



CORPORATE CAPITAL STRATEGY

**SUMMARY VERSION**

**SEPTEMBER 2011 REVISION**

DRAFT FOR CONSULTATION v 1.2

## CONTENTS

## PAGE

1.	Introduction	3
2.	Guiding Principles	
2.1	Approach to Borrowing	4
2.2	Grants	5
2.3	Capital Receipts	5
2.4	Revenue Resources	6
2.5	Priorities	6
2.6	Maximising Income Opportunities	7

Appendix 1 - Definition of Capital Expenditure

Produced By:

**Corporate Asset Management Team  
Torbay Council,  
Town Hall,  
TORQUAY**

Contact Officer – Martin Phillips (Tel: 01803 207285)

## 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 in property across all the Council's services and informs decisions on capital spending priorities within the Council's 4-year Capital Plan Budget.

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

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 £330 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 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.

This Strategy has been revised in the light of the significant reductions in central government support for capital investment over the period of the Comprehensive Spending Review – 2011/12 to 2014/15 where it is estimated that there will be a 60% reduction in total capital spending in the public sector and the unringfencing of capital allocations. 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/council/financial\\_services](http://www.torbay.gov.uk/index/council/financial_services)

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

- Approach to borrowing
- Grant allocation
- Capital Receipts
- Revenue Resources
- Prioritisation

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 document is a summary Strategy focusing on the key policies for the allocation of capital resources to schemes in line with Council priorities and statutory responsibilities. There is a more detailed Capital Strategy which both outlines the Council's policies in relation to the allocation and prioritisation of capital funds and, in addition, an overview of the Council's arrangements for the management of its

capital programme. This document is available on the Council's intranet site:

[http://www.torbay.gov.uk/index/council/financial\\_services](http://www.torbay.gov.uk/index/council/financial_services)

## **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. There is no longer additional revenue support from government for this kind of borrowing. The Council is only able to borrow within its borrowing ceiling.

The Council has traditionally taken a cautious approach to new borrowing, paying particular regard to the robustness of 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). However, in recent years, there has been the need for borrowing that has no identifiable future revenue stream, for example, to repair assets such as Rock Walk. 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. Nevertheless, 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.

In addition, not only has the economic climate changed again in August 2011 the Council's Capital Plan has now been significantly revised with changes to a number of schemes to be funded from prudential borrowing. The Treasury Management Strategy needs to be updated to reflect the changing circumstances. Any opportunities that arise which are beneficial to the Council can be acted upon as part of the Chief Finance Officers' delegated powers

### **Recommendations**

- (i) *The Council continue to consider prudential borrowing as an option to fund capital projects. Each project will be considered on its merit taking into account:*
  - *The requirements of the "Prudential Code" – including Authorised Borrowing Limits*
  - *Ability to repay both debt interest and loan principal (minimum revenue provision)*
  - *Ability to generate future income streams or cost savings*
  - *Where there is an economic value to the community that is wider than the Council (this should have a strong business case).*
- (ii) *The Treasury Management Strategy is reviewed to reflect current economic climate and be presented to the Audit Committee in December 2011 (as the Committee responsible for the scrutiny of Treasury Management activities).*

## 2.2 Grants

The Council receives capital grant funding from government and is able to bid for grant funding schemes directed to particular government priorities or from other grant awarding bodies.

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.

### **Recommendations**

- (i) *The Council allocates capital grant funding to projects in line with agreed priorities. Service intentions of the identified government body awarding the grant may be taken into account in determining allocations.*
- (ii) *The Council continues to bid for additional external 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.*

## 2.3 Capital Receipts

The Council receives capital receipts and capital contributions from:

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

### **Asset Disposals**

The current policy is to pool all receipts from the sale of surplus assets for recycling into the Capital Budget development for allocation in line with funding the Council's priorities.

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.

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, linked to the Council's aims and objectives

### **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.

Any S106 monies received without a service allocation 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.

#### **Recommendation**

- (i) *No change to current policy on capital receipts and contributions.*
- (ii) *That any Community Infrastructure Levy for infrastructure works will be allocated under the CIL arrangements in line with Council capital scheme priorities.*

## **2.4 Revenue & Reserves**

The Council is able to use revenue funding for capital schemes. However, as a result of competing budget pressures, the Council's policy is generally not to use Revenue money to directly fund capital projects.

#### **Recommendation**

- (i) *No change to current policy on revenue & reserves.*

## **2.5 Prioritisation**

In the current economic climate it is even more important that the Council's capital programme provides value for money for the taxpayer and adds value to the local economy. Traditionally the Council's capital spend has been considered and recommendations made from the Capital Asset Management Team (CAMT) based on the requirement to allocate funding in line with Government requirements. These requirements have now been lifted but, government spending intentions as stated above, will still need to be considered.

It is always difficult to make choices between competing priorities within a top tier Council that delivers so many varied services. However, the time is right to review how projects become approved, evaluated and monitored to create a system that is more streamlined, simple to understand, help make difficult decisions easier. 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.

#### **Recommendations**

- (i) *CAMT is requested to make proposals, in a **Capital Investment Review**, for*

*the four year capital programme based on local priorities as follows:*

- *Detailed for year one showing outcomes, impact on local economy (jobs and supply chain) milestones, borrowing requirement and debt repayment*
- *Indicative for years two, three, four of the capital plan*
- *Statement of four year funding plan showing known grant and anticipated other receipts.*

*CAMT should prioritise taking into consideration:*

- *Those projects already approved and need continued funding*
  - *The Council's Pledges*
  - *Any urgent health and safety requirements on major repairs.*
  - *Government intentions on grant allocation*
  - *Ability to stretch the funding by matching or investing in assets to lead to additional funding such as New Homes Bonus or CIL (providing it is linked to the Pledges)*
  - *Impact on service if works not undertaken*
  - *Impact on local economy in terms of sustainable job creation*
  - *Ability to deliver*
- (ii) *CAMT should review all projects that are in the Capital Programme but not yet started to consider whether they should still proceed.*
- (iii) *CAMT should propose a reserve list of projects that meet the priorities and could be delivered at short notice to take advantage of any in year slippage.*

## **2.6 Maximising Income Opportunities**

There are a number of changes and potential changes in funding for Local Government in the future and the Council should ensure its Capital Plans reflect any opportunities to earn additional funding.

This to include:

- Community Infrastructure levy - (see 2.3 above)
- New Homes Bonus – linked to housing growth

As there is only a finite limit of the funding available from these sources it is important for the Council to be active in its plans. In particular due to the national funding arrangements for New Homes Bonus Grant, which will impact on Formula Grant allocations, there is a high risk that if the Council is not generating the housing growth to achieve this grant the Councils' overall funding will be reduced.

## 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 s16 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.