

## TORBAY COUNCIL

Report No: **8/2005**

Title: Capital Plan Budget - Annual Review for 2005/06 - 2008/09

To: Executive

22nd February 2005

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### **1. Purpose**

- 1.1 The purpose of this report is to determine the resources available to fund new capital projects over the next four years and to recommend amendments and additions to the Capital Plan Budget for approval by Council on 3<sup>rd</sup> March 2005.

### **2. Relationship to Corporate Priorities**

- 2.1 The Council's Capital Plan Budget identifies funding for investment in assets required to support improved service delivery across all of the Council's priorities.

### **3. Recommendation(s)**

- 3.1 That, having regard to the views expressed by Overview and Scrutiny Board on 3<sup>rd</sup> February 2005, **Council at their meeting on 3<sup>rd</sup> March 2005** be recommended to –
- (i) endorse the basic principles for setting the Capital Budget presented in para 8.1 of this Report
  - (ii) approve a revised 4-year Capital Plan Budget for the period 2005/06 – 2008/09 based upon the allocation of resources presented in **Appendix 2b** to this Report

### **4. Reason for Recommendation(s)**

- 4.1 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.
- 4.2 It is considered that the proposed amendments to the Capital Plan present the best allocation of resources to enable the development of new capital projects in line with the Council's priorities, subject to the views expressed by Overview and Scrutiny Board.

### **5. Key Risks associated with the Recommendation(s)**

- 5.1 The main risks associated with reviewing the Capital Plan Budget are
- the robustness of estimates of likely resources
  - realistic assumptions of costs
  - revenue implications of new projects
  - the effect on service provision of not undertaking certain high priority projects
  - risks associated with major projects not yet reflected in the Plan Budget
- 5.2 These issues are mainly taken into account through the Capital Projects Prioritisation and Scoring process and the development of the Reserve List in consultation with Members. The Capital bidding process requires Revenue implications to be assessed and these should be taken into account in Business Plans and Revenue Budget predictions. A cautious approach is taken on assumptions of likely resources, particularly with respect to anticipated capital receipts, and a contingency budget of at least £0.5m is maintained.

- 5.3 Members are however, reminded in particular of the risks attached to external funding which has not yet been fully secured for major projects, such as the Torre Abbey Renovation project, and possible future requirements for Council capital input into projects such as Brixham Regeneration and Torbay's Waste Management Strategy. The full effect of these latter issues has not yet been quantified and will not be known until feasibility works are undertaken.
- 5.4 At this stage no contingency against these risks has been identified other than the general Capital Budget contingency which currently stands at just over £0.5m. Even though these risks are recognised, and they could materialise during the Plan period, it is considered too early in the planning process to set aside resources specifically at this time. These issues will be considered during the quarterly budget monitoring process and reviewed again prior to the next annual review of the Capital Plan Budget.
- 5.5 In overall terms the risks associated with the Capital Budget are considered acceptable within the Council's overall Risk Management Strategy.

Likelihood	6	6	12	18	24
	5	5	10	15	20
	4	4	8	12	16
	3	3	6	9	12
	2	2	4	6	X 8
	1	1	2	3	4
		1	2	3	4
		Impact			

 Low risk
  Intermediate risk
  High risk

The "x" in the above matrix denotes where the author has assessed the level of final risk to fall

## 6. Alternative Options (if any)

- 6.1 There are many options for amendment to the Capital Budget which could be considered, particularly in the light of any comments by Overview & Scrutiny Board. However, the proposals put forward are considered to be the best allocation of resources to address the Council's overall priorities.

## 7. Background

- 7.1 Report Com/1/04 to Executive on 7<sup>th</sup> December 2004 reminded Members of the current 4-year Capital Plan Budget and considered demands for additional capital investment compared with anticipated new resources over the next 4 years. The major issues raised in that Report were discussed in detail in Report 1/2005 to Overview and Scrutiny Board on 3<sup>rd</sup> February 2005.
- 7.2 The Board were asked to –
- Examine whether the basic principles used to develop the Capital Budget continue to be appropriate in the light of current demands and limited resources
  - Look at options for delivering or funding the schemes identified on the Reserve List
  - Examine whether there is scope to defer any projects in the approved Capital Plan Budget in favour of projects on the Reserve List and other demands arising from Revenue Budget pressures
- 7.3 The Board's views on these issues are presented in a separate Report to be circulated prior to the Executive meeting.

## 8. **Basic Principles for setting the Capital Budget** -

8.1 The Executive and Council established the following basic principles for setting the Capital Budget following consideration of Report F/16/04 in March 2004 –

- **Borrowing Supported by the Government** - Borrowing is undertaken at least to the level of the amount supported by the Government through the Revenue Support Grant mechanism and spending is approved broadly in line with the Service allocations determined by the Government Departments through the Single Capital Pot i.e. in support of national priorities of Education, Transport, Housing & Social Services
- **Unsupported ( Prudential) Borrowing** - A cautious approach is taken to the use of “unsupported borrowing”. Potential use is considered on a “case by case” basis in consultation with the Director of Finance. An analysis of the long-term revenue consequences and service benefits arising from each scheme is undertaken with a view to self-funding or the generation of sustainable revenue budget savings for the future
- **Use of Capital Receipts –**
  - Land disposals – receipts are pooled and used to fund projects from the Reserve List in line with the Capital Prioritisation procedure. Earmarking sites wholly for affordable housing will be considered on a site-by-site basis bearing in mind the Local Plan
  - Right-to-Buy Clawback – all of the receipts paid to the Council by Riviera Housing Trust under the Clawback Agreement are used to support new capital investment (rather than saving them to generate interest) - 50% are recycled into new affordable Housing and 50% used to support the remainder of the Capital Plan
- **Second Home Council Tax** - additional income from this source is not currently used to support capital investment (in particular the provision of new affordable homes)
- **External Funding Opportunities** - The use of any additional Government Grants or Supported Borrowing which may be offered is authorised only where consistent with the Council’s corporate priorities or statutory service objectives, the project is sustainable, and requirements for match-funding and future revenue consequences have been considered
- **Contingency for Match Funding & Unexpected Costs** - A contingency of at least £0.5m is kept to plan for these issues

8.2 The basic issues considered when these principles were established with regard to the risks and rewards for service delivery, revenue implications and the Medium Term Financial Plan, and the links to the Corporate Capital Strategy and Asset Management Plan are still relevant.

8.3 As Overview and Scrutiny Board have been asked to examine these principles it is not intended to re-visit these issues in detail in this Report. Subject to the views of the Board it is recommended that these general principles be endorsed for the current budget review.

## 9. **Review of Available Resources**

9.1 The current 4-year Capital Plan Budget (2004/05 – 2007/08) totals £60m and is attached at **Appendix 1**. Within the Budget the following amounts of anticipated Supported Borrowing are earmarked for services but have not yet been fully committed to individual projects. However, some of these budgets are earmarked for ongoing spending programmes, e.g. Home Renovation Grants, Integrated Transport and Highway Maintenance, or individual projects such as the Review of Surplus Primary Places which

have been presented to Members in principle.

<b>Unallocated Budgets from Supported Borrowing in Current Plan</b>				
<b>Service</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>Total</b>
	£m	£m	£m	£m
Children	1.107	0.293		1.400
Housing	0.482	0.482	0.482	1.446
Social Services	0.111	0.111	0.090	0.312
Integrated Transport	1.590	1.600	1.500	4.690
Highway Maintenance	0.906	0.900	0.900	2.706
<b>Total</b>	<b>4.196</b>	<b>3.386</b>	<b>2.972</b>	<b>10.554</b>

9.2 Since approval of the current budget the following new / additional capital resources have been identified –

- **Borrowing Supported by the Government - Single Capital Pot** - the Government are likely to support Borrowing of just over £23m over the next 3 years. This is an additional £10.2m compared with our expectation of £13m. An assumption of at least a further £2.7m could be made for 2008/09 on the basis of forward indications provided by the Government. The allocations are issued through the Single Capital Pot - the change in predicted allocations compared to the amount anticipated when the existing Capital Budget was approved are highlighted in the Overview & Scrutiny Board Report and summarised below, showing the sponsoring Government Departments through which the allocations are issued –

<b>New Supported Borrowing – Single Capital Pot</b>					
	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>Total</b>
	£m	£m	£m	£m	
Education		4.090	4.392		8.482
Integrated Transport	0.021	(0.157)	(0.057)	1.515	1.322
Highway Maintenance	1.417	0.250	0.273	1.232	3.172
Social Services	0.003				0.003
<b>Total new resources</b>	<b>1.441</b>	<b>4.183</b>	<b>4.608</b>	<b>2.747</b>	<b>12.979</b>

Housing allocations were confirmed in line with expectations.

- **Borrowing Supported by the Government – Separate Programme Element** - In addition to the Single Capital Pot allocations, scheme specific Supported Borrowing (Separate Programme Element) allocations totalling **£0.5m** are expected for 2005/06 and 2006/07 in support of programmed Flood Defence schemes at Brixham and Paignton.
- **Grants** - The following additional service-specific Grants have either been confirmed by Government Departments or can be anticipated –

School Modernisation (2006/07 & 2007/08)	£5.297m
Targeted Capital for Paignton Community College	£1.674m
Schools Devolved Formula Capital (2005/06 – 2007/08)	
(devolved directly to schools)	£5.571m
Environment – Paignton Flood Defence Scheme	£0.351m
Disabled Facility Grant (DFG) Subsidy	£0.276m**

\*\* A budget for DFGs of £487,000 has already been earmarked for 2005/06 in the approved Capital Plan funded from existing resources. This funding announcement will release Council resources already committed

- **Planning Gain** - Additional Section 106 Planning Gain money is expected as a result of agreements signed since the Capital Budget was approved last March. This potentially will provide an extra £0.3m for Education and £0.1m for Housing in future years when the trigger points specified in the individual agreements are reached. Transport will also benefit from £0.1m income for specific projects.
- **Capital Receipts** - as discussed in previous reports, in view of the risks of achieving the current outstanding receipts target of £1.2m it is recommended that no additional capital receipts are assumed for the purposes of this Budget review. The only exception could be to consider funding essential works to enable the Devon Learning Resource centre, due to be transferred from Devon County Council this month, to be brought into use for office accommodation. It is recommended that works up to a maximum of **£0.2m** could be funded, in anticipation of future receipts from rationalisation of current office accommodation situated around the Bay.
- **Revenue Budgets** – revenue funding for some capital schemes is already built into Revenue base budgets. On balance, in view of the limited capital resources available, it is recommended that these services prioritise their revenue budgets to retain revenue provision to fund these service priority schemes.

9.3 In summary this provides funding of **£38.547m** over the next **4 years** for addressing current demands as follows –

<b>Total New &amp; Unallocated Resources</b>					
	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>Total</b>
	£m	£m	£m	£m	
Supported Borrowing – existing unallocated	4.196	3.386	2.972		10.554
Supported Borrowing - new	1.885	4.239	4.608	2.747	13.479
Grants	3.404	5.040	4.725		13.169
Planning gain & other external contributions	0.100	0.300	0.100		0.500
Capital Receipts		0.200			0.200
Base Revenue Budgets	0.495	0.150			0.645
<b>Total new resources</b>	<b>10.080</b>	<b>13.315</b>	<b>12.405</b>	<b>2.747</b>	<b>38.547</b>

**Appendix 2a** lists these resources in detail.

9.4 **Release of existing resources earmarked for approved schemes** - Overview & Scrutiny Board have considered a list of schemes in the current Plan Budget which are not yet contractually committed. Given that only those schemes which support the Council's corporate priorities are promoted onto the Capital Plan and subject to the views of Overview & Scrutiny Board, no assumption of deferring or deleting existing schemes from the Capital Plan has been incorporated in the proposals for amendment to the Budget put forward in this Report.

## **10. Proposals for amendment/ addition to the Current 4-year Capital Plan Budget**

10.1 The current demands for new and continuing programmes of capital investment have been highlighted in previous Reports and are summarised again below –

- **Reserve Schemes** - The latest Capital Projects Reserve List alone identifies schemes in excess of £21m. The List ( attached to Executive Report Com/1/04) is summarised by service in the table below

<b>Service</b>	<b>£m</b>
Children's	2.717
Culture, Libraries & Leisure	3.470
Housing	1.800
Social Services – Adults & Children	1.920
Transport	1.590
Environment	7.101
Torbay Development Agency	1.160
Corporate & Cross-service Issues	2.015
<b>Total in Bands A,B &amp; C</b>	<b>21.773</b>

- **Match-funding & Contingencies** - There are potential demands for match-funding and shortfalls in partnership funding for major projects, being developed in particular by the Torbay Development Agency, which are not sufficiently progressed to quantify at this time but which could run into **£millions**. Examples are Brixham Regeneration, implementing the Torbay Waste Strategy and the Torre Abbey Renovation project.
  - **Revenue Pressures** – Members will be aware from development of the Revenue Budget and the predictions in the Medium Term Financial Plan that the potential cost of staff reductions and redundancies required to meet Revenue Budget targets cannot be funded immediately from Revenue sources. In addition other initiatives such as the creation of the Adult's Trust and proposals to manage Surplus School Places may well result in further staff cost implications. These costs, which could be as much as **£1.5m**, cannot be met unless capital resources are found to enable the effect to be spread over more than one year. Members are reminded however, that Government permission is required to fund these costs from capital resources and therefore any proposal to use capital resources is subject to risk. Generally permission is only given to capitalise statutory costs alone and long term benefits must be demonstrated.
- 10.2 In order to address these demands, a number of suggestions to fund Reserve List projects and other priority issues were presented to Overview & Scrutiny Board. These suggestions are incorporated into the detailed proposals for allocation of capital resources presented to Executive in **Appendix 2b**.
- 10.3 Amongst other things, the Board were asked to consider in particular how capital funding could be found for cross-service issues such as provision of office accommodation, redundancy and core IT costs. Whilst Unsupported Borrowing could be used for this purpose this course of action is not recommended because of the adverse revenue budget implications.
- 10.4 It is proposed that these costs are allocated across front-line service budgets reflecting the cross-service infrastructure they provide, and that Supported Borrowing is used to fund them. This is consistent with Council policy of using Single Capital Pot resources in line with Service allocations determined by the Government Departments.
- 10.5 At this time it is anticipated that Redundancy and IT costs of approx. £1.6m will need to be funded in the current Plan period and all services will need to take this into account when planning their direct investment programmes and reporting Asset Management Plans to their respective Government Departments.
- 10.6 **In view of the uncertainty of the final cost of the redundancies at this time it is recommended that the allocation of these costs across the strategic Directorates be determined by the Director of Finance in consultation with the Leader of the Council and the Strategic Directors when final costs are more certain.** In proposing this

allocation, the Director of Finance will take in to account evidence of pressing service needs compared with other sources of finance that services have available to supplement corporate funding, such as external contributions and grants.

10.7 The proposals presented in **Appendix 2b** make the following assumptions –

- Over £9m of Reserve List projects will be added to the Capital Budget over the next 4 years, in addition to confirmation of existing programmes
- Use of new Grant funding will enable a further £10.5m investment in school buildings & facilities
- No schemes on the existing Plan are deferred or deleted in favour of new additions
- The Cross-service benefit of redundancy and IT costs will be allocated across Strategic Directorates and funded from Supported Borrowing resources available over the next 3 years
- Depending upon when resources are allocated to fund "all-service" redundancy and IT costs, there is likely to be a cash flow gap in the years 2005/06 - 2008/09 which may require the temporary use of Unsupported Borrowing. In reality it is more likely that any cash flow deficit will be met from slippage, or from the use of internal funds and advance grant receipts and will have little impact on the revenue budget for interest payments
- No other use of Unsupported Borrowing is identified - Services are continuing to investigate self-funding and invest to save schemes, in consultation with the Director of Finance, in line with the Council's approved policy
- The revenue costs resulting from the capital investment, including any future running costs, have been identified in Revenue Budgets and will be reflected in the Medium Term Financial Plan
- The main risks and rewards of the proposed allocation of resources are as identified on the Appendix 2b

10.8 Subject to the views of Overview & Scrutiny Board, Executive are asked to consider the proposed allocation of new and unallocated capital resources for recommendation to Council.

## **11. Impact on the Revenue Budget & Draft Prudential Indicators**

- 11.1 As stated above, the revenue running costs of proposed schemes will have been assessed during the Capital bidding process. Where costs cannot be contained within existing revenue budget finance a revenue budget pressure will have been identified in the papers already presented to Members as part of the Revenue Budget setting process. Members will be aware, for example, that the revenue costs of the introduction of Leisure Cards are being supported through the Community Revenue Budget development process.
- 11.2 The cost of undertaking the additional Borrowing identified in the Report is also reflected in the Draft Revenue Budgets presented to Members and in the proposed Treasury Management Annual Report. i.e. The effect of these investment proposals does not present an additional call upon the draft 2005/06 Revenue Budgets (and potential level of Council Tax) already under consideration.
- 11.3 The Council will be asked to formally set its Prudential Indicators, including the Authorised and Operational Boundaries for External Debt, at its meeting on 3<sup>rd</sup> March 2005. At this time DRAFT "affordability" Indicators are presented below, which give an indication of the effect

of the proposals for increasing the Capital Budget laid out in Appendix 2b.

➤ **Incremental impact of capital investment decisions on Council Tax**

This is the estimate of the incremental effect on Council Tax of the capital investment decisions being recommended to Council over an above the existing Capital Budget previously approved. It demonstrates the “costs” of decisions to increase the Capital Budget, which are included in the Council Tax (Band D).

	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
<b>Incremental impact of capital investment decisions on Council Tax</b>	<b>minus £28.69</b>	<b>minus £25.33</b>	<b>minus £17.35</b>
<b>% of current Band D Council Tax</b>	<b>2.5%</b>	<b>2.2%</b>	<b>1.5%</b>

This indicator is calculated by comparing the revenue cost of the existing Capital Budget with the estimated cost of the proposed new Budget. It does not imply that Council Tax has to be “increased or decreased” by this amount but it indicates how much of the proposed Band D Tax represents the marginal cost of new investment.

The “**negative impact**” shown reflects the proposed use of capital resources to fund redundancies which will result in significant reduction in future annual Revenue Costs.

The calculation includes –

- Annual interest costs of new Borrowing at approx. 4.65%
- Estimated increase or savings on revenue running costs arising from new assets

The calculation does not include Government support towards the costs of Borrowing paid through Revenue Support Grant (usually approx 70%)

➤ **Ratio of Financing Costs to Net Revenue stream**

This indicator shows how much of the net Revenue Budget is used to pay the costs of borrowing and other credit - net of investment income. The change year on year shows the effect that capital investment has upon the overall financial strategy of the Council.

As capital projects take time to complete the effect on the Revenue Budget builds up over time. i.e. the full year effect of spending in 2005/06 is not felt until 2006/07 and so on.

This indicator cannot be finally calculated until the Revenue Budget is agreed – an estimated figure of £149m is used for this purpose

	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
<b>Ratio of Financing Costs to Net Revenue stream</b>	<b>% 4.67</b>	<b>% 5.06</b>	<b>% 5.50</b>

In calculating this indicator the following additional assumptions are made –

- The costs of Borrowing are consistent with the Operational Boundary for External Debt
- Investment income assumptions are consistent with the Treasury Management Strategy
- Payment to Devon County Council for debt administered by them but “transferred” to this Authority in 1998 is reflected in the calculation
- The calculation specifically excludes the support provided by the



Government through the Revenue Support Grant towards Borrowing costs. (usually approx. 70% )

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**Director of Finance**

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## IMPLICATIONS, CONSULTATION AND OTHER INFORMATION

### Part 1

These sections may have been completed by the Report author but must have been agreed by the named officers in the Legal, Finance, Human Resources and Property Divisions.

Does the proposal have implications for the following issues? If "Yes" - give details. <i>delete as appropriate</i>		Name of responsible officer
Legal	There are potential legal implications of not carrying out certain projects on the Reserve List	Bill Norman
Financial – Revenue	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. The risk of not being able to capitalise the cost of potential redundancies will have a serious effect on the Revenue Budget.	Lynette Royce
Financial – Capital Plan	As detailed in the Report	Lynette Royce
Human resources	Progress of Capital schemes is dependent upon funding 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	Chris Sexton

### Part 2

The author of the report must complete these sections.

Could this proposal realistically be achieved in a manner that would more effectively: <i>delete as appropriate</i>		
(i)	promote environmental sustainability?	No
(ii)	reduce crime and disorder?	No
(iii)	promote good community relations?	No
(iv)	promote equality of opportunity on grounds of race, gender, disability, age, sexual orientation, religion or belief?	No
(v)	reduce (or eliminate) unlawful discrimination (including indirect discrimination)?	No

If the answer to any of the above questions is "Yes" the author must have addressed the relevant issue/s in the main report and have included a full justification and, where appropriate, an impact assessment.

### Part 3

The author of the report must complete this section.

	<i>delete as appropriate</i>	If "Yes", give details
Does the proposal have implications for any other Directorates?	Yes	The Capital Budget impacts upon all directorates and services within the Council

### Part 4

Is this proposal in accordance with (i.e. not contrary to) the Council's budget or its Policy Framework?		<i>delete as appropriate</i>
		No
1.	If "No" - give details of the nature and extent of consultation with stakeholders and the relevant overview and scrutiny body.  Consultation has been undertaken through Corporate Asset Management Team and Executive Asset Management Group. Overview and Scrutiny Board has provided its comments to Executive. Consultation at scheme level is undertaken through Service Asset Management	
2.	If "Yes" - details and outcome of consultation, if appropriate.	

### Part 5

Is the proposal a Key Decision in relation to an Executive function?	<i>delete as appropriate</i>	If "Yes" - give Reference Number
	No	

### Part 6

#### **Wards**

All Wards

#### **Appendices**

- Appendix 1 Current 4-year Capital Plan Budget
- Appendix 2a Proposals for Revision to the Plan – Assumed New & Unallocated Resources
- Appendix 2b Proposals for Revision to the Plan – Proposed Allocation of Resources

#### **Background Papers:**

The following documents/files were used to compile this report:  
Report F/16/04, Report F/63/04, Report Com/1/04, Report 1/2005