



CORPORATE CAPITAL STRATEGY

SUMMARY VERSION

DECEMBER 2013 REVISION

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Appendix 1 - Definition of Capital Expenditure

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1. Introduction

The Corporate Capital Strategy is the policy framework document that sets out the principles to be used as guidance in the allocation of capital investment across all the Council's services and informs decisions on capital spending priorities within the Council's 4-year Capital Investment Plan.

Capital investment is technically described as: **Expenditure on the acquisition, creation, or enhancement of 'non current assets' i.e. items of land, property and plant which have a useful life of more than 1 year.** Expenditure outside this definition will be, by definition, revenue expenditure.

Most non current assets are properties that are used in service delivery. The Council's land, buildings and infrastructure asset base of some 1,500 properties has a current use Balance Sheet value of £300 million. In addition the Council has an interest in assets held by Diocese and Foundation schools and assets of companies the Council has a financial interest in such as TOR2 and the Economic Development Company.

Although the Strategy focuses on the Council's management of its own investment in assets, a wider view of capital investment throughout the Bay by both the public and private sectors will have a major influence on meeting Council aims and objectives.

The Capital Strategy is presented to Council as a Policy Framework document, and links with the Treasury Management Strategy and the Corporate Asset Management Plan. Both documents are available from Council offices and on the Council's Website:

<http://www.torbay.gov.uk/index/yourcouncil/financialservices>

The Capital Strategy sets out the guiding principles on the following elements:

- Approach to Borrowing
- Grant Allocation
- Capital Receipts
- Revenue and Reserves
- Prioritisation and Approval
- Alternative Funding and Delivery Options
- South Devon Link Road

In considering the principles, the Council needs a balance between guidance and prescription to allow a flexible and dynamic approach to be taken but reflective of times of uncertainty. This summary document focuses on the key policies for the allocation of capital resources to schemes in line with Council priorities and statutory responsibilities.

2. Guiding Principles

2.1 Approach to Borrowing

The Council is able to borrow money on the money market or from the Public Works Loan Board to fund capital schemes or, on a short term basis, its own internal resources (i.e. cash flow), however for all schemes initially funded from borrowing, the Council will have to fund the repayment and interest costs as there is no longer any central government "supported borrowing" allocations and revenue support.

The Council is only able to borrow for "unsupported borrowing" under the guidance contained in the CIPFA Prudential Code, which in summary the Council must ensure that all borrowing is both prudent and affordable. All schemes funded from prudential borrowing

are approved by full Council.

The Council's approved Treasury Management Strategy is to continue to reduce the level of Council borrowings over four years; therefore this is likely to result in fewer schemes funded from borrowing.

The Council has traditionally taken a cautious approach to new borrowing, paying particular regard to the robustness of the business case to include forward predictions of affordability, with the aim that projects should be self-funding (i.e. create a revenue stream so that the cost of borrowing is cost neutral on Council Tax). It is essential that any new proposals for a self funding or invest to save scheme supported by borrowing has a robust business case that is presented to senior members and officers prior to approval by Council.

To support its revenue budget the Council will continue to evaluate any capital investment projects either acting alone or with partners that will produce an ongoing revenue income stream for the Council.

In recent years, there has been the need for borrowing that has no identifiable future revenue stream, for example, to repair infrastructure assets. Here a broader view has been taken of the value of repairing the asset to the overall economy of the Bay. The cost of such borrowing falls on the tax payer through payments of debt interest on the Council's revenue account and repayment of debt over a specified period of time. There may still be a need for such borrowing but each proposal should be reviewed on a case by case basis with the project evaluation clearly stating how the borrowing is to be afforded. Given the significant financial challenges facing this Council over the next few years it is likely that such schemes will be an "exception".

2.2 Grants

The Council receives capital grant funding from government and is able to bid for grant funding direct to particular government departments or from other grant awarding bodies. The funding from central government tends to be un ring fenced and without conditions, however this funding is at levels significantly lower than in the last decade.

The Council now has greater flexibility in allocating capital grant funding which allows the Council to direct funding to local priorities which may not be in line with government allocations which are, to some extent, based on local need. Service intentions of the identified government body awarding the grant may be taken into account in determining allocations.

The current policy is to pool all receipts from grants to support the Capital Investment Plan in line with funding the Council's priorities. The current Capital Investment Plan has a capital grant income target to support the approved Plan that has not yet been met. All (un ring fenced) capital grants received should be allocated to support this target and not allocated to new schemes – any break from this policy needs a Council decision.

Recent Central Government consultation indicates that from 2015/16 a number of the Council's capital grants will be pooled with other public sector bodies. It is expected that Disabled Facilities Grants and Community Capacity capital grant will be included in the Health and Social Care "Better Care Fund (previously known as the "Integrated Transformation Fund") and the Integrated Transport Fund grant will be pooled with the Local Enterprise Partnership. The exact allocation and Council control and influence over these grants have to be clarified but it is clear that the Council will need to work with other bodies for capital investment in the future.

The Council continues to bid for additional external grant funding but restricts schemes to those which support corporate priorities or statutory service objectives and where it can be

proved that the project is sustainable, and requirements for match-funding and future revenue consequences have been considered and approved. All bids are to be agreed with the Mayor and Executive Director prior to submission.

2.3 Capital Receipts and Capital Contributions

The Council receives capital receipts and capital contributions from:

- Asset Disposals
- Right to Buy Clawback
- S106 Monies and Community Infrastructure Levy - CIL (after Council approves policy)

Asset Disposals

The current policy is to pool all receipts from the sale of all assets sold to support the Capital Investment Plan in line with funding the Council's priorities. The current Capital Investment Plan has a capital receipts target to support the approved Plan that has not yet been met. All capital receipts received should be allocated to support this target and not allocated to new schemes.

The Council will consider exceptions to this policy where rationalisation of assets used for service delivery is undertaken and in respect of school sites where the Secretary of State has approved the disposal – such exceptions will require Council decision.

In considering asset disposals, the Council also needs to take into account the policy on Community Asset Transfers where the Council will consider, on a case by case basis, the potential transfer of land to an alternative provider after a full assessment of the long term (full life) risks and rewards of the transfer, including the achievement of best value including potential market value, linked to the Council's aims and objectives.

Under the Council's constitution the approval for the disposal of an asset is an Executive (Mayoral) function. The Mayor however will take regular reports on assets identified for disposal to full Council.

Right-to-Buy Clawback

The Council's policy of recycling 100% of these receipts into new affordable housing acknowledges the Council's role as strategic housing enabler by providing some direct re-investment to replace the properties lost from the public sector through the Right-to-Buy system.

S106 monies and Community Infrastructure Levy

S106 monies come from developer contributions through the planning system. The current policy is to allocate monies to services in line with the planning agreements. Where possible, the monies should be used to support existing Council priorities and commitments rather than be allocated to new schemes. Any S106 monies received without a service or scheme specific allocation within the planning agreement will be allocated in line with Council capital scheme priorities.

Any monies received for infrastructure from the Community Infrastructure Levy (when introduced) will not be allocated to a specific service but will be allocated under the CIL arrangements in line with Council capital scheme priorities subject to any specific funding requirements such as the South Devon Link Road

The current policy is to pool all capital contributions to support the Capital Investment Plan in line with funding the Council's priorities. The current Capital Investment Plan has a

capital contributions target to support the approved Plan that has not yet been met. All capital contributions received should, where possible, be allocated to support this target and not allocated to new schemes.

2.4 Revenue & Reserves

The Council is able to use revenue funding and reserves for capital schemes. However, as a result of competing revenue budget pressures and the continued reduction in government support for revenue expenditure, the Council's policy is generally not to budget to use revenue or reserve funds to directly fund capital projects.

2.5 Prioritisation and Approval

It is always difficult to make choices between competing priorities within a top tier Council that delivers so many varied services. It will also be important to ensure sufficient flexibility to take advantage of any funding opportunities that may occur mid year or fill any gaps where slippage occurs.

The key stages in the Council's prioritisation and approval process are as follows:

- a) Estimate of capital funding available is made and updated as appropriate. (Where possible for a four year period).
- b) Capital schemes are prioritised in line with Capital Strategy and corporate priorities.
- c) Council allocates un ring fenced capital grant funding to schemes/service areas in line with its priorities. Service intentions of the identified government body awarding the grant will be considered in determining allocations.
- d) allocations of funding to schemes/services for planning purposes approved by Council as part of Capital Budget and updated as appropriate. (Where possible for a four year period).
- e) Council delegated the approval of specific capital schemes within the approved capital plan in (d) above to the Executive Director in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer.
- f) If a specific scheme is to be approved/funded there will be a requirement for a detailed business plan. This will apply to both new schemes and schemes identified for funding within the four year allocation of funding. Detailed business plan to be submitted to the Executive Director in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer:
 - If scheme is to be funded from (approved) allocations the scheme will be approved by Executive Director in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer and progressed when funding confirmed or,
 - if new funding, in addition to the approved allocation in (d) above, is to be used and if scheme is supported by Executive Director in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer it will be recommended to Council for approval.
- g) Proposals for invest to save or self financing schemes, (usually financed from prudential borrowing), will also require a detailed business case to be submitted to the Executive Director in consultation with the Mayor, Executive Lead for Finance

and Chief Finance Officer. If scheme is supported it will be recommended to Council for approval.

h) The capital investment plan will be updated and any recommendations for schemes to be approved by Council included in the next quarterly Capital Investment Plan Update Report.

i) Other schemes that do not require financial support but include the use of Council assets as a Council contribution to a scheme will also be subject to the capital scheme approval process.

2.6 Alternative Funding and Delivery Opportunities

As Council capital funding is reduced the Council will consider alternative methods of supporting capital expenditure within the Bay, using alternative funding, such as social investment, private sector finance and third sector funding or by other bodies delivering capital schemes instead of the Council.

The Council could aim to use its assets to support schemes or aim to maximise funding from any source possible, such as European or Local Enterprise Partnership Funding etc.

The Council continues to bid for additional external funding and/or work with other bodies to secure capital investment or consider use of its own assets in a development, but restricts schemes to those which support corporate priorities or statutory service objectives and where it can be proved that the project is sustainable, and requirements for match-funding and future revenue consequences have been considered and approved along with an assessment of the opportunity costs of alternative options. All schemes are to be agreed with the Mayor and Executive Director prior to submission and/or contractual commitment.

2.7 South Devon Link Road

The Council has committed to support the South Devon Link Road to a maximum value of £20 million. At present the Council has approved revenue budget to fund £6 million of borrowing costs, with the remainder of the £14 million currently unfunded. The report to Council approving the scheme identified Community Infrastructure Levy and New Homes Bonus Grant as possible funding sources. If no other capital funding is identified then the balance of £14 million becomes unsupported borrowing which will be a service revenue budget pressure from 2016/17 onwards. The Council can specifically allocate the increase in its 2015/16 and 2016/17 New Homes Bonus Grant to fund this scheme, but this will be at the expense of other services as the national funding for this grant is "top sliced" from Councils' revenue support grant so is not "new" funding.

Appendix 1 - Definition of Capital Expenditure

Capital investment is simply described as:

Expenditure on the acquisition, creation or enhancement of “non current assets”

(non current assets are items of land & property which have a useful life of more than 1 year)

This definition of capital expenditure that the Council has to comply with for the classification and, therefore, the funding of capital expenditure is linked to International Financial Reporting Standards. “Qualifying Capital Expenditure” under s25 of Local Government Act 2003 is defined when:

“The expenditure results in the acquisition, construction or enhancement of fixed assets (tangible and intangible) in accordance with “proper practices””

“Proper Practice” (from 01/04/10) is under International Financial Reporting Standards (IFRS) rules. The relevant standard is IAS16 which has the following definition of capital expenditure:

“Expenses that are directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management”.

“Directly attributable”. i.e if building a school – costs linked to the actual construction of the building, not temporary accommodation, moving people around etc. – I.e “What helps you build the building?”.

Subsequent Capital Expenditure on an asset is defined as:

“Expenses that make it probable that future economic benefits will flow to the authority and whose cost can be measured reliably” Subject to..... “if the expenditure is to replace a component, the old component must be capable of being written out of the balance sheet”.

Future economic benefits i.e it is not necessary for the expenditure to improve the condition of the asset beyond its previously assessed standard of performance – the measurement is against the actual standard of performance at the date of expenditure.