to deliver almost £8 million in funding for the redevelopment of Newton Abbot town centre. On a smaller scale, grants are available for sports projects and cultural and open space initiatives such as the regeneration of Homeyards botanical gardens.
- The council will continue to pursue opportunities to access external funding. “Horizon-scanning” will be introduced to the BEST2020 process in recognition of the potential value such funding provides and in recognition of

the work already done within departments to identify and secure available funds.

- With all externally funded projects, it is vital to consider the resource and ongoing cost requirements. As such, these projects follow the same governance pathways as others.

#### **7.4.8 Transition Fund**

- In recognition of the importance of the commercial agenda, a Transition fund will be introduced. This is to support the development of income generation and commercial activity. Officers will be able to apply for the fund through SLT to support their ideas.

#### **7.4.9 Local lottery**

- The introduction of a local lottery will be investigated in recognition that “crowd-funding” may provide a route to local investment where grant-funding can no longer be the full answer to supporting such initiatives.

### **7.5 Key Priority 5: Housing**

- Helping Teignbridge residents to access affordable Housing is a high priority for the Council. Teignbridge are taking multiple approaches to ensure this happens. In addition to independent projects at East Street, Newton Abbot and Drake Road, Newton Abbot to create units for social rent, the Council actively engage with local registered providers to deliver outcomes collaboratively. The approach being taken at Bradley Lane, Newton Abbot is a good example of joint venture working.
- Funding models for social rented housing are challenging as by their very nature, they seek to provide social benefits rather than commercial return. However the Council is using innovative approaches to include Housing within other projects. This can contribute towards the re-balancing and regeneration of town centres.
- The Council is also in a position to leverage the expertise and economies of scale provided by specialists in the area both for the provision of new homes and updating existing stock to tackle warmth and fuel efficiency. Taking advantage of grants allows housing stock to be improved while making positive steps towards the district’s commitment to tackling climate change through the reduction of its carbon footprint.
- As a major partner, discussions are taking place with Teign Housing to understand their projected programme in respect of retrofitting their existing stock.
- The Council has recently approved the innovative use of external funding to set up a shared equity scheme. This provides an alternative route towards residents seeking affordable home ownership.
- The Council also keeps under review opportunities to acquire assets which optimise efficient delivery of its services, for example the provision of temporary accommodation. Significant savings have been made through the use of Albany House for this purpose.



**8. Benefits of a commercial culture**

- Financial sustainability and future stability
- Benefits to the economy of the district and wider local area
- Generates a financial return which both protects non-statutory services and can also be used to protect services which cannot recover income
- Efficient operating methods raise standards and free up resources to ensure there is still one-to-one help available for the council's most vulnerable residents where needed
- Staff and skills development; an innovative workplace
- Enhancing Teignbridge District Council's reputation as a respected, leading-edge authority

## Appendix 1

### Legal and financial considerations

Examples of legislation relating to charging, trading and purchasing property and investment and borrowing are set out below. Relevant expert advice should be sought on a case-by-case basis.

#### **Local Authorities (Goods and Services Act 1970):**

Gives councils the power to enter into agreements with each other and certain other types of public bodies for the performance of certain services.

#### **Local Government Act 1972**

Section 120 provides the power for the acquisition of land by agreement for the purpose of:

- Any of their functions under this or any other enactment, or
- for the benefit, improvement or development of their area

(e.g. business development, job creation in the area or to provide jobs (in neighbouring authorities) for persons living in the district etc.) also importantly “*whether situated inside or outside their area*”.

Acquisition can take place notwithstanding that the land is not immediately required for that purpose.

#### **Local Government Act 2003:**

Added further possibilities by giving councils the power to:

##### 1. Charge for services on a cost recovery basis. Charging:

- Only applies to discretionary services (that the council has the power to provide but not a duty)
- Cannot be used where charging is specifically prohibited by other legislation
- Cannot be used where another specific charging regime applies
- Is limited to cost recovery
- The recipient of the discretionary service must have agreed to pay for the provision of such services.

##### 2. Trade in activities related to their functions on a commercial basis. Trading:

- Must be exercised through a company which has a business plan for operation
- Can be delivered by participating in an existing private trading venture providing that this is a company within the relevant definitions (limited partnership and limited liability partnerships are not acceptable structures for local authority trading)
- Can be used with a view to make a profit – in a company wholly owned by a local authority, profits can be returned to the council through a dividend or service charge to hold down council tax or be reinvested

In relation to borrowing, the Local Government Act 2003 introduced the local prudential system – a self-regulation regime which requires local authorities to decide how much they can prudently borrow in line with CIPFA’s Prudential Code. The Prudential Code sets out

the criteria which local authorities must have explicit regard to when making capital investment decisions:

- Option appraisal
- Asset management planning
- Strategic planning for the authority
- Achievability of the forward plan
- Affordability of borrowing

Local Government Act 2003 – key sections

- Section 1: general power to borrow “(a) for any purpose relevant to its functions under any enactment and (b) for the process of the prudent management of its financial affairs”
- Section 12: general power to invest “(a) for any purpose relevant to its functions under any enactment and (b) for the process of the prudent management of its financial affairs”
- Section 13: restricts a local authority’s ability to charge any of its property for borrowing purposes
- Section 15 requires local authorities to have regard to guidance issued or specified by the Secretary of State. This includes MHCLG guidance on local authority investments and Minimum Revenue Provision and the CIPFA Prudential Code and Treasury Management Code.

### **The Localism Act 2011**

Local authorities’ powers and responsibilities have traditionally been defined by legislation - they could do only what the law says. This created a culture of caution with councils abstaining from new, potentially beneficial practices due to uncertainty about whether it was legal and concern over being challenged in the courts.

This changed under the Localism Act. Instead of being able to act only where the law says, local authorities became free to do anything - provided they do not break other laws. The Localism Act includes a ‘general power of competence’ for local authorities in England. The power of competence gives local authorities the legal capacity to do anything that an individual of full legal capacity can do and that is not specifically prohibited. They will not, for example, be able to impose new taxes as an individual has no power to tax. The new general power gives councils more freedom to work together in new ways to drive down costs. It gives increased confidence to do creative, innovative things to meet local peoples’ needs. It is drawn very widely and includes reference to commercial activities and does not have to be in benefit of the local authority’s area

The general power of competence does not remove any duties from local authorities. The Act allows the Secretary of State to remove unnecessary restrictions and limitations where there is a good case to do so, subject to safeguards designed to protect vital services.

The Localism Act 2011 (Section 4) effectively extended the new power of competency to enable trading of services etc. which were not of a statutory function of the council

### **Other considerations**

As well as this statutory framework council decision-making is also limited by certain well known principles including obligations to act rationally and fairly (the Wednesbury principle) and to exercise powers for their proper purpose. This means that the council cannot use a power given to it for one purpose in order simply to generate income. It also

means that in charging for discretionary services it will have to have due regard to the rationality of imposing the charge and its impact on individuals as well as its ability to generate income.

The following matters will need to be taken into account:

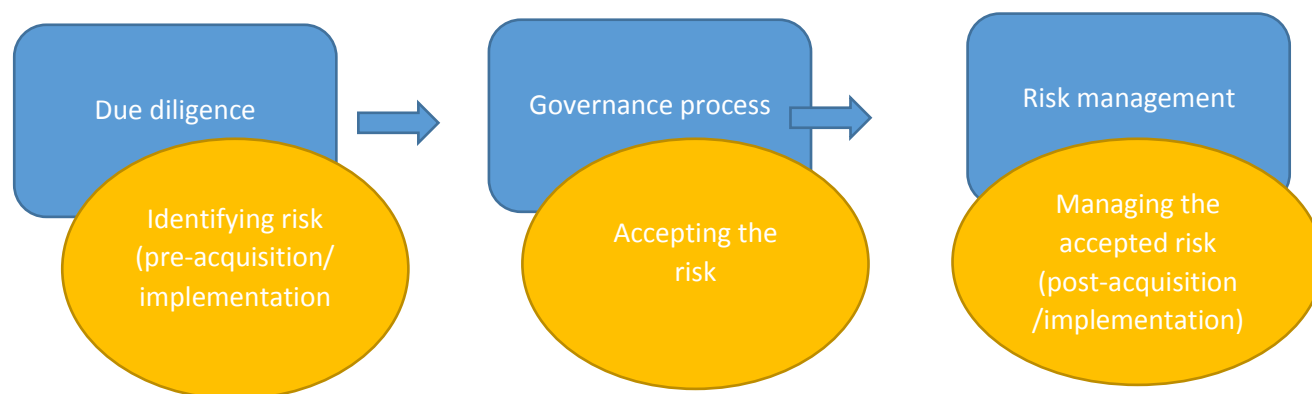
1. Company law issues
2. Tax liability (corporation tax and VAT)
3. EU procurement law
4. Employment law (specifically TUPE and pensions)
5. The costs associated with bidding for contracts
6. State aid rules
7. Insurance requirements
8. State Aid

<https://www.gov.uk/guidance/state-aid>

## Appendix 2 - Risk

### Risk Timeline

There are 3 broad phases of risk:



Due diligence is the process of factual and legal investigation, research, analysis and discovery into the relevant borrower, asset, sponsor and other principal parties typically undertaken by a prospective buyer, lender or investor prior to entering a transaction.

The following, though by no means exhaustive, is intended to suggest areas for consideration. The perceived risk will need to be considered on a project-by-project basis, for each risk phase.

Risk Area	Details	Perceived risk (low, medium, high)	Suggested mitigation measures
Council reputation	Are there any businesses/investments running contradictory to council corporate values? Environmental, Health & Safety, climate, ethics, supply chain terms and conditions. Does it fit with the council "brand"? Risk of over-promising or under delivering.		Continuous monitoring by business managers. Completion of business impact assessments.
Financial regulations	MRP		Awareness of Prudential Code requirements, Treasury Management Code, MHCLG guidance on local authority investments and MRP
Timescales	Grant deadlines, planning requirements,		Governance and processes in place to facilitate.

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	reporting/Committee requirements		
Legal barriers	Do we know which legal pathways we are relying on?		Legal advice, Legal representative on Commercial Investment Board
Weak governance			Adequate arrangements and project management
Abortive costs			Sinking fund?
Tax matters eg. VAT, corporation tax, SDLT	Have we opted to tax or not?		Purchase of timely advice from specialists.
Stakeholder buy-in	Sufficient detail supplied for decision-making		Timely, detailed reports
Valuation			External expertise/2 <sup>nd</sup> /3 <sup>rd</sup> opinion
Missed opportunity	Identification of land/property available to buy		Asset Management; Commercial Investment Board
Additional costs	Both capital and revenue. borrowing costs, rent, R&M, utilities, voids (lost income/NDR cost), management time to deal with leases/issues		Appraisal sheet, expert internal and external advice, surveys, sufficient contingency allowance
Fraud	Property fraud, money laundering		Procurement, Financial Rules, dual control for internet banking, check your vendor.
Poor communications	Ensuring all project team members receive all relevant information		Working groups, shared information and filing structures
Environment			
Tenant performance	Ability to pay, likelihood of moving on, void periods, rising irrecoverable expenditure.		Credit rating agency reports, accounts, (at acquisition but also throughout lease) “know your tenant” ie. what is the sector, who do they buy/sell from, what are their aspirations. Monitor rent payments, intervene early
Asset performance	Review of returns/service delivery		Frequent valuations, portfolio management. Capture of and reporting of financial data
Market changes	Brexit, trade wars, cost of borrowing, tax changes.		Diversify, monitor sector proportions within portfolio. Eg. retail, offices, residential, warehouses, storage, hotels, gyms. Take independent advice, regular revaluations, continually monitor and manage performance. Exit strategy/Plan B
Economy	Market downturn – harder to sell assets and realise funds. Affects liquidity.		Diversify, keep taking independent economic advice, limit exposure to investment

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			types. Maintenance of reserves.
Legislation	Brexit, trade rules		Monitor political and economic events; regular updates
Lack of staff resources			Prioritise staff resources; actively seek external funding opportunities and identify partnership, joint venture opportunities
Team skills	Necessary skills to acquire, manage and know when to sell? What would happen if people change eg. MD, CFO, Head of Commercial Services, political control?		Training, succession planning, procedures
Asset condition	Environmental performance, repairs and refurbishment, ability to re-let, physical obsolescence.		Strict criteria on acquisitions, keep abreast of the market (expert advice), tenant repairing covenants, meet contractual repairing obligations, sinking fund for periodic investment. Keep existing assets under review.
Budgets	Costings, projections. Insufficient funding to deliver projects.		Use of contingencies, review and monitor throughout life of investment. Active asset management to “recycle” funds from sale of assets. Receive Grant Finder notifications. Regular monitoring of revenue and capital budgets checking for variations. Use of SPAR project monitoring.
Policy	Risk of missing key changes in Government policy/initiatives – wasted time, missed opportunities, failing to meet Government expectations and standards		Information shared via work groups such as CABIG
Ongoing revenue and management costs	What will it really cost to manage and will it be recovered? Eg. borrowing costs, rent, R&M, utilities, voids (lost income/NDR cost), management time to deal with leases/issues). Failure to recognise will affect yield.		Sound/proficient costings and whole life project cost analysis. Council governance process ensures decisions are made with reference to Finance staff. Regular monitoring.
Insurance	Insurance cover invalid, inadequate, insufficient or not there		Insurance officer post with responsibility to ensure insurance is sufficient.

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			Insurance flagged on proposal form.
Change in local or national political administration – changed priorities			Monitoring of manifestos, issues, government websites
Managing change/controlling costs when moving to different methods of accessing services			Business case/appraisal and business impact assessments; regular monitoring.
HR – failure to follow legislation, policies and good practice; failure to protect Council’s image as a good employer			Training/regular updates eg. professional publications; keeping policies up to date use of specialist advisors/legal advice; senior management review;



Appendix 3

Governance flow chart for commercial investments.

