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CAPITAL PLAN BUDGET – ANNUAL REVIEW  
2004/05 – 2007/08

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Report 0 SB/3/04 to the Executive

February 2004



## 1. Introduction

- 1.1 At its meeting held on 28th January 2004, the Overview and Scrutiny Board considered Report F/15/04 on the options for resourcing the Council's Capital Programme over the next four years. A copy of the Report is attached.
- 1.2 It was noted that the Council had received a favourable settlement from the Government in respect of Supported Borrowing for Transport and Education and that significant resources for the provision of affordable housing had been made available by Government to the Housing Corporation.
- 1.3 It was further noted that very limited resources were now made available through supported borrowing for all the other services of the Council. Indeed the only sums available were £918,000 for all Housing including Renovation and Disabled Facilities Grants and less than £100,000 for Social Services. It was therefore clear that the Council would need to consider carefully how it used resources other than Supported Borrowing to support its Capital Programme for these services.
- 1.4 In the light of the intentions underlying the approach for the Single Capital Pot, the Board considered whether the Council should use the Supported Borrowing approvals for services other than those for which the Government Departments had made the funding available. In the light of the experience of the Council some two years ago, the Board did not feel that this was an appropriate approach. It is therefore recommended that the Executive utilise the allocations for Supported Borrowing as determined by the Government.

## 2. Capital Receipts

- 2.1 The Board was advised that the resources potentially available to the Council from Capital Receipts and other sources could range from between £0.873m and £3.436m depending on the view taken about the use of Right to Buy clawback from the sale of former Council houses.
- 2.2 In overall terms, taking into account the service demands for Capital investment demonstrated by the Capital Projects Reserve List, it was felt that using capital receipts to support the Capital Plan would provide greater benefits for improved service delivery than retaining them to generate interest income in support of the Revenue Budget.
- 2.3 The Board raised a number of questions of the officers with regard to the expected programme of Capital Receipts from the Council's land assets.

- 2.4 It was clear that the cases currently being dealt with involved a number of significant challenges and would take time to realise. The Board therefore agree that a prudent approach should be adopted in the forecast level of Capital Receipts from asset disposals at this point in time. This issue could be reviewed at a later date. The Board therefore agree with the officer's recommendation that Capital Receipts from land sales of up to £1m are incorporated in the forward funding plan. It is further recommended that this issue is reviewed regularly in the event that new resources emerge from this source to support the Council's programme.
- 2.5 So far as Right to Buy clawback is concerned the Board was advised that up until now the Council had to set aside 75% of any receipt for debt redemption. However the new approach to Capital Funding enabled the Council to utilise 100% of any receipt. It was noted that at the present time the Council utilised the 25% from Right to Buy sales to support its general Capital Programme and that this had been the means whereby the Council had been able to fund schemes other than those of Transport, Education and Housing.
- 2.6 The Board was asked for its view whether any of the future Capital Receipts should be allocated to support the provision of affordable housing or other housing initiatives. Clearly the Council could allocate the full 75%, which previously was set aside, to fund affordable housing projects. It was, however, conscious that as services other than Transport, Education and Housing would not now have access to supported borrowing, that the Council needed to carefully weigh up what it wished to achieve from a strategic perspective in both the housing field and other fields. The use of Right to Buy clawback represented the only realistic way in which additional resources could be secured other than through capital receipts. Accordingly it is recommended that 50% of any Right To Buy Clawback receipt should be allocated for Housing purposes and a further 25% allocated to support the Council's remaining programme. This will have the effect of increasing resources for Housing by £1.375m and by £687,000 in respect of the other services of the Council.

### 3. Unsupported Borrowing

- 3.1 The Board was asked to consider whether the Council should take advantage of the new power to raise funds financed through its revenue budget. It was advised that if the Council sought to raise £1m through Unsupported Borrowing then the revenue consequence would be in the order of £100,000 per annum in order to repay capital and meet interest charges. This was equivalent to 0.25% on the Council Tax. Clearly this is an issue which needs to be considered in the context of the Council's overall revenue budget. Notwithstanding the desire to increase available resources to enable Capital Projects to go forward, the Board believe a prudent approach should be adopted at this point

in time and that the use of Unsupported Borrowing should be dealt with on a case by case basis with an analysis of the revenue consequences and benefits arising from each scheme. Accordingly it is recommended that Resource Option 2 as set out in paragraph 8.1 of Report F/15/04 should be adopted as the approach for the Four Year Capital Plan.

#### 4. Spending Pressures

- 4.1 The Board noted from the Report that the Council had a significant reserve list of Capital Projects and that these had been prioritised in four bands. It did not believe it was appropriate for the Board to make recommendations as to which projects should be pursued. It was however pleased to hear that External Grant aid had been secured for the Higher Brixham Watercourse project and that it was likely that Supported Borrowing would be available to supplement this. If this is secured then some resources which would have been earmarked for this scheme will be freed up to pursue other projects. In this context Executive's attention is drawn to the high risks associated with the need to re-build the sea wall at Goodington. It is understood that it is unlikely that Government funding would now be available for this project as there had been significant changes to the assessment of such projects by DEFRA. In future, Government Grant would be directed towards projects which safeguard houses and people rather than land and it is therefore unlikely that the project would score highly enough to secure Government support. The Board believe this site is highly vulnerable to storm damage and ask officers to provide the Executive with an update of their assessment of the risk of further delay to this scheme.
- 4.2 The Board would also draw the attention of the Executive to the findings of the Access to Coast Review but acknowledge that at this stage, a full assessment of all the issues affecting other projects within the reserve list had not been made and cannot therefore express a view on the relative weight which should be attached to these schemes as opposed to others.
- 4.3 The Board also acknowledges that there are other service reviews being undertaken which may be subject to scrutiny by this Board from which demands for capital investment may emerge.
- 4.4 Finally the Board believes it is right that a provision is made to meet prospective redundancy costs to enable structural change within teams to be funded to ensure they are able to meet the demands expected of them in the future.
- 4.5 The Capital Programme does incorporate a number of projects where some of the risks cannot be quantified due to the unforeseen nature of them. In the light of the Council's experiences over recent years with

regard to the projects undertaken, the Board agree a contingency against unforeseen variations in project costs should be incorporated as recommended in the Report.

- 4.6 It is hoped that the Executive will find the Board's analysis of the issues which were presented to it helpful to its deliberations and would thank the officers for their responses to our questions.

5. Recommendations

- 5.1 That the Executive utilise the allocations for Supported Borrowing as determined by the Government.
- 5.2 That Capital Receipts from land sales of up to £1 million be incorporated in the forward funding plan and that this issue be reviewed regularly in the event that new resources emerge from this source to support the Council's programme.
- 5.3 That 50% of any Right to Buy Clawback receipt be allocated for housing purposes and a further 25% be allocated to support the Council's remaining programme.
- 5.4 That Resource Option 2 as set out in paragraph 8.1 of Report F/15/04 be adopted as the approach for the Four Year Capital Plan.
- 5.5 That a provision be made to meet prospective redundancy costs to enable structural change with teams to be funded to ensure they are able to meet the demand of them in the future.
- 5.6 That, in light of the Council's experience in recent years with regard to the projects undertaken, a contingency against unforeseen variations be incorporated.

Appendix 1

Implications of the Recommendations

Legal	}	The purpose of this Report is to consider the implications on all services of the proposals put forward by the Executive.
Financial		
Human Resources		
Property		
Change Mgt Plan		

The recommendations contained within this Report are contrary to or not wholly in accordance with the Council's Budget and Policy Framework

The recommendations contained within this Report would be a Key Decision



**TORBAY COUNCIL**

Report No: **F/15/04**

Title: **Capital Plan Budget - Annual Review (2004/05 - 2007/08)**

To: Overview and Scrutiny Board on 28<sup>th</sup> January 2004

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**1. Purpose**

- 1.1 To seek the views of the Overview and Scrutiny Board on proposals to roll forward and make additions to the 4-year Capital Plan Budget

**2. Relationship to Corporate Priorities**

- 2.1 The Council's Capital Plan includes schemes which support all of the Council's Key Areas and Corporate Priorities

**3. Recommendation**

- 3.1 That the demands for new capital investment and the funding resources likely to be available over the next 4 years, as reported to Executive on 6<sup>th</sup> January 2004, be noted.
- 3.2 That the Board identifies any specific issues or concerns it wishes to be raised with Executive in considering amendments/additions to the Capital Plan Budget, having particular regard to the following areas –
- (i) The use and allocation of Borrowing supported by the Government
  - (ii) The risks associated with achieving receipts from the disposal of surplus sites
  - (iii) Whether Right-to-Buy clawback receipts should be spent or retained to generate investment income
  - (iv) Recommendations arising from the Housing Working Party and the Access to Coast review
  - (v) The requirement to provide for a Contingency for risk management
  - (vi) The revenue implications of using “unsupported borrowing”
  - (vii) The overall impact of new capital investment on revenue budgets and Council Tax

**4. Reason for Recommendation**

- 4.1 To ensure that Executive is aware of the financial and service implications arising from amendment to the Capital Plan Budget and that the risks and rewards of new capital investment are fully considered.

## 5. Background

- 5.1 Report F/18/03 to Executive on 6<sup>th</sup> Jan 2004 attached at **Appendix 2** set out the demands for new Capital expenditure over the next 4 years compared with expected resources. The Report recommends that the impact of potential options for amendment / addition to the Capital Plan Budget be considered by Overview & Scrutiny Board for recommendation back to Executive on 10<sup>th</sup> February.

## 6. Government Announcements

- 6.1 Since presentation of the figures to Executive the Government has made further announcements of Supported Borrowing and Capital Grant aid towards Education and Transport services for 2004/05 and 2005/06.

- 6.2 The general allocation of “Supported Borrowing” for 2004/05 available through the Single Capital Pot (which replaces the old Basic Credit Approval) is now as follows –

Service	Allocation 2004/05	Prediction	Change
	£000	£000	£000
Transport – LTP	1,729	1,375	354
Transport – Maintenance	1,940	906	1,034
Education – New Pupil Places	3,417	2,390	1,027
Housing	918	931	-13
Social Services – Adults	76	90	-14
Social Services – Children	21		+21
All Other Services	0	308	-308
<b>Total 2004/05</b>	<b>8,101</b>	<b>6,000</b>	<b>2,101</b>

- 6.3 This has resulted in an increase in available resources identified for Education and Transport of £2.415m, which is good news, but there is an overall loss in predicted resources for the other Council services of £0.314m.

- 6.4 In addition to the above, further Supported Borrowing and Grant resources for schools have been announced by the Department for Education & Skills over the next two years as follows –

		2004/05	2005/06
		£000	£000
New Pupil Places	Supported Borrowing		2,054
Modernisation	Supported Borrowing/Grant	3,384	2,183
School Access	Supported Borrowing	219	222
Seed Challenge	Grant	184	
Devolved Formula Capital	Grant	1,472	
<b>Total</b>		<b>5,259</b>	<b>4,459</b>

- 6.5 This is a significant increase in resources for Education mainly due to the change in the method of allocation of resources for pupil places to a formula-based approach rather than an individual bidding approach.

- 6.6 The full-year effect of using the additional Borrowing available would be to increase revenue financing costs by approx. £0.5m p.a. in respect of interest and principal repayments. Support towards the cost of borrowing allocated through the Single

Capital Pot is paid by the Government through the Formula Spending Share and the Revenue Support Grant mechanism. Support is not provided at 100% of the cost as it is implied through the FSS mechanism that the Council will increase the level of its Council Tax in order to spend at FSS. In fact less than 70% subsidy is provided through the Revenue Support Grant.

- 6.7 However, service and external scrutiny pressures in these areas of national priority mean that the Council has little choice but to at least spend at the level indicated by the Single Capital Pot allocations. For the purposes of setting the Capital Budget the revenue cost of Supported Borrowing is therefore considered to be broadly neutral for Council Tax purposes. There may, of course, be other revenue running costs (or savings) arising from the development of any new assets which would be factored into future service revenue budgets.
- 6.8 Members are reminded that there is no “ring-fencing “ of the Supported Borrowing available under the Single Capital Pot. Councils are at liberty to allocate resources on the basis of their own analysis of national and local priorities demonstrated by local Capital Strategies and Asset Management Plans. However, Government Departments have a clear expectation that “their element” will be spent on their own service. They reinforce these views through Corporate Performance Assessment (CPA) scoring.
- 6.9 In summary **it is recommended that the Council plans capital investment at least to the level indicated by the Single Capital Pot allocations, and spends broadly in line with the Service allocations determined by the Government.** Allocation of resources to individual schemes within those services will need to be determined with appropriate consultation and Member approval, having particular regard to Service Asset Management Plans, ongoing revenue implications, sustainability etc.

## 7. **Other New Resources**

- 7.1 There are a number of options for deciding the level of new resources available to fund additional capital investment **over the next 4 years**. If it is assumed for the purposes of determining the overall Capital Budget that Supported Borrowing and Capital Grants are allocated to those services identified by the Government, the only flexibility the Council has to fund local service priorities, which fall outside of Government mainstream funding, is availability of Capital Receipts and “Unsupported Borrowing” (or direct Revenue Budget contributions). The loss of predicted Supported Borrowing for 2004/05 of £0.314m anticipated for other services will have to be covered from these sources.

- 7.2 A range of potential new resources from Capital Receipts & Unsupported Borrowing between **£0.873m to £4.436m** was put forward for discussion in Report F/18/03 as follows –

	Minimum	Maximum
	£m	£m
Capital Receipts – Land Sales	0.500	1.000
RTB Clawback (use between 25% & 100%)	0.687 (25%)	2.750 (100%)
Unsupported Borrowing	0.000	1.000
Loss of Supported Borrowing in 2004/05	(0.314)	(0.314)
Total general resources	0.873	4.436

Capital Receipts –

- 7.3 The current Capital Plan Budget for 2003/04 – 2006/07 requires £3m from the sale of surplus and underused assets to be generated by the end of the Plan period. To date £1.9m has been received leaving an outstanding requirement of £1.1m to be secured before March 2007. The current disposal schedule approved by Council in October 2003 could realise up to a net £2.6m if all the sites are successfully sold at open market value. This would generate potential new resources of £1.5m after the outstanding commitment to the existing Capital Plan Budget has been deducted.
- 7.4 **Because of the risks associated with disposal of some complicated sites it is recommended that only a potential increase in capital receipts from land sales of up to £1m are considered at this time.** The Council could, of course, choose to keep these receipts to generate interest income in support of the Revenue Budget rather than using them to fund capital projects - £1m would earn approx. £35,000 p.a. at 3.5%.
- 7.5 The issue of provision of sites for Affordable Housing also needs to be considered here. Subject to consideration of the Local Plan, the Council has the option to earmark sites in its ownership for the provision of 100% affordable housing; to ring-fence sale receipts on appropriate sites or to donate sites as subsidy “in kind” to Registered Social Landlords in support of its Housing Partnership Strategy. If the Council was to adopt such a policy this would have a bearing on the level of receipts that would be available to support other projects in the Capital Plan.

Right-to-Buy Clawback -

- 7.6 Receipts are due to the Council annually in arrears from Riviera Housing Trust (RHT) as a result of the continuing sale of former Council houses under the Right-to-Buy. The amount the Council will receive depends upon a number of factors including the state of the local economy, mortgage rates and the housing market. Based upon latest information from RHT receipts of £1m are expected in 2004/05 as a result of 48 sales anticipated in the current year. Receipts in future years have been assumed based upon sales reducing to 36 properties in 2004/05 and 24 properties in 2005/06 and 2006/07 respectively. These predictions will produce a total of £2.75m over the Plan period and are considered to be within reasonable limits.
- 7.7 Historically the Council could only spend 25% of these receipts, the balance being held for debt repayment. From 1<sup>st</sup> April 2004 100% can be spent on new capital investment. The potential interest (at 3.5%) which could be earned on these receipts if

they remain unspent would be £35,000 in 2004/05 rising to £96,000 p.a. by 2007/08. This potential for generating revenue income needs to be weighed against the service benefits which would arise from using the receipts to fund new capital investment.

- 7.8 There is an argument that some or all of these receipts should be recycled back into providing Affordable Housing to replace the stock lost by sales to tenants
- 7.9 Potential options for using these receipts which the Board is asked to consider are –
- Reserve 100% to generate investment income in support of the Revenue Budget
  - Continue to reserve 75% to earn interest with the balance used to support the Capital Plan generally
  - Spend 100% of the receipts to support the Capital Plan generally
  - Earmark all or part of the receipts to support Housing Associations providing Affordable Housing in Torbay
  - A combination of some of the above e.g. use 50% to support affordable Housing and 50% to support the remainder of the Capital Plan

Unsupported Borrowing –

- 7.10 The new Prudential Framework, described for Members in Report F/9/03 to Executive on 11<sup>th</sup> November 2003, starts from April 2004. This new freedom allows Councils to borrow money to fund their capital projects without Government restriction provided it is “affordable”. This borrowing would be over and above the borrowing which is identified through the Single Capital Pot and which is part supported by the Government through the FSS.
- 7.11 Following consideration of Report F/9/03 in November 2003 Executive recommended that  
*“A cautious approach be taken to the use of “unsupported borrowing” (because of the long-term revenue consequences of interest and principal repayments) and that consideration be given initially to the potential for funding capital schemes which will generate sustainable revenue budget savings for the future”.*
- 7.12 Consideration could be given to approving some “unsupported borrowing” to fund potential capital projects where ongoing revenue savings or increased income can be sustained to cover the borrowing costs.
- 7.13 It is a reality that, with the effective “ring-fencing” of Government support for borrowing to the national priorities represented by the Single Capital Pot, it is likely that “unsupported borrowing” may be the only source of supplementing corporate funding for local services. e.g. Libraries, museums, tourism, coast protection, leisure, sports, IT and central office accommodation etc. This Board has already highlighted this as a potential solution to issues raised by the recent Access to the Coast review.
- 7.14 Currently a “Local Policy Growth Item” of £100,000 has been included for consideration in the draft Revenue Budget for 2004/05 to enable £1m of new borrowing to be undertaken. It is uncertain at this time whether Council, bearing in mind other competing priorities for revenue funding and the long-term budget consequences, will finally approve this item.

External Contributions -

- 7.15 In addition to affordable borrowing and capital receipts there are significant resources obtained through bidding for ring-fenced Government funding, other external grants and private sector contributions. These opportunities are reported and the Capital Plan amended when bids are successful. In some instances Council match-funding will need to be earmarked in the Capital Budget in anticipation of external funding being secured. Only assured or reasonably anticipated resources are included within available resources at this time.
- 7.16 Section 106 Planning Gain – the Capital Plan relies upon receipts from developers generated through planning agreements to support future Council costs of providing schools and other infrastructure. Receipts to date are –

	<b>Budget requirement</b>	<b>Received to Date</b>	<b>Excess over Budget</b>	<b>Due over next 3 years</b>
	(1)	(2)	(3)	(4)
	£m	£m	£m	£m
<i>Education</i>	0.404	0.617	0.213	0.429
<i>Housing</i>	0.000	0.008	0.008	0.375
<i>Transport</i>	0.000	0.002	0.002	0.000

- 7.17 Uncommitted potential resources identified in columns (3) and (4) of the Table above can be used to supplement resources available for specific schemes. It should be noted that there are inherent risks associated with monies not yet received.

**8. Resource Options**

- 8.1 Taking into account all funding sources, three Resource Options for new spending over the next 4 years are put forward for consideration. These options, presented in **Appendix 1**, are as follows –

- Resource Option 1 **£17.816m** – (Minimum) includes
  - Supported Borrowing for Education & Transport already assumed in the Budget but not yet allocated to specific schemes
  - New additional Supported Borrowing & Grants for Education & Transport
  - S106 monies actually received not yet committed
  - Land sales at £0.5m over amount required for existing commitments
  - 25% of RTB clawback receipts used ( the balance retained for interest generation)
- Resource Option 2 **£21.557m** – includes
  - As Option 1 plus -
  - S106 monies expected over next 3 years
  - A further £0.5m from Land sales
  - The remaining 75% of RTB clawback receipts used
  - Using new supported Borrowing available for Education to fund the Sherwell Valley Ph II project thereby releasing capital receipts previously earmarked
- Resource Option 3 **£22.557m** – includes
  - As Option 2 plus -
  - Unsupported Borrowing of £1m funded from Council Tax

8.2 Option 1 presents the lowest risk option. The revenue costs and risks inherent in Options 2 and 3 particularly with regard to the likelihood of securing capital receipts and the sustainability of long-term borrowing need to be weighed against the benefits of the capital investment which could be funded as a result.

8.3 **The resource issues on which the Boards views are sought include –**

- Whether Supported Borrowing, bearing in mind it is not fully supported by the Government through Grant, should be used to fund new projects. In reality this is not a “real” choice for a Unitary Council - Service pressures and external scrutiny of Council performance mean that effectively the Council has little choice but to spend at the level indicated by Single Capital Pot allocations on those services given national priority
- The use of Unsupported Borrowing - The Council’s ability to “afford” this is in doubt - £1m costs around £100k p.a. which is £2 on Band D Council Tax if revenue savings or increased income cannot be sustained to pay for the investment
- The level of assumed capital receipts - There are risks of achieving the predicted level of capital receipts from the disposal of surplus assets and Right-to-Buy clawback. The current Disposal Schedule could generate up to £1.5m but conservatively expectations should be limited to £1m. Earmarking sites wholly for affordable housing could reduce this prediction. RTB sales may not be sustained at the current level although an assumption of reducing numbers has been built into the income prediction.
- Whether capital receipts should be spent or retained to generate revenue income - Reserving RTB Clawback receipts together with those from land sales could generate up to £0.13m interest income p.a. to support the revenue budget by 2006/07 (depending on investment rates). But there are limited resources to fund Reserve List projects which have no “ring-fenced” funding and which are reliant upon funding from corporate capital receipts or “unsupported borrowing”. Because of the limited resources to meet the demands identified on the Reserve List the service benefits of capital investment must be weighed against the limited potential for interest income.

8.4 In order to provide a basis upon which capital spending decisions can be made and satisfy a reasonable level of demand for local priorities **Resource Option 2** is likely to be the most acceptable scenario. Within this Option there are a number of spending choices which could be considered which may have differing cost implications for the Council.

**9. Spending Pressures**

9.1 The demand for capital spending was examined in Report F/18/03 to Executive attached to this Report at Appendix 2. The Capital Projects Reserve List attached to the Executive Report totals over £20m, of which £16m arises from services outside of the mainstream capital support provided by the Government.

- 9.2 As previously mentioned, Government Departments have a clear expectation that national resources provided to support the costs of Local Authority borrowing should be spent in line with the allocations. i.e. on Education, Transport, Housing and Social Services. The 2004/05 allocations for Education and Transport show a substantial increase over previous years reflecting both service need and recognition of improvement in the Council's performance. The Council would be subject to severe criticism if it were not seen to spend these allocations on these services.
- 9.3 **It is recommended that the Council continues its current policy of using Single Capital Pot "supported borrowing" resources in line with Government allocations.** This policy will enable Capital funding to be earmarked for all Reserve List Band "A" projects for Education and Transport. Further detailed examination of individual schemes will of course be required to ensure that projects are sustainable and running costs can be contained within affordable revenue budgets before final approval to proceed is given.
- 9.4 A service request for support for **Affordable Housing** of £1m per annum is included in Band "A" of the Reserve List in line with recommendations from the Housing Strategy Working Party. Executive will need to consider if new Council funding should be allocated for Affordable Housing in addition to direct support from S106 (Planning Gain) monies and the provision of dwellings through planning policy. **The Board may wish to make a recommendation of the amount of Council resources which could be allocated for this purpose** bearing in mind –
- The Single Capital Pot allocation of "supported borrowing" for Housing is largely spent on Renovation and Disabled Facilities Grants in the private sector, which is already over-subscribed
  - The Council's (£2.85m) direct support to Housing Associations using the capital receipt from the Housing Stock Transfer to Riviera Housing will be spent by 2004/05.
  - There is a convincing argument that some of the receipts received from the RTB Clawback should be recycled back into direct subsidy for providing Affordable Housing particularly in view of the current pressure on the Council's revenue budget for Homelessness and demand for new housing identified in the Council's Housing Strategy document
  - 30% of regional resources identified for Housing have already been top-sliced and allocated via the new Regional Housing Body to the Housing Corporation for support to Housing Associations. The new Development Programme to be undertaken by Housing Associations is expected to be £6.6m for 2004/05 - 2005/06 which will provide 106 new dwellings for rent and 46 for shared ownership in Torbay.
- 9.5 The Capital Reserve list also includes a number of schemes which are awaiting the submission or the result of Bids for External Grant aid, which if successful may require match-funding from Council resources. Examples are –
- **Higher Brixham Watercourse £0.962m** - bid for Grant aid of £0.385m submitted



- **Goodrington Sea Wall – Repairs £0.35m** - bid for Grant aid of £0.14m to be made in 2004.

Earmarked supported borrowing may be available from the Government to match-fund these schemes but until this is known the Board may wish to highlight this potential requirement to the Executive.

- 9.6 A number of corporate and local service projects (including those Access to the Coast projects recently considered by the Board ) are also included on the Reserve List for which there are no “ring-fenced” funding sources and capital receipts or “unsupported borrowing” may be the only source of funding e.g.

- **Disability Discrimination Act works to Council properties**
- **Central Office Accommodation – additional provision ( medium term)**
- **Council-wide Computer (PC) replacement plan**
- **Princess Promenade - Structural Repairs**
- **Babbacombe Cliff Railway - major Repairs**
- **Redgate Beach – demolition of buildings**

**The Board may wish to express its views to Executive regarding the potential risks of not pursuing these projects** particularly with regard to providing an initial budget to enable priority Disability Discrimination Act works to be planned. Members are reminded that if capital funding is not identified for these projects then any ongoing liability will have to be found from Revenue Budgets

- 9.7 Redundancy Costs - it would be prudent at this time to reserve provision for Redundancy costs arising across all services from a number of reviews which have been undertaken or which are likely to be undertaken during the Capital Plan period. Education related costs can be regarded as a call upon the Education allocation of Supported Borrowing. **A general budget of £0.2m is recommended for other services** at this time. Members are reminded that capitalisation of revenue costs requires Government permission and ongoing efficiency savings must be demonstrated.
- 9.8 Contingency for Unforeseen variations - The approved current Plan Budget is £48m comprising individual schemes and annual programmes. Schemes are monitored to ensure delivery within time and budget. Monitoring Reports to Executive Members and Overview & Scrutiny Board ensure that issues are detected and options considered to rectify potential budget problems early. **It is nevertheless advisable to reinstate the “Contingency against unforeseen variations” of £0.5m** following its use in 2003/04 to support the Waterfront project and the review of central Office Accommodation.
- 9.9 In recommending a Capital Plan the Council will need to be mindful of the revenue consequences of the Plan. In terms of borrowing, only part of the cost of “supported borrowing” is met by the Government through the calculation of Formula Spending Share (FSS). The costs of “unsupported borrowing” and the effect of spending capital receipts rather than retaining them for investment purposes are a direct revenue cost. There may also be ongoing revenue running costs which either have to be met from existing budgets or be subject to a specific budget bid. This issue is considered by

services when submitting their project proposals through the Capital Prioritisation Process.

9.10 In summary , the spending issues on which the Boards views are sought include –

- The use of Supported Borrowing - The majority of new resources available are effectively “ring-fenced” for Education and Transport by Government Department pressure – using these resources for other services risks external criticism and will impact upon performance assessment
- Consideration needs to be given to when and if any new Council support for Affordable Housing from capital receipts or provision of sites should be provided in addition to projected S106 (Planning Gain) income and Government support already supplied direct to Housing Associations through the Regional Housing Body
- A provision for match-funding for projects subjects to bids for External Grants is required
- The effect of not undertaking some high priority (Reserve List Band A) projects needs to be considered
- A general provision for Contingencies (£0.5m) and Redundancy costs (£0.2m) is required

**10. Alternative Options (if any)**

10.1 A number of options for addition/amendment to the Capital Plan will be considered during the Budget development process.

**Richard Thorpe**  
**Director of Finance**

Contact Officer: Lynette Royce  
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## **IMPLICATIONS, CONSULTATION AND OTHER INFORMATION**

### Part 1

These sections may be completed by the Report author but must be agreed by named officers in the Legal, Finance, Human Resources and Property Divisions. If these are not completed and agreed the Report will not be included on the agenda.

Does the proposal have implications for the following issues?

Insert name of responsible officer

Legal (including Human Rights)	The are potential legal implications of not carrying out certain projects identified on the Reserve List	Bill Norman
Financial – Revenue	Identified in the Report	Lynette Royce
Financial – Capital Plan	Identified in the Report	Lynette Royce
Human resources (including equal opportunities)	Progress of Capital schemes is dependent upon staffing resources being available to manage the disposal of surplus assets and to design and manage approved projects, particularly where external funding is obtained	Geoff Williams
Property	Investment in capital projects generally enhances the Council's property portfolio	Sam Partridge

### Part 2

These sections must be completed by the author of the Report.

Does the proposal have implications for the following issues?		
Please give details as appropriate		
Sustainability	Yes	Addressed at individual scheme level
Crime and Disorder	Yes	Addressed at individual scheme level
*OfSTED Post Inspection Action Plan	Yes	Capital projects support the Plan
*Social Services Action Plan	Yes	Capital projects support the Plan
*Change Management Plan	Yes	Addressed at individual scheme level

\* not applicable to reports to Licensing, Development Control and Area Development Committees

Part 3

These sections must be completed by the author of the Report.

Does the proposal have implications for the following Directorates? If so, please inform the relevant Director. Please give details as appropriate		
Chief Executive/Corporate Services	Yes	Resources available for capital investment potentially affect all directorates
Education Services	Yes	
Environment Services	Yes	
Social Services	Yes	
Strategic Services	Yes	

Part 4

Is the proposal contrary to or does it propose amendment to the Policy Framework or contrary to (or not wholly in accordance with) the Council's budget?	Yes      ✓      Fill in Box 1	No      Fill in Box 2
<p>1. Details of the nature and extent of consultation with stakeholders and relevant select committees.</p> <p>Consultation has been undertaken through Corporate Asset Management Team and Executive Asset Management Group. Overview and Scrutiny Board is asked to provide its comments to Executive. Consultation at scheme level is undertaken through Service Asset Management.</p>		
<p>2. Details and outcome of consultation, as appropriate.</p>		

Part 5

Is the proposal a Key Decision in relation to an Executive function?	Yes      ✓      Reference Number X69/2003	No
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Part 6

**Wards**

**Appendices**

Appendix 1	Resource Options for Additions to the Capital Plan 2004/05 –2007/08
Appendix 2	Report F/18/03

**Background Papers:**

The following documents/files were used to compile this report:

Report F/18/03

Government announcements of allocation of Supported Capital Expenditure 2004/05

Appendix 1

Resource Options for Additions to the Capital Plan 2004/05 - 2007/08 - January 2004

		Option 1	Option 2	Option 3
		This is the total for 4 years		
Resources		£000	£000	£000
		Minimum		Maximum
<b>"Ring Fenced" Existing</b>				
<i>Supported Borrowing</i> - already identified in the Capital Plan but unallocated to schemes				
Education	Pupil Places	3,086	3,086	3,086
Transport	LTP	1,375	1,375	1,375
<b>"Ring Fenced" New</b>				
<i>Supported Borrowing &amp; Grant-</i>				
Education	Pupil Places	3,081	3,081	3,081
	Modernisation etc.	7,664	7,664	7,664
Transport	LTP	354	354	354
	Maintenance	1,034	1,034	1,034
<i>S106 Planning Gain</i> -				
Education		209	654	654
Housing		100	383	383
<b>Total "Ring Fenced"</b>		<b>16,903</b>	<b>17,631</b>	<b>17,631</b>
<b>General New</b>				
<i>Capital receipts released</i>	Resource swap - Use of Supported Borrowing instead	0	450	450
<i>Capital receipts from disposals</i>		1,300	1,800	1,800
Less Earmarked for Education	Haldene & Scotia TCC sites	-800	-800	-800
<i>Net Capital Receipts Available</i>		500	1,450	1,450
<i>RTB Clawback</i>	Use 25% or 100%	687	2,750	2,750
<i>Supported Borrowing (Reduction)</i>	Loss for other services	-314	-314	-314
<i>Unsupported Borrowing</i>	Funded from Council Tax	0	0	1,000
<i>Earmarked reserves</i>	Torquay Harbour Reserve	40	40	40
<b>Total General</b>		<b>913</b>	<b>3,926</b>	<b>4,926</b>
<b>Net Resources</b>		<b>17,816</b>	<b>21,557</b>	<b>22,557</b>
<b>Summary</b>				
		£000	£000	£000
<b>Total "Ring Fenced"</b>		<b>16,903</b>	<b>17,631</b>	<b>17,631</b>
Of which	Education	14,040	14,485	14,485
	Transport	2,763	2,763	2,763
	Housing	100	383	383
<b>Total General</b>		<b>913</b>	<b>3,926</b>	<b>4,926</b>

**TORBAY COUNCIL**

Report No: **F/18/03**

Title: **Capital Plan Budget - Annual Review (2004/05 - 2007/08)**

To: Executive on 6<sup>th</sup> January 2004

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**1. Purpose**

1.2 The purpose of this report is to –

- (i) Report the level of borrowing for capital purposes which will be supported by the Government in 2004/05 announced through the Single Capital Pot mechanism; and
- (ii) In the light of (i) review the resources likely to be available for capital spending over the next four years and consider options for amendment and additions to the approved Capital Plan.

**2. Relationship to Corporate Priorities**

2.1 The Council's Capital Plan includes schemes which support all of the Council's Key Areas and Corporate Priorities

**3. Recommendation**

3.3 That the new resources likely to be available for capital investment over the period 2004/05 - 2007/08 be noted; and

3.4 That Overview and Scrutiny Board be asked to consider options for amendment to the Capital Plan to address the issues identified in this Report, within the range of resources recommended in paragraph 12.3, to enable their views to be considered by the Executive in February 2004.

**4. Reason for Recommendation**

4.2 The endorsement of the Capital Plan over a 4-year period within reasonably predictable resources enables forward planning of investment to be undertaken with some degree of certainty.

4.3 Consultation on options to amend the Plan is undertaken through Overview and Scrutiny Board.

**5. Background**

5.2 The current 4-year Capital Plan Budget for 2003/04 – 2006/07, last amended by Council in November 2003, is attached at **Appendix 1**. The Plan includes provision for investment of £22.38m for the years 2004/05 onwards. Under Standing Orders, budgets for years from 2004/05 onwards are currently only “approved in principal”

and are subject to funding, unless related to projects which were approved to start in 2003/04.

- 5.3 The Council should now review and roll forward its 4-year Capital Plan budget to enable forward planning of new projects. This review needs to have regard to the demand for new investment evidenced by the Capital Projects Reserve List and other known issues against the level of predicted resources.

## 8. Government Announcements

- 8.1 Supported Capital Expenditure - Guidelines announced annually by the Government through the Single Capital Pot (SCP) mechanism represent the amount of Council borrowing for capital purposes which the Government will support in the forthcoming year. Support towards the costs of borrowing up to the level of the SCP announcement is paid through the Formula Spending Share and Revenue Support Grant mechanism.

- 8.2 The table below shows the allocation for 2004/05 announced in December 2003, analysed over the sponsoring Government Service Departments who contribute to the SCP, together with the predictions used to develop the current Capital Plan. Allocations from the Department for Education and Skills and the Department for Transport have not been received at the time of drafting of this Report. These will be announced at the meeting if available.

Service	Allocation	Prediction	Change
	£000	£000	£000
Transport	Est. 2,281	2,281	0
Education	Est. 2,390	2,390	0
Housing	918	931	-13
Social Services – Adults	76	90	-14
Social Services – Children	21		+21
All Other Services	0	308	-308
<b>Total Supported Borrowing 2004/05</b>	<b>5,686</b>	<b>6,000</b>	<b>-314</b>

- 8.3 There is no “ring-fencing “ of the supported borrowing available under the Single Capital Pot. Councils are at liberty to allocate resources on the basis of their own analysis of national and local priorities demonstrated by local Capital Strategies and Asset Management Plans. **However, Government Departments have a clear expectation that “their element” will be spent on their own service. They reinforce these views through Corporate Performance Assessment (CPA) scoring.**
- 8.4 Latest information indicates that the level of “supported borrowing” has reduced by £0.314m in 2004/05 compared with expectations. This is mainly because the Government no longer identifies support for Other Services outside the national priorities. Councils are expected to meet these demands from capital receipts.
- 8.5 It should also be noted that 30% of regional resources identified for Housing have already been top-sliced and allocated via the new Regional Housing Body to the Housing Corporation for support to Housing Associations.

- 8.6 As a result of the above (pending receipt of any new information ), the Council’s predictions for “supported borrowing” in future years have been revised as follows

Service	2005/06	2006/07	2007/08	Total
	£000	£000	£000	£000
Transport	2,496	2,400	2,400	7,296
Education	717	150	0	867
Housing	942	900	900	2,742
Social Services – Adults	76	70	70	216
Social Services – Children	21	20	20	61
<b>Total Supported Borrowing</b>	<b>4,252</b>	<b>3,540</b>	<b>3,390</b>	<b>11,182</b>
Original Estimate	4,400	4,000	3,390	11,790

- 8.7 Government Grant towards Disabled Facilities Grants - Disabled Facilities Grants remain part funded from Government Capital Grant at 60% of expenditure, with Local Authorities funding the remaining 40% from their allocation of “supported borrowing” for Housing services. The Leader approached the Government office for increased support towards Disabled Facilities Grants following demonstration in 2003 that local need outstrips available budget. No announcement has yet been made on the level of Government Grant for 2004/05, which has been estimated as £255,000 for budget preparation purposes. When the announcement is received the budget may need to be reviewed accordingly.

## 9. Prudential Borrowing (“unsupported”)

- 9.1 The new Prudential Framework, described for Members in Report F/9/03 to Executive on 11<sup>th</sup> November 2003, starts from April 2004. This new freedom allows Councils to borrow money to fund their capital projects without Government restriction provided it is “affordable”. This borrowing would be over and above the “supported borrowing” figure in para. 6 above.
- 9.2 Following consideration of Report F/9/03 Executive recommended that - *A cautious approach be taken to the use of “unsupported borrowing” (because of the long-term revenue consequences of interest and principal repayments) and that consideration be given initially to the potential for funding capital schemes which will generate sustainable revenue budget savings for the future.*
- 9.3 Consideration could be given to approving some “unsupported borrowing” to fund potential capital projects where ongoing revenue savings or increased income can be sustained to cover the borrowing costs.
- 9.4 It is a reality that, with the effective “ring-fencing” of Government support for borrowing to the national priorities represented by the Single Capital Pot, it is likely that “unsupported borrowing” may be the only source of supplementing corporate funding for local services. e.g. Libraries, museums, tourism, coast protection, leisure, sports, IT and central office accommodation etc. The Access to the Coast Review Panel has highlighted this as a potential solution to issues raised by their recent review.



- 9.5 Currently a “Local Policy Growth Item” of £100,000 has been included for consideration in the draft Revenue Budget for 2004/05 to enable £1m of new borrowing to be undertaken. It is uncertain at this time whether Council, bearing in mind other competing priorities for revenue funding and the long-term budget consequences, will finally approve this item.
- 9.6 If Council approves the use of any “unsupported borrowing”, either self-funded or funded by an increase in Council Tax, the Prudential Indicators described in Report F/9/03 (including the Authorised Limit for External Debt) will need to be set to reflect this.

## **10. Capital Receipts**

### Land Disposals -

- 10.1 The current Capital Plan Budget for 2003/04 – 2006/07 identified a need to generate £3m from the sale of surplus and underused assets by the end of the Plan period. Officers are currently pursuing the disposal of a number of sites identified as surplus under the Council’s Disposal Policy. To date £1.9 has been received leaving an outstanding requirement of £1.1m to be secured before March 2007.
- 10.2 The current disposal schedule approved by Council in October 2003 could realise up to a net £2.6m if all the sites are successfully sold at open market value. This would generate potential new resources of £1.5m after the outstanding commitment to the existing Capital Plan Budget has been deducted. Because of the risks associated with disposal of some complicated sites it is recommended that only a potential increase in capital resources of **£1m** are considered at this time.
- 10.3 The issue of provision of sites for Affordable Housing also needs to be considered here. Subject to consideration of the Local Plan, the Council has the option to earmark sites in its ownership for the provision of 100% affordable housing; to ring-fence sale receipts on appropriate sites or to donate sites as subsidy “in kind” to Registered Social Landlords in support of its Housing Partnership Strategy. If the Council was to adopt such a policy this would have a bearing on the level of receipts that would be available to support other projects in the Capital Plan.
- 10.4 Members are reminded that, whilst it is reasonable for forward planning purposes to anticipate the receipt of sales income it should also be appreciated that until all the details surrounding sale transactions are agreed and contracts are exchanged with purchasers, the receipt is not certain. The Council will not contractually commit to expenditure in respect of approved projects to be funded from capital receipts until those receipts are contractually certain.

### Right-to-Buy Clawback -

- 10.5 Receipts are due to the Council from Riviera Housing Trust (RHT) as a result of the continuing sale of houses to former tenants under the Right-to-Buy. The value of these sale receipts was not taken into account in the value of the housing when it was transferred to RHT and hence the Council has a right to part of these receipts when they occur.

## 10.6 Receipts to date have been

	2002/03	2003/04	Total
	£m	£m	£m
Receipt	0.538	0.782	1.320
<b>Usable portion (25%)</b>	<b>0.134</b>	<b>0.196</b>	<b>0.330</b>

Under current rules only 25% of the receipt can be used to support new capital expenditure (the remainder being set aside as provision to repay debt). The resulting amount of £0.33m has helped to achieve capital receipt targets and has been used to supplement the Capital Plan resources generally for the benefit of all services.

10.7 Under the changes to Capital Accounting brought about by the Local Government Act 2003, from April 2004 these receipts can be used without restriction. Based upon latest information from RHT receipts of £1m are expected in 2004/05.

10.8 It is difficult to predict resources beyond this date because of potential fluctuations in lending rates and property values, but it is considered unlikely that this level will be sustained over the next few years. An estimate of £0.75m is recommended for the year 2005/06 and £0.5m p.a. for future years.

10.9 One option for use of these receipts recommended by the Housing Strategy Working Party is to recycle them directly into providing support for new affordable housing to help replace those dwellings lost through Right-to-Buy. It should be noted that Authorities who still own Housing stock are required to pay 75% of their Right-to-Buy receipts into a Government pool to be recycled nationally towards housing need.

10.10 Members will need to consider all the potential options for using these receipts including –

- Continue to voluntarily reserve 75% of the receipts to generate investment income in support of the Revenue Budget
- Use all or part of the receipts to support the Capital Plan generally
- Earmark all or part of the receipts to support Housing Associations providing Affordable Housing in Torbay
- A combination of some of the above e.g. use 75% to support affordable Housing and 25% (as now) to support the remainder of the Capital Plan

## **11. External Resources**

11.1 In addition to affordable borrowing and capital receipts there are significant resources obtained through bidding for ring-fenced Government funding, other external grants and private sector contributions. These opportunities are reported and the Capital Plan amended when bids are successful. Only assured or reasonably anticipated resources are included within available resources at this time.

- 11.2 Section 106 Planning Gain – the Capital Plan relies upon receipts from developers generated through planning agreements to support future Council costs of providing schools and other infrastructure. A Council policy for requiring lump-sum contributions towards affordable Housing as an alternative to direct provision in certain circumstances has now been developed. The potential for obtaining contributions towards Social Services schemes (e.g. Disabled Facilities Grants) is being investigated.

- 11.3 Receipts to date are –

	<b>Budget requirement</b>	<b>Received to Date</b>	<b>Excess over Budget</b>	<b>Due over next 3 years</b>
	(1)	(2)	(3)	(4)
	£m	£m	£m	£m
<i>Education</i>	0.404	0.613	0.209	0.445
<i>Housing</i>	0.000	0.000	0.000	0.383
<i>Transport</i>	0.000	0.002	0.002	0.000

Uncommitted potential resources identified in columns (3) and (4) of the Table above can be used to supplement resources available for specific schemes. There are in addition some monies accumulated in respect of other service schemes such as the Rock Walk Gardens Restoration which have not been fully developed to date. It should be noted that there are inherent risks associated with monies not yet received.

## 12. Summary of New Resources

- 12.1 There are a number of options for deciding the level of new resources available to fund additional capital investment. “Supported borrowing” has already been anticipated and it is assumed this is allocated to the services identified by the Government. At this time a range of new resources is suggested.
- 12.2 Taking into account the reservations expressed in the above paragraphs the range of new capital resources likely to be available over and above “supported borrowing” for the 4-year period 2004/05 – 2007/08 is summarised as follows –

	Minimum	Maximum
	£m	£m
<b>Ring-fenced or Earmarked</b>		
S 106 Planning Gain –		
Education	0.209	0.654
Housing	0.100	0.383
<b>Total ring-fenced</b>	<b>0.309</b>	<b>1.037</b>
<b>General</b>		
Loss of Supported Borrowing in 2004/05	(0.314)	(0.314)
Unsupported Borrowing	0.000	1.000
Capital Receipts – Land Sales	0.500	1.000
RTB Clawback	0.687 (25%)	2.750
<b>Total general resources</b>	<b>0.873</b>	<b>4.436</b>
<b>Overall Total</b>	<b>1.182</b>	<b>5.473</b>

- 12.3 A view of the risks associated with these assumptions will be taken before deciding the final level of resources which can be committed to new investment.

**13. Spending Pressures**

- 13.1 Pressures for spending against resources arise in a number of ways –

- (i) Government policy & Service pressures
- (ii) New projects on the Capital Projects Reserve List
- (iii) Demands which cannot be funded from Revenue Budgets
- (iv) Contingency for unforeseen variations and match-funding

**(i) Government Policy & Service pressures –**

- 13.2 The Government Departments have a clear expectation that national resources provided to support the costs of Local Authority borrowing should be spent in line with the allocations. i.e. on Education, Transport, Housing and Social Services. The 2004/05 allocations for Education and Transport had not been announced at the time of writing this Report. It is recommended that the Council continues its current policy of using “supported borrowing” resources in line with Government allocations.
- 13.3 Recommendations from Working Parties including the Housing Strategy Working Party and the Access to the Coast Review Panel highlight service pressures which support both national and local priorities.

**(ii) New Projects from the Reserve List –**

- 13.4 The Council’s complete Capital Projects Reserve List is attached at **Appendix 2**. This list is developed through the Prioritisation Process described in the Council’s Capital Strategy document approved by Council in 2003. The Corporate Asset Management Team, in consultation with the Executive Asset Management Group on 1st December 2003, has updated the List following scoring of a number of new projects.
- 13.5 The total value of the Reserve List is in the order of over £20m supporting investment of nearly £80m. The Bandings reflect the relative priority of projects having regard to the assessment criteria used, which includes Fit with the Council’s Key Areas and the Strategic Plan. The schemes are presented in no particular order within Bands as all are considered important.
- 13.6 Included on the list are Education and Transport projects which already have funding earmarked in the existing Plan Budget and which, subject to any further detailed consultation and scrutiny which may be required, could be promoted to the Capital Plan Budget as follows –
- **Brixham Community College Expansion £2.2m** – Expansion by 1 form of entry. Budget provision of £3m for Basic Need places already exists in the approved Capital Plan and this scheme would be first call against that sum
  - **Local Transport Plan (Public Transport, Traffic Management & Urban Transportation Projects) £1.375m** – Budget provision in line with expected

Government allocations of supported borrowing for Transport already exists in the approved Capital Plan. These 2004/05 programmes can be funded from these resources.

13.7 The list also includes a number of schemes which are awaiting the submission or the result of Bids for External Grant aid, which if successful could be promoted on to the Capital Plan with little or no match-funding demand. Examples are –

- **Goodrington Sea Wall – Repairs £0.35m** - A bid for Grant aid of £0.14m will be made in 2004. Earmarked supported borrowing may also be available from the Government to match-fund.
- **Higher Brixham Watercourse £0.962m** - A bid for Government Grant aid of £0.385m has been submitted. Earmarked supported borrowing may also be available from the Government to match-fund.
- **Brixham Primary Provision Review £1.845m and Paignton Community College project £2.086m** – the result of Bids for Government Targeted Capital grant are expected in January 2004. The match funding for these schemes could be allocated from the budget earmarked for schools in the approved Capital Plan.

There are a number of other projects where provision of match-funding will be required to support successful external Bids.

13.8 A programme of support for **Affordable Housing of £1m per annum** is included in Band “A” of the Reserve List. The local allocation of “supported borrowing” for Housing has already been “top-sliced” by the Regional Housing Body to direct funding straight to Housing Associations providing new housing in the region. The remaining allocation of “supported borrowing” for Housing is largely spent on Renovation and Disabled Facilities Grants in the private sector, which is already over-subscribed. The Council’s (£2.85m) direct support to Housing Associations using the capital receipt from the Housing Stock Transfer to Riviera Housing will be spent by 2004/05. Some further direct provision by way of grant and/or provision of sites could now be considered.

13.9 The Reserve List includes the following projects which can be partly or fully funded from existing Earmarked Reserves and which could provide some “quick wins” for low cost. Examples are –

- **Car Parks – replacement of parking machines** – Year 1 of 5 year programme
- **Waterfront Business Units – Extension to first floor unit**
- **Torquay Harbour – replacement crane**

13.10 A number of corporate and local service projects (including those recently considered by the Access to the Coast Review Panel) are also included on the List for which there are no “ring-fenced” funding sources and capital receipts or “unsupported borrowing” may be the only source of funding e.g.

- **Disability Discrimination Act works to Council properties**
- **Central Office Accommodation – additional provision ( medium term)**
- **Council-wide Computer (PC) replacement plan**
- **Princess Promenade - Structural Repairs**
- **Cliff Railway major Repairs**
- **Redgate Beach – cliff stabilisation or demolition of buildings**

13.11 The Reserve List also highlights in Band “D” a number of projects which may require investment in the future but which are not sufficiently developed to appear on the scored and costed list. These schemes may yet be a call against resources during the Plan period.

**(iii) Demands from Revenue Budgets –**

13.12 Redundancy Costs - it would be prudent at this time to reserve provision for Redundancy costs arising across all services from a number of reviews which have been undertaken or which are likely to be undertaken during the Capital Plan period. A budget of **£0.5m** is recommended at this time. Members are reminded that capitalisation of revenue costs requires Government permission and ongoing efficiency savings must be demonstrated.

13.13 Repairs & Maintenance - there are also a number of items on the Capital Reserve List which result from long-term revenue funding shortfall for Repairs & Maintenance and Renewal. If capital funding is not identified for these projects then any ongoing liability will have to be found from Revenue Budgets.

**(iv) Contingency for Unforeseen variations and Match-funding –**

13.14 The approved current Plan Budget is £47m comprising individual schemes and annual programmes. Schemes are monitored to ensure delivery within time and budget. Monitoring Reports to Executive Members and Overview & Scrutiny Board ensure that issues are detected and options considered to rectify potential budget problems early. It is nevertheless advisable to reinstate the “Contingency against unforeseen variations” of **£0.5m** following its use in 2003/04 to support the Waterfront project and the review of central Office Accommodation.

**14. Resources vs. Demand**

14.1 As would be expected demands far outweigh predicted new resources. The Reserve List alone totals over **£20m** towards which only £4.461m is already earmarked in the existing Capital Plan as follows –

- Education projects £3.086m
- Local Transport Plan projects £1.375m

14.2 It is anticipated that any additional “supported borrowing” provided through the Single Capital Pot will be allocated to those services identified by the Government.

14.3 Anticipated new corporate resources from capital receipts and “unsupported borrowing” are expected to be between **£0.873m and £4.436m** for the Plan period (see Para 10.2 above). In addition S106 (Planning gain) monies are also expected for Education and Housing purposes between £0.309m and £1.037m.

## 14.4 In summary this means -

	£m
<b>Demand -</b>	
Reserve List ( Appendix 2)	20.270
Less funding already earmarked in existing budget	(4.461)
Revenue Pressures (Para 11.12)	0.500
Contingency ( Para 11.14)	0.500
<b>Total Demand</b>	<b>16.809</b>
<b>New Resources</b>	
Minimum	1.182
Maximum	5.473

## 14.5 Some of the issues which need to be considered are -

- The Council’s ability to “afford” unsupported borrowing indicated by the level of Council Tax and the Prudential Indicators - £1m costs around £100k p.a. which is £2 on Band D Council Tax
- The risks of achieving the predicted level of capital receipts from the disposal of surplus assets and Right-to-Buy clawback
- The potential use of 100% of capital receipts for investment following the change in Capital Accounting rules
- The level of any direct Council support for Affordable Housing from capital receipts or provision of sites in addition to projected S106 (Planning Gain) income
- The potential for funding Reserve List projects which have no “ring-fenced” funding and are reliant upon corporate capital receipts or “unsupported borrowing”.
- The provision for Contingencies (£0.5m) and Redundancy costs (£0.5m)

14.6 In view of the considerable demands it is suggested that Overview & Scrutiny Board be asked to consider options to balance the demands and issues raised in Paras 11 and 12 of this Report against the range of potential new resources in para 12.3 above. This will enable their views to be considered in a further Report to Executive in February 2004 prior to Council being requested to approve any amendments to the Capital Plan.

14.7 In recommending a Capital Plan the Council will need to be mindful of the revenue consequences of the Plan. In terms of borrowing, only the cost of “supported borrowing” is met by the Government through the calculation of Formula Spending Share (FSS). The costs of “unsupported borrowing” and the effect of spending capital receipts rather than retaining them for investment purposes needs to be reflected in the Revenue Budget.

14.8 When a capital project is undertaken there may be ongoing revenue running costs which either have to be met from existing budgets or be subject to a specific budget bid. This issue is considered by services when submitting their project proposals through the Capital Prioritisation Process.

**15. Alternative Options (if any)**

13.1 A number of options for addition/amendment to the Capital Plan will be considered during the Budget development process.

**Richard Thorpe**  
**Divisional Director of Finance**

Contact Officer: Lynette Royce  
Extension: 7284



## **IMPLICATIONS, CONSULTATION AND OTHER INFORMATION**

### Part 1

These sections may be completed by the Report author but must be agreed by named officers in the Legal, Finance, Human Resources and Property Divisions. If these are not completed and agreed the Report will not be included on the agenda.

Does the proposal have implications for the following issues?

Insert name of responsible officer

Legal (including Human Rights)	The are potential legal implications of not carrying out certain projects identified on the Reserve List	Bill Norman
Financial – Revenue	Identified in the Report	Lynette Royce
Financial – Capital Plan	Identified in the Report	Lynette Royce
Human resources (including equal opportunities)	Progress of Capital schemes is dependent upon staffing resources being available to manage the disposal of surplus assets and to design and manage approved projects, particularly where external funding is obtained	Geoff Williams
Property	Investment in capital projects generally enhances the Council's property portfolio	Sam Partridge

### Part 2

Does the proposal have implications for the following issues?

Please give details as appropriate

Sustainability	Yes	Addressed at individual scheme level
Crime and Disorder	Yes	Addressed at individual scheme level
*OfSTED Post Inspection Action Plan	Yes	Capital projects support the Plan
*Social Services Action Plan	Yes	Capital projects support the Plan
*Change Management Plan	Yes	Addressed at individual scheme level

### Part 3

Does the proposal have implications for the following Directorates? If so, please inform the relevant Director.

Please give details as appropriate

Chief Executive/Corporate Services	Yes	Resources available for capital investment potentially affect all directorates
Education Services	Yes	
Environment Services	Yes	
Social Services	Yes	
Strategic Services	Yes	

Part 4

Is the proposal contrary to or does it propose amendment to the Policy Framework or contrary to (or not wholly in accordance with) the Council's budget?	Yes     ✓	
1. Details of the nature and extent of consultation with stakeholders and relevant select committees.  Consultation has been undertaken through Corporate Asset Management Team and Executive Asset Management Group. The Report will be referred to Overview and Scrutiny Board for comment. Consultation at scheme level is undertaken through Service Asset Management.		
2. Details and outcome of consultation, as appropriate.		

Part 5

Is the proposal a Key Decision in relation to an Executive function?	Yes     ✓	Reference Number X69/2003	No
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Part 6

**Wards**

All Wards

**Appendices**

Appendix 1                      Current Approved Capital Plan 2003/04 – 2006/07  
Appendix 2                      Capital Projects Reserve List – December 2003 Revision

**Background Papers:**

The following documents/files were used to compile this report:

Report F/9/03  
Report Corp/35/03  
Government announcements of allocation of Supported Capital Expenditure 2004/05  
Corporate Capital Strategy July 2003