Appendix 1

CORPORATE CAPITAL STRATEGY

SUMMARY VERSION

OCTOBER 2012 REVISION

CONTENTS **PAGE**

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 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***.

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 £340 million. (In addition the Council has an interest in assets held by Diocese and Foundation schools and assets of companies the Council have 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 was revised in 2011 in the light of the significant reductions in central government support for capital investment over the period of the Comprehensive Spending Review where 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/yourcouncil/financialservices/amp.htm

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

- Approach to borrowing
- Grant allocation
- Capital Receipts
- Revenue Resources
- Prioritisation
- Alternative Funding and Delivery Options

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 polices 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/yourcouncil/financialservices/capitalstrategy.htm

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, however all schemes will have to be funded by the Council as there is no longer revenue support from government for "supported borrowing". The Council is only able to borrow under the guidance under the Prudential Code.

The Mayor wants to reduce the ongoing costs of its borrowing on its revenue budget which 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 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.

In recent years, there has been the need for borrowing that has no identifiable future revenue stream, for example, to repair assets such as Princess Promenade. 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 financial challenges facing this Council over the next few years it is likely that such schemes will be an "exception".

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).*
- *A robust business case*

2.2 Grants

The Council receives capital grant funding from government and is able to bid for grant funding 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 initially pools all unringfenced capital grant funding prior to allocation to projects and takes a four year view of the estimated levels of grant funding.*

(ii) *The Council allocates capital grant funding, estimated value over the four years of the capital investment plan, to service areas in line with agreed priorities. Service intentions of the identified government body awarding the grant may be taken into account in determining allocations.*

(iii) In line with the approved Capital Investment Plan, the Chief Operating Officer in consultation with the Mayor, Executive Lead for Finance and the Chief Finance Officer approves individual schemes subject to a business case being presented.

(iii) *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 Chief Operating Officer prior to submission.*

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 all assets sold to support the Capital Investment Plan in line with funding the Council's priorities. The 2012/13 Capital Investment Plan had a capital receipts target to support the approved Plan of £5m. 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.

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. It is expected that in 13/14 the policy will be reviewed to include a review of the process and any new demands such as Community Right to Buy.

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 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.

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. **

* *Subject to any specific funding requirements such as the South Devon Link Road*

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, the Council's policy is generally not to use revenue or reserve funds to directly fund capital projects.

Recommendation

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

2.5 Prioritisation

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 2012/13 Capital Investment Plan, approved by Council in February 2012, changed the management of its capital plan for 2012/13 onwards.

The key stages in the revised process are as follows:

a) Officers and Members identify and submit capital schemes, on an ongoing basis, to the Chief Operating Officer in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer for inclusion in the capital reserve list in a specified format (an outline business case). If the initial business case is supported the scheme will be included for potential inclusion in the Capital Investment Plan.

b) Estimate of capital funding available for four years is made

c) Capital schemes are prioritised in line with Capital Strategy and corporate priorities

d) Council allocates un ring fenced capital grant funding to schemes in line with its priorities. Service intentions of the identified government body awarding the grant will be considered in determining allocations.

e) Initial four year allocations of funding to schemes/services for planning purposes approved by Council as part of annual Capital Budget.

f) Council delegates the approval of specific capital schemes within the approved capital plan in (e) above to the Chief Operating Officer in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer.

g) If a scheme is to progress further and 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 initial four year allocation of funding. Detailed business plan to be submitted to the Chief Operating Officer in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer:

> If scheme is to be funded from initial four year (approved) allocations the scheme will be approved by Chief Operating Officer 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 four year allocation in (e) above, is to be used and if scheme is supported by Chief Operating Officer in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer it will be recommended to Council for approval.

h) 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 Chief Operating Officer 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.

i) The capital plan will be updated and any recommendations for schemes to be approved by Council included in the next quarterly Capital Monitoring Report.

j) Previous Council approvals for capital schemes to be funded from prudential borrowing will be considered for funding from future capital funding to avoid ongoing increased revenue costs.

k) 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.

Recommendation

(i) *No change to current policy on prioritisation approved by Council in February 2012.*

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 Funding etc.

Recommendation

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 Chief Operating Officer prior to submission and/or contractual commitment.

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 in 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 "<u>proper practices</u>""

"<u>Proper Practice</u>" (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 <u>directly attributable</u> to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management".

<u>"Directly attributable</u>". 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 <u>future economic benefits</u> 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".

<u>Future economic benefits</u> 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.