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Date: FriMonday, 29 January 2018

Governance Support
Town Hall
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Dear Member

COUNCIL - THURSDAY, 1 FEBRUARY 2018

I am now able to enclose, for consideration at the Thursday, 1 February 2018 meeting of the Council, the following reports that were unavailable when the agenda was printed.

Yours sincerely

June Gurry
Clerk

Council 1 February 2018 – Public Question

End Conscious Cruelty in Torbay Charter

Tories pursuing policies of conscious cruelty have lost the trust of Torbay people. We will no longer tolerate homelessness, extortionate rents, insecure tenancies, the bedroom tax, benefit sanctions, insecure, low-paid work, privatisation or cuts to services.

We, the people of Torbay, affirm our solidarity with the victims of the Grenfell Tower atrocity along with every other community in Great Britain suffering under Tory rule. We affirm our solidarity with communities all over the world who suffer from war, famine, destruction of communities and environmental destruction caused by rapacious capitalist interests. We look forward to a political, social and economic revolution which will end poverty and wars waged in the interests of the rich.

We demand from our elected local representatives:

1) An emergency budget, to be published by February 20th 2018, which will make funds available to end homelessness in Torbay;
2) By February 20th 2018 Torbay Council must pronounce policies designed to meet the above demand. A starting point, a litmus test for the sincerity of Torbay councillors, will be scrapping the consciously-cruel notion of "intentionally homeless." Only a born bureaucrat who has never experienced the terror of having no shelter for the night could believe anybody intentionally makes themselves homeless;
3) Torbay Council must enact a "fair rents" policy by February 20th 2018, which enshrines that rent "top-ups" are abolished from that date. This means that either rents are brought down to the amount covered by housing benefit or that Torbay Council increases housing benefit payments to cover the rents demanded by landlords;
4) By February 20th 2018 Torbay Council must declare its intention to begin building high-quality, council-owned housing for rent. This to be done in full consultation with those on the housing waiting list so that different needs are adequately catered for.
5) By February 20th 2018 Torbay Council must declare war on rogue landlords who unfairly evict tenants and keep properties empty. A policy of requisitioning and/or compulsorily purchasing such properties must be announced by the same date;
6) By February 20th 2018 Torbay Council must end the enforcement of the Bedroom Tax. Furthermore, it must scrap rent debts accumulated under this consciously-cruel measure;
7) People in need as a result of benefit sanctions must be provided for by Torbay Council. Victims of benefit sanctions must be given food, rent and utilities money. This will be an incentive for Torbay Council to pressurise the consciously cruel national government to end the practice of benefit sanctions.
8) By February 20th 2018, Torbay Council must have taken immediate steps to replace the inhumane use of Bailiffs to recover Council Tax

arrears. Most people cannot pay because they do not have it after rent and very high costs of basic amenities. A more humane approach is urgently needed as trialled by other Councils across the country.

Unless action is taken on these above points, we the people of Torbay will keep protesting and then seek to replace you with all Anti Cuts and Austerity Councillors who have a working moral compass towards an area as tragically deprived in such a consciously cruel way as Torbay has been in recent years; Cuts and austerity have been implemented by a heartless Conservative government, now being daily exposed for the sham that they are and executed by a Conservative council who clearly appear to not care for the people who need them the most.
The well off of Torbay does not even need a council but for the poor, it keeps them alive. Torbay and its residents are in the state it is in because of you and now you must put it right or leave.

Nick Slater

Meeting: Council **Date**: 1 February 2018

Wards Affected: All Wards

Report Title: Budget Monitoring 2017/2018 – Quarter Three (revised report)

Is the decision a key decision? No

When does the decision need to be implemented? n/a

Executive Lead Contact Details: Elected Mayor Oliver, mayor@torbay.gov.uk

Supporting Officer Contact Details: Martin Phillips, Head of Finance, Martin.phillips@torbay.gov.uk, 01803 207285

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1. Purpose and Introduction

1.1. This report provides a high level budget summary of the Council's revenue and capital income and expenditure for the financial year 2017/18.

1.2 As at the end of quarter three 2017/18 the Council's **Revenue** budget is predicting an over spend of £2.5m primarily as a result of expenditure pressures in children's social care. This level of overspend is a cause for concern and has been reflected in the Elected Mayor's budget proposals for 2018/19 which were published in October 2017 and has been considered for the Elected Mayor's final Budget Proposals to Council in February 2018. In the absence of any compensating savings in other services the Council will need to identify options to fund the over spend. The 2018/19 Review of Reserves report addresses this issue.

1.3 The **Capital** Plan budget totals £329million for the 4 year programme, with £135 million currently scheduled to be spent in 2017/18, including £99 million on Investment Fund acquisitions. The Capital Plan requires £0.9 million from (new) capital receipts and capital contributions over the life of the Plan

1.4 Appendix 2 is an expanded narrative of the **capital schemes** expected to incur expenditure in 2017/18 with a specific update for each project. This aims to provide members with greater oversight of the progress on capital projects rather than a focus exclusively on financial issues.

2. Recommendation (s) / Proposed Decision

2.1 That the forecast 2017/2018 revenue budget position be noted.

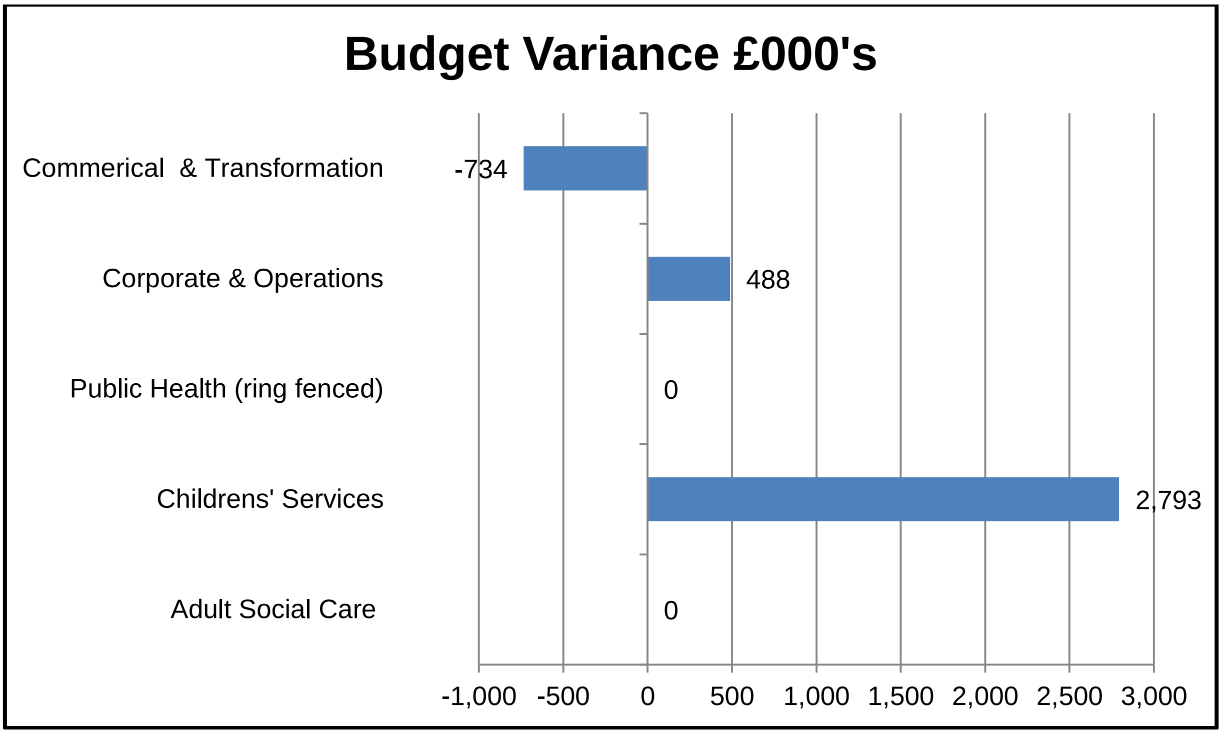
2.2 That the latest position for the Council's Capital expenditure and funding for 2017/2018 be noted.

3. **Reason for Recommendation/ Proposed Decision**

3.1 Report for review and information.

4. **2017/18 Revenue Budget Summary Position**

4.1 As at Quarter 3 the Council's revenue budget is predicting an over spend of £2.5m, primarily as a result of issues in Children's Services, offset in part by under spends or additional income on other services. A bar chart summarising the projected budget variance by service for 2017/18 is as follows:



The budgets are presented in line with the new Council management structure that was applicable from November 2017. There is likely to be further "housekeeping" revisions to the structure as it develops.

<u>Children's Services</u>

4.2 The Children's Services' Medium Term Financial Strategy (MTFS) focuses on bringing the two main areas of expenditure – placements and staffing, in line with comparators over time. Our spending on placements is projected to be above last year's outturn. Overall our Children Looked After population is broadly static which is in contrast to the national position which is showing year on year growth. Although placement numbers remain broadly constant over the past year the average cost per new placement is often higher, from both complexity of placement and higher cost per placement due to scarcity in the national supply of placements. The staffing outturn for the current year is still projected to be broadly in line with last year's outturn and has been affected by investment to stabilise the Social Care workforce and ensure that children were not subject to repeated change in their allocated Social Worker.

4.3 As previously reported the schools' higher needs block in the Dedicated Schools Grant has been under financial pressure as a result of an increasing level of referrals from schools for higher needs support for children resulting in an over spend in 2017/18 of £1.2m. The Council does not receive any funding for schools therefore the over spend will remain in the DSG to be funded in future years and is not a cost the Council will fund. The Council will continue to work directly with schools to jointly work on a solution to this issue.

Investment Property

4.4 In the third quarter 2017/18 the Council purchased another investment property for £31m at a yield of 5.5%.

4.5 Detailed Position

The budget position for each service is shown in the table below:

Service	2017/18 Budget			Forecast Full Year Variance
	Expenditure £000s	Income £000's	Net £000's	£000's
Adult Social Care	49,539	(10,479)	39,060	0
Children's Services	77,467	(48,741)	28,726	2,793
Public Health	11,115	(1,479)	9,636	0
Joint Commissioning	**138,121**	**(60,699)**	**77,422**	**2,793**
Business Services	23,450	(17,964)	5,486	168
Community Services	10,736	(1,433)	9,303	110
Corporate Services	5,769	(1,548)	4,221	290
Customer Services	73,716	(70,225)	3,491	150
Investment Properties	3,517	(4,281)	(764)	(230)
Corporate Services and Operations	**117,188**	**(95,451)**	**21,737**	**488**

Business Development	11,073	(2,414)	8,659	(90)
Financial Services	18,934	(16,971)	1,963	(644)
Transformation	727	(421)	306	**0**
Commercial Services and Transformation	**30,734**	**(19,806)**	**10,928**	**(734)**
Gross Revenue Budget	**286,043**	**(175,956)**	**110,087**	**2,547**
Sources of Funding	-	(110,087)	(110,087)	(11)
Net Revenue Budget	**286,043**	**(286,043)**	**0**	**2,536**

A narrative of the position in each service area is as follows:

Service	Variance to Budget £m	Main Variances in 2017/18
Adult Social Care	0	Fixed payment agreed with ICO for 2017/18
Children's Services	2.8	As paragraph 4.2 above
Public Health	0	Ring fenced budget
Commercial Services and Transformation	(0.8)	Expected savings in pension payments (both discretionary and deficit related) based on expenditure profile to date, the release of a number of contingency budgets and lower than expected waste tonnages.
Corporate and Operations	0.5	Projected over spend on coroner, legal services, elections and spatial planning, offset by additional confirmed investment properties to date. Income shortfall in printing offset in part by salary savings in exchequer and benefits. Income budgets not being achieved. Projected over spends on events, CCTV, and Torre Abbey. Offset by salary, housing options and temporary accommodation savings. Also included are savings from the new contract with Parkwood Leisure for Torbay Leisure Centre and the Velopark.
Sources of Funding	0	
Total	**2.5**	Projected over spend

4.6 Risks & Sensitivity

4.7 The predictions for the full year outturn in this report are based on nine months of financial information and will be subject to changes in both assumptions and demand.

4.8 Historically the Council's overall position improves in the last quarter of the year as actual expenditure and income for the year is finalised and impact of some future year savings are realised in year.

4.9 There are a number of financial risks facing the Council. Key risks are shown below:

Risk	Impact	Mitigation
Achievement of approved savings for 2017/18	Medium	17/18 Budget monitoring and "saving tracker" monitored by senior staff.
Potential impact and costs of judicial review for care home fees	Low	Judgement in Council's favour – October 2017
Risk that current ASC/ICO proposals are not formally agreed.	Low	The 3 bodies of CCG, ICO and Council have signed a revised risk share which caps council risk
Achievement of Childrens' Services cost reduction plan	High	Regular monitoring of performance and recovery plan.
Identification, and achievement, of £17.4m of savings for 2018/19 to 2020/21 per Medium Term Resource Plan April 2017	High	Transformation Team set up to coordinate the implementation of potential transformation savings. Elected Mayors 2018/19 budget proposals released in October 2017
Additional demand for services particularly in childrens' social care	High	17/18 Budget monitoring, use of service performance data and recovery plan.
Investment Property Income changes	Low	Regular review of income and tenant negotiation

5. 2018/19 Budget Process

5.1 The Elected Mayor presented his budget proposals for 2018/19 as planned on the 23rd October 2017 for consultation. The 2018/19 budget will be presented to Council for approval in February 2018.

5.2 The Elected Mayor's 2018/19 budget proposals are available on the Council's website:

http://www.torbay.gov.uk/council/finance/budget/budget-201819/

6. Balance Sheet issues

Borrowing

6.1 Since end of September 2017 the Council has borrowed a further £50m, primarily to fund investment property acquisitions. Total borrowing as at 31st December 2017 was £273m.

Council Subsidiary Companies

6.2 The Council has interests in a number of companies. The financial performance for 2016/17 of these companies is included in the Council's statement of accounts (link below).

http://www.torbay.gov.uk/council/finance/statement-of-accounts/

6.3 The Council has now set up Torbay Housing Company Ltd for the aim of buying domestic dwellings for rent in line with the Council's housing strategy.

6.4 The TDA has also set up two new trading companies for their commercial activities. These are currently not trading.

6.5 All of these companies form part of the Council's group boundary, therefore Members should be aware of the assets and liabilities of these companies.

Debtor – Write offs

6.6 The total value of debtor write offs in the third quarter of 2017/18 was:

Service	Number of records written off	Value of write offs £000's	Number over £5,000
Council Tax	697	257	0
NNDR	30	126	6
Housing Benefit	162	51	0

7. Capital Plan Summary Position

7.1 The Capital Plan Budget has been updated for any further revision to both projects and timing, resulting in the latest revision attached at Appendix 1. The Plan now totals £328 million over the 4 year period of which £135 million relates to 2017/18 and £138 million relates to 2018/19.

7.2 The movements in the estimate of expenditure in 2017/18 on the Capital Plan between the last monitoring report at September 2017 of £104.0m and the current budget for 2017/18 of £134.8 m are shown below.

Scheme	Changes £m	New Schemes £m	Reason
Budget changes since last report (Q2 2017/18 - £104.0m)			Capital Plan Update – 2017/18 Quarter 2 (Report 7 Dec 2017)
Protecting Children:			
Early Years – Ellacombe Nursery	(0.2)	0	Delayed start so part budget moved to 2018/19
New Paignton Primary School	(0.5)	0	Site acquisition delayed by funder's requirements.
Relocate Torbay School	(0.6)	0	Delay in decision on relocation options.
More Prosperous Torbay			
Investment Fund	31.5	0	Further site approved and purchased
Oxen Cove Landing Jetty	(1.9)	2.0	New landing facility Rephased to reflect likely spend
Oxen Cove Shellfish Facility- design work	(0.3)	0.4	Preparatory design work pending grant application. Reprofiled budget to 18/19
Town Centre Regeneration Programme	(24.0)	25.0	Council Oct 17 approval. Rephased budget to future years.
Transport Integrated Transport Schemes	1.4 (1.8) (0.3)	0	Budget from future years Part budget used to fund Western Corridor work. Rephased to 2018/19
Transport – Western Corridor	(0.7)	0	Latest estimate of work
Attractive and Safe place			
Public Toilets Modernisation Programme	(0.9)	1.0	Agreed by Council as part of new contract proposal Costs likely to spread over 3 years
Corporate Support			
Corporate IT Developments	0.2	0	Part budget brought forward from future years
Office Rationalisation – Electric House	(0.2)	0.7	Refurbishment works Part budget transferred to next year
Estimate – Quarter Three 2017/18, total £134.8m	**1.7**	**29.1**	

8 Updates to Capital Plan:

8.1 Protecting Children

8.2 There are a number of projects in Childrens' services where some expenditure has been re profiled to move funding between years to reflect latest expenditure projections:

- Early years – Ellacombe - £0.25m budget has been moved to 2018/19 as a result of a delayed start on site

- New Paignton Primary school - £0.48m budget rephased to next year as site acquisition is delayed by funder's requirements.

- Relocate Torbay School - £0.6m budget moved to 2018/19 awaiting decisions on relocation options.

8.3 More Prosperous Torbay

8.4 Claylands redevelopment – approval to utilise a further £0.4m prudential borrowing (to a total of £7.9m) on this project was agreed at Council in October and the budget has been revised in the Capital Plan to reflect this change.

8.5 Investment Fund – the 2017/18 budget has been increased by a further £31.5m to reflect the acquisition of a site approved by Council, to be funded by prudential borrowing. The balance of the approved £200m budget is now held in 2018/19 for further purchases.

8.6 Oxen Cove Landing Jetty – Council approved this scheme to provide additional landing facilities primarily for local shellfish at Oxen Cove. The estimated project cost is £1.9m funded from external grant and prudential borrowing. Whilst some budget has been left in the current financial year it is anticipated that most expenditure will be incurred next year.

8.7 Oxen Cove Shellfish Facility – approval was given by Council on 7 December 2017 to commission preparatory design work for this scheme at a cost of £0.4m. This should enhance a funding bid to provide resources along with some prudential borrowing for additional shellfish processing facilities, subject to a further report to Council.

8.8 Town Centre Regeneration Programme – as agreed by Council 19 October 2017 a total £25m prudential borrowing budget has been added to the Capital Plan spread over current and future years. Individual projects within this overall programme to be agreed by specified officers and members before draw down of prudential borrowing is approved.

8.9 Transport - Integrated Transport Programme. In accordance with previous Council decisions regarding the use of the Integrated Transport Block budget, £1.8m of the funding has been transferred to support the ongoing improvements along the Western

Corridor. In addition £0.3m of the budget has been moved to next year reflecting likely expenditure levels of individual schemes, primarily Fleet Walk improvements.

8.10 Transport – Western Corridor. – This scheme is mainly funded from Local Enterprise Partnership (LEP) grant and in view of the increased costs of these road improvements a further £1.8m has been added to the budget to support this project. These resources are transferred from the Integrated Transport block. The LEP have also agreed to transfer £0.95m of its grant funding from the Torquay Gateway project to the Western Corridor scheme, and the budgets have been revised in the Council's Capital Plan accordingly. There has also been some adjustment of the budgets between years following a review of likely expenditure patterns, for both the Western Corridor and Torquay Gateway projects.

8.11 Attractive and Safe Place

8.12 Public Toilets Modernisation Programme – as part of the agreement with the new service provider, a programme of works to update the public toilets in the Bay will be undertaken over the next two or three years. The improvements are estimated to cost a total of £1.032m and will be funded by prudential borrowing, as agreed at Council on 7 December 2017.

8.13 Torquay Town Dock pontoon replacements – The agreed scheme is now expected to cost slightly more than initially estimated and an additional £0.04m will be funded from the Harbours Reserve.

8.14 Supporting Vulnerable Adults

8.15 Adult Social Care – an increased Government Disabled Facilities Grants allocation of £0.122m has been awarded

8.16 Corporate Support

8.17 Corporate IT Developments – The 4 year budget has been reprofiled to support the urgent need to replace outdated ICT Infrastructure equipment; upgrade Microsoft Software; and also to support some additional costs associated with the ORP office move project and Agile/flexible working. A further estimate of £1m will be required to fund potential further improvements to ICT infrastructure items for 2019/20, 2020/21.

9 Receipts & Funding

9.1 The funding identified for the latest Capital Plan budget is shown in Appendix 2. This is based on the latest prediction of capital resources available to fund the budgeted expenditure over the next 4 years.

10. Grants

10.1 Since the last Capital update (Quarter 2 2017/18) reported to Council in December 2017, the Council has been notified of the following capital grant allocation:

- Dept. for Communities and Local Government – Disabled Facilities Grants additional 2017/18 allocation £0.122m.

The DCLG (now MHCLG) recently announced this additional allocation but there are strict requirements attached to this grant including that it is used by 31 March 2018. It can be used on DFGs or other social care capital projects.

11. Capital Receipts

11.1 The approved Plan relies on the use of £3.4m capital receipts. The Council already holds a capital receipts reserve of £2.1 m at 31 March 2017 and a further £0.4m was received by the end of December 2017, leaving a target of £0.9m still to be achieved.

12. Capital Contributions – S106 & Community Infrastructure Levy

12.1 Income from Section106 capital contributions so far in 2017/18 amount to £0.3 million.

Appendices:

Appendix 1 Capital Plan expenditure and funding summary – Quarter Three 2017/18

Appendix 2 Capital Plan 2017/18 – Performance Summary

TORBAY COUNCIL

Meeting: Council **Date:** 8 February 2018

Wards Affected: All

Report Title: Revenue Budget 2018/2019

Is the decision a key decision? Yes

When does the decision need to be implemented? Immediately

Executive Lead Contact Details: Gordon Oliver, Elected Mayor and Executive Lead for Finance, 01803 207001, mayor@torbay.gov.uk

Supporting Officer Contact Details: Martin Phillips, Head of Finance, 01803 207285, martin.phillips@torbay.gov.uk

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1. Proposal and Introduction

1.1 The Council has a statutory responsibility to set a budget each year. By setting and approving the net revenue budget for 2018/2019, the budget allocations proposed and the expenditure undertaken will be used to achieve a range of objectives across a number of plans within the Council. This will meet the ambitions expressed within the Corporate Plan and other related strategies.

1.2 In accordance with the Council's Constitution, Members are asked to either confirm their agreement to the recommended budget or put forward objections, and then any amendments for consideration at future meetings.

1.3 Within the budget setting process, the Chief Finance Officer must statutorily provide advice as to the robustness of the budget and this report sets out this opinion.

2. Reason for Proposal

2.1 The Council has a statutory responsibility to set a revenue budget each year.

3. Mayor's Budget Proposal

3.1 That the proposals identified for service change, income generation and efficiencies in 2018/2019, as set out in the Elected Mayor's Response to Consultation and the Draft Revenue Budget Digest, be approved.

3.2 That the net revenue expenditure of £112.006m resulting in a Council Tax requirement of £65.477m for 2018/2019 (a 5.99% increase in Council Tax which includes a 3% increase specifically for adult social care) be approved.

3.2 That, in relation to 3.2 above, the Council's commitment (by a statement signed by the Chief Financial Officer) to allocate the additional funding of £1.851m raised by the 3% increase in Council Tax to adult social care be confirmed.

3.3 That the Dedicated Schools Grant be used in accordance with the Schools Financial Regulations and that the Chief Finance Officer be authorised to make amendments as required when the final figures are confirmed.

3.4 That the proposed Fees and Charges for 2018/2019 be approved.

3.5 That, in accordance with the requirement of the Local Government Act 2003, the advice given by the Chief Finance Officer with respect to the robustness of the budget estimates and the adequacy of the Council's reserves (as set out in the report) be considered and noted.

3.6 That it be noted that Brixham Town Council has yet to set its budget for 2018/2019 and this precept, when known, will be included as part of the Torbay Council budget for Council Tax setting purposes.

4. Background Information

4.1 The Elected Mayor has published his Budget Proposals and these have been circulated to all Members of the Council. All Members have also been provided with copies of the supporting information which has been published alongside the Budget Proposals:

- Chief Financial Officer's Report
- Revenue Budget Digest 2018/2019 (including the proposals for service change, income generation and savings)
- Fees and Charges 2018/2019
- Equality Impact Assessments

5. Robustness of the budget estimates

5.1 Key to budget setting is the robustness of the budget proposals, which is linked to both service demands and the risks associated with those services. A number of assumptions have been made in the development of the budget for 2018/2019 in order to mitigate against the risks. A number of specific risks and their mitigation are shown below:

Risk	Risk Rating	Mitigation
Inability to deliver a balanced budget over the next three financial years	High	Annual Planning cycle for budgeting supported by the transformation programme.
Identified budget reductions for 2018/2019 are not achieved	Medium	Monthly monitoring of current year financial position by Senior Leadership Team including a "savings tracker". Contingency budget of £0.250m in 2018/19 revenue budget. Directors, Executive Heads and all managers have a responsibility to ensure

Risk	Risk Rating	Mitigation
		they maintain their spend within the approved budget allocation. The Council also has in place a series of regular revenue and capital monitoring reports, which are presented to the Overview and Scrutiny Board and the Council which review the budget on a quarterly basis throughout the financial year, which mitigates against the risk of inadequate financial control.
Overspend against the proposed 2018/2019 Children's Services budget	High	Director of Children's Services (DCS) has a service improvement plan and MTFS that is being implemented, supported by a range of monitoring and performance arrangements. 18/19 Childrens' Services Budget re based to current spend levels 18/19 Childrens Services' budget includes a contingency for future demand and cost pressures.
Change period for a new DCS under new partnership arrangement for Childrens' Services with Plymouth	High	Need to ensure new (shared) DCS has sufficient capacity and support. Need to ensure new DCS continues service improvement plan and MTFS.
Overspend against the proposed 2018/2019 Adult Social Care budget	Low	Revised Risk Share in place in which Council pays an additional fixed payment with no exposure to any over or under spends.
Volatility of NNDR Income	Medium	Provision for appeals and non-collection included in 2018/19 NNDR income estimate. As part of a Devon wide pilot with other Council, the risks and rewards are shared in 2018/19.
Insufficient income generated	Medium	Annual cycle for budgeting supported by the transformation programme. Prudent view taken of new income streams in 2018/19
Insufficient investment fund income	Medium	Prudent view taken of new income streams in 2018/19. Provision made for a rent review due in 2018/19. Investment Committee continues to review investment opportunities.
Insufficient reserve levels as a result of a significant budget variance or unforeseen event.	Medium	Review of Reserves report presented to the Council and £4.6m maintained in the General Fund balance and £2m balance held in CSR Reserve.
Exposure to changes in interest rates	Low	Treasury Management Strategy to be approved by the Council. All borrowing currently on fixed rate deals.
Inflationary pressures	Low	Budget build has included estimates of inflation where applicable.
Income linked to major prudential borrowing schemes not achieved at forecast levels.	Medium	Approval by Council supported by a detailed business case.

Risk	Risk Rating	Mitigation
		Income streams reviewed as part of budget monitoring Mitigation in schemes, such as a “pre let” required.
Insufficient capacity to deliver the Transformation Programme	Low	Provision in 2018/19 budget for £0.6m for transformation. New Director of Commercial Services and Transformation part of new Council management structure.

5.2 In accordance with the requirement of the Local Government Act 2003, the Chief Financial Officer must report to the Council on “the robustness of the estimates made for the purposes of the (budget) calculations” and the “adequacy of the proposed financial reserves”.

5.3 Taking account of the financial risks facing the Council and the mitigations outlined in paragraph 5.1 above, the Chief Financial Officer’s Statement is as follows:

> “I have taken into account information, risks and assurances from the Mayor, the Executive and the Senior Leadership Team in forming my opinion. My opinion is that the 2018/2019 budget is based on robust budget estimates.
>
> This opinion is supported by the maintenance of Council reserves at a prudent level and the delivery of the transformation programme and a dedicated transformation team to lead the programme”.

5.4 In relation to reserve levels, the statement in the 2018/19 review of reserves report is:

Head of Finance Statement.

The Council is continuing to face unprecedented financial challenges. I am satisfied that the Council’s General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council’s Financial Plans for 2018/19 to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment, if the following actions are undertaken:

a) The CSR has a balance of £2.0m to fund 2017/18 projected overspend
b) The General Fund reserve has a minimum balance equal to 4.2% of net budget
c) That a minimum **ongoing** balance of £2m is maintained for in the CSR reserve
d) That Children's Social Care, with Plymouth City Council, deliver the expected improvements and cost reductions for 2018/19
e) That the revised Risk Share Agreement for Adult Social Care is maintained for 18/19 and future years
f) That a balanced revenue budget can be set for 2018/19
g) That the budgeted Investment Property surplus for 2018/19 is achieved.
h) That the Council continues to delivers its transformation programme at pace

5.5 The review of reserves report identified that the Council’s general fund reserve level is low compared to other Councils – Torbay’s ratio of general fund reserve to net budget is 4% compared to an unitary council average of 9%.

Fit for the future

creating a prosperous and healthy Torbay

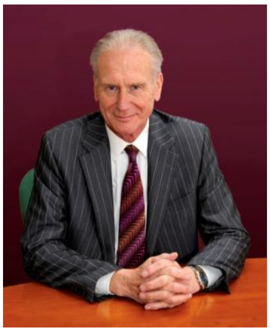
January 2018

Budget Proposals 2018/2019

Elected Mayor's Response to Consultation

Torbay Council

Statement by the Elected Mayor



In accordance with the Council's Constitution I am proposing the budget for 2018/2019 for members' consideration.

As I explained when I published my draft proposals in October, the council is committed to creating a prosperous and healthy Torbay and a Council fit to meet the challenges of the future. At that stage, there remained £0.8m of additional income or savings still to be identified in order for me to be able to present a proposed balanced budget for the Council to consider.

I am now in a position to propose a balanced Revenue Budget of £112.8 million for 2018/2019. The Council continues to find alternative ways of working and do things differently. However, changes in Government funding and increasing demands on our services mean that difficult decisions have to be made.

I thank the Overview and Scrutiny Board and our partners for their feedback on the budget proposals. In particular I thank all those service users and residents who took the time to provide their views either through completing a consultation questionnaire or by attending meetings. I would also like to thank officers and Executive Leads for their support in the preparation of all of the budget proposals.

I have considered all the responses I received carefully. I have also considered the decisions and changes that have taken place since October and have had to balance the Council's priorities in developing my proposals. What follows is a summary of the changes that I am proposing since my draft budget was published in October 2017.

The Local Government Settlement which was announced in December 2017 confirmed that all of the local authorities in Devon would take part in a pilot scheme which enables us to keep 100% of the National Non Domestic Rates (or business rates) that we collect in Devon. The net effect for Torbay of participating in the pilot is an increase in funding of £1 million.

The Government also announced that councils would be able to increase the rate of Council Tax by 2.99% without the need to hold a referendum. Torbay Council already has the ability to raise an Adult Social Care Council Tax precept of up to 3% in 2018/2019 meaning that the total increase the Council can apply is 5.99%. My original proposals assumed a Council Tax increase of 4.99%. Increasing Council Tax by a further 1% provides a further £0.6 million to support the services which you have said you value. This increase of 5.99% equates to £1.58 per week on an average Band D property. I would like to highlight that the Council Tax Support Scheme and an exceptional hardship scheme remaining in place for those who need support in meeting this extra cost.

Through utilising this additional income, as well as by releasing other funds, I have been able to change some of the proposals which residents and partners told us would have impacts on the community of Torbay.

I am now proposing that the Council continues to provide grants to the museums in Torquay and Brixham (and that these grants with be provided in 2019/2020 as well) and maintains its current level of grant to the Citizens Advice Bureau. The Youth Grant pot will also be maintained for the coming year. Whereas the proposed reductions in grants to Healthwatch and Torbay Community Development Trust will not be as large as originally planned. The Council will continue to provide some funding for the UNESCO Geopark although we will still be seeking grant income.

Other aspects of the Council's work will also be able to be funded. An example of this is funding the Council Tax of our care leavers which choose to live outside Torbay. This is in line with the Council decision that care leavers who live in Torbay will be exempt from Council Tax until the age of 25. Other examples include further resources that will be made available for our Events, Parking and Planning Teams to ensure that our events programme can be delivered effectively, that planning decisions are implemented correctly and that our Neighbourhood Forums can continue to develop.

There continues to be local and national pressures within Children's social care and funding will be available to provide an appropriate level of service for those children, including those with visual impairment and those being care for under Special Guardianship Orders.

It was extremely disappointing that, within the Local Government Settlement, the Government did not address the continuing funding gap for children's social care. Children who are experiencing, or are at risk of, neglect or abuse deserve the very best support to make sure they are safe and well and Torbay Council is committed to ensuring every child has the best start in life. The Council will be putting additional resources into children's social care which reflects the current level of spend plus funding for expected future increases in demand, complexity of cases and cost of placements. The issues facing Children's Services in Torbay mirror those faced in councils across the country.

The additional Council Tax raised for adult social care will be used to targeted investment in services to improve the level of service to those in need and to reduce future levels of demand and cost of adult social care.

Being reliant on business rates for the future income further highlights the need to continue to regenerate Torbay and I remain committed to creating a prosperous Torbay. This is reflected in the Capital Plan which includes funding for town centre regeneration schemes, investment in Edginswell, the Electronics and Photonics Innovation Centre, Claylands redevelopment, continued works on the Western Corridor and the regeneration of Upton Place

The Council still spends approximately £3.2 million per week on services in the community (excluding funding for schools and housing benefit payments). In terms of the Council's capital expenditure, I am proposing that the Council spends £138 million in 2018/2019 on schemes, of which £79 million is the balance of the Investment Fund, which are all aimed at meeting the ambitions of the Corporate Plan or providing an income stream to support core services. The majority of the Capital Plan has already been agreed by the Council and there are no changes proposed at this stage.

The proposals within the revenue budget will have an impact on local residents, visitors, our communities and service users; if I had a choice I would not be proposing to make these changes. However, I hope that the Council can continue to work with its partners and communities to ensure a prosperous and healthy Torbay.

Gordon Oliver
Elected Mayor of Torbay

Introduction

This document and the papers which support it set out the Elected Mayor's proposals for Torbay Council's budget for 2018/2019. It is part of the longer-term work that is continuing to ensure that the Council is fit for the future.

The first version of this report was issued in October 2017 for consultation. During the consultation period, feedback has been received from service providers, partner organisations, service users, the community and voluntary sector and the general public. The report reflects the feedback received and outlines the changes that have been made to the Elected Mayor's proposals as a result. It also reflects the details of the Local Government Funding Settlement which was published in December 2017.

The document should be read alongside a series of other documents:

- **Torbay Council – Draft Revenue Budget Digest**
  This provides a description of what each Council service does and how much it is proposed that they will spend next year including how much income they will receive. It sets out details of all of the proposals for service change, income generation and savings in order to produce a balanced budget for 2018/2019.

- **Equality Impact Assessments**
  Where a proposal has been assessed as having a material impact on service users, an Equalities Impact Assessment has been prepared. These have been updated with the results of the consultation and any mitigating actions identified.

- **Fees and Charges**
  The amount that the Council proposes to charge for its services over the next year.

- **Treasury Management Strategy**
  This aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations and effectively control the associated risks.

- **Capital Plan**
  This sets out the amount that it is proposed to spend in 2018/2019 on the capital projects that the Council is undertaking.

- **Corporate Asset Management Plan**
  This sets out the strategies that the Council will use to rationalise the number of assets that it has, replace them where appropriate and improve the quality of the remaining assets.

- **Capital Strategy**
  This sets out the principles to be used in the allocation of capital investment across all the Council's services and informs decisions on capital spending priorities within the Council's four year Capital Plan.

- **Reserves**
  The current and forecast position on the use of Council reserves.

The Elected Mayor's final budget proposals will be considered at the Adjourned Meeting of the Council being held on meeting on 8 February 2018. If the proposed revenue and capital budgets are approved by a majority of members then they will be adopted on the night. If an objection to the budget is proposed and approved by a majority of councillors, the budget will be deferred to the following meeting. Any objections will be considered by the Elected Mayor and he will respond to the meeting of the Council on 22 February 2018 when a final decision will be made by the whole Council.

Council Tax levels will be set at the meeting of the Council on 22 February 2018 as the Council has to wait for notifications from the Fire and Rescue Authority, the Police Authority and Brixham Town Council before setting the overall Council Tax for Torbay.

Details of the meetings when the budget proposals will be discussed are available on the Council's website: **www.torbay.gov.uk/meetings-and-decisions**

Once the budget for 2018/2019 is agreed by the Council a final report will be published which will explain what the Council will spend during the years alongside its priorities for the year.

Revenue Budget 2018/2019

The Council's financial planning for 2018/2019 started in June 2017 and the Elected Mayor's draft budget proposals were published on 23 October 2017 for eight weeks of public consultation.

The proposals set out for 2018/2019 includes a range of options of savings to be made through changes to services, raising of income or reductions in expenditure. These savings are part of the £21.5 million of savings which will need to be achieved by 2020 to provide a balanced budget as set out in the Council's Efficiency Plan.

Funding Changes

The budget has been updated as various funding and income streams have been confirmed since the draft budget proposals were published in October 2017. The changes in funding are set out in the Table 1 below:

Description	Increase in Funding £000	Reduction in Funding £000	Commentary
Revenue Support Grant		10,310	All Devon local authorities will be participating in a pilot scheme which will see those councils retain 100% of the National Non Domestic Rates (business rates) they collect. As a result of this pilot, the local authorities will no longer receive their Revenue Support Grant.
NNDR Income	11,824		As a part of the Devon-Wide 100% NNDR pilot, Torbay Council retains 99% of NNDR income plus a minimum funding level. This figure also takes account of the Retail Prices Index as at Septmeber 2017.
Council Tax Income	50		The Council Tax Base was set by Council in December 2017.
Council Tax Income	617		The Elected Mayor is proposing to increase the "Council" element of the Council Tax bill to the newly announced referendum limit of 2.99%
New Homes Bonus		45	Actual allocation announced in the Local Government Settlement.
	12,491	**10,355**	
Net Funding Changes	**2,136**		

Service Expenditure Changes

Since the Elected Mayor's budget proposals were issued on 23 October 2017, the Elected Mayor has considered the views of the wider community and Members of the Council which have been provided during the consultation period. This has included the views of the Council's Overview and Scrutiny Board which were set out in its report to the Elected Mayor available at **www.torbay.gov.uk/scrutiny**.

The results of the consultation have been included within each relevant Equality Impact Assessment and in the overall report from the consultation exercise. The budget proposals issued in October 2017 have been updated and are set out in the Budget Digest. All of these documents are available at **www.torbay.gov.uk/budget-201819**.

A summary of changes in income and expenditure since the initial proposals were published are summarised in the following Table 2. This includes changes in the funding of the Council as a result of new legislation and Government announcements, changes in the proposals that the Elected Mayor had previously put forward, decisions taken by the Council since the draft budget was published and other pressures within the Council's services.

The table at the end of this document lists all of the Elected Mayor's proposals with those highlighted indicating the amended or new proposals.

Description	Reduction in Expenditure £000	Increase in Net Expenditure £000	Commentary
Council Tax – Adult Social Care Precept		31	Adjustment for the final tax base set in December 2017
NNDR Pool Income		244	The NNDR Pool has been replaced by the Devon-Wide NNDR 100% Pilot.
Housing	100		In the draft budget, an allowance had been made to fund the new legislative requirements. A new burdens grant is now expected and so this budget can be reduced.
Housing Benefit Administration Grant		108	The grant from the Department for Work and Pensions has been reduced and the Council will need to fund the shortfall.
Card Charges		11	Legislation has changed meaning that the Council can no longer charge for payments made by card. However, the Council will need to continue to pay the bank charges for such transactions.
Youth Grants		30	The Elected Mayor has removed the proposal to reduce the Youth Grant pot to nil.
Healthwatch		6	The amount of grant paid to Healthwatch will be reduced by the amount allowed in the contract only (i.e. reduction of grant of £5,000 rather than £11,000)
Citizens' Advice Bureau		6	The Elected Mayor has removed the proposal to reduce the grant to the CAB by 10%
Torbay Community Development Trust		50	The Elected Mayor proposes to reduce the grant to the CDT by £10,000. The balance of the budget of £50,000 will be held by the Council pending further discussions with CDT in relation to their business plan.
UNESCO Geopark		10	The target for attracting external income to support the geopark had been reduced by 50%
Museums		28	The Elected Mayor is now proposing to maintain the level of grant to Torquay and Brixham Museums in 2018/2019 and 2019/2020.
Visual Impairment		40	New post to ensure Council meets its statutory duty in relation to children with visual impairment.
General Data Protection Regulation		30	Increased resources to meet the new legislative requirements.
Care Leavers		20	The Council took a decision in December 2017 to fund Council Tax for care leavers who live outside of Torbay until the age of 25 (in line with the decision that care leavers residing in Torbay will be exempt from Council Tax until the age of 25).
Events Team		60	Additional resource to support Torbay's event programme
Planning Enforcement Post		30	Additional resource to ensure appropriate planning enforcement is undertaken.
Car Parking Post		30	Additional resource to support staffing pressures within the service.
Elections		20	Additional resource to reflect current levels of spend associated with elections.
Special Guardianship Orders (SGO) Assessment		10	Improved focus on SGO assessment and annual review to ensure correct payment
Neighbourhood Liaison		30	Additional resources to support the ongoing activity of Neighbourhood Liaison Forums
Income Optimisation Project		147	Less additional income is expected to realised through the Income Optimisation project of the Transformation

			Programme than had previously been assumed.
Investment Fund		300	The estimate of income from the Investment Fund has been updated in light of the profile of future purchases
Academy Income		50	High risk to loss of academy income
Children's Social Care		500	Increase the amount of additional resources available for children's social care in light of the Quarter 3 position.
Children's Social Care		500	Additional resources to reflect future increases in demand, complexity of cases and unit costs of placements
Expenditure Contingency		150	Allocate balance to Council expenditure contingency.
Comprehensive Spending Review Reserve	1,000		Following the result of the Judicial Review Appeal in relation to care home fees, the contingency held in reserve can be released.
	1,100	**2,441**	
Net Expenditure Changes		**1,341**	

Summary Budget Proposals

As a result of the changes to funding and service expenditure detailed in the sections above, the Elected Mayor's budget proposals for 2018/2019 are as follows:

	2018/2019	
	£000	**£000**
Elected Mayor's Budget Proposal (October 2017) – **Funding**	109,870	
Funding Changes (from Table 1 above)	2,136	
Elected Mayor's Budget Proposal (February 2018) – **Funding**		**112,006**
Elected Mayor's Budget Proposal (October 2017) – **Net Expenditure**	110,665	
Service Expenditure Changes (from Table 2 above)	1,341	
Elected Mayor's Budget Proposal (February 2018) – **Net Expenditure**		**112,006**

Revenue Budget 2018/2019

The Council is being asked to approve the Elected Mayor's proposal for the total net revenue budget for 2018/2019 and the budget that will be required to be funded from Council Tax, as set out in the following table:

	2018/2019	
	£000	**£000**
Net Revenue Expenditure	110,155	
Adult Social Care (funded from 3% Council Tax)	1,851	
Total Net Revenue Expenditure		112,006
Funded by:		
Business Rate Retention Scheme	(43,378)	
Revenue Support Grant	0	
New Homes Bonus and Local Services Support Grant	(1,435)	
Council Tax Requirement (5.99%)	(65,477)	
Collection Fund (Council Tax and NNDR)	(1,716)	
Total Income		(112,006)

The value of Council Tax resulting from a rise in the Torbay element of the Council Tax of 5.99% is £65.477 million. A 5.99% rise will increase the Band D Council Tax in Torbay by £82.47 (of which the 3% rise for adult social care is £41.30).

When the Council formally sets the Council Tax, the Council's budget has to include the budget for the Brixham Town Council which is due to be confirmed on 16 February 2018. The value of this precept will be included as part of the Torbay Council budget for Council Tax setting purposes.

The Council is also being presented the allocation of the 2018/2019 revenue budget to individual services as identified in the Budget Digest which has been circulated separately. The allocation of budget to services is a key part of the Council's financial control arrangements. The Financial Regulations in the Constitution govern any subsequent in-year budget changes. The approval of fees and charges for 2018/2019, in addition to supporting the achievement of budgeted income, provides clarity to services and service users. The Officer Scheme of Delegation governs any subsequent in-year changes to fees and charges.

A summary of the budget by service area is shown in the table below:

Service	Expenditure £000	Income £000	Net £000
Joint Commissioning Team			
Children's Services	78,026	46,991	31,035
Adults Social Care and Housing	51,247	10,332	40,915
Public Health	10,318	942	9,376
Sub-Total – Joint Commissioning Team	**139,591**	**58,265**	**81,326**
Joint Operations Team			
Corporate Services and Operations	115,774	96,117	19,657
Commercial Services and Transformation	33,680	22,657	11,023
Sub-Total – Joint Operations Team	**149,454**	**118,774**	**30,680**
Total	**289,045**	**177,039**	**112,006**

Capital Plan 2018/2019

The proposed Capital Plan of £138 million for the next financial year is predominantly comprised of schemes which have previously been approved.

Work will continue to with £5 million allocated to improve the facilities in Torbay's schools and early years settings so that we can ensure that our children get the best start in life.

Over £79 million is planned to be spent on Investment Fund properties to generate an income stream to support key council services to compensate for central government funding reductions.

Over £41 million is planned to be spent as we work towards a more prosperous Torbay. Schemes such as the redevelopment of Claylands, Upton Place student accommodation, town centre regeneration schemes, further transport improvements on the Western Corridor, investment in Edginswell Business Park, fisheries related investment at Oxen Cove and Jetty and the creation of the Electronics and Photonics Innovation Centre are aimed at ensuring jobs are maintained and created in Torbay. We will continue to maintain and improve the infrastructure within Torbay.

We will invest £3 million to ensure Torbay remains an attractive and safe place to live and visit including undertaking structural repairs to Princess Pier, investment in Torbay Leisure Centre with our partner Parkwood Leisure, the start of a toilet modernisation programme and investment in the Harbour Lights in Paignton.

We will invest £7 million in protecting and supporting vulnerable adults. This includes the planned first phase of investment in the Council's housing company and for affordable housing to meet the Council's Housing Strategy.

In addition £3 million will be invested in essential IT replacement to support front line services, structural repairs to cliff faces and similar infrastructure and in an "invest to save" project to enable more Council office space to be rented.

The schemes with the Capital Plan will contribute towards a healthier Torbay through supporting our children and young people in their learning environment, promoting economic regeneration or protecting our natural environment.

Table of all proposals

(The shaded proposals have changed or been added since October 2017)

Service Area	2018/2019 £000
Protecting children and giving them the best start in life	
Youth Grants	0
Working towards a more prosperous Torbay	
Spatial Planning	20
Tor Bay Harbour	128
Economic Regeneration and Asset Management	50
Promoting healthy lifestyles across Torbay	
Community Development Trust	10
Adult Substance Misuse Services	*62*
Public Health Staff and Administration	*111*
Ensuring Torbay remains an attractive and safe place to live and visit	
UNESCO Geopark Support	10
Events Development	15
Museums	0
Grants to Swim Torquay and Admiral Swimming Pool	47
Highways Maintenance	50
Beach Team	31
Protecting and supporting vulnerable adults	
Healthwatch	5
Citizens' Advice Bureau	0
Corporate Support	
Benefit Operations and Customer Services	177
NNDR, Council Tax and Housing Benefit Administration	20
Communications	8
Internal Audit	20
Transformation Agenda and Commercial Team	57

Note: The proposals shown in *italics* are to meet the reduction in the Public Health ring fenced grant.

REVENUE BUDGET 2018/2019

Chief Finance Officer's Report

Published: 1 February 2018

1 Introduction

1.1 This report by the Council's Chief Finance Officer provides further information to support both the Mayor's Budget proposals and the Opinion on the robustness of the budget estimates which is included in the covering report to the Revenue Budget 2018/19.

1.2 This report aims to provide further information and an overview of a number of key factors, including a number of "technical" finance issues, that have influenced the 2018/19 budget and raises issues for future financial years.

2 Overview – Context and Outlook

- Budget Overview 2018/19
- Local Government Settlement 2018/19
- NNDR 100% Pilot 2018/19
- Dedicated Schools Grant 2018/19
- Adult Social Care
- Children's Services
- Estimation of Collection Fund Surplus/Deficit 2018/19
- Council Tax and Referendum Limits 2018/19
- Better Care Fund and Improved Better Care Fund 2018/19
- Link between Capital Plan and Revenue budget
- External Peer Reviews
- Transformation Programme
- Longer Term Future Council Funding

3 Budget Overview 2018/19

3.1 The 2018/19 budget is the first since the 2017 general election and the Chancellor's Budget in 2017. Central government has continued with the same financial plans for ongoing funding reductions in "core" funding for local government as before. The Ministry of Housing, Communities and Local Government (MHCLG, formerly DCLG) are continuing with the "four year offer" funding to Councils. This results in Torbay's Revenue Support Grant reducing from £27m in 2015/16 to £6m in 2019/20. For 2018/19 the reduction is £4m (from £14m to £10m).

3.2 These ongoing reductions in core funding combined with rising costs and demand continue to create significant financial challenges to the Council. Members need to consider the 2018/19 budget proposals in the context of the significant future year budget reductions required.

3.3 The provisional local government finance settlement for 2018/19 announced in December 2017 did however provide some additional funding options for Councils by a higher Council Tax referendum limit (2.99%) and by announcing 11 new 100% NNDR pilots for 2018/19 of which the Devon wide bid, including Torbay, was successful.

3.4 The Council's financial planning for 2018/19 started in June 2017 and the Mayor's provisional budget proposals were published on 23rd October 2017 enabling a period for consultation and scrutiny of the proposals. To achieve a balanced budget, the proposals for 2018/19 have required a range of reductions and income generation. This has required the proposal of a number of difficult choices for the Council. The reductions identified for 2018/19 are a good step towards the total estimated reductions of £6m required for 2019/20. The forecast for 2020/21 is more uncertain due to the fundamental funding changes MHCLG are proposing to introduce in that year which will also be the first year after the next Central Government Spending Review.

3.5 The Elected Mayor's budget proposals have sought to limit the impact of the reductions on the more vulnerable in society and, within Children's social care, the Council is recommended to invest additional funds for the safeguarding of children resulting in an increased budget for that service of over £2m.

3.6 To support the difficult budget challenges facing the Council it is proposed by the Elected Mayor that the Council increases its Council Tax requirement by 2.99%. In addition it is proposed by the Elected Mayor to take the option of supporting adult social care by raising the Council tax by a further 3%. - the maximum permitted in 2018/19 is 3%. As the Council has raised Council tax for Adult Social Care by 3% in both 2017/18 and 2018/19 there will be no rise for this service permitted for 2019/20, under the current rules.

3.7 Members of the Overview and Scrutiny Board (through the Priorities and Resources Review Panel) examined the proposals in detail and stakeholders and residents have had the opportunity to make representations on the proposals through the consultation. The Elected Mayor reviewed all of the responses received and the final saving proposals were drawn up after consideration of the responses.

3.9 This report supports the Revenue Budget 2018/19. Other budget related reports being presented to Council in February which are relevant to the Council's overall financial position are:

a) 2017/18 Revenue and Capital Budget Monitoring Report – Quarter Three

b) 2018/19 Capital Plan

c) Capital Strategy and Capital Receipts Strategy

d) Corporate Asset Management Plan

e) 2018/19 Treasury Management Strategy, including Investment Policy and Minimum Revenue Provision Policy

f) 2018/19 Review of Reserves

g) Annual Strategic Agreement (for adult social care)

3.10 Also relevant are:

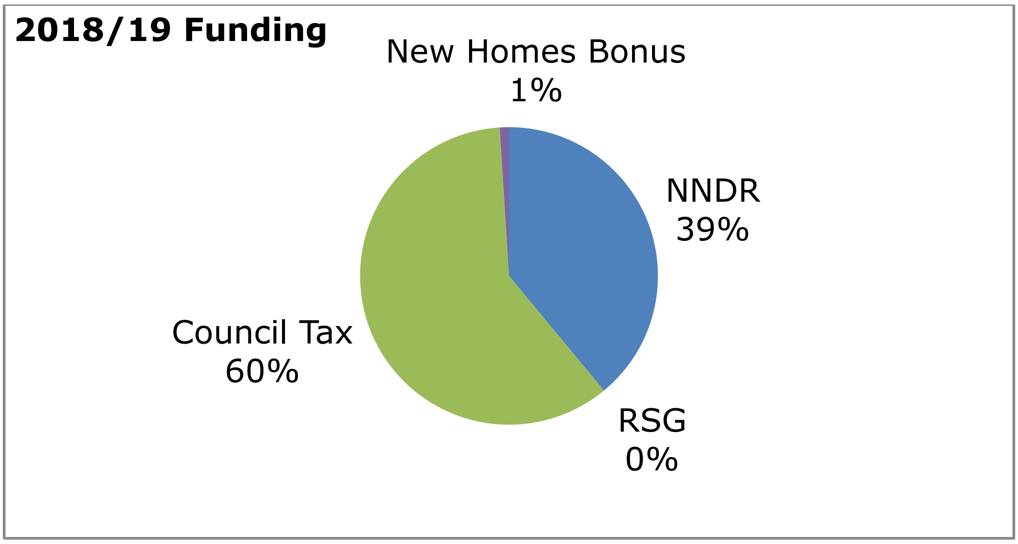
h) Children's Services Financial Plan (February 2017)

i) Medium Term Resource Plan (on website)

3.11 Budget Digest pages, Fees and Charges and updated budget proposals sheets are available separately along with any relevant equalities impact assessments.

3.12 A summary of the Council's 2018/19 budget is as follows:

	2018/19	
Mayor's Budget Proposal:	£'000	£'000
Net Revenue Expenditure	110,155	
Adult Social Care funded from 3% Council Tax	1,851	
Total Net Revenue Expenditure		112,006
Funded By:		
Business Rate Retention Scheme	43,378	
Revenue Support Grant	0	
New Homes Bonus Grant & LSSG	1,435	
		44,813
Council Tax Requirement	65,477	
Collection Fund - NNDR/Council Tax	1,716	
		67,193
Total Income		112,006



3.13 Under a NNDR 100% pilot the Council retains more NNDR income (99% compared to 49%). To make the change "fiscally neutral" the Revenue Support Grant is reduced from £10m to nil and the Councils NNDR top up grant is also reduced from £14m to £8m. If a higher level of funding from NNDR is a permanent funding feature from 2020/21 then the balance of funding in 2018/19 can be regarded as a future look to a position where 99% of the Council's general funding comes from local taxation. This reinforces the need/incentive for the council to grow both its council tax and NNDR taxbase.

3.14 A summary of budget by Service area is shown in the table below.

Business Unit/Service	2018/19		
	Expenditure	Income	Net
	£000's	£000's	£000's
Joint Commissioning Team (JCT)			
Adult Social Care and Housing Total	51,247	10,332	40,915
Children's Services	78,026	46,991	31,035
Of which estimated Dedicated Schools' Grant	*37,000*	*37,000*	*0*
Public Health	10,318	942	9,376
Sub Total – Joint Commissioning Team	**139,591**	**58,265**	**81,326**
Joint Operations Team (JCT)			
Corporate Services and Operations	115,774	96,117	19,657
Of which Housing Benefit Payments & Subsidy	*66,369*	*66,818*	*(449)*
Commercial Services and Transformation	33,680	22,657	11,023
Sub Total – Joint Operations Team	**149,454**	**118,774**	**30,680**
TOTAL	**289,045**	**177,039**	**112,006**

4 Local Government Settlement 2018/19

4.1 The MHCLG announced the provisional Local Government Finance Settlement on 20th December 2017. Since that date a number of individual departmental announcements have also been made. Where these are known, these have been included in the 2018/19 budget proposals.

4.2 The key issues from the announcements (to date) are as follows:

- The Council's Revenue Support Grant (RSG) is as per the four year funding "offer" linked to the submission of an Efficiency Plan in October 2016. Torbay's RSG is to reduce from £20m in 2016/17 to £14m in 2017/18, reduce to £10m in 2018/19 and to £6m in 2019/20.

- Referendum limit for all Councils set at 3% and over for 2018/19, or by £5 (excluding the option for adult social care). MHCLG projections of spending power for Councils assume that this rise is approved. The <u>indicative</u> limit for 2019/20 is also 3% and over.

- There were no (new) changes to the calculation of the New Homes Bonus Grant. The "reward" for housing growth will continue to be paid for four years (not six years as per the original scheme). Reward will only be paid on growth over a threshold of 0.4% (not 0% as per the original scheme). The consultation to only pay on planning approvals for housing granted without an appeal has been removed.

- No (national) support or recognition for funding issues in Children's Social Care.

- 11 new 100% NNDR pilots for 2018/19, of which the Devon wide bid, including Torbay, were announced. (See section 5 below).

- From 2020/21 the MHCLG intend to introduce a 75% NNDR retention scheme for all Councils. It is understood that this can be allowed under the current NNDR legislation whereas a 100% scheme would require primary legislation.

- In addition the MHCLG intend to introduce a new funding formula to allocate new funding baselines and income baselines to all councils from 2020/21. The aim is to have as simplified a formula as possible that focusses on a limited number of key cost drivers. Over the next 18 months there will be a number of consultations on overall formula design and on each area for the key cost drivers.

- 2020/21 will also be the first settlement after the next central Government Spending Review in 2019. That uncertainty combined with a new 75% NNDR scheme and a new funding formula makes longer term financial planning very challenging!

4.3 Note: in writing this report (22/1/18) the final local government finance settlement has not been issued by MHCLG, (expected before the parliamentary recess in February).

5 NNDR 100% Pilot 2018/19

5.1 Before the 2017 election it was MHCLG's intention to introduce a 100% NNDR retention (currently 49%) by "end of parliament". A Local Government Finance Act was expected in 2017 to establish the legal basis for this change however this was not included in the Queens Speech for the business of the new government. As a consequence MHCLG invited Councils to submit bids for 100% NNDR pilot areas.

5.2 A Devon Wide bid was submitted for all Councils in Devon, including Torbay and the Devon bid was one of 11 that were agreed. As a 100% Pilot the previous NNDR pool arrangement now ceases.

5.3 In summary the 100% scheme allows all Councils in Devon to retain all (100%) NNDR growth above the original 2013 NNDR income baselines instead of sharing 50% with MHCLG. The locally agreed scheme between the Councils ensures that no Council will be any worse off than under the 50% scheme and all Councils to get a "minimum funding level". For districts this is £0.5m and for the two unitary Councils this is £1.5m. Plymouth City Council will, as with the NNDR pool, act as host.

5.4 In addition where there is NNDR growth anywhere in Devon, above the minimum funding levels, this will be shared. 50% to be allocated as per the current system to the district/unitary council where the growth occurs and the County Council. The 50% that would have been passed to MHCLG will then be shared between all Councils.

5.5 The pilot has only been announced for 2018/19 only. It would be reasonable to assume that this may be extended to 2019/20 but unlikely for 2020/21 due to all the other fundamental funding changes proposed for that year. The Council will therefore need in its financial planning to assume a reduction in NNDR income when the pilot period ends.

6 Dedicated Schools Grant

6.1 The Council has to confirm that it will be directing the entire grant received in respect of Dedicated Schools Funding through to those areas defined in the School Finance Regulations. For 2018/2019 the allocation of Dedicated Schools Grant (DSG) before academy school recoupment is £99.7m. Of this total, it is estimated that approximately £37m will be retained in the Council's budget for expenditure related to its (maintained) schools and other residual functions.

6.2 The DSG and the schools funding formula is being changed with full introduction of a new national simplified minimum per pupil funding formula from 2020/21. DSG from 2018/19 is now allocated over four "blocks" – schools, central schools, early years and higher needs. Movement of funding between these blocks is now severely limited and will cease altogether for schools block from 2020/21 with the introduction of the national school funding formula.

6.3 Under the current regulations a local area can continue to take local decisions on the allocation of the school block until the new national formula is in place in 2020/21. The Schools Forum proactively established a task and finish group of representatives across all educational phases to ensure that allocations to schools in the interim delivered the minimum funding allocation per pupil whilst minimising the disruption to individual school budgets whilst moving to the principles of the new national formula.

6.4 It should be noted that this estimated figure will be adjusted throughout the year to reflect changes to early years funding and any Academy conversions. It is recommended that the Chief Finance Officer be authorised to make appropriate changes as and when the funding changes.

6.5 There are currently two key pressures within the DSG associated with the Early Years and Higher Needs blocks. The Early Years pressure results from a higher number of local children being eligible than the DfE has funded. Although a budget adjustment is made using census data a significant gap has occurred since the expanded Early Years offer was introduced. Repeated representations have been made with the DfE by Torbay and other Councils who are, as a result funding a national offer with insufficient funding being provided at a local level. The pressures on the Higher Needs block arise from the level of demand and referrals from schools for support to pupils. The overspend on the block in 2017/18 is estimated to be £1.2m and is expected to rise in 2018/19. In recognition of this pressure Schools Forum helpfully agreed to move 0.5% of the school block to higher needs, which is the maximum permissible under the current arrangements. The Council and Schools Forum have also set up a group to implement a "higher needs financial recovery plan". Until the higher needs block achieves financial balance by 2020/21 the DSG reserve will be used to fund the cumulative deficit.

7 Adult Social Care

7.1 The budget for Adult Social Care comprises the following elements

2017/18		
Total ASC 2017/18	**39,060**	
2018/19		
Total ASC 2017/18	39,060	
3% Council Tax Precept	1,851	
ICO Efficiencies/Savings	(900)	
2017/18 one off grant	832	
Other changes	72	
Total ASC 2017/18	**40,915**	
Net Increase year on year	1,855	5% increase

7.2 The summary above demonstrates that the Council expenditure on ASC has increased year on year over the value of the 3% council tax precept raised for adult social care. This additional funding is expected to be used to support investment in Adult Social Care to both reduce future costs and demand and support the service's needs as outlined in the Annual Strategic Agreement.

7.3 For clarity the Council's budget proposals for 2018/19 includes the contract sum as agreed in the September 2017 Risk Share Agreement to the ICO for adult social care of £39.4m plus a one off £0.6m to a total of £40.0m. The budget proposals include the continuation of the subsidy to the CCG of £0.9m as a result of the mediation process in 2016/17 between the council and the CCG for the Better Care Fund. If the current RSA does expire then this payment will not be made beyond that point and the Council and CCG will have to renegotiate the allocation of the Better Care Fund in line with national guidance.

8 Children's Services

8.1 The budget for Children's Services comprises the following elements

2017/18

Total Children's 2017/18	**28,726**	
2018/19		
Total 2017/18	28,726	
Budget – rebase	2,500	
Budget – future demand	500	
MTRP savings	(1,479)	
Inflation	592	
Funding Change	145	
Other Changes	51	
Total 2018/19	**31,035**	
Net Increase year on year	2,309	8% increase

8.2 The budget proposals have reflected the current financial issues within the service and have provided a contingency for future cost pressures, whether from demand, case complexity or unit costs. The service's Ofsted improvement plan supported by the revised Medium Term Financial Strategy (approved February 2017) remain in place. The approach places a focus on activity that will improve outcomes for children and families whilst also addressing areas of high aggregate spend and per capita costs. As a result, the base budget for Children's Services, has for 2018/19, increased by over £2.3m – an 8% increase.

8.3 From April 2018 the Council is expected to have a partnership arrangement in place with Plymouth City Council for the management of the service. This will result in Torbay appointing the Director of Children's Services at Plymouth (when known) as the Director of Children's Services for Torbay. The following is an extract from the agreed "programme vision document" with Plymouth City Council that helpfully summarises the financial relationship from April 2018

"Each council area will retain financial and statutory accountability for their children's services"

"The joint DCS will be a full member of both council area's senior leadership teams and will also be expected to report and be accountable to each council areas respective governance structures"

"Both councils will retain financial accountability for children's services and Torbay Council will provide Plymouth City Council with the appropriate budget for the operational delivery of children' services. The budgets for both councils will not be pooled and the section 151 officers for both council areas will continue to provide financial oversight and scrutiny of their respective budget in relation to children's services"

9 Estimation of Collection Fund Surplus/Deficit

9.1 The Council makes an estimate of the surplus or deficit on the Collection Fund at year end from under or over achieving the estimated council tax collection rate. As the Council sets a collection rate within its tax base equivalent to the amount collected in the 12 months of the next financial year any surplus primarily represents the collection of sums due in respect of previous years. This indicates a level of success in collecting old year debts and raises the overall, longer term, collection rate well above the in year rate, which is 96%.

9.2 The latest estimate of the Collection Fund in year in respect of Council Tax as at 31 March 2018 is a £2.5m surplus. This surplus has to be shared in 2018/19 between Torbay Council, Devon and Cornwall Police and Crime Commissioner's Office and Devon and Somerset Fire and Rescue Authority in accordance with their demands on the Collection Fund for 2017/18. The estimated share of the 2017/18 surplus to be distributed in 2018/19 is as follows:

	Share of Surplus £m	Share %
Torbay Council	2.113	84%
Devon and Cornwall Police and Crime Commissioners Office	0.268	11%
Devon and Somerset Fire and Rescue Authority	0.125	5%
Totals	2.506	100%

9.3 As a local precepting authority, as defined in the Local Government Finance Act 2012, Brixham Town Council will not be entitled to a share of any surplus or deficit on the collection fund.

9.4 National Non-Domestic Rates

9.5 The Council's NNDR income in 2017/18 comprises three parts: a 49% share of NNDR income, a s31 grant to reflect the loss of NNDR income to the council from central government changes to the NNDR (e.g. SBR) and a Top Up grant that reflects the difference in the Council's assessed "need" for funding compared to its actual ability to raise NNDR income (as assessed in 2013).

9.6 For 2018/19 as outlined above Torbay will be part of a Devon wide 100% NNDR pilot. Under this scheme Torbay will retain 99% of NNDR income (with 1% still relating to the Devon and Somerset Fire), with NNDR growth shared between all Councils.

9.7 The 2017 NNDR revaluation impacted on Torbay. Whilst MHCLG stated their intention for this change to be fiscally neutrals to councils, for Torbay the gross rateable values fell 6% from £98m to £92m. MHCLG have continued to adjust Torbay's Top Up grant with a final adjustment to the Council's 2018/19 grant expected in the final settlement based on the latest valuation office information.

9.8 Since the introduction of the Business Rates Retention Scheme in April 2013, the Council is also required to declare a surplus or deficit for NNDR in a similar way as set out above for council tax.

The forecasting of NNDR has involved a wide range of complex variables and influences and is a new area which has caused further complications for medium term financial planning. Overall the Council has declared an estimated deficit position of £0.810m on its Collection Fund in respect of NNDR as at 31st March 2018. As this relates to 2017/18 this is apportioned between the Council (49%), the Devon and Somerset Fire and Rescue Authority (1%) and central government (DCLG) (50%). The Council's share of the deficit is £0.397m.

10 Council Tax and Referendum Limits

10.1 To control the level by which local authorities can increase Council Tax, the Government has set limits at which point a referendum would be required. This has been set at 3% or over for 2018/2019. The Elected Mayor's budget proposal is for a 2.99% increase in this element.

10.2 The Council is responsible for social care and is therefore able to raise its Council Tax by a further 3% in 2018/2019 subject to the increased tax income being allocated to adult social care. The Elected Mayor's budget proposal is for a 3% increase in this element. A three percent rise generates £1.851m for adult social care. Therefore the Elected Mayor is proposing an overall 5.99% rise in the Torbay Council share of the Council Tax for 2018/2019.

10.3 Councillors will be aware that the Council Tax bill sent out to residents is made up of three main component parts, namely Torbay Council, Devon and Cornwall Police Authority and Devon and Somerset Fire and Rescue Authority. The Secretary of State will consider the three component parts, not the overall bill, and, if one of the three organisations were capped, the Council would have to re-bill. Councillors will also be aware that, in addition, there will be a separate Council Tax charge for residents in the Brixham Town Council area.

10.4 At the time of writing, Brixham Town Council, the Devon and Cornwall Police and Crime Commissioner's Office and the Devon and Somerset Fire and Rescue Authority have not set their budgets for 2018/2019 or their Council Tax level. For 2018/19 the Police and Crime Commissioner is allowed to raise their element of the Council tax bill by £12 (Band D) which equate to a rise of 7% on their precept. Once these have been declared they will be including in the Council Tax setting report which will be presented to the Council at the end of February 2018.

10.5 The Council taxbase report in December 2017 referred to a proposal to increase the premium for long term empty homes. It is now expected that the relevant legislation will not be in place by April 2018 therefore this change is now likely to be applicable from April 2019.

10.6 In 2017/18 the Torbay Council area had the lowest band D Council Tax in Devon at £1,634.78 including Adult Social Care, Fire and Police precept but excluding parish precepts. A summary of other local Council's Band D rates are as follows:

	Torbay (Unitary council)	Plymouth (Unitary council)	Exeter (City Council)	South Hams (District Council)	Teign – bridge (District Council)
District Council	-	-	145.05	155.42	160.17
Devon County (including Adult Social Care precept)	-	-	1,267.92	1,267.92	1,267.92
Total including Adult Social Care Precept	**1,376.93**	**1,407.47**	**1,412.97**	**1,423.34**	**1,428.09**
Fire & Police	257.85	257.85	257.85	257.85	257.85
Band D (excluding parish precepts)	**1,634.78**	**1,665.32**	**1,670.82**	**1,681.19**	**1,685.94**

10.7 The differential between Torbay and the other Councils increases when Town and parish precepts are added. The 2017/18 precept for Brixham Town Council was £43.04 and typical average values for other Councils is between £50 and £65.

11 Better Care Fund (BCF) and Improved Better Care Fund (IBCF)

11.1 From April 2015 central government integrated some social care funding and some health funding into a Better Care Fund which is operated as a pooled budget (approx £12m) between the Council and the Clinical Commissioning Group (CCG) as the host. For the Council this includes the s256 funds (£3m) the Council had received directly for adult social care.

11.2 The original Better Care Fund allocations have been increased since 2017/18 by the Improved Better Care Fund. The governance and reporting for the IBCF is similar to the BCF however the IBCF is directly awarded to the Council and is for adult social care. The Council is host for the IBCF. For the Council in 2018/19 the IBCF allocation is £6.1m of which some funding has already been used to fund the Council's payment to the ICO under the revised Risk Share Agreement.

12 Link between Capital plan and Revenue budget

12.1 There is always a strong link between the Council's capital expenditure and its revenue income and expenditure in particular from capital expenditure funded from borrowing. All borrowing will result in increased revenue costs from both interest costs and principal repayments (reflected by the minimum revenue provision). For the majority of schemes, such as an "invest to save" scheme, these costs should be offset by an income or rental stream. There have, however, been capital projects approved funded initially by prudential borrowing that have an ongoing revenue cost.

12.2 The Capital Plan 2018/19 and the Capital Strategy 2018/19 identifies the schemes funded from both types of prudential borrowing and the potential value of borrowing and ongoing interest and principal repayment costs. As the Council significantly increases its range and value of schemes funded from prudential borrowing it is important that all members are aware of the overall current and potential future levels of borrowing the risks and rewards associated.

12.3 As at 22/1/18 the Councils external borrowing is £273m. The Council's capital plan for 2018/19 identifies £115m of schemes to be funded from borrowing with a further £49m in 2019/20 and 2020/21. The Council's external debt could then exceed £437m with a resulting increase in borrowing costs. Further analysis of the Council's borrowing and the schemes it relates to is contained in the 2018/19 Capital Strategy.

	As at 31/12/17 £m	%	Projected £m	%
Supported Borrowing	73	27	73	17
Devon County Council	19	7	19	4
Investment Fund	120	44	200	46
Other Prudential Borrowing	61	22	145	33
	273		**437**	

12.4 A debt of this level is a key consideration for the Council. The Council should comply with the standards of decision making for prudential borrowing as per the Local Government Act 203 supported by proper practice as outlined in the Prudential Code and Treasury Management Code of Practice. Both codes have been reissued in December 2017. The key consideration is whether any borrowing is "prudent". The focus and due diligence therefore is, not so much on the total borrowing, but the robustness of the business case with a particular focus on future income streams and future asset values. All Members need however to be aware of the risks and rewards of each scheme and the proportionality of the total borrowing, ongoing borrowing costs and total income streams in relation to the Council's budget and balance sheet position.

13 Exteral Peer Reviews

13.1 In November 2016 the Council's financial position and its financial management was subject to two "peer" reviews from the LGA and CIPFA. Both reports were reported to Council at its meeting on 2 February 2017. The reviews were useful in that they both highlighted a number of key issues for the Council. There were a number of issues particularly relevant to the Council's finances and they are useful to repeat:

- Need to make tough financial decisions at pace to achieve a balanced budget
- Need to ensure due diligence is maintained when doing "new" activities
- Focus on the key issues that will make a financial difference
- *Critically review the current RSA for ASC (revised RSA in place from October 2017)*
- Support service improvements in Children Services
- *Increase levels of both uncommitted (CSR) and general reserve (reserves report 18/19)*
- Ensure have the correct capacity to ensure the achievement of financial gains

14 Transformation

14.1 Key to the longer term financial viability of the Council's the Council's transformation programme supported by a dedicated transformation team. The team supports the development of projects to help deliver financial savings. A number of these projects have already resulted in some savings which have been incorporated in the 2018/19 budget. Projects include libraries outsourcing, investment fund, Parkwood leisure contract, income optimisation and improving collection fund income.

14.2 The financial challenge facing the council is significant and therefore the transformation process is key to bringing forward viable projects "at pace". It is expected that the Council's 2019/20 and 2020/21 budget will be significantly informed by these projects.

15 Longer Term Future Council Funding

15.1 Torbay in October 2016 accepted DCLG's offer of a four year minimum funding settlement therefore the Council's core funding will reduce by a further £4m in 2019/20. Two issues impacting on Council funding in 2019/20 will be the possible continuation of the NNDR 100% pilot for another year and the indicative higher Council Tax referendum limit of 2.99%. In addition during 2019/20 the future of the Risk Share Agreement within a changing NHS regime beyond the current five year period should be confirmed.

15.2 The Medium Term Resource Plan will be updated by the end of March 2018 to include the impact of the 2018/19 budget and the latest estimates of future year costs and funding. As an initial guide, prior to more detailed work being undertaken post budget setting, it is estimated that between 2019/20 and 2020/21 the Council will require in the region of £8m of reductions to achieve a balanced budget.

15.3 Section 4 above outlined some of the changes and challenges for 2020/21 onwards announced by MHCLG in the local government finance settlement;

- From 2020/21 the MHCLG intend to introduce a 75% NNDR retention scheme for all councils;

- In addition the MHCLG intend to introduce a new funding formula to allocate new funding baselines and funding baselines to all councils from 2020/21. The aim is to have as simplified a formula as possible that focusses on a number of key cost drivers. Over the next 18 months there will be a number of consultations on overall formula design and on each area for the key cost drivers;

- As 2020/21 will also be the first settlement after the next central Government Spending Review in 2019, that uncertainty combined with a new 75% NNDR scheme and a new funding formula makes longer term financial planning very challenging!

15.4 The aim is that Councils will then be significantly self-sufficient from central government "core" funding with the Council funding being council tax and NNDR. Councils therefore have a clear incentive that to secure funding for services in the future, there has to be increases in both its council tax base (housing) and NNDR (business). It must be noted that MHCLG are still intending to control Council spend by the retention in the system of both funding baselines and income baselines. This is not only to control total funding therefore enabling overall funding reductions by changing tariff and top up grants, but also to enable total funding to be redistributed on need. A key issue for Councils with taxbase growth is how much of the "gain" will be lost on any reset of baselines.

15.5 This reliance on local taxation as the prime source of funding has risks as the link between a council's need for funding to provide services (linked to population and demand) and its funding linked, in part, to economic growth may not move in a similar direction. In addition NNDR income is volatile and is, to a large extent, outside a Council's direct control. Spreading NNDR risk and reward over a wider area is therefore a benefit. This is the situation in 2018/19 under the Devon wide NNDR 100% pilot.

Meeting: Council **Date:** 8th February 2018

Wards Affected: All Wards in Torbay

Report Title: Treasury Management Strategy 2018/19 (incorporating the Annual Investment Strategy 2018/19 and the Minimum Revenue Provision Policy 2018/19)

Is the decision a key decision? Yes

Executive Lead Contact Details: Mayor Gordon Oliver, 01803 207001, mayor@torbay.gov.uk

Supporting Officer Contact Details: Pete Truman, Principal Accountant, 01803 207302, pete.truman@torbay.gov.uk

1. Proposal and Introduction

1.1 The Treasury Management Strategy appended to this report aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2018/19 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.

1.2 Council is required to approve this policy document at its meeting in February 2018.

2. Reason for Proposal

2.1 The Treasury Management Strategy is considered under a requirement of the CIPFA Code of Practice on Treasury Management which was adopted by the Council on 25 March 2010. The Strategy has been updated for provisions in a new edition of the Code released in December 2017.

2.2 The approval of an Annual Investment Strategy by Council is a requirement of the Guidance on Local Government Investments issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. This Strategy sets out the Council's policies for managing its investments under the priorities of security first, liquidity second and then returns.

2.3 In addition, the Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

2.4 Under Department for Communities and Local Government regulations the Council is required to approve a Minimum Revenue Provision (MRP) Statement in advance of each year.

3. Recommendations

3.1 That Council approve the:

- **Treasury Management Strategy for 2018/19 (incorporating the Annual Investment Strategy 2018/19);**
- **the Prudential Indicators 2018/19; and**
- **the Annual Minimum Revenue Provision Policy Statement for 2018/19**

as set out in the Appendix to this report.

4. **Treasury Management Strategy**

4.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

4.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

4.3 Currently the Council's approved capital plan has a borrowing requirement of approx. £147 million, of which £80m is Investment Fund, which will have a significant impact on the Treasury management function in the short and medium term. In addition the timing of this borrowing is currently very uncertain which makes planning difficult.

5. Prudential Indicators

5.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. The proposed indicators for 2018/2019 are set out in Appendix 1 to the Treasury Management Strategy.

6. Minimum Revenue Provision (MRP) policy statement

6.1 The Council is required to set aside an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision (MRP)). The policy has been updated in line with the new Prudential Code.

6.2 MRP calculations exclude the impact of capital schemes approved but not commenced.

6.3 The recommended MRP Policy for 2018/19 is set out at Appendix 2 to the Treasury Management Strategy and will be applicable from date of approval.

7. New Guidance and Codes of Practice

7.1 CIPFA in late December 2017 have issued revised Codes of Practice for both Treasury Management and the prudential Code. CIPFA have confirmed that due to the late issuing of the Codes that although the Codes are applicable for 2018/19 it is accepted that full implementation may not be realistically achieved until 2019/20.

7.2 In addition DCLG in December 2017 also issued a consultation on capital finance regulations and guidance on the calculation of the Minimum Revenue Provision. The results of this consultation are unknown (as at 15/1/18). When DCLG have confirmed the regulations and guidance to be applicable from April 2018 this may require the Council to update a number of policies and strategies such as Investment Fund Strategy and possibly both its 2018/19 Treasury Management Strategy and 2018/19 Capital Strategy.

7.3 One aspect of these changes is that more information about capital activity and its implications are to be included in an expanded Capital Strategy. A new category of investments is now to be included called “non-treasury investments”. These are investments made that are outside a council’s normal treasury management activity. These may include:

- Service Investments - made for operational purposes such as regeneration
- Commercial Investments - made for mainly financial reasons, such as investment properties. This category may also include other investments such as guarantees and loans.

7.4 The Chief Finance Officer will introduce, under his delegated powers, by April 2018 in the Council’s Treasury Management Practices a number of schedules to support its non-treasury management investments. These will include risk management, performance management, governance, reporting, training and qualifications of officers and members involved in decision making on these non-treasury investments.

January 2018

Treasury Management Strategy 2018/19

incorporating the Annual Investment Strategy and the Minimum Revenue Provision Policy

TORBAY COUNCIL

Contents

1 Introduction

The Council defines its treasury management activities as:

> *"The management of the authority's borrowing, investments and cash flows, it's banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

The Strategy for 2018/19 covers two main areas:

- Treasury management issues
  - the current treasury position;
  - treasury indicators which limit the treasury risk and activities of the Council;
  - prospects for interest rates;
  - the borrowing strategy;
  - the investment strategy;
  - policy on use of external service providers;
  - reporting arrangements and management evaluation
  - other matters

- Capital issues
  - the capital plans and the prudential indicators;
  - the minimum revenue provision (MRP) policy.

2 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

The table below includes the impact of the approved capital plan (as at (draft) quarter three 2017/18) which shows a future borrowing requirement of £147million (£80m Investment Fund) by 2020/21, but makes no assumption at this stage on the timing or level of the borrowing required

	2017/18 Revised	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Reserves	21	19	17	18
Capital Funding	5	5	5	5
Provisions	2	2	2	2
Other	0	0	0	0
Total "core" funds	**28**	**26**	**24**	**25**
Working capital*	10	10	10	10
Total (under)/over borrowing	4	(110)	(134)	(147)
Expected cash position	**42**	**(74)**	**(100)**	**(112)**

* Working capital balances shown are estimated year end; these may be higher mid year

Memorandum: - (Under)/Over borrowing	**2018/19 Estimate**	**2019/20 Estimate**	**202020/21 Estimate**
-Investment Fund	(80)	(80)	(80)
- Other	(30)	(55)	(67)
Total	**(110)**	**(134)**	**(147)**

3 Prospects for Interest Rates

The Council has appointed Link Asset Services (formerly Capita Asset Services) as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view (at December 2017).

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

PWLB rates are quoted at the discounted Certainty Rate which Torbay Council is eligible for.

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.
- Borrowing interest rates increased sharply after the result of the general election in June 2017 and then also after the September 2017 MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Apart from that, there has been little general trend in rates during the current financial year.
- The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

The relativity benign outlook for interest rates supports a policy of restricting new borrowing and running down spare cash balances (Internal borrowing) to reduce net financing costs. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and the refinancing of maturing debt.

There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

There is a cash flow impact of any interest costs incurred for any capital projects during the construction phase prior to any income streams being generated. A summary on the economic factors influencing the rate forecasts is provided at Appendix 3. A more detailed economic commentary is available on request.

4 Borrowing

4.1 The current borrowing position

The Council's treasury portfolio position with forward projections (excluding new borrowing) is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement (CFR)), highlighting any over or under borrowing.

£m	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt at 1 April	138	153	273	273	273
Change in Debt	15	20	0	0	0
Other long-term liabilities – School PFI	7	7	6	6	6
Other long-term liabilities – EFW PFI	12	12	12	12	12
Actual gross debt at 31 March	**172**	**292**	**291**	**291**	**291**
The Capital Financing Requirement	**174**	**288**	**401**	**425**	**438**
(Under) / over borrowing	**(2)**	**4**	**(110)**	**(134)**	**(147)**

The table above based on (draft) quarter three 2017/18 capital monitoring report shows the Council's capital financing requirement (including PFI liabilities) rising to £438m (£200m Investment Fund) by the end of 2020/21 of which £147m is yet to be borrowed (£80m Investment Fund). This total could increase if Council approve any additional schemes to be funded from borrowing such as for additional regeneration schemes.

The Borrowing Strategy

The Council's Capital Investment Plan at (draft) quarter 3 2017/18 is detailed within the Prudential Indicators at Appendix 1. This plan and the impact on core cash, indicate the need to borrow £147 million of funds over the next three years to ensure that gross debt is in line with the CFR. If the profile of capital spend changes, the in year treasury strategy will be updated and borrowing decisions expedited by the Chief Finance Officer under delegated powers.

Ongoing capital transactions will initially be funded from the balance of new borrowing in 2017/18. Subsequent to this resource being applied, it is proposed to use existing cash resources to initially fund planned capital expenditure in order to delay the additional borrowing cost to the General Fund until income streams are realised. Under this primary strategy new borrowing will be limited to levels sufficient to cover cash requirements for individual capital transactions and only at the point of reasonable certainty that the funds will be applied quickly.

The budget for payment of interest on debt for 2018/19 of £9m, based on £273m of borrowing as at 15/1/18, is based on an overall borrowing rate of 3.40% (3.90% in 2017/18).

The Chief Finance Officer has recognised the value in aligning current low borrowing rates to the business cases of specific schemes generating new income streams and this policy is currently being applied to Investment Fund related schemes. Decisions on other schemes will be made on a case by case basis and non-applicable schemes will continue to reflect the Council's average rate of borrowing.

The outlook for interest rates in section 2 recognises the risk of deferring borrowing and exposure to higher borrowing costs. In the event of a significant rise in the outlook for interest rates, the Chief Finance Officer has delegated authority to vary the primary strategy outlined above and take a greater proportion of the borrowing requirement earlier to protect the affordability of capital schemes over the longer term. The Council will not borrow more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

Any decision to borrow in advance, linked to forecast interest rates, will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. No borrowing in advance will be made in relation to any capital project funded from borrowing until individual schemes have been approved by Council and there is a high assumption of spend occurring.

Finance officers continue to monitor alternative funding sources to PWLB. Discussions have been held with banking partners on market structures available and while these currently offer no advantage over PWLB, groundwork has been prepared if the Council's circumstances change in the future.

Treasury Indicators for limits to borrowing activity are published within Appendix 1 to this report.

5 Annual Investment Strategy

5.1 Investment policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). **The Council's investment priorities will be security first, liquidity second, and then return.**

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings. The creditworthiness policy adopted is detailed at Appendix 4.

A decision by the Chief Finance Officer to temporarily remove all Eurozone Banks, regardless of rating, from the approved counterparty list for in-house investments remains in place but does not form part of this policy.

Investment instruments identified for use in the financial year are listed at Appendix 5 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be set within the schedules accompanying the Council's Treasury Management Practices.

5.2 Investment strategy

Investment rates are forecast to improve marginally during 2018/19.

Expected cash levels are likely to be artificially buoyant at the start of the year from the balance of unapplied borrowing in 2017/18. It is proposed to decrease cash levels through the year as internal resources are used to initially fund income generating capital schemes and delay the cost of borrowing, rather than maintain cash levels earning negligible investment returns.

Based on strategic cash flow forecasts £15million of the Council's investments can be regarded as core cash and be invested over a longer periods in higher risk/return instruments. Previous investment decisions have locked out £12 million of these funds to gain higher returns (average 1.07%) and £3 million has been placed with the Local Authorities Property Fund (current yield around 4.50%). The fixed deposits are due to mature during 2018/19 and will be subject to reinvestment over a further longer term based on the forecast slow rise in interest rates. Additional exposure to Property Funds will be considered but need to be balanced against any impact on the General Fund from new accounting requirements.

A facility to pay £10million of short term cash to TOR2 in advance of 12 months contracted fees, to earn a significant discount was renewed in December 2017. This facility will be reviewed annually.

Under the strategy of using cash resources as internal borrowing for capital expenditure, remaining cash will need to be maintained in short term liquidity instruments. As such extensive use will be made of the Council's money market funds and fixed deposits are expected to be limited to short 3 or 6 month durations and instant access instruments to maintain sufficient liquidity. The expected return on these investments is unlikely to exceed 0.5%

The Council's holding in the Funding Circle (peer-to-peer lending platform) is being wound down as previously approved and at 31/12/17 stood at £166,500.

The overall investment performance will be benchmarked against the 7-Day LIBID market rate and is budgeted at a revised level of 0.65%

A new directive (MIFID II) from the European Union affecting financial dealing was implemented into UK law in January 2018. Prior to the new directive Torbay Council was classed as a "professional" client with its investment counterparties, recognising officers have knowledge and expertise in dealing with more complex investment instruments. Under MIFID II all Local Authorities are by default classed as "retail" clients meaning that banks and other counterparties will only be able to offer the most basic of investment vehicles e.g. fixed deposits, notice accounts. Authorities can apply to be reclassified as a professional client and this would be required for each investment type with each counterparty.

Officers have successfully applied for opt-up professional status in respect of all existing instruments. However, there remains a possibility that the Council will not pass the criteria for reclassification for new applications denying access to higher risk/return markets in future years.

Investment treasury indicator and limits are published within Appendix 1 to this report

6 Treasury Management Consultants

Link Asset Services (formerly Capita Asset Services) was reappointed as the Council's external treasury management advisors for three years from February 2016, following a full tender process.

The Council acknowledges that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Chief Finance Officer will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

7 Reporting Arrangements and Management Evaluation

Members will receive the following reports for 2018/19 as standard in line with the requirements of the Code of Practice:

- Annual Treasury Management Strategy
- Mid-Year Treasury Review report
- Annual Treasury Outturn report

The CFO will inform the Mayor/Executive Lead for Finance of any long-term borrowing or repayment undertaken or any significant events that may affect the Council's treasury management activities. The CFO will maintain a list of staff authorised to undertake treasury management transactions on behalf of the Council.

The Chief Finance Officer is authorised to approve any movement between borrowing and other long-term liabilities within the Authorised Limit (see Appendix 1). Any such change will be reported to the next meeting of the Council.

The impact of these policies will be reflected as part of the Council's revenue budget and therefore will be reported through the quarterly budget monitoring process.

The Council's management and evaluation arrangements for Treasury Management will be as follows:

- Monthly monitoring report to the Chief Finance Officer, Finance Manager-Budget & Technical, Executive Lead for Finance and Group Leaders
- Quarterly meeting of the Treasury Manager/ Finance Manager-Budget & Technical/ Chief Finance Officer to review previous quarter performance and plan following period activities
- Regular meetings with the Council's treasury advisors
- Membership and participation in the LINK Investment Benchmarking Club
- The Audit Committee is the body responsible for scrutiny of Treasury Management.

Reporting arrangements may be reviewed during 2018/19 in light of the new Treasury Management Code of Practice.

8 Other Matters

8.1 Loans to organisations

The Council has provided loans or loan facilities to the following organisations. These are policy decisions and not part of the treasury management strategy except for identifying any impact on cash balances:

Organisation	Current Value of loan (16/1/108)	Full Term of Loan	Rate
Torbay Economic Development Company*	£575,000	25 years	Linked to Council borrowing Rate
Torbay Economic Development Company	£1,439,029	25 years	Linked to Council borrowing Rate
Academy Schools	£130,000	3 to 7 years	Linked to Council borrowing Rate
Sports Clubs	£34,000	10 - 20 years	Linked to Council Borrowing Rate
Torbay Coast & Country side Trust	£891,000	45 years	Linked to Bank Base Rate
Parkwood Leisure *	£1,700,000	12 years	Linked to Council borrowing Rate
South Devon College	£3,920,000	25 years	Linked to Council borrowing Rate
Torbay Coast & Country side Trust – Green Heart Appeal	£28,125	4 years	Linked to Council borrowing Rate
Harbour Healthcare Ltd	£1,233,436	25 years	Linked to Council borrowing Rate
Torquay Academy *	£250,000	10 years	Linked to Council borrowing Rate

*Not fully drawn down as at 31st December 2017

The current overall rate of interest on these loans is around 4%.

8.2 Advancing cash

If approved the Council will advance cash to Torbay Council schools at a rate equivalent to that of the forecast investment yield (to reflect the lost investment opportunity), with the option of an additional 0.25% risk premium. The service will have to identify the funding for this advance from revenue or reserves in the year of the advance.

8.3 Investing cash for Local Payment Scheme (LPS) Schools

If agreed by the Chief Finance Officer the Council will invest LPS school surplus balances on a temporary basis and endeavour to match Bank Rate on these investments on a variable basis. This will be for cash on a longer-term basis and will not apply to daily cash flow balances.

8.4 Soft Loans

Accounting for financial instruments require the recognition of soft loans i.e. where a loan is made at a lower than ‘competitive’ rate the cost implicit in achieving the lower rate must be reflected in the Council’s accounts.

13.5 Anti-Money Laundering

The Council will comply with all relevant regulations.

Appendix 1

Prudential & Treasury Management Indicators 2018/19 – 2020/21

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the Capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital Expenditure

The Council's Capital Plan monitoring report for quarter 3 is to be presented to Council in February 2018 and summarised below for approval are the required prudential indicators for capital expenditure:

Capital expenditure £m	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Total at Quarter 3 2017/18	**135**	**141**	**35**	**21**

Note: in the above: £99m in 17/18 and £80m in 18/19 is Investment Fund Expenditure

It should be noted that the timing of capital expenditure financed from borrowing is currently very uncertain which makes planning difficult. There is significant uncertainly over the timing of new expenditure on the £82m balance on the Investment Fund (as at 15/1/18) and a number of core capital projects such as Town Centre Regeneration and Housing funds.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of funding resources results in a borrowing need.

Financing of capital expenditure £m (draft quarter 3 17/18)	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital receipts	1	2	1	0
Capital grants	13	19	4	2
Capital reserves	1	2	0	0
Capital Contributions	1	0	0	0
Revenue	1	0	0	0
Borrowing need for the year	**118**	**118**	**30**	**19**

Note: in the above: £99m in 17/18 and £80m in 18/19 are the borrowing need for Investment Fund

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include the financing of the asset and so the Council is not required to separately borrow for these schemes. The Council currently has £20m of such schemes, mostly PFI schemes, within the CFR.

The Council is asked to approve the CFR projections below:

£m	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital Financing Requirement				
Total CFR	**288**	**401**	**425**	**438**
Movement in CFR	**114**	**113**	**24**	**13**

Movement in CFR represented by				
Net financing need for the year (above)	118	118	30	19
Less MRP, VRP and other financing movements	(4)	(5)	(6)	(6)
Movement in CFR	**114**	**113**	**24**	**13**

External Debt

The Operational Boundary

This is the limit beyond which external borrowing and long-term liabilities are not normally expected to exceed. In most cases, this would be linked to the CFR, but may be lower or higher depending on the levels of actual borrowing.

Operational boundary £m	2017/18 Revised	2018/19 Revised	2019/20 Estimate	2020/21 Estimate
Borrowing	290	450	450	450
Long term liabilities	20	20	20	20
Total	310	470	470	470

The Authorised Limit for external borrowing and long-term liabilities.

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised limit £m	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Borrowing	310	500	500	500
Other long term liabilities	20	20	20	20
Total	330	520	520	520

A comparison of Gross Debt and the Capital Financing Requirement is also a key indicator of prudence. This indicator is to ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years.

£m	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt at 1 April	138	153	273	273	273
Change in Debt	15	120	0	0	0
Other long-term liabilities – School PFI	7	7	6	6	6
Other long-term liabilities – EFW PFI	12	12	12	12	12
Gross Debt at 31 March	**172**	**292**	**291**	**291**	**291**
Capital Financing Requirement	**174**	**288**	**401**	**425**	**438**
(Under) / over borrowing	**(2)**	**4**	**(110)**	**(134)**	**(147)**

Affordability

To assess the affordability of a council's capital programme, the capital financing costs are compared to it net revenue stream (i.e taxation and non-specific grant income). Financing costs include interest payable, MRP and interest and investment income. For Torbay investment income includes income from investment fund properties.

£m	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Net Revenue Stream	£110m	£110m	£110m	£110m
Interest Paid & MRP 9 as at 15/1/18)	£11m	£14m	£14m	£14m
Interest paid & MRP on new debt	0	0	£5m	£6m
Interest Received	(£1m)	(£1m)	(£1m)	(£1m)
Sub Total	£10m	£13m	£18m	£19m
Percentage of Financing Costs to Net Revenue Stream	**9%**	**12%**	**16%**	**17%**

Appendix 2

Policy on Minimum Revenue Provision for 2018/19

The Minimum Revenue Provision is a statutory charge that the Council is required to make from its revenue budget. This provision enables the Council to generate cash resources for the repayment of borrowing.

The basis for the calculation of the provision is prescribed by legislation (Local Authorities (Capital Finance and Accounting (England) (Amendment) Regulations 2012, which states that Councils are required to "determine for the current financial year an amount of MRP that it considers to be prudent" and prepare an annual statement on their MRP calculation to their full Council.

One of the aims of this legislation is to ensure that the repayment of principal owed for Capital expenditure is charged on a prudent basis. Central Government guidance says:

> "*the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the Capital expenditure provides benefits"*

For Supported Borrowing, (borrowing funded by central government), the Council will charge MRP at 2% of the balance as at 31 March after the deduction of the value of adjustment A (a set value in 2004), fixed at the same cash value as that of the whole debt is repaid after 50 years.

The Council will charge a VRP (voluntary revenue provision) for the supported borrowing within the adjustment A value that is outstanding as at 31 March relating to transferred debt from Devon County Council fixed at the same cash value as that of the whole debt is repaid after 50 years (which is similar to the supported borrowing calculation).

For capital expenditure funded from unsupported borrowing, less any repayment to date, the Council will make a provision based on the cumulative expenditure incurred on each asset (including investment fund properties) in the previous financial years using a prudent asset life, which reflects the estimated usable life of that asset. (See table below).

The MRP for each asset will be calculated on the asset life method using an annuity calculation. An adjustment to the MRP calculation will be made where there is expenditure in the previous financial year, but the asset is not yet operational. MRP will be calculated on the total expenditure on that asset in the year after the asset becomes operational or when there is an income stream in relation to that asset.

The Council will continue to charge services for their use of unsupported borrowing using a prudent asset life (or a shorter period) on an annuity calculation (or a straight line basis if no MRP on the asset). Where possible the same asset life and borrowing interest rate will be used for both the charge to services and the calculation of the MRP.

To mitigate any negative impact from the changes in accounting for leases and PFI schemes the Council will include in the annual MRP charge an amount equal to the amount that has been taken to the balance sheet to reduce the balance sheet liability for a PFI scheme or a finance lease. The calculation will be based on the annuity method using the Internal Rate of Return (IRR) implicit in the PFI or lease agreement.

Where loans are given for capital purposes they come within the scope of the prudential controls established by the Local Government Act 2003 and the Local Authorities (LINK Finance and Accounting) (England) Regulations 2008.

If a loan agreement does not include contractual commitments that the funds be put towards capital expenditure no MRP will be made, if however capital contract commitments are included then an MRP will be made on a prudent basis using Asset Life Method linked to the life of the asset being funded.

The Capital Financing Requirement (CFR) will increase by the amount of the loan. Once the funds are returned to the local authority, the returned funds are classed as a capital receipt with those receipts being earmarked specifically to that loan, and the CFR and loan will reduce accordingly. If the expectation is that funds will be repaid in full at some point in the future, there is no requirement to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position of each loan will be reviewed on an annual basis by Chief Finance Officer.

Where expenditure is on an investment fund property a MRP may not be applied where there is a clear decision or realistic expectation that an asset purchased as an investment property will be sold in the future where the capital receipts from that sale will be set aside to enable repayment of the borrowing associated with the asset. These assets will be reviewed each year to asses any reduction in value including acquisition costs. If any reduction in value has occurred then an MRP will be charged to recover the loss in the medium term, such as over five to ten years.

Where relevant, the suggested asset lives for certain types of capitalised expenditure as detailed in the MRP guidance issued by DCLG will be used.

Each asset life will be considered in relation the asset being constructed by the Chief Finance Officer; however as a guide the following are typical asset lives that will be used.

Asset Type	Asset Life
Freehold Land (speciifed in DCLG statutory gudiance)	50 years
Buildings	40 years
Investment Properties	40 years
Software	10 years
Vehicles & Equipment	7 years
Highway Network	40 years
Structural Enhancements	25 years
Infrastructure	40 years

For capital expenditure where land and buildings are not separately identified a blended asset life can be used (e.g. an assumption that 30% of the value is land results in an asset life of 43 years).

Appendix 3

Economic Summary (Link Asset Services – January 2018)

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- The Bank of England takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Germany is still without an effective government after the inconclusive result of the general election in October. In addition, Italy is to hold a general election on 4 March and the anti EU populist Five Star party is currently in the lead in the polls, although it is unlikely to get a working majority on its own. Both situations could pose major challenges to the overall leadership and direction of the EU as a whole and of the individual respective countries. Hungary will hold a general election in April 2018.
- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

Appendix 4

Creditworthiness Policy

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands, illustrated below, which indicate the relative creditworthiness of counterparties. The Chief Finance Officer applies and reviews suitable financial and durational bands to each of these bands.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	**1.25**	**1.5**	**2**	**3**	**4**	**5**	**6**	**7**
up to 5yrs	up to 5yrs	up to 5yrs	up to 2yrs	up to 2yrs	up to 1yr	up to 6mths	up to 100days	no colour

The Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

All credit ratings will be monitored on a monthly basis and for each investment transaction. The Council is alerted to changes to ratings of all three agencies through its use of the LINK Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by LINK Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the CFO will also use market data and market information, information on any external support for banks to help support its decision making process.

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ and also have banks operating in sterling markets. The exception to this is the United Kingdom which has been exempted from the rating criteria to ensure cash services can continue to operate following a downgrade to AA.

The list of countries that qualify using this credit criteria as at the date of this report (based on the lowest available rating) are shown below and this list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

AAA		AA+
Australia	Netherlands	
Canada	Norway	Finland
Denmark	Singapore	Hong Kong
Germany	Sweden	U.S.A.
Luxembourg	Switzerland	
Exempted from Sovereign Rating Criteria		
United Kingdom		

Appendix 5

Approved Investment Instruments: Specified and Non-Specified

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Specified Investments

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable.

Investment Type	* Minimum 'High' Credit Criteria
Debt Management Agency Deposit Facility	--
Term deposits – local authorities	LAs and other public bodies classified as colour band "Yellow"
Term deposits – banks and building societies	Creditworthiness system colour band "Green" and above
UK part nationalised banks	Creditworthiness system colour band blue
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Sovereign rating AA+
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -	
1. Government Liquidity Funds	* MMF rating AAA
2. Money Market Funds (CNAV)	* MMF rating AAA
3a. Money Market Funds (LVNAV)	
3b. Money Market Funds (VNAV)	
4. Ultra-Short Dated Bond Funds with a credit score of 1.25	* MMF/bond fund rating AAA
5. Ultra-Short Dated Bond Funds with a credit score of 1.5	* MMF/bond fund rating AAA
6. Bond Funds	* bond fund rating AAA
7. Gilt Funds	* bond fund rating AAA

Non-Specified Investments

These are any investments which do not meet the Specified Investment criteria. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The maturity limits recomended will not be exceeded. Under the delegated powers the Chief Finance Officer can set limits that are lower based on the latest economic conditions and credit ratings.

Investment Type	Minimum Credit Criteria	Max investment or % of total investments	Max. maturity period *
UK nationalised/part-nationalised banks (maturities over one year)	Creditworthiness system colour band "Blue"	50%	2 years
Term deposits (over one year) – local authorities and other public sector bodies	LAs and other public bodies classified as colour band "Yellow"	50%	5 years
Term deposits (over one year) – banks and building societies	Creditworthiness system colour band "Purple"	75%	2 years
Certificates of deposits issued by banks and building societies (maturities under one year)	Creditworthiness system colour band "Green" and above	50%	1 year
Certificates of deposits issued by banks and building societies (maturities over one year)	Creditworthiness system colour band "Purple"	50%	1 year
UK Government Gilts/Treasury Bills	Sovereign rating AA+	100%	5 years
Bonds issued by multilateral development banks	AA+	50%	5 years
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	50%	5 years
Sovereign bond issues (other than the UK govt)	Sovereign rating AA+	50%	5 years
Structured Deposits (Fixed term maturities with variable rate and variable maturities)	Creditworthiness system colour band "Orange" <1 year "Purple" >1 year	25%	2 years
Commercial paper issuance by UK banks covered by UK Government guarantee	Sovereign rating AA+	35%	5 years
Commercial paper other	Creditworthiness system colour band "Red" and above	35%	5 years
Floating Rate Notes	Long-term AA	35%	5 years
Property Fund: *the use of these investments would normally constitute capital expenditure*	--	£10million	5 years
Property Fund: *not classified as capital expenditure*	--	£10million	5 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):- 1.Corporate Bond Funds 2.Gilt Funds	AAA	35%	5 years
Corporate Bonds	AA	35%	5 years
Other debt issuance by UK Banks covered by UK Government guarantee	Sovereign rating AA+	35%	5 years
Multi Asset Funds	--	35%	5 years
Peer to Peer Lending	Funding Circle rating B or equivalent	£500,000 Individual loan - £2,000	5 years

Meeting: Council **Date:** 8 February 2017

Wards Affected: All

Report Title: Corporate Asset Management Plan

Is the decision a key decision? Yes

When does the decision need to be implemented? Immediately

Executive Lead Contact Details: Mayor Gordon Oliver, Executive Lead for Finance, 01803 207001, mayor@torbay.gov.uk

Supporting Officer Contact Details: Kevin Mowat, Executive Head – Business Services, 01803 292429, kevin.mowat@torbay.gov.uk

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1. Proposal and Introduction

1.1 The Council's Corporate Asset Management Plan is the policy framework document which sets out the strategies that the Council will use to rationalise the number of assets that it has, replace them where appropriate and improve the quality of the remaining assets.

1.2 The current Asset Management Plan covers the four year period until 2019 and it is currently a requirement of the Constitution that it is reviewed annually. The proposed Plan at Appendix 1 will be the last annual review.

1.3 Work will commence at the start of the new financial year to revise the Plan. The revision will take account of the progress that has been made in meeting the actions within the current plan and will also reflect the changes to the Council's asset base over the course of the past few years. Moving forward, the Council's assets will be categorised which will enable a separate action plan to be developed for each category.

1.4 In the meantime, the proposed Plan is little changed from the currently adopted version and officers, with support of the TDA, will continue to manage the Council's estate based on the principles within the Plan.

2. Reason for Proposal

2.1 To enable the Council to agree the Corporate Asset Management Plan as required by the Constitution.

3. Recommendation(s) / Proposed Decision

3.1 That the Corporate Asset Management Plan 2015-2019 (2018/2019 Revision) set out in Appendix 1 to the submitted report be approved.

Appendices

Appendix 1: Corporate Asset Management Plan 2015-2019 (2018/2019 Revision)

2018/2019 Revision

Corporate Asset Management Plan

2015 – 2019

Contents

1 Introduction

The effective use of assets is a key factor in delivering the objectives and priorities of the Council. This Plan sets the agenda for us to achieve that by adopting the following guiding aim:

"To ensure that the opportunity cost of financial resources tied up in land and buildings is minimised, and that capital and revenue expenditure on the portfolio is directed efficiently and effectively to provide value for money."

The Council is fully committed to the principle of the most efficient use of assets and this document establishes the objectives, processes and actions that the Council will follow to achieve that aim.

The Corporate Asset Management Plan covers the four year period commencing April 2015 to 2019 and is reviewed annually. Torbay Council has commissioned the Torbay Economic Development Company (TEDC) trading as Torbay Development Agency (TDA) to deliver the Corporate Asset Management Plan (CAMP). The Executive Head of Business Services will act as the lead Client Officer and will serve as the point of contact for the TDA to request/receive instructions on property/asset matters.

Over the last year an Investment Fund of £200m has been identified to increase Torbay's future local tax base income by investing capital resources in Torbay to stimulate growth. Circa £140m has been invested in commercial investment properties and work is continuing to identify investment opportunities and assess these against the Council's Investment Fund Strategy.

Torbay Council has a considerable number of assets, which are not only essential to service delivery but underpin much of the Bay's economy. Unfortunately many of these assets are in poor condition and not fit for purpose. This Plan sets out strategies to rationalise the number of assets, replace them where appropriate and improve the condition of those remaining.

This will be the last annual review of the current Plan and work will commence in the coming year on a revised Corporate Asset Management Plan to cover the four year period from 2019/2020. It is envisaged that the revised Plan will take a different approach through recognising both the work that has been undertaken in delivering the current Plan and the different categories of assets which the Council holds.

2 Context

Torbay Council's ambition is for "A Prosperous and Healthy Torbay"

The Council's vision for the built environment has been developed in consultation with the community and is defined within the Council's key strategic documents:

- Torbay Council's Corporate Plan 2015-2019
- Torbay Economic Strategy 2017-2022
- Torbay Local Plan 2012-2030
- Torbay Heritage Strategy
- Torbay's Housing Strategy 2015-2020
- Tor Bay Harbour – Port Masterplan
- Geopark Management Plan
- Torbay Biodiversity and Geodiversity Action Plan

A relatively small number of major assets are in very poor condition but there is little prospect of funding the repair or renewal without accompanying enabling redevelopment. This plan outlines a generic approach to tackle the repair of these assets through engagement with the private sector.

The effective use of Council owned assets can also help stimulate the economy and act as the catalyst for regeneration and house building. This Plan will encourage and facilitate partnerships between private developers and Torbay Council to help regenerate and develop key assets owned by the Local Authority.

All actions recommended within the Corporate Asset Management Plan strive to promote the use of assets in a way that positively assists the Council to deliver the current Corporate Plan. The following principles from the Corporate Plan guide this:

- Use reducing resources to best effect
- Reduce demand through prevention and innovation
- Integrated and joined up approach

3 Asset Management Practice, Objectives and Principles

3.1 Best Practice in Asset Management

The Government has sponsored various reports regarding best practise in asset management. It has developed a Public Sector Operation Efficiency Programme (OEP) which has work strands on Property and Asset Management and Sales.

This was developed by the Audit Commission in their "Room for Improvement" document reviewing Asset Management practice in Local Government.

The culmination of this work is the publication by the RICS on behalf of CLG of Public Sector Asset Management Guidelines and Best Practice Guides for Local Government Asset Management.

This Asset Management Plan reflects many of the key steps advised in those documents - although there is always room to strive for continuous improvement.

3.2 Regeneration Objectives

The Economic Strategy has been developed as a response to the challenging economic conditions within Torbay and looks to create the environment for investment from businesses and others to take the Bay forward. A number of physical regeneration opportunities are projects which sit on Council land. In light of the significantly changed funding regimes which have restricted investment into opening up employment sites Torbay is therefore well placed to combine the economic prosperity ambitions of the Bay with its own corporate service property objectives. The Torbay Economic Development Company is well placed to deliver this Commission.

Any disposal of assets required to facilitate the Towns Centres Regeneration Programme will be a Council function.[1]

Where the Council proposes to dispose of land of any value to the Housing Rental Company these shall be decisions for Full Council to take as part of the approval of each Business Case.[2]

3.3 Heritage

The Council's Heritage Strategy (2011) has been put in place to protect and enhance the heritage assets of Torbay for future generations, both those of local and national significance. Also, it aspires to ensure that Torbay's heritage assets are used as a key driver for the regeneration of the Bay and to focus resources on our most valued heritage assets. The Council has a number of Heritage Buildings within its portfolio and therefore there is appropriate regard to and priority given in planning asset management to those Council properties within the Built Heritage Action Plan. The Heritage Strategy is not a statutory document.

3.4 Asset Management Principles

To achieve these objectives, it is proposed that the Council manage the use of assets in a manner that adheres to the following guiding principles:

To manage assets strategically:

- To provide effective property solutions for service delivery using assets in a way that promotes not constrains service delivery
- Establish Service Asset Management Plans, where appropriate, which address the property needs of the service

[1] Added following the decision of the Council on 6 April 2017 (Minute 180)
[2] Added following the decision of the Council on 20 July 2017 (Minute 67)

- Where possible utilise surplus land for Housing purposes, whereby a higher than planning policy level of affordable housing could be delivered in a range of formats to preserve as far as is possible the land value
- Provide a clear Corporate process for the Council to prioritise and endorse specific plans and initiatives
- Ensure appropriate technical resources are available to support the development and implementation of Council endorsed initiatives
- Ensure buildings are suitable, accessible and fit for the purpose they are used
- Be guided by the Port Masterplan as it acts as a framework document to set the scene for the future of the port and to ensure sustainable development

To continuously maintain and improve assets:

- Maintain accurate records of elements in need of repair
- To consider the optimum utilisation of all assets whether operational or non operational
- Establish clear responsibilities for rectifying items of disrepair
- Establish clear responsibilities for addressing major replacement items
- Ensure appropriate technical resources are available to manage repair works
- Ensure major repair projects are procured to provide best value for money and in a manner that complies with Government regulations
- Ensure statutory obligations such as DDA, Asbestos and Water Hygiene are complied with

To release value and minimise cost:

- Due to the financial challenges facing the Authority and the possible future reductions in Revenue Support Grants (RSG), unless there is specific approval at Full Council to the contrary, the Council will:
    - Always seek to maximise the full market receipt for their assets whether by way of freehold disposal or leasehold interest *See definition of 'Full Market Rent' under Key Terms in Appendix 4
    - Seek to maximise revenue streams either through development or retention of the asset base
    - Ensure that receipts obtained from disposals will be used to deliver the Capital Strategy which will have an emphasis on investing in revenue generating opportunities
    - Not restrict or reduce the current or future value of its assets through the use of contractual restrictions, covenants, peppercorn rents
    - Ensure any grant from the Council to assist with a tenant's rent will be reviewed annually or as otherwise stated when the grant was approved
- Undertake a strategic review of all assets to identify performance and yield and challenge the manner of use of all assets for the potential to generate additional revenue. Where assets are underperforming we shall seek future investment creating alternative uses or look to dispose of assets and reinvest capital receipts in the capital programme or other investment opportunities.
- Through the Investment Committee and in line with the Council's Investment Strategy, to monitor the market for investment opportunities, principally in Torbay but not exclusively and look to acquire new assets where the yield offers a better return on investment
- Ensure the Council's disposal list is effectively implemented
- Continue to ensure that non operational investment properties are performing
- Monitor running costs to target potential savings and implement more cost alternative solution
- Provide effective facilities management to assets, including energy efficiency and carbon reduction programmes

To provide accurate data for informed decision-making

- Develop improved information databases
- Ensure data is actively managed to remain accurate
- Establish protocols for the responsibility of updating data
- Ensure appropriate technical resources are available to carry out surveys to update data

3.5 Consultation with the Community

The Corporate Asset Management Plan is set specifically in the context of the Corporate Plan to ensure that all of the extensive consultation carried out by Torbay Council with the community of Torbay is reflected within it.

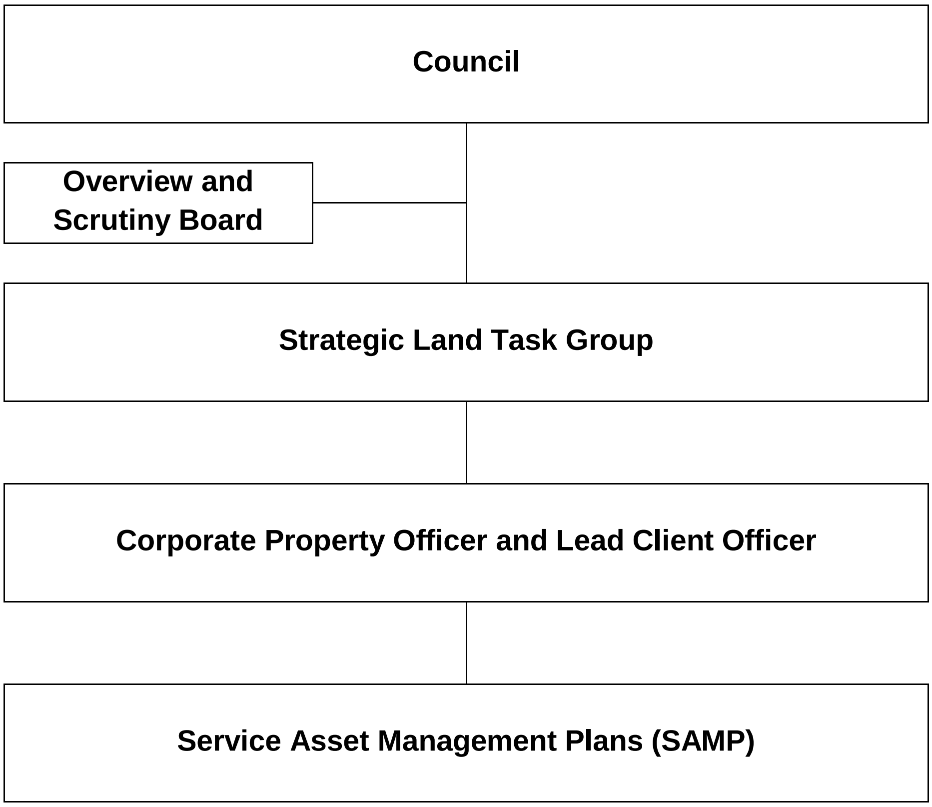
3.6 Consultation with Stakeholders and Services

Effective consultation with Stakeholders and Services is ensured via an approved email circulation group.

In conjunction with the Lead Client Officer, the CPO consults when appropriate with major Stakeholders on asset issues, potential disposals and specific project delivery. This includes consultation with the relevant Community Partnership and Ward Councillors. Community Partnerships provide an opportunity for people who live or work in the different parts of Torbay to discuss issues of common concern, influence the way in which services are provided and improve their local area.

4 Organisation

Torbay Council has adopted the following processes and procedures for the delivery of Corporate Asset Management Planning.



4.1 Service Asset Management Plans (SAMP)

Formal SAMPs for all services for a five-year period have been developed and were updated by services in 2013. A key action point for the Strategic Action Plan will be to use the outcomes to drive the current Corporate Asset Management Plan. This will provide a fully integrated line of asset management planning and consultation from front line service delivery to corporate planning.

4.2 Corporate Property Officer (CPO) and Lead Client Officer

The TEDC is commissioned by the Council to provide asset management services and to manage the Council's overall asset management process. Within the TEDC, the Head of Asset Management and Housing is responsible for advising the Strategic Land Task Group (SLTG) and is supported by professionally trained property officers within the Company's Asset Management Team. The Lead Client Officer will provide formal recommendations to the Mayor/Council in relation to asset decisions, supported by recommendations from the SLTG, and will issue instructions to the TEDC as required, within the Scheme of Delegation.

4.3 Strategic Land Task Group (SLTG)

This group was established to maximise the return from Council assets that have been identified for disposal and/or development. The group identifies reviews and then approves the preferred option for a site / property and any associated budget within the approved budget set by Council. Proposals are assessed and prioritised while having regard to deliverability and return on investment. Work programmes are approved and co-ordinated to bring sites forward in a timely manner.

4.4 Capital Strategy and Plan

The Council's Capital Strategy is a separate Policy Framework document. However, as the Capital Strategy and Corporate Asset Management Plan have such strong fundamental links both are dealt with together to ensure a common approach.

The Corporate Capital Strategy is the Policy Framework document that sets out the principles to be used as guidance in the allocation of capital investment across all the Council's services utilising a capital projects scoring matrix which informs decisions on capital spending priorities within the Council's Four Year Capital Plan.

The Capital Strategy should be referred to for further detail.

5 Performance Monitoring

5.1 Corporate Asset Management Monitoring

The overall progress and performance of the Corporate Asset Management Plan aims and objectives are reviewed annually in order to determine whether amendments to the Corporate Asset Management Plan should be recommended to the Council.

5.2 Key Asset Management Performance Indicators

The following performance indicators have been adopted by the Council for use in asset management performance monitoring. These indicators have been developed by the property industry and approved by Government as follows:

PI1	Condition and Maintenance Indicators
PI2	Energy, Water Consumption and CO2 emissions
PI3	Suitability
PI4	Building Accessibility

The PI out-turns are considered as part of the yearly review of the Corporate Asset Management Plan.

6 Challenges and Opportunities

The asset portfolio is large, diverse in nature, includes large numbers of very low value assets and includes 50 listed buildings with restrictions on use.

An opportunity exists to work with public sector partners to maximise the benefits of "One Public Estate".

There are a number of specific challenges listed below for Torbay Council's assets that arise from a combination of the Council's history, Corporate Plan objectives, proposed changes to service delivery and the nature and condition of the asset portfolio.

8.1	Regeneration and Housing
8.2	Suitability of Assets
8.3	Asset Rationalisation Project
8.4	Economic Development of Council Assets
8.5	Repair and Maintenance
8.6	Asbestos and Water Hygiene
8.7	Energy Management
8.8	Office Rationalisation
8.9	Data Management
8.10	Community and Shared Use, including Sports Clubs
8.11	Tenanted Non Residential Properties

6.1 Regeneration and Housing

Where we are now

Torbay Council and the Torbay Economic Development Company are working together reviewing the most appropriate delivery methods for Torbay's major regeneration projects focusing on the Town Centres and other strategic sites that will benefit from the completion of the South Devon Highway. Work continues to provide development schemes for each of the Town Centres with master plans.

The prime emphasis going forward will be to focus on an Employment and Regeneration programme that brings employment, offices, retail opportunities, business development, improved tourist facilities and public realm improvements to Torbay. Greater focus will be applied in areas of deprivation, whenever this is possible and feasible. It will also be important to ensure that Torbay provides new homes commensurate with the planned growth in employment.

Where we need to be

- Ensuring that the Council uses its assets and powers to effectively promote and facilitate employment growth, inward investment and regeneration
- Working together including with the private sector to deliver the Regeneration programme which will include Council assets
- Ensuring all investment in the Bay supports the Council's economic growth objectives and has widespread regenerative benefits
- Ensure all projects are consistent with the Council's planning policy framework (Torbay Local Plan)
- Ensuring maximum funding is secured from all possible public sector funds
- Promoting the new South Devon Highway between Torquay and Newton Abbot

Issues

- Considerable resources may continue to be required to deliver the stepped changes required
- Public sector interventions (i.e. through simplified planning processes) and investment will be required to stimulate the market locally
- Public sector investment, particularly grant, is shrinking given the national financial picture, innovative solutions are required
- Central government now provide direct incentives for regeneration and housing such as new homes bonus' and business rates retention scheme

Action Plan

Action	Target Date	Responsibility	Current Status
Deliver an inward investment programme	Ongoing	TEDC	Ongoing
Maximise the delivery of Affordable housing for local people	Ongoing	TEDC / Torbay Council	Ongoing
Working with the private sector to deliver the regeneration programme	Ongoing	TEDC	Ongoing
Maintain rolling Regeneration programme to monitor progress	Ongoing	TEDC	Ongoing
Work with the Heart of the SW Local Enterprise Partnership to ensure its priorities accord with Torbay's and funding opportunities are maximised	Ongoing	TEDC for the Council	Ongoing
Maximise the benefits and opportunities presented by the new South Devon Highway	Ongoing	TEDC / Torbay Council	Ongoing
Continue to use Council assets to facilitate and fund employment growth and regeneration	Ongoing	TEDC for the Council	Ongoing

Risks

- The Property Market
- Public Sector funding sources continue to reduce
- Human Resources – the right people for the right job with the capacity to do the job
- Actions require long term support

Benefits

- A joined up regenerated Bay
- Private sector involvement to help facilitate regeneration of Torbay
- Successful implementation of the economic strategy and local plan leading to economic prosperity for the Bay
- Improved Corporate property values by raising and improving the economic profile of the Bay
- To increase supply of affordable homes for rent and shared ownership to meet the needs of local people
- Heritage Assets improved
- Improve the value generated from Council assets

6.2 Suitability of Assets

Where we are now

Torbay is a geographically diverse area with a highly transient population and limited economic resources. A wide variety of public services need to be provided requiring a wide variety of assets. The current asset portfolio was inherited from a number of sources when the authority gained unitary status in 1998. Under these circumstances maintaining suitable assets is extremely challenging and will remain a constantly ongoing task.

Where we need to be

Torbay Council needs to develop the review of assets in a way that ensures:

- All assets are suited to the purpose for which they are used
- An effective means to constantly review and challenge the use of assets
- A review of the Council's substantial portfolio of Tenanted Non Residential Property (TNRP) principally around the reasons for holding the assets. (see Section 8.11 for further details)
- Disposal of assets that are surplus to the Council's requirements

Issues

- Continuation of the Service Asset Management Plans and Suitability Surveys are essential to provide the background information required to develop a 5 year property plan and investment strategy. These will form the basis of a property review. The plans will be subject to a challenge process by the Strategic Land Task Group
- The Disposal Programme is being progressed
- The Action Plan particularly in regard to service asset management plans is a comprehensive project which will require resources if it is to be delivered

Action Plan

Action	Target Date	Responsibility	Current Status
Review of Service Asset Management Plans	Ongoing	CPO with Heads of Service	Achieved
Complete Suitability Surveys	Ongoing	Service users / CPO	Achieved
Maintain 5-year rolling Maintenance Programme	Achieved	CPO / TEDC	Achieved and Ongoing
Maintain rolling programme of Condition Surveys	Achieved	CPO / TEDC	Achieved and Ongoing
Continue programme for asset disposal	Ongoing	CPO / Heads of Service	Ongoing
Consider centralising all R&M budgets to allow strategic allocation and investment	March 2017	CPO / Head of Asset Management	Phase 1 Completed April 2015
Review and consolidate the range of asset meetings that take place	December 2014	CPO / Head of Asset Management	Completed

Risk

There is a high risk that without these actions to deliver a more structured and comprehensive approach opportunities for improvement and reduction in costs will be missed.

Benefits

The proposed strategy will deliver:

- A coordinated planning process from front line service delivery to corporate decision making
- Clear identification of areas requiring priority action
- Improved data and information to enable informed decision making
- Efficiencies in raising orders
- A clear plan for the improved use of assets for all services linked to Council priorities
- Better identification of surplus assets and potential capital receipts for funding priority schemes
- A direct benefit to all the Corporate Plan Key Objectives

6.3 Asset Rationalisation Project (ORP)

Where we are now

The further development of Torbay Online Asset Database (TOAD) has produced significant levels of data that has assisted in a comprehensive review of the Council's assets. This initially identified circa 100 potential assets for disposal. These were all scored and reviewed for planning, ownership and valuation issues in order to produce a matrix and disposal programme and community consultation took place. In May 2008 a report went to Cabinet and it was agreed that 36 assets were declared surplus, 5 assets would be retained and the Council would invite community interest for the possible transfer of 2 assets. This was the start of the process and since then numerous additional assets have been approved for disposal. This process needs to be ongoing to ensure an annual review of further assets that can be sensibly disposed of where they are proven to have no operational or financial justification to be retained.

Due to the financial challenges facing the Authority and the possible future reductions in Revenue Support Grants (RSG), unless there is specific approval at Full Council to the contrary, the Council will:

- Always seek to maximise the full market receipt for their assets whether by way of freehold disposal or leasehold interest *See definition of 'Full Market Rent' under Key Terms in Appendix 4
- Seek to maximise revenue streams either through development or retention of the asset base
- Ensure that receipts obtained from disposals will be used to deliver the Capital Strategy which will have an emphasis on investing in revenue generating opportunities
- Not restrict or reduce the current or future value of its assets through the use of contractual restrictions, covenants, peppercorn rents
- Ensure any grant from the Council to assist with a tenant's rent will be reviewed annually

The Council will undertake a strategic review of all assets to identify performance and yield and challenge the manner of use of all assets for the potential to generate additional revenue. Where assets are underperforming we shall seek future investment creating alternative uses or look to dispose of assets and reinvest capital receipts in the capital programme or other investment opportunities.

Through the Investment Committee and in line with the Council's Investment Strategy, the Council will monitor the market for investment opportunities, principally in Torbay but not exclusively. The Council will look to acquire new assets where the yield offers a better return on investment.

Where we need to be

- The disposal programme is inhibited by the level of resource available and therefore to accelerate this programme and increase the level of receipts, 4% of all disposal receipts can be used to cover the additional revenue costs required to deliver the disposal programme.

Torbay Council needs to dispose of more non essential and poorly utilised assets to:

- Maintain efficiency
- Service the capital programme by bringing forward assets for disposal as the programme dictates
- Achieve wider regeneration objectives as appropriate
- Dispose of assets that no longer have valid use or are not cost effective

Issues

- The number of potential assets for disposal present some considerable challenges to ready them for disposal - this is an intensive and time consuming project
- The current state of the property market may delay progress on sales
- If it is seen appropriate to obtain planning permissions prior to selling assets this will cause a delay
- Demand from services for assets which have been declared potentially surplus
- Future Government Legislation and Local Policies such as Local Development Orders to create enterprise areas

Action Plan

Action	Target Date	Responsibility	Current Status
Regular review of assets for disposal	Ongoing	CPO with service heads	Ongoing
Provide Interface with Internal Stakeholders	Ongoing	CPO with service heads	Ongoing
Prepare Generic Disposal Assessment procedure	Achieved	CPO with service heads	Ongoing as requirements change
Review the effectiveness of the Community Asset Transfer policy	March 2015	CPO / Head of Asset Management	Completed
Progress the Disposal Programme	Ongoing	Agents, Estates Officers, CPO	Ongoing
Review financial and standing orders regulations relating to disposals and new leases	April 2016	Lead Client Officer and Estates Manager	Ongoing

Risks

- There is a high risk that without these actions and more resource, opportunities for driving value or delivering regeneration may be missed
- The Property Market
- There is a high risk that demand from services for assets will have an effect on receipts

Benefits

The proposed strategy will deliver:

- A coordinated process of disposals and asset rationalisation
- Assets from which to derive capital receipts
- Assets that can help the economic and social regeneration of the Bay

6.4 Economic Development of Council Assets

Where we are now

Torbay, in common with other coastal resorts, has a narrow economic base with the dominant employment sectors, including hospitality and retail, being primarily low pay. There are opportunities for the growth of the local economy by concentrating on sectors where there are local strengths and where the following sectors having demonstrated the potential - the re-emergent advanced electronics and engineering, marine, fisheries, professional services and the health economy.

To deliver the Council's economic strategy objectives and support the growth of local businesses, attracting new investment is essential in order to create the physical environment and conditions for growth. Council assets, including highways infrastructure therefore have a direct role in developing growth and should be developed in a way that supports that aim.

Short term focus is required to ensure that appropriate assets are used to deliver economic infrastructure and employment land to support growing local businesses and inward investment.

Where we need to be

Torbay Council needs to develop the use of assets in a way that delivers:

- A high quality holiday / tourism environment
- Attractive growth and relocation opportunities for new and existing businesses that supports delivery of the inward investment programme, new business and an increase in the business rate base for Torbay
- Business and employment opportunities for young local people to remain in Torbay
- Economic diversity
- Good working partnerships with community, local groups such as Torbay Coast & Countryside Trust (TCCT) voluntary and private sectors
- Improved retail environment
- Realistic opportunities for asset transfer
- The right infrastructure for growth in the marine and maritime sectors
- To aggressively bring forward serviced employment land for future development to support the opening of the South Devon Highway
- Work continues with key projects within the Employment and Regeneration programme to produce suitable development schemes e.g. additional workspace for new and growing businesses and the identification of other sites appropriate for business growth such as Torquay Gateway and at Whiterock, Paignton; better sports facilities at Clennon Valley, Paignton; options for the Mansion and Estate at Oldway and producing suitable development schemes for the Town Centres / harbour areas
- Ensuring maximum funding is secured from all possible public sector sources
- The aspiration of undertaking capital schemes which create jobs and/or generate income should be strengthened and consideration given to the further diversification of the Council's portfolio to meet these aims
- The Council will consider purchasing properties for investment purposes

Issues

- There is a need to continue linkages and communication through the commissioned services to ensure a coordinated approach to development opportunities
- Disposal process needs to be co-ordinated with the economic development strategy
- The ongoing financial pressures facing the Council
- Reduced funding pots

Action Plan

Action	Target Date	Responsibility	Current Status

Establish regular dialogue between services and TEDC	Immediate	CPO / TEDC / Lead Client Officer	Ongoing process
Develop planning application for Claylands site in Paignton for commercial use	2016	Council / TEDC / Private Sector	Completed
Work with local groups such as TCCT and Sports Clubs to help redevelop local assets for the benefit of the community	Ongoing	Torbay Council / TEDC	Ongoing
Seek funding for Electronics & Photonics Innovation Centre	2016	TEDC	Ongoing

Risks

There is a high risk that without these actions, the economy of Torbay will decline and hinder delivery of the Council's Strategy.

That employment land designated elsewhere will be land banked or not developed quickly enough to respond to growth needs within the local economy.

Benefits

The proposed strategy will deliver:

- Assets that benefit economic growth wherever possible
- Partnership approaches to regeneration and development schemes
- Additional receipts to fund Corporate objectives
- Increased business rate income for the Council
- A direct benefit to the Corporate Plan
- Improved Heritage Assets

6.5 Repair and Maintenance

Where we are now

Torbay Council has a significant and serious issue regarding the disrepair of assets in common with many other local authorities. Backlog repairs totalling £22 million (excluding schools and leased out assets where Torbay Council have no responsibility for repairs and maintenance) have currently been identified of which almost £8.9 million (excluding schools and leased out assets where Torbay Council have no responsibility for repairs and maintenance) are categorised as urgent (Priority 1). Expenditure on repairs totalled £1.5 million during 2014 to 2015 and the backlog will not be eradicated without additional activity. In excess of £10 million of additional areas of capital expenditure have been identified over the last 5 years. This is as a result of the improved data collected and as a result of TOAD becoming more comprehensive and areas such as piers and multi storey car parks amongst others being further investigated. This is not necessarily new repairs but repairs that have been outstanding for a long period of time and have now been formally identified and assessed. Repairs and maintenance on Council schools are funded by a specific government grant.

Estimated backlog value presently excludes costs relating to major repairs at Torre Abbey (Phase 3), Sea Defences, some promenades and decorative lighting.

Where we need to be

Torbay Council needs to continue implementing repair programmes and developing strategies to deliver:

- Year on year reduction in backlog repairs that will ultimately remedy the backlog
- A reduction in Category D /Priority 1 repairs by 2018
- Through appropriate and supported software, retain comprehensive and accurate data defining the current condition of all assets and data management to track all works
- Integration of schools maintenance programme

- A move to life cycle costing and the development of a long term planned maintenance programme
- In some instances there is no prospect of sufficient funding being made available to repair an asset. Solutions need to be developed linking to regeneration or asset rationalisation or private sector investment need to be considered, including the use of Prudential borrowing

Issues

- Based on current levels of R&M expenditure the overall backlog is increasing to such an extent that the Council's planned expenditure is not currently keeping pace with inflation and whilst the overall backlog continues to deteriorate, some individual assets are deteriorating beyond repair
- The Council's total central Repairs and Maintenance expenditure for 2015-16 (including schools) represents 1.37% of the Council's net budget
- A budget increase is required if there is to be any meaningful progress in reducing backlog repairs
- Significant issues have been identified with areas such as Multi Storey Car Parks and some harbour infrastructure amongst others
- In some instances other services are unilaterally commissioning repairs and maintenance. Further service consolidation should improve efficiency and reduce overheads
- Data management has been significantly improved and is a very useful and integral management tool in the effective management of R&M

Action Plan

Action	Target Date	Responsibility	Current Status
Develop and fully Utilise Planned Maintenance Data	Ongoing	CPO / TEDC	Ongoing
Maintain rolling programme for Condition Surveys	Achieved	CPO / TEDC	Achieved and Ongoing
Maintain the rolling programme of prioritised R&M	Ongoing	CPO / TEDC	Achieved and Ongoing

Risk

Whilst there is no immediate risk of failure of any particular asset there is a high risk that without these additional actions the current poor condition of assets will continue to deteriorate.

Benefits

The proposed strategy will deliver:

- A continual improvement in the condition of assets and service delivery
- Improved data and understanding regarding the condition of assets
- Best value for money procurement of remedial works complying with procurement regulations
- Effective project management of major works
- A reduction in the fall in value of assets due to deterioration in condition
- A direct benefit to all the Corporate Plan Key Objectives

6.6 Asbestos/Water Hygiene

Where we are now

Torbay Council has many assets of an age, use and type of construction that results in the presence of asbestos within their construction. A Corporate Policy for Asbestos has been put in place in recognition of that and the need for effective data and control to avoid health risks. The aim of providing up to date and maintainable asbestos registers for all assets has been set and an implementation plan put in place. A Corporate Policy on water hygiene has been prepared. A Water Hygiene monitoring programme has been implemented. A Water Hygiene Risk Assessment of each asset has been completed and remedial works are in progress.

Where we need to be

Torbay Council needs to continue implementing the structured action plan to deliver:

- Awareness of and compliance with the Council's Asbestos and Water Hygiene Policies

Issues

- Continuing the ongoing annual Asbestos inspections are required together with weekly and monthly water hygiene monitoring of assets

Action Plan

Action	Target Date	Responsibility	Current Status
Introduce enhanced control and monitoring to ensure Contractors are aware of Asbestos issues	Immediate	CPO / TEDC	Achieved and Ongoing
Maintain rolling programme of re- inspection	Achieved	CPO / TEDC	Achieved and Ongoing
Introduce a Water Hygiene Monitoring process with an approved contractor	Achieved	CPO / TEDC	Achieved and Ongoing
Update Risk Assessments of water systems when required	Achieved	Building Manager / TEDC	Achieved and Ongoing
Review assets which require Asbestos and Water Hygiene Surveys	March 2017	TEDC	

Risk

There is a high risk that without these actions health and safety regulations will be breached resulting in health risks and the closure of assets.

Benefits

The proposed strategy will deliver:

- Improved data and understanding of assets
- Compliance with statutory requirements and duties of care
- Safe working environments for contractors carrying out works
- A direct benefit to the Corporate Plan

6.7 Energy Management

Where we are now

Effective energy management will continue to reduce consumptions and lower emissions across Torbay Council's Corporate Estate, reducing costs to the tax payer. The reduction of leased in assets by Torbay Council will continue to positively affect the figures.

Where we need to be

Torbay Council needs to continue with the implementation of the structured action plan to deliver:

- Consumption reduction of 1% per annum
- Identify and explain the objectives, importance and best practice processes of effective corporate energy management

Action Plan

Action	Target Date	Responsibility	Current Status
Reduce consumption by 1% per annum	Ongoing	Property Services	Ongoing

Risk

The activities that will deliver the year on year targets for the reduction of utilities consumption are set out in the Council's Energy and Climate Change Strategy. These can only be delivered with the cooperation of all the Council staff, together with top down support and 'buy in' from the Council management structure.

Benefits

The strategy will deliver:

- Reduced energy consumption
- Lower emissions
- Reduced costs

6.8 Office Rationalisation

Where we are now

The Office Rationalisation Project (ORP) is essentially about relocating staff to reduce the number of buildings that we operate out of and thus lower our ongoing costs e.g. rents, maintenance, heating and energy, etc. and to ensure that all Council owned assets are fully utilised to ensure efficient service delivery.

As the organisation changes and overall staff numbers continue to fall, the ORP Board will work with Directors, Assistant Directors, Executive Heads and Managers to support on-going re-structures.

As part of the project, planning and implementation has taken place for the next set of office moves along with some limited aspects of refurbishment. This will support the overall project objective to rationalise the number of buildings the Council operates in.

Where we need to be

- Further review of project business case in light of the potential change in the Council's office space requirements, as a result of any outcomes from the ongoing Council budget setting process

Action Plan

Action	Target Date	Responsibility	Current Status
Vacate Pearl Assurance House	31st March 2014	ORP Board	Completed
Vacate ground, 1st and 3rd floor of Commerce House	31st August 2014	ORP Board	Completed
Refurbishment of 87 Abbey Road for Safeguarding & CIS teams	January 2014	ORP Board	Completed
Aspen Way - accommodation options	n/a	ORP Board	Completed

Review office accommodation including leasing of space at Tor Hill House	Feb 2017	ORP Board	Ongoing – by fully utilising office space in Electric House, 1.5 floors of Tor Hill House to be vacated by June 2018

Risk
If rigorous action is not pursued on the ORP then the Authority risks continued inefficient use of office space in its buildings and therefore significant savings are not being realised. Managing change needs to be factored in to future moves as staff morale may be lower if office moves coincide with major redundancies or disbursement of existing teams

Benefits
- Efficient use of office accommodation
- Savings generated through the efficient use of office accommodation
- Authority has an office building in Tor Hill House which is an improved asset
- By undertaking some office moves, service transformations can take place to improve service delivery
- Future-proofing all further moves will enable subsequent team or departmental changes or reduction of staff numbers to happen more easily with minimum disruption to overall service delivery

6.9 Data Management

Where we are now
Torbay Council has inherited assets from several sources during development to unitary status in 1998 and has a large and diverse portfolio. Gathering consolidated and maintainable data has therefore proved challenging and underpins progress in many other areas. An option appraisal resulted in the development of the Torbay Online Asset Database (TOAD) being chosen as the best solution.

We are currently looking to procure a replacement system for TOAD which in addition to the current capabilities will incorporate the facilities management helpdesk and the room booking facility.

Where we need to be
Torbay Council needs to continue implementing the structured action plan to deliver:
- Asset data that is comprehensive, accurate, maintainable and easily accessible
- Integration of data on Highway Network Assets including Highways and Bridges
- Asset data that can be readily realigned to changes in service delivery and partnering
- Publish asset data on a monthly basis as per the Local Government Transparency Code 2014
- The ability to properly manage service changes and retain that capability for property with multiple occupation

Issues
- 2017/2018 Highway Network Assets to be accounted for

Action Plan

Action	Target Date	Responsibility	Current Status
Complete Training manual and establish training programme	Ongoing	Asset Registrar	Achieved and training is ongoing as required
Continue to update and maintain the asset data	Ongoing	Asset Registrar	Ongoing

Continue to update the linkage between MapInfo & TOAD	Ongoing	Asset Registrar	Ongoing
Inclusion of Highway Network Assets valuation data on RAM	2016/17	Asset Registrar	In Progress
Publish asset data as per the Local Government Transparency Code 2014	February 2015	Head of Asset Management / Asset Registrar	Completed and ongoing on an annual basis
Procure a new asset database solution	March 2017	Head of Asset Management / Asset Registrar / Lead Client Officer	January 2018 – Procurement exercise complete, awaiting final decision
Identify and deliver a suitable service charge capability	September 2017	Estates Manager	In progress

Risks
There is a risk that without continuing these actions and without support from Commissioned Services asset data will become inaccurate and hard to access hindering effective analysis and decision making. The asset database is an in house system and so there is a risk that staff changes could impact on the system.

Benefits
The proposed strategy will deliver:

- Comprehensive asset data held at one source
- Ease of access to data for all relevant persons
- Asset data in a form that can be updated and maintained as a live and current record
- An enhanced ability to identify specific issues, excessive costs and inefficient use
- A service re-charge functionality
- An enhanced ability to monitor and report performance
- A direct benefit to all the Corporate Plan Key Objectives

6.10 Community and Shared Use, including Sports Clubs

Where we are now
Torbay Council operates in partnership with many other organisations in delivering services to Torbay. The need for providing integrated services to the community results in shared use providing many advantages. Shared use also enhances the opportunity to use diverse assets in more suitable ways. The need and desire to use assets in a shared way will increase and provide opportunities for resolving other asset issues.

The Quirk Review looked at the clear benefits to local groups owning or managing community assets – such as community centres etc. The review is focused on how to optimise the community benefit to publicly owned assets by considering options for transfer of asset ownership and management to community groups. In response to the Quirk Review the Cabinet approved the Community Asset Transfer (CAT) Policy on 27 May 2008 and the policy was enacted from August 2008. Through the introduction of the Localism Act 2011, Government has reignited local discussion about how Councils can make the most of assets to meet community needs in a challenging financial climate.

A decision was taken at the Council meeting on 15 May 2013 to set up a Community Development Trust (CDT). Two staff from the Communities Team helped to set-up the company and have now been transferred to the CDT.

The intention is that the Council works with the Voluntary and Community Sector (“VCS”) to review each party’s assets and potential future opportunities for collaboration around these assets.

The Localism Act 2011 requires the Council to consider applications for Community Right to Challenge, the right to express an interest in running a Council service and for the Council under the Community Right to Bid to maintain a list of assets of community value. Community assets need to be nominated as such by a community group. If an asset is listed and then comes up for sale, communities that want it have 6 months to put together a bid to buy it.

Where we need to be / Issues

Torbay Council needs to develop and implement strategies that deliver:

- Increased numbers of shared facilities both in Council and other ownership by working with other public sector partners (One Public Estate)
- Closer partnership working relationships
- To work with the VCS through the CDT to review each party’s assets and potential future opportunities for collaboration around these assets
- Sustainable transfer or leasing of assets to interested community groups, including sports clubs
- As and when the need arises to have discussions with Brixham Town Council regarding the possible sale of assets in Brixham

Action Plan

Action	Target Date	Responsibility	Current Status
Review the effectiveness of the Community Asset Transfer policy	March 2015	CPO / Estates Manager	Completed
Continue to work with all community groups at stages one and two of the asset transfer process	Ongoing	CPO, Community Asset Support Officer, Asset Panel Members	Ongoing
To work with other Public Sector Partners on a joint way forward to maximise the value of partnership assets and streamline related operational activities	Ongoing	CPO / TEDC	Project is ongoing
To discuss the potential sale of assets within Brixham with the Brixham Town Council	Ongoing	CPO / TEDC	Ongoing

Risks

There is a risk that without these continuing actions the opportunities to maximise the potential for shared use will not be delivered. There has to be balance between the sale of assets for profit and the transfer or lease disposal for social gain to benefit the community.

There is a risk that the other Public Sector Partners may not be committed to working together to look at the use of assets.

Benefits

The proposed strategy will deliver:

- Enhanced opportunities to identify and deliver shared use facilities
- Development of initiatives in line with Corporate Objectives
- Support local charities and organisations to effectively develop initiatives through the Community Development Trust (CDT)

- The potential transfer of assets to the VCS / CDT and other community organisations such as a potential Sports Trust or a potential Youth Trust could see a reduction in the maintenance backlog

6.11 Tenanted Non Residential Properties

Torbay Council holds a variety of Tenanted Non-Residential Properties (TNRP) on which it has granted either leases or licences to third parties. These assets include a range of commercial disposals such as golf clubs, offices, restaurants, industrial sites and Quaywest Water Park to leases to smaller sports clubs and other voluntary sector groups along with licences to run concessions.

January 2018 – The income generated from assets has increased significantly over the last 12 months as a result of the Council's Investment Fund Strategy. There are now 826 leased assets and licences, which generate income of circa £9.9m per annum. The amount of income per agreement varies greatly with 65 assets generating an annual income in excess of £10,000 each and 54 generating an annual income between £5,000 and £9,999 each. The rest of the agreements are below these figures.

These assets are held either as investments or for service delivery / socio-economic purposes. The definition of investment assets is narrow (CIPFA regulations) with them being defined as assets which are used solely to earn rentals or for capital appreciation or both. For Torbay Council the Head of Finance has taken the view that, unless there is strong evidence to the contrary, the assumption is that all Council property is linked to a service objective e.g. regeneration, harbour estate, tourism etc. Examples of TNRP held as investment assets include Torquay Golf Club and Unit 3 Riviera Park, Torquay. The Council now has a dedicated Investment Strategy and has formed an Investment Committee.

A TNRP Portfolio Strategy, Review Action Plan and disposal policy have been developed. (See Appendix 1)

The Council has produced a Granting of Sports Leases - An overarching strategy (see Appendix 4) and a Procedure for determining applications for grants to offset market rent (grants in lieu of rent) (see Appendix 3)

Where we need to be

Torbay Council needs to implement the Action Plan below to ensure that:

- The justification for holding the TNRP is linked to the corporate goals and service objectives
- The performance of the TNRP is reviewed to determine whether assets should be retained or disposed of

Issues

- To review the performance of the TNRP it is useful to consider 3 fundamental questions:
  - Why are TNRP assets held?
  - How well are they performing in meeting the purposes for which they are held?
  - Are there better ways in which these purposes could be fulfilled?
- Need to determine criteria for measuring performance
- Where held for socio-economic purposes the measurement of performance becomes more challenging as we are dealing with subjective judgements and because there is a need to link these purposes to the corporate goals and service objectives
- Need to consider other policies such as the Shoreline Management Plan to determine the long term options arising from climate change
- Consideration needs to be given to the Council's revenue position. The yield of particular properties to be challenged within the policy
- To review the accounting procedures to ensure that market rent is charged on all assets – even if then an equivalent grant is given to the organisation leasing the asset

- To review the benefits of centralising and then redistributing the revenue income generated from the TNRP

Risks

- Currently each TNRP asset is allocated to a particular service department, which assists with management issues and they receive the income. However this may give rise to a couple of risks when assessing the performance of the TNRP:
- Depending upon the criteria set for measuring performance the perception from the service departments could be that their properties are performing well to protect their asset base
- The service department may be reluctant to agree that an underperforming TNRP should be disposed of since they would lose the rental income from their revenue budget. Any capital receipt goes into the ‘corporate pot’ to fund the capital programme and may not necessarily be re-invested in the service department’s assets
- Service departments will need to adopt and embrace the overriding corporate approach to asset management in order to mitigate these risks.
- As part of the disposal policy there will be a need to consider the long term aspirations of the Council for the larger assets. For example, it may not be appropriate to dispose of an under-performing café within a park if it may be needed for a comprehensive re-development in the future
- There may be public resistance to the disposal of TNRP

Action Plan

Action	Target Date	Responsibility	Current Status
Implement the Action Plan to review the performance of the TNRP	Ongoing	CPO / TEDC	Due to resource issues the Action Plan (see Appendix AM-E) has not yet been Implemented
To develop a TNRP Disposal Policy	March 2013	CPO / TEDC	Achieved and included in above
To review the benefits of centralising and then redistributing the revenue income generated from the TNRP	December 2016	CPO / Head of Asset Management / Chief Finance Officer / Lead Client Officer	Ongoing
To review the accounting procedures to ensure that market rent is charged on all assets *See definition of ‘Full Market Rent’ under Key Terms in Appendix 4	March 2015	CPO / Head of Asset Management / Chief Finance Officer	Completed
Develop and implement an overarching sports lease strategy	October 2016	CPO / TEDC	Completed

Risk

There is a risk that there will be insufficient resources within the Asset Management Service of the TEDC to take this initiative forward

Benefits

The strategy will bring clarity about why Torbay Council holds Tenanted Non-Residential Properties, which is essential to drive good performance and value for money in terms of investment and/or socio-economic outcome.

6.12 Into The Future

The Strategy detailed above will be delivered and monitored by implementing the specific action points detailed. Delivery will be by the Torbay Economic Development Company (TEDC) acting under instruction from the Council and its Lead Client Officer.

It is accepted that the period of delivery may in some instances be long term and will inevitably be influenced by an ongoing and realistic assessment of available resources. However, the plan firmly defines the vision of how the Council will achieve a more effective use of assets and sets a firm commitment to retain the goals and actions until all are complete.

A number of significant achievements have already been secured and into the future there are many issues that are relevant to a successful Corporate Asset Management Plan. There are at this review 2 areas of particular importance:

- The continuing work of the TEDC will continue to create opportunities to make regenerative changes to the built environment and help stimulate the market.
- There may be increasing Government scrutiny of the Asset Management Function and a need to follow closely the asset management guidance that has been issued.

Appendix 1 – Tenanted Non-Residential Property Portfolio Strategy and Review Action Plan

Background

Torbay Council (the 'Authority') holds a variety of Tenanted Non-Residential Properties (TNRP). They are held either as investments or for service delivery / socio-economic purposes.

The Audit Commission 'Room for Improvement' report said that authorities should 'review property holdings and reduce them where possible by identifying and disposing of surplus and under-utilised properties'.

In the past this has only proactively happened for the Authority's non-tenanted land and buildings but in the 2011 Corporate Asset Management Plan it was mentioned that the Authority would develop a strategy for reviewing the TNRP portfolio. As well as looking at possible disposals it is also important to maximise income and possibly expand / change the portfolio to suit the Authority's strategic objectives.

To review the performance of the TNRP it is useful to consider 3 fundamental questions

- Why are TNRP assets held?
- How well are they performing in meeting the purposes for which they are held?
- Are there better ways in which these purposes could be fulfilled?

The Royal Institution of Chartered Surveyors (RICS) has published a number of leaflets on local Authority asset management with one covering TNRP assets let to third parties (other than housing stock).

In accordance with this leaflet, which focused on the key priorities in the management of TNRP in the local government arena, the Association of Chief Estates Surveyors (ACES) Commercial Asset Management Working Group developed a 'Model TNRP Strategy and Review Action Plan'. The plan is based upon this model.

The RICS leaflet states that if there is not clarity about why TNRP is to be retained, it should be disposed of, on the best terms that may reasonably be obtained.

With regards to assets that contribute to socio-economic benefits the RICS leaflet says that 'measurement of performance becomes more challenging, as we are dealing much more with subjective judgments and because we need to ensure that the socio-economic purposes are directly linked to corporate goals and objectives'. The 'model' suggests a simple three tier ranking approach to assess the socio-economic benefits – high, medium and low.

TNRP Strategy and Review Action Plan

1. Role of the TNRP Portfolio to the Authority

- Financial investment by producing income used to offset the revenue costs of direct and indirect services thus reducing the impact on the Council tax; and capital receipts to support the capital programme.
- Socio-economic by supporting the wider corporate objectives of the Authority through strategic influence, control and occupational use.

2. Leadership and Accountability

Driving improvement in the performance of the TNRP is a continual and demanding process. Circumstances often change before optimum performance is achieved. Leadership is important in:

- Developing and promoting a strategy for the TNRP;

- Generating corporate interest in, and awareness of, the gains to be had from improved performance;
- Engendering support and commitment within the organisation;
- Addressing the business case for TNRP, together with the supporting action plan; and
- Ensuring the efficient and effective pursuit of agreed TNRP management strategies.

There are important roles in TNRP management and these are illustrated in the table below.

Role	Responsibilities
Elected Members	Executive Leads - providing commitment to TNRP strategic aims and setting key required corporate objectives / outcomes; Scrutiny – ensuring TNRP performance is kept under review
Chief Operating & Finance Officer and Directors	Supporting and monitoring the TNRP Action Plan; Ensuring sufficient resources are available to effectively manage the Strategy and Action Plan.
Corporate Property Officer and Lead Client Officer	Linking TNRP to corporate goals and objectives; Managing TNRP in accordance with the Strategy and Action Plan

3. Brief Description of the Portfolio

The TNRP portfolio has been accumulated over many years. Some of the properties used to perform functions / services done directly by the Authority but are now let to third parties to perform that function on behalf of the Authority. For example, beach / park cafes and the Torbay Leisure Centre.

Other tenanted properties were initially acquired for other purposes. For example, the Authority holds two residential houses at Tweenaway Cross, Paignton which were acquired by Devon County Council (and transferred to the Authority when it obtained unitary status) in conjunction with the potential road improvement scheme. Whilst the scheme was being progressed these properties were let to a Housing Association.

Other land and properties were let to support regeneration and economic development schemes to support and provide accommodation for small to medium size enterprises.

There are currently 771 leases and licences, which generate income of circa £2.7M per annum. The amount of income per agreement varies greatly with 49 assets generating an annual income in excess of £10,000 each and 54 generating an annual income between £5,000 and £9,999 each. The rest of the agreements are below these figures.

The Authority has granted a number of long term leaseholds in exchange for a capital receipt. For example, in July 2007 a 125-year lease at a peppercorn rent was granted to Apollo Cinemas Ltd for a premium of £1.2M.

A detailed breakdown showing categories of lettings and general management policies is given in section 7 below.

4. Strategy Aim

To move from the historic legacy to a more balanced sustainable portfolio to meet the future financial and corporate objective needs of the Authority within 5 years.

5. Strategic Objectives

- To optimise the financial return, both revenue and capital growth.
- To support the wider corporate priorities, in particular social and physical regeneration, economic development and safeguarding strategic influence, control and future development opportunities.

6. Management Policy

Management decisions by the TEDC and Lead Client Officer will balance the financial and socio-economic drivers set out below.

Financial

The portfolio will be managed to:-

- Primarily generate income.
- Charge full market rents, unless a specific policy exists to determine otherwise. *See definition of 'Full Market Rent' under Key Terms in Appendix 4
- Carry out timely lease renewals and rent reviews.
- Maximise occupancy through appropriate marketing.
- Minimise rent arrears through timely intervention.
- Subject to finance being available, undertake planned maintenance based on condition surveys in accordance with the Council's obligations under the terms of the lease and to ensure that tenants are aware of their own repairing obligations.
- To endeavour that, if appropriate, all properties have up to date asbestos and water hygiene surveys and to have up-to-date electricity and gas safety and energy performance certificates.
- Where appropriate, improve performance through securing grant assistance, using property as match funding and working in partnership with the private/voluntary sector.
- Measure and improve the performance through the use of appropriate 'performance indicators'.

Socio-economic to support corporate objectives

- To use the portfolio 'strategically' to safeguard, control and promote the use of land for purposes supporting the corporate objectives through the 'occupational use' of property.
- To measure and monitor the 'socio-economic benefits' through a simple and clear ranking system.

7. Property Asset Categories and General Management Policies

Investment Assets

Assets which are held solely to earn rentals or for capital appreciation or both. To review the financial returns and, if considered poor, then, unless needed for a future re-development scheme, the presumption would be to dispose either to the tenant or on the market.

Assets Held for Socio-Economic Reasons

Leases held on a peppercorn rent

Let to occupiers generally with community based relevance i.e. community centres, voluntary sector or allotments, which indirectly support corporate objectives. Leases be retained but be subject to review every 3 years.

Where a peppercorn is payable as a result of the Authority receiving a premium for a long lease, then consideration be given to the reasons why a long lease was granted rather than a freehold disposal.

Leases let on market rent but tenants receive a grant

A number of leases are let to the voluntary sector, community groups and smaller sports clubs at market rent but some tenants receive a grant to help off-set the rent. Presumption to retain ownership to support the voluntary sector/community group/sports club but will undertake a review to assess condition, suitability and sufficiency; identify opportunities to lever in external/grant investment; and to assess to what extent each voluntary body contributes to the

Council's objectives – if not, is the grant still appropriate (and at what level?) or should the asset be sold?

Commercial leases granted for service delivery
Commercial leases of parts of operational assets such as kiosks/cafes in parks or the leisure centre. Presumption to retain and actively manage to generate revenue to support service delivery but review periodically with the service department.

Leases granted at a peppercorn rent for service delivery under a contract
A number of leases have been granted to organisations who have been commissioned to provide a particular service on behalf of the Authority. For example, land and buildings have been leased to the Torbay Care Trust, Torbay Coast & Countryside Trust and TOR2. The presumption is to retain ownership for the duration of the service contract.

Leases – Public Utilities and Other land and property
Sites leased for electricity sub and gas governor stations which generally produce a low level of income. Other examples include telephone masts situated on multi-storey car parks or land in high locations. To identify opportunities for rationalisation/disposal or additional income generation unless such action may be prejudicial, for instance in terms of potential redevelopment.

Properties let to Registered Social Landlord (RSL) under business tenancies
A number of properties are let to a RSL whilst they are being held for another purpose e.g. highway scheme. The presumption is to retain whilst needed for the scheme but review periodically with the service department.

Community Asset Transfer Leases
A number of leases have been granted to community groups through the Community Asset Transfer process for land previously declared surplus by the Authority. Presumption to retain ownership for duration of the lease.

Licences
The Authority has granted a number of licences for people to operate on its land. For example, concessions on Paignton Green, Kilmorie Car Park, Galmpton and Daddyhole Plain.

The presumption will be to continue to offer such licences unless they become too intensive in terms of management time and/or the service department considers they no longer want the service to continue.

N.B. Licences have been included in the above list but, since they do not form an interest in land then they cannot be sold. If they are considered no longer needed for service delivery then the licence will not be re-advertised on expiry.

8. Condition Surveys

Surveys of the TNRP are undertaken on a 5-yearly rolling programme for those properties for which the Authority has some repairing liability to identify outstanding repairs which are the responsibility of either the Authority or the tenant or both.

9. Disposal Policy

Assets that do not meet the performance test and that are identified for disposal may be disposed of in accordance with the Authority's disposal procedure. Consideration will also be given to the sale of properties that are on the performance margin and where the capital receipts generated could be better deployed.

Disposals will also be discussed with the Chief Finance Officer and Executive Head of Business Services and a programme agreed as appropriate to support the Authority's revenue budget and capital programme needs.

Each disposal to be considered on its merits but consideration may be given to re-invest all, or a proportion of the sale proceeds in the service department.

10. Acquisitions Policy

Consideration shall be given to the acquisition of appropriate properties to improve the performance of the portfolio (i.e. adjacent to existing ownership or leasehold interest where the Authority owns a freehold reversionary interest and in both cases will benefit from the marriage value, property to support regeneration) and to achieve a more balanced portfolio, in both financial and socio-economic terms.

Funding will be from capital receipts from assets sold out of the TNRP portfolio or prudential borrowing if the annual rents from the property to be acquired exceed the annual financing cost (i.e. occupational lease where the Authority own freehold).

11. Other Policies

When assessing the socio-economic reasons for holding onto the TRNP the service department will need to consider whether there are any policies within their service area, which may influence / dictate the suitability of retaining the TNRP e.g. Shoreline Management Plan.

12. Benefits

The aim of this strategy and following the review action plan is that:-

- Capital receipts are achieved with minimum impact to income.
- Review will be flexible and allows time to be developed to reflect views of stakeholders and accommodate any political/economic changes during the review period.
- Ultimately better assets are retained as investments.
- Reasons for holding assets are identified by specific purposes.
- Socio-economic outputs are fully identified, considered and linked to corporate objectives.
- Key priorities for improved management, use of resources and performance are identified and can be planned.
- Future targets and timescales can be set.

Review Action Plan

Purpose – To carry out a review to demonstrate the value for money in continuing to hold the TNRP portfolio – the Performance Test

Subject to sufficient resources being identified, to undertake the review in three stages as follows:-

STAGE 1 – Identify quick wins

> A 'Quick and Dirty' exercise to identify obvious assets for disposal and further review by allocating them to the categories set out in section 7 of the TNRP strategy, and applying the general management policies set out therein.

STAGE 2 – Analyse why properties are held

> Identify pure 'investment' and 'socio-economic' properties that also support the wider corporate objectives assets.
>
> Where assets support wider corporate objectives identify and analyse, together with appropriate stakeholders including Executive Leads, Executive Heads, the Corporate Property Officer and the Strategic Land Task Group. Evaluate their socio-economic benefits and rank each asset as follows:-

High –critical or major contribution as identified by the Authority e.g. a key regeneration site or property occupied by a community group supported and partly funded by the Authority. If asset disposed of ultimately to support socio-economic benefit, such as to kick start a major regeneration scheme or meet an approved high priority Authority objective, then may consider a disposal at less than the best price, so long as sale price plus value of the benefits at least equals best price that could have been obtained – review periodically but presume retain ownership regardless of financial return.

Medium - important contribution – i.e. located in a key regeneration area or occupied by a community group supported but not funded by the Authority - review periodically the importance of the socio/economic role and financial performance.

Low – minor or insignificant contribution – i.e. located on edge of regeneration area so retention to support scheme not essential e.g. property, which is difficult to let and run down, or property that happens to be occupied by a community group but not one that Authority particularly supports or that has no linkages to corporate objectives - review frequently and consider disposal if financial performance poor.

<u>Measure the performance of all assets on the basis of the 'internal rate of return' (IRR).</u>

The IRR is the discounted rate that generates a zero net present value for a series of cash flows using discounted cash flow processes. It is important that all costs and benefits are included in the assessment and, not least, management costs. In simple terms it is a method of measuring both potential revenue and capital growth over a given period – the 'time weighted return'. Most authorities adopt a 10 year term.

Also measure performance annually in the future by reference to the following performance indicators:-

- % management costs against gross revenue
- Assets remaining void for greater than 6 months in a year

<u>Set annual targets based on the previous year's performance.</u>

Agree a target rate of return with the Chief Finance Officer. Any assets not meeting this target consider for disposal.

<u>Subject those assets identified for disposal to further tests as follows:-</u>

- Does the legal tenure and/or statutory constraints preclude disposal?
- Would a disposal require the repayment of grant monies?
- Is it a strategic property to be held to control and/or facilitate future development opportunities or service delivery?
- Does the property contribute to corporate objectives through socio-economic benefits?
- Could the property meet identified future operational needs, or with partners' co-locational requirements?
- Are there any redevelopment or other income or capital generating opportunities i.e. redevelopment site, special purchaser, marriage value, ransom strip, over sailing rights, release of covenants?
- Could the financial performance be significantly increased through minor investment?
- Are there any other opportunities?

If answer no to all tests – Dispose. Otherwise further analyse the benefits of retention and actively manage. But also ask the question: can the capital achieved from the disposal be more effectively used than owning the asset?

Future disposals programme

Offer pure investment assets for disposal where they do not meet the target IRR agreed when and as necessary with the Chief Finance Officer and Executive Head of Business Services. Base the target IRR, known as the 'hurdle rate of return', on the Authority's alternative investment options – the opportunity cost.

Assets that have socio-economic benefits offer for disposal if they are ranked as:-

- 'Low' and fail to meet the target IRR.
- 'Medium' and significantly fail to meet the target IRR.
- 'High' and are being disposed of to meet a high priority Authority objective.

As the assessment of socio-economic benefits is a subjective exercise support a proposal to dispose with an option appraisal where appropriate.

STAGE 3

Stand back and look periodically through the process as more data is collected, analysed and recorded, to see whether the desired outcomes and objectives are being achieved.

On completion of stage 3, use the comprehensive data on property categories, financial and other performance, range and scale of contribution of the TNRP to socio-economic benefits, to assess to what extent the aim has or will be achieved.

Has, or will the process ultimately, through identifying assets for disposal, further investment and perhaps purchase, achieve a more balanced and better aligned TNRP portfolio, both in terms of financial and socio-economic strategic objectives? If not then consider further appropriate review and rationalisation.

During the whole review period hold regular discussions with the Chief Finance Officer and Executive Head of Business Services to advise on the relative benefits and risks associated with the TNRP to achieve the strategic aim and objectives for the TNRP portfolio.

The balance of the portfolio may change over time as it will be determined in particular by the financial position - need for revenue v capital, level of risk the Authority is prepared to take, and to what extent it wishes to use the TNRP to drive non-financial objectives e.g. to kick start regeneration.

Appendix 2 – Community Asset Transfer Policy

(Update December 2015)

Introduction

The Community Asset Transfer (CAT) Policy does not include Community Right to Challenge (the right to express an interest in running a Local Authority service) or Community Right to Bid (maintaining a list of assets of community value). These are covered by separate policies and more information can be found on the Council's website.

The Local Government White Paper, 'Strong and Prosperous Communities' (2006), sets out a new relationship between local government and its communities. The reforms contained in this paper will give greater say over local services to the people who rely on them. This will enlist communities in the drive to improve services, from waste to parks and libraries. Torbay Council has embraced this agenda by giving local people more say on how services are delivered through vehicles such as the Torbay Community Development Trust and local community partnerships.

In the same spirit, the 'Making Assets Work, Quirk Review' (community management and ownership of public assets) sets out the clear benefits to local groups which own or manage public assets – such as community centres, building preservation trusts and community business enterprises. Fundamentally, the review talks about giving local people a bigger stake in the future of their area through this model. The Department of Communities and Local Government, in its response to the recommendations in the review, supports the need to 'monitor effectiveness of mechanisms in persuading local authorities to consider transferring management or ownership of assets to communities'. There are already powers in place through the Public Request to Order Disposal (PROD), whereby communities can prompt a local authority to give serious consideration to the community management of assets. This was strengthened by the Community Call for Action which came into force in spring 2008.

Through the introduction of the Localism Act 2011, Government has reignited local discussion about how Councils can make the most of assets to meet community needs in a challenging financial climate. Torbay Council is responding to this by considering options for the transfer of asset through leases and operational management to the community, for purposes that benefit the communities they serve. This can range from small parks groups to established voluntary sector organisations. Community 'benefit' is seen as varied, with a range of activity from local meeting places, such as community centres, to social enterprise businesses offering new employment or training opportunities.

School disposals are covered by a legislative framework. Any disposal would first need approval under Section 77 of Schools Standards and Framework Act 1998. Therefore, school buildings and landholding will not be considered under this policy.

The Council needs to dispose of some underused or surplus assets, which can no longer be afforded, whilst, at the same time, investing in urgent infrastructure projects across Torbay. However due to the financial constraints facing the Council, priority shall be given to maximising the full market receipt of any disposals. The Council recognises there needs to be a balance of sales of assets to maximise investment, and to regenerate communities through alternative uses.

This Community Asset Transfer Policy identifies a level of market value when a particular asset shall be considered for community transfer and how local communities could register an interest in taking over a Council owned property. This option would still need to be assessed against sale, or alternative disposal opportunities, in each case, and should be closely linked to the Corporate Plan.

Strategic Context

The Corporate Plan has identified 'a prosperous Torbay' and 'a healthy Torbay as its key ambitions and, therefore, the policy should reflect this as the main driver.

The delivery of the outcomes of this policy, therefore, needs to be aligned with the five targeted actions and three principles represented in the Corporate Plan:

Targeted actions:
- Protecting all children and giving them the best start in life
- Working towards a more prosperous Torbay
- Promoting healthy lifestyles across Torbay
- Ensuring Torbay remains an attractive and safe place to live and visit
- Protecting and supporting vulnerable adults

Principles:
- Use reducing resources to best effect
- Reduce demand through prevention and innovation
- Integrated and joined up approach

The strategic fit of any asset transfer proposal would need to achieve one or more of these goals.

Rationalisation of Assets

The Council continues to undertake a review of its assets through an ongoing rationalisation programme. This is being considered in association with the new commissioning model on how the Council will deliver its services in the future.

As part of this process, the Council, through the Strategic Land Task Group, will identify buildings and land holdings which are no longer required for the delivery of its services. In this instance, a building or land holding will then become 'surplus' and be put forward to the Executive or Council (as appropriate) for potential disposal. At this stage, assets with a market value below £25,000 will be given an indication as to the likelihood that this could be considered for Community Asset Transfer. Assets of a market value above £25,000 can still be considered for Community Asset Transfer if it links with the Council's targeted actions and principles, within the Corporate Plan and is approved by the Strategic Land Task Group. Once on the disposal list, community, voluntary and other agency sectors could apply to the Council for transfer of these assets for alternative community uses. This would still be considered alongside the need to capitalise receipts of any assets to deliver the Council's prioritised Capital Programme. The proposed criteria for transfer of an asset below the market value would need to be measured against the likely other uses if sold on the open market.

Under the current policy, assets or land holding are rarely sold as a freehold interest, and it is considered more appropriate that any transfer for community use should be on a leasehold basis. This would protect the future of these assets, and ensure that the Council can veto future changes in use and occupation of the facilities during the lifetime of the lease.

Key Policy Criteria

There are two key factors to be considered within the policy criteria:

- Benefits to the local community by transferring the asset
- Ability of the voluntary or community organisation to sustain the use of the asset over the leased period.

Therefore, the Community Asset Transfer Policy would require all proposals to meet the following, before being considered against alternative disposal options:

- The proposed use of an asset reflects the outcomes and objectives identified in the Corporate Plan and other appropriate plans and strategies.
- The proposed use of the asset is genuinely for the benefit of the community, and would offer real opportunities for successful and independent, community or third sector organisations to become more sustainable in the long term.

- The asset would be made fully available for use by a range of local groups, especially those working with, or in, disadvantaged communities, and should be compliant with the Disability Discrimination Act (DDA).
- The use of the asset is environmentally sustainable. Any future refurbishment plans should consider energy efficiency as a priority, and use good quality, environmentally sustainable, materials and construction practices.
- That the third sector organisation would have greater security and independence, and would be better able to meet the needs of the communities it serves.
- That uses would enable communities to have more access to facilities and/or opportunities that respond to their local needs.

Under the second key factor, the Council would need to analyse the risks carefully to ensure that proposed organisations and future community management of the assets are appropriate, and sustainable, in the long term.

As it is likely that many of the community and voluntary groups, applying to the Council for the transfer of assets, would have limited financial history, or facilities management experience, it is important that a robust business case is put forward in support of any proposal/organisation. The policy, therefore, sets out the following requirements that need to be demonstrated by organisations for them to be able to be considered 'fit for purpose' to lease Council assets:

- Financial viability of the transfer – the organisation would need to show at least a five year cash flow and budget forecast that demonstrated that the project is sustainable, and that the asset would be maintained adequately.
- Experience of, and/or commitment to, partnership working – demonstrating that the asset would be put to a variety of uses to benefit the community.
- The organisation and key individuals, managing the asset and associated project, have appropriate skills, knowledge and expertise to sustain the project in the long term.
- Clearly defined structures, roles and responsibilities within the organisation appropriate to deliver the project, whether voluntary and/or paid. It is recommended that a Council representative be included in any management committees associated with the assets.
- Clarity of decision making processes – adequate constitution, governance arrangements and management controls, are in place.
- Clarity of aims and objectives, and that these meet the key Corporate Plan objectives.
- All legislation and regulatory controls are in place – meeting equality standards, child protection, health and safety and licensing requirements.
- The project has the support of the local community – can demonstrate local need, community support through consultation, and that the project is not aligned only with a single interest group.
- Monitoring and evaluation processes are in place to demonstrate the successful delivery of objectives and targets over the life of the project.

Process for Assessing Proposals

It is recommended that a Community Asset Transfer Panel be established to assess the proposals put forward. The panel would consist of the Executive Lead for Planning, Transport and Housing, two Conservative Councillors, one Liberal Democrat Councillor and one Independent Councillor (to be nominated by the Group Leaders) who would ultimately be responsible for the final decision, supported by voluntary sector representation. This panel would also be supported by Council officers with the relevant expertise to advise on the key elements of the proposal, including planning, estates, property management, legal, finance, housing, environmental policy and community engagement.

The Asset Transfer Panel and the Mayor, or nominated individual or body (as an appeal process), would be the key decision making boards related to this policy.

The assessment of proposals put forward by the community and voluntary groups would fall into two stages:

Stage One:

Once an asset had been identified for potential disposal, community and voluntary groups could then apply for transfer of that asset for community use. It is proposed that the timeframe, for those wishing to register an interest, would be limited to three months. There would be an initial first stage, which will allow potential community or third sector organisations to detail their proposals in outline to be considered by the Community Asset Transfer Panel. This should be a simple initial process, where the organisation would have to demonstrate the following criteria:

Criteria
Strategic fit against the priorities in the Corporate Plan and other applicable plan strategies.
Support from the local community in the neighbourhood for the proposals – must include support of 50 local people, and have consulted the specific community partnership. These people do not have to be active members of the group, but need to support proposal.
Who, and how local people, would benefit from the proposals.
Previous experience of the group, or evidence of supporting organisation.
Proposals are focused on needs of the community – demonstrating there is a gap in provision, e.g. providing job opportunities in deprived areas, or aimed at key target groups currently excluded from the community activity.
Implications for the asset or building in the long term – alternative use options.

The Community Asset Transfer Panel would either give its approval for the proposals to be taken forward to the second stage (this preparation period would be a maximum of three months), or advise the asset be put forward for alternative disposal. The organisation involved would be advised in writing of the decision, giving reasons if the application were refused. They would be advised of their right of appeal which could only be considered against the criteria.

The organisation's right of appeal on whether the decision is fair would be undertaken by the Mayor or his nominated representative/body. If the proposal were not approved by the Panel, the organisation would have the right, within a set timescale, to appeal against the decision. The appeal would then be reviewed by the Mayor, or his nominated representative/body, who would either reject the appeal or recommend further consideration at the second stage.

Stage Two:

The Asset Transfer Panel would invite successful organisations to progress to the second stage where a full business and delivery plan would need to be presented for the project/proposal. This submission would be assessed under the following criteria:

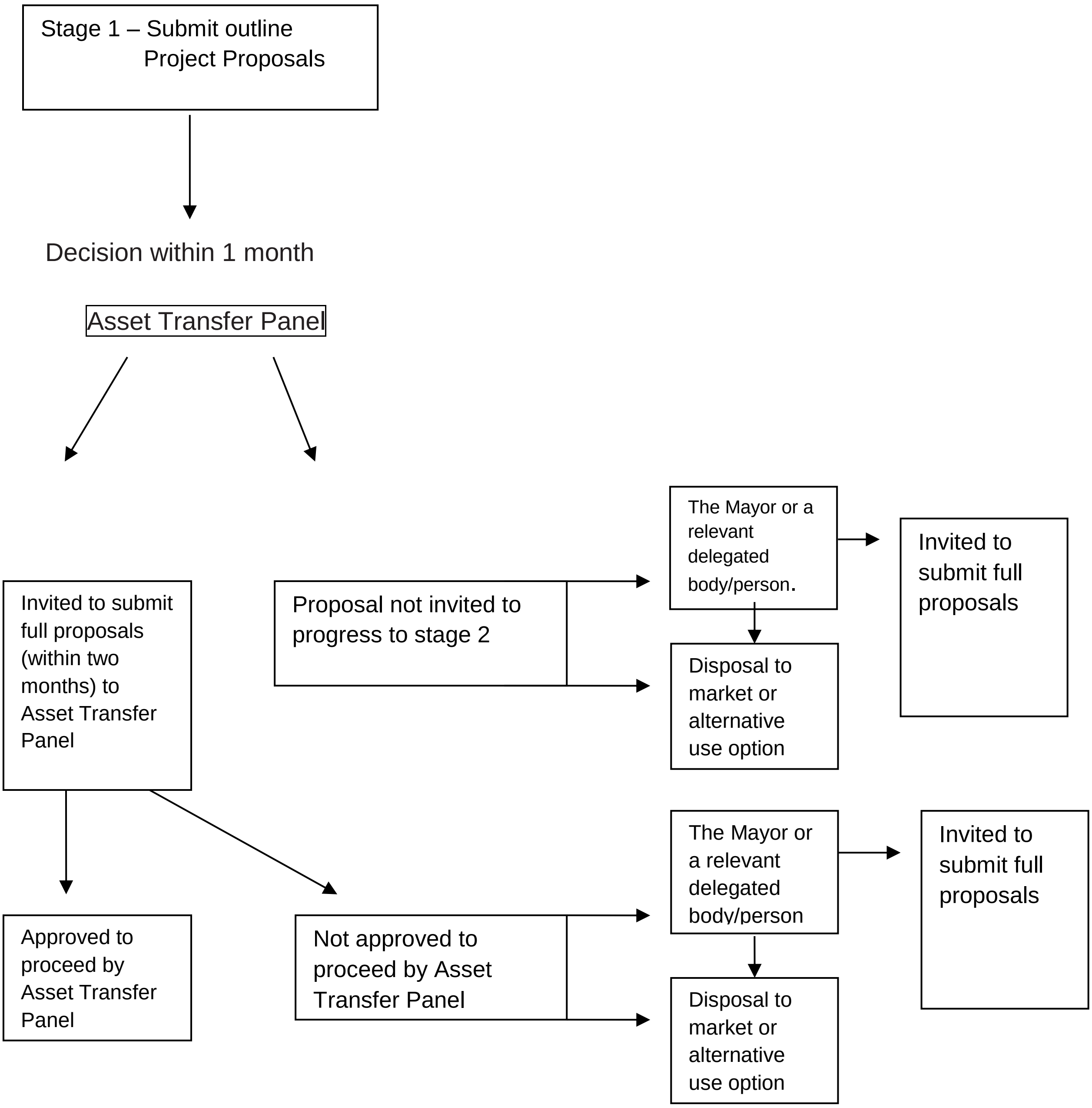
Documentary Evidence Required	**Criteria**
Business Plan and Governance Documentation	Outcomes, aims, objectives and targets the proposal would deliver, including how these would be monitored and assessed over the life of the project.
	What type of organisation would be running the project? The capacity of the organisation to deliver the project including : Decision making structures

	Management and staff structures, showing where these are paid or voluntary, whether these are experienced, and/or what training plans are in place.
	Identifying whether the project would create new jobs, housing or learning opportunities, and how these linked to the Corporate Plan and other relevant strategies.
	An indicative 5 year capital and revenue budget plan including all anticipated grant funding, identifying whether this had already been secured and any other income expected, sources etc.
	Relationships with any other partners on the project.
	Legislation and regulation considered within the project and how this would be addressed, e.g. Health and Safety regulations Child Protection Policy Equality regulations Licensing.
	How the project would address: Inequalities Crime prevention Environmental issues.
	The catchment area for the project.
	Length of lease required to deliver the project.
	Any development proposals relating to the buildings or land.
	Risk Analysis of the proposals.
Project Plan	Indicative timescales on how the project would be delivered from start up to fully operational.
	Description of any proposed development. Detailed breakdown of timings/costs for any proposed building works or refurbishment proposals, and how this would be funded.

Once a proposal had been successful at the second stage, this would be progressed through to the development of normal lease arrangements by the TEDC, instructed by the Executive Head of Business Services. This process would include advertising the 'disposal of public open space' which would have to be approved by the Mayor. This process usually would take two/three months.

A summary of the timescales and decision making process for both stages is detailed in the flow chart below:

Applicants will have a maximum of three months to apply at Stage 1.



A guidance document and application forms will be provided to community and voluntary sector organisations to assist them in applying for Community Transfer of Assets.

Evaluation of benefits

The policy will be reviewed continually to ensure that it met the objectives set out in the Corporate Plan and other key plans and strategies, and demonstrated real benefits to the community.

Appendix 3 – Procedure for determining applications for grants to offset market rent (grants in lieu of rent)

(July 2016)

Introduction

All applications for grants to offset market rent (grants in lieu of rent) should be made to the Executive Head of Business Services by completing the approved Application Form.

The estimated market rent assesses the lease value against other similar leases (i.e. sports leases) across the South Devon area. An estimated market rent will take into account whether the landlord or tenant has the liability for the cost of maintenance and what income generating facilities are at the disposal of the tenant. i.e. a club house & bar, private car parking, etc. The estimated market rent would also reflect the restrictive nature (sports use only user clause) of the lease and the level of the security of tenure.

Applications will be considered for any period up to the next scheduled rent review but that period should not exceed five years. Any grant application below a cumulative value of £25,000 (of foregone income) will be considered and determined by the Council's officers in the form of the Senior Leadership Team. All applications for grants in excess of five years or with a cumulative value of £25,000 or more will be passed to the Council for determination.

The Senior Leadership Team and/or Council will use the criteria set out below when considering an application for a grant to offset market rent (i.e. a grant in lieu of rent).

If a grant is rejected by the Council's Senior Leadership Team then the applicant can take their case to an Appeals Committee made up of Councillors.

The Council will not normally offer grant support to tenant organisations whose activities do not support one or more of the 'Targeted Actions' within the Corporate Plan.

The Council will not normally offer grant support to tenant organisations that are not affiliated to or are a member of a recognised national body/voluntary organisation. This requirement is included to ensure that a tenant organisation has an appropriate constitution with associated rules & regulations. It also means that the tenant would be required to follow best practice in such matters as safeguarding, protecting young children, inclusion and financial probity; it will also help to prevent discrimination and promote equality. Consequently, it is expected that the tenant organisation will have the relevant policies for such matters and can therefore demonstrate a corporate social responsibility.

Tenant organisations will need to supply a set of annual accounts and it may be necessary to supply audited accounts and/or accounts for more than one year. The Council may also request to see a medium term financial forecast to evaluate whether or not the organisation is financially sustainable.

Criteria for assessing applications for grants to offset market rent (grants in lieu of rent)

1. Do the activities or services provided by the tenant organisation contribute to the Council's Corporate Plan?
   (The Council will not normally offer grant support to tenant organisations whose activities do not support one or more of the 'Targeted Actions' within the Corporate Plan)

2. Is the tenant organisation affiliated or a member of a national body ?
   (The Council will not normally offer grant support to tenant organisations that are not affiliated or are a member of a national body/voluntary organisation. This is to ensure that the tenant organisation has proper oversight and governance at a national level, such that it can follow best practice in such matters as safeguarding, financial probity and equality)

3. How many residents of Torbay benefit from the services provided by the organisation ?

4. What is the level of benefit received by those users of the organisation ?

5. How well does the organisation promote social inclusion ?

6. Would the Council need to provide the services if they were not provided by the organisation ?

7. How much other funding will the organisation be able to access if the Council provides a grant ?

8. What mechanisms are in place for working in partnership with other organisations?

9. How much effort is made towards self-help, especially in the form of local fundraising and grant applications ?

10. How far is the organisation able to become self-supporting over the period of the grant?

Appendix 4 – Granting of Sports Leases – An overarching strategy

(July 2016)

Introduction

In July 2011, a paper was submitted to full Council that recommended the Mayor authorise the then Executive Head of Commercial Services, in consultation with the Chief Executive of the Torbay Development Agency (TDA), to grant leases for up to 40 years to sports clubs on acceptable terms with each case being considered on its merits. There are a number of sports clubs within Torbay who have since completed leases with Torbay Council. However, there are also still a number outstanding, which is absorbing a significant amount of effort and resource.

This overarching strategy is therefore intended to help streamline the process. The strategy will set out the key terms of occupation that the Council is willing to grant. This will be clear and transparent from the outset. The strategy should be extended to all sports clubs within the Bay to avoid a claim that the Council is being selective. Care will however; have to be taken as to what premises are leased to the clubs. A large number of football clubs hire pitches along with the use of changing rooms from the Council. It would be impractical to lease out an individual pitch with changing facilities, as this would deny other clubs from using them at other times. In these instances it may not be possible to offer any type of lease, regardless of its length.

By offering long leases to local sports clubs the Council can provide the clubs with the confidence that comes with security of tenure. This new found confidence should serve as a catalyst for improvement whereby our sports clubs will positively engage with their communities and in particular with our young people. Some local clubs are already fully engaged with their communities but this new overarching strategic approach to sports leases will ensure that the tenant clubs are working with the respective national Governing Body for their sport. Not all clubs are optimising the opportunities that are available and there is an opportunity cost.

It is clear that the Council has an over-supply of poor quality, asset related, sports provision in the Bay. The Council needs to understand the issues with its facilities and have a better understanding of where the demand exists. It would then be better placed to invest in those facilities, improving quality, increase demand and ultimately increase income to sports funds. Adhering to the terms listed below will help ensure this happens.

The Council will work with the Torbay Development Agency and the Torbay Sports Council to provide support and advice to those clubs that need help to understand the issues surrounding these sports leases. This support will include a set of “Frequently Asked Questions” that can be provided to the clubs and kept under review as an ongoing resource.

Key Terms

Advertising the Opportunity - Sports leases will normally be advertised to ensure that there is a competitive element to the selection of a tenant and that our communities will be rewarded with the best offer in terms of quality. The Council will use a combination of quality and cost to demonstrate best value, when scoring an applicant’s bid for a long sports lease. It is important that a local sports club that wishes to become a tenant or is already a tenant; is discouraged from ‘coasting along’, not improving or reaching out to their local community.

Full Market Rent payable - In February 2016 the Council’s Corporate Asset Management Plan 2015 ~ 2019, latest revision, was agreed and adopted by the Council. The revision inserted the following statement, “*Due to the financial challenges facing the Authority and the possible future reductions in Revenue Support Grants, unless there is specific approval at Full Council to the contrary, the Council* *will always seek to maximise the full market receipt for their assets whether by way of freehold disposal or leasehold interest*".

The securing of full Market Rent is therefore in accordance with the Corporate Asset Management Plan.

[The estimated market rent assesses the lease value against other similar leases (i.e. sports leases) across the South Devon area. An estimated market rent will take into account whether the landlord or tenant has the liability for the cost of maintenance and what income generating facilities are at the disposal of the tenant. i.e. a club house & bar, private car parking, etc. The estimated market rent would also reflect the restrictive nature (sports use only user clause) of the lease and the level of the security of tenure.] A combination of the above factors can either increase or lower the valuation and so it must not be assumed that a 'market rent' is necessarily a high rent. In the case of sports clubs the 'market rent' should not be compared with the commercial rent a business might pay in the high street.

Sports clubs must be affiliated to National Sports Governing Bodies - For the purposes of this strategy a sports club must be affiliated to a recognised national governing body for that sport. i.e. recognised by Sport England. Examples include, the Football Association, the Royal Yachting Association, the Rugby Football Union, the England & Wales Cricket Board, UK Athletics or England Athletics, etc. This key term is included to ensure that a tenant organisation has an appropriate constitution with associated rules & regulations. It also means that the tenant would be required to follow best practice in such matters as safeguarding, protecting young children, inclusion and financial probity; it will also help to prevent discrimination and promote equality. Consequently, it is expected that the tenant organisation will have the relevant policies for such matters and can therefore demonstrate a corporate social responsibility.

Lease length of up to 40 years – The sports club should demonstrate the need for the lease length required. It is known that a number of funding bodies do not require clubs to hold leases for longer than 21 years to obtain funding. When granting medium to long term leases the Council should always ensure outputs and outcomes are monitored. If this is not monitored the Council risks losing control over the provision of sporting facilities at that leased area. The Council should not consider granting a lease, which is longer than 40 years as Upper Tribunal (formerly the Lands Tribunal), under s84 of the Law of Property Act 1925 may on certain grounds, after 25 years into the term, discharge or modify restrictions as to user or buildings on the land affecting the leasehold interest. Granting leases to a maximum lease of 40 years therefore prevents clubs applying to the Upper Tribunal thus safe guarding the Council's position. Where there is no existing lease in place any new sports lease granted will be contracted outside of Sections 24-28 (security of tenure provisions) of the Landlord and Tenant Act 1954.

Break Options – The Council will look to insert mutual break options whereby in the event a sports clubs doesn't secure funding / grants, either party can bring the lease to an end on the service of a notice period. If a clubs takes a lease and did not apply, or were unsuccessful, in obtaining grant funding then the land might not be used to its full potential for the length of the lease with the Council being unable to use it for the same or any other purpose. For example, a club's membership may fall significantly over time and it may not be able to provide the same level of activities with the Council being unable to make use of the land.

Grants – Sports clubs may make an application for a grant to offset market rent (a grant in lieu of rent) by following the procedure contained in Appendix AM-G of the Council's Corporate Asset Management Plan. If a decision is made to provide a grant it is likely to be a short period before it is reviewed and it will probably be linked to appropriate outputs and outcomes set out in the grant agreement. There will also be a clearly defined process for monitoring outputs.

Maintenance of Land & Buildings – The leases will pass onto the sports clubs the full liability for the maintenance of the land and buildings. However, many sports pitches are currently maintained by TOR2 and this is expected to continue until at least 2019. The Council cannot make savings by individually removing certain playing pitches from the contract. Therefore, the Council may need to take account of this responsibility when assessing the appropriate market rent.

Adverse costs – It is recognised that by passing the maintenance of the land and the buildings to the sports clubs this could represent a significant risk and liability that is unacceptable to the Clubs. To offset this risk where a significant item of disrepair manifests itself the sports club will be required to meet the first £1,000 of any costs and then an additional 10% of any costs associated with any repair needed above this ceiling. If the Council deems it is unable to meet the cost of the remaining 90% of repairs needed, it will have the ability to bring the lease to an end. Neither the Council nor the sports club should be required to bear an unacceptable level of liability, particularly where no budget exist to meet these costs. The Council's decision shall be final in this regard.

Limit the use of lease restrictions – If the Council is seeking to obtain market rent from a sports lease then it should also limit the use of lease restrictions which inhibits the clubs/tenants from maximising income. An exception will be to exclude telephone masts from the standard lease. Any consent to permit the erection of telephone masts will need to be agreed by the Council as the landlord in a separate agreement.

Identification of periphery land in sports leases – The granting of sports leases will often cover a large area of land. It is possible that some land, most likely on the periphery of the demise area, may have some future development use/value. It is the intention that this land is identified on a lease plan at the commencement of the lease and reserved within the sports lease with rights for the Council to take back this land on the service of a suitable notice period.

Multiple Applications – It is possible when considering future sports leases that the Council receives a number of Expression of Interests for one specific sports ground. Where this is the case the Council will apply a tender process for determining the outcome.

Standardised Lease – The Council will look at all times to incorporate all of the above terms in a standard lease template. Any departure from the above will only be agreed in an exceptional circumstance.

Protocol for dealing with outstanding Sports Leases

1. Write to all sports clubs where negotiations are ongoing informing them of the new overarching strategy that will be applied on all new sports leases granted.

2. Propose new terms of occupation that adhere to the new strategy.

3. Consider any new requests against the criteria of this strategy and forward them to the Executive Head of Business Services and Assistant Director – Community & Customer Services for a steer about whether the request is agreed 'in principle'.

4. Consult with Ward Councillors and the relevant community partnership about the proposed Sports Lease.

5. Take a report to Council for their consideration with the views of the Ward Councillors and the community partnership being incorporated into the report.

6. The following are the principal terms to be considered for all future Sports Lease and any variation must be agreed with the Executive Head of Business Services in consultation with the Assistant Director – Community & Customer Services :-

i) The sports club pays a full market rent for the premises. (See definition of 'Full Market Rent' under Key Terms set out above)

ii) The sports club is responsible for the insurance and maintenance of the land and buildings with the club taking the facilities in their existing state.

iii) Where there is no existing lease (within the provisions of the Landlord & Tenant Act 1954) in place, the lease is to be excluded from the security provisions of the Landlord & Tenant Act 1954.

iv) The sports club to adhere to the agreed sports development plan (if required by the Council).

v) The sports club pays the Council's reasonable legal and surveyor costs associated with the granting of the lease and, if applicable, the surrender of the existing lease.

7. The granting of any lease of open space is deemed to be a disposal of open public space and therefore the proposed granting of the lease will need to be advertised in accordance with the Local Government Act 1972.

Meeting: Council **Date:** 8 February 2018

Wards Affected: All

Report Title: Capital Plan 2018/2019

Is the decision a key decision? Yes

When does the decision need to be implemented?

Executive Lead Contact Details: Mayor Gordon Oliver, Executive Lead for Finance, 01803 207001, mayor@torbay.gov.uk

Supporting Officer Contact Details: Martin Phillips, Head of Finance, 01803 207285, martin.phillips@torbay.gov.uk

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1. Proposal and Introduction

1.1 Torbay Council's Capital Plan totals £329 million for the 4 year programme to 31 March 2021 with £135 million scheduled to have been spent in 2017/18 and £138 million due to be spent in 2018/2019. The Council's Capital Plan is updated on a quarterly basis as new funding announcements and allocations are made.

1.2 The attached document provides high-level information on the proposed capital expenditure and funding for 2018/2019 and is part of the total Plan. Shown against the targeted actions of the Council's Corporate Plan, it gives details of the capital schemes which have previously been approved by the Council. However, in some cases, it sets out funding which has been allocated to services but where specific schemes have not yet identified.

1.3 Included with the attached document is the Council's Capital Reserve List (as well as approved projects which have not yet commenced).

2. Reason for Proposal

2.1 To enable the Council to agree its Capital Expenditure for the 2018/2019 financial year as required by the Constitution.

3. Recommendation(s) / Proposed Decision

3.1 That the Capital Plan for 2018/2019 as set out in Appendix 1 to the submitted report be approved.

Appendices

Appendix 1: Proposed Capital Plan for 2018/2019

CAPITAL PLAN

2018/2019

Published: Friday, 26 January 2018

1. **Capital Plan** (Pages 1 - 8)

Capital Plan Budget 2018/2019

Torbay Council's Capital Plan totals £329 million for the 4 year programme to 31 March 2021 with £135 million scheduled to be spent in 2017/18 and £138 million due to be spent in 2018/2019[1].

This document provides high-level information on the proposed capital expenditure and funding for 2018/2019 and is part of the total Plan. Shown against the targeted actions of the Council's Corporate Plan, it gives details of the capital schemes which have previously been approved by the Council. However, in some cases, it sets out funding which has been allocated to services but where specific schemes have not yet identified.

In accordance with Torbay Council's Constitution, the figures presented will form the approved capital budget for the coming year.

Appendix 1 provides financial information including the total cost and the expenditure to date of each scheme as well as details of how the Council is intending to fund each project.

[1] Capital Plan – Quarter 3 Monitoring Report - (Council, February 2018)

Targeted Action 1: Protecting children and giving them the best start in life

Scheme Name	Description	Latest Approval	Total Estimated Scheme Cost £000	2018/2019 Budget £000
Early Years – Ellacombe Academy Nursery	DFE grant funding to support the expansion of nursery places	Council 2 February 2017	746	250
Education Review Projects	This budget has been established from unallocated education capital funding to be used to support future projects.	n/a		200
New Paignton Primary School	A need for primary school places in Paignton. Site cost to be funded by Torbay with the expectation of DFE funding of the school construction.	Council 24 September 2015	509	480
Secondary School Places (Torquay Academy)	A need for secondary school places in Torquay was identified following consultation. This was agreed by the Council with Basic Need Funding being allocated.	Council – 24 September 2015	2,357	1,225
Special Provision Fund	A specific grant to make capital investments in provision for pupils with special educational needs and disabilities.	Council – 13 September 2017	500	166
Torbay School Relocation	The Council agreed the reallocation of £3m previously allocated to Children's Services for the relocation of Torbay School. The decision was subsequently made to relocate Torbay School from its present site at Torquay Road, Paignton to the MyPlace facility in Paignton in order to better meet the needs of the young people attending this Special School.	Council – 26 February 2015 Chief Executive – 8 July 2016	2,800	2,600
Sub-total				**4,921**

Targeted Action 2: Working towards a more prosperous Torbay

Scheme Name	Description	Latest Approval	Total Estimated Scheme Cost £000	2018/2019 Budget £000
Claylands Redevelopment	Council-owned land at Claylands will be redeveloped using a combination of Council and Heart of the South West Local Enterprise Partnership funding. When fully developed the site will support approximately 350-400 jobs and will support the growth of the business rate base.	Council – 10 December 2015 **Updated at Council – 19 October 2017**	10,400	5,500
Edginswell Business Park	To purchase and develop for regeneration land at Edginswell.	Council 22 June 2017	6,620	3,620
Employment Space – Torbay Business Park	Investment at Torbay Business Park.	Council – 8 December 2016	6,644	1,000
Investment Fund = phase 1	This fund is provided to enable the Council to acquire properties. In addition, the fund will be used to increase the Council's business tax base by investing capital resources within Torbay to stimulate growth.	Council – 22 September 2016	50,000	0
Investment Fund = phase 2	Fund increased to £200 million. Purchases included in capital plan when purchased.	Council – 8 August 2017	150,000	79,456
Electronics and Photonics Innovation Centre (EPIC)	This is Phase Three of the Innovation Centre project which will support the electronics and photonics sector by providing office and clean room space for small start-up businesses.	Council – 26 February 2015	7,740	4,862
Oxen Cove Jetty	Proposal to construct a new landing jetty at Brixham Harbour	**Council 19th October 2017**	1,967	1,900
Oxen Cove – Shellfish Processing Facility	Proposal to construct a facility funded from external grant.	Council – 7 December 2017	400	300
South Devon Highway	The scheme is substantially complete but there are still other costs to be determined (including compensation claims) before the final cost of this major infrastructure improvement is known.	Council – 13 February 2008	20,224	1,000
Town Centre Regeneration	Council received a report in October 2017 proposing to borrow £25 million to support Town centre Regeneration	**Council 19th October 2017**	25,000	5,000
Edginswell Station	The Council successfully submitted a bid to the Local Transport Board for the creation of Edginswell station. The Government subsequently confirmed its funding to the Local Transport Board to support this scheme. As reported to Council in December 2016, the costs of this scheme are now higher and an additional bid to Government has been submitted to meet these.	Council – 4 September 2014 **Updated at Council – 19 October 2017**	4,010	0
Integrated Transport Schemes	Grant allocations from the Department for Transport for 2015/2016-2020/2021. The allocations are linked to the value of the planned maintenance backlog on the road network. The Council agreed to allocate these resources in line with Government intentions.	Council – 26 February 2015 **Updated at Council – 13 September 2017**	n/a	917
Roads Structural Maintenance			n/a	1,224
Torquay Gateway Road Improvements	The Council successfully submitted a bid to the Local Transport Board for improvements at Torquay Gateway. The Government subsequently confirmed its funding to the Local Transport Board to support this scheme with the Council approving a contribution to the scheme.	Council – 27 September 2014	2,925	1,732
Transport – Western Corridor	Strategic road enhancement funding from a range of resources including LEP funding and Integrated Transport funding.	Council 6 December 2013	10,603	3,494

Scheme Name	**Description**	**Latest Approval**	**Total Estimated Scheme Cost £000**	**2018/2019 Budget £000**
		Updated Council 13 September 2017 (ITB)		
Upton Place	To support the design and build of the student accommodation at Upton Place. The Council to enter into a 25 year full repairing and insuring lease.	Council 10 May 2017	14,200	10,000
Sub-total				**120,005**

Targeted Action 3: Promoting healthy lifestyles across Torbay

The proposed Capital Plan does not include any capital projects which specifically support this targeted action. However, the capital schemes set out against the other targeted actions will contribute towards a healthier Torbay be it through giving our children and young people the best start in life, promoting economic regeneration or protecting our natural environment.

Targeted Action 4: Ensuring Torbay remains an attractive and safe place to live and visit

Scheme Name	Description	Latest Approval	Estimated Scheme Cost £000	2018/2019 Budget £000
Princess Pier – Structural Repairs	Structural repairs to the superstructure alongside potential substructure repairs expected to the funded by the Environment Agency.	Council – 1 February 2012 **Updated Council 13 September 2017**	1,744	1,200
Paignton harbour Lights	To redevelop the Harbour Light building at Paignton harbour.	Council 22 June 2017	600	600
Parkwood Leisure Loan	Loan to Parkwood Leisure for investment projects to improve the building (Clennon Valley) , increase revenue generation, modernise and improve the facilities and improve customer satisfaction	Council 22 June 2017	1,700	1,000
Public Toilets – Modernisation	Three year programme to modernise a number of public toilets over a three year period funded from savings from a new contractor	Council 7 December 2017	1,032	532
Sub-total				**3,332**

Targeted Action 5: Protecting and supporting vulnerable adults

Scheme Name	Description	Latest Approval	Estimated Scheme Cost £000	2018/2019 Budget £000
Affordable Housing	This is the capital resource set aside for affordable housing awaiting allocation to specific schemes. This is mainly funded from Right to Buy receipts, Section 106 contributions and housing grants. The Council agreed that these resources should be ring fenced for affordable housing.	Council – October 2016	2,624	1,430
Empty Homes Scheme	An "invest to save" scheme to bring empty homes back into use to be funded from New Homes Bonus grant.	Council – 8 December 2011	500	457
Private Sector Renewal	Residual of pre 2010 Housing Grant which is currently unallocated.	n/a	n/a	113
Torbay Housing Company Loan	To facilitate the work of the Housing Rental Company, in the form of a loan for a capital purpose	Council 20 July 2017	25,000	5,000
Sub-total				**7,000**

All targeted actions: Corporate Support

Scheme Name	Description	Approved	Estimated Scheme Cost £000	2018/2019 Budget £000
Corporate IT Developments	A budget to fund essential IT replacement over four years.	Council – 25 February 2016	1,000	299
Essential Capital Repair Works	A budget to fund essential capital repair works over four years. The Executive Head – Business Services is authorised to make allocations from this fund to specific schemes.	Council – 25 February 2016	2,625	1,400
Enhancement of Development Sites	To invest in assets to increase value prior to sale.	Council 8 December 2011	299	150
Flexible use of Capital Receipts	Use of capital receipts to fund costs of service reform (such as transformation costs).	Council 23 February 2017	600	300
Office Rationalisation Project	To fund conversion of improved office accommodation, essential renovation in Council office accommodation allowing for more agile and flexible working.	n/a	700	200
General Capital Contingency	This is capital provision which is set aside to cover urgent, unavoidable additional capital costs where alternative funding is unavailable. This is approximately 0.5% of the current four year capital plan. It should be noted that all capital projects should have contingencies within the individual project costs.	n/a	631	631
Sub-total				**2,980**

CAPITAL PLAN - RESERVE LIST DECEMBER 2017

Capital Scheme	Ref.	Main Funder	Cost to Council £m
Protecting Children			
PARIS replacement - social care case management	100	TC	0.500
Funding for primary school places in Paignton (beyond exisitng	101	TC	tbc
Prosperous Torbay			
Town Centres Master plans – (beyond £25m allocation)	200	TC	tbc
Brixham Town Centre redevelopment	201	TC	tbc
Multi Storey Car Parks R&M Backlog	202	TC	3.200
Freshwater Car Park expansion	203	TC	tbc
Loan to TDA for Regeneration and Commercial Investment	204	TC	25.000
Riviera Centre - R&M backlog	205	TC	1.000
Healthy Lifestyles			
none	300		
Attractive and Safe Place			
Torre Abbey Mansion Phase Three - match funding	401	EH	1.000
Backlog Transport Infrastructure R&M	402	TC	11.000
Environment Agency Schemes - match funding - various	403	EA	tbc
Backlog Property Assets R&M	404	TC	22.000
Princess & Haldon Piers structural repair	405	TC	4.600
TOR2 Asset buyback at end of contract/future waste solutions	406	TC	tbc
Car Park Fencing replacement	407	TC	0.062
Cockington Court - R&M backlog	408	TC	0.700
Willows Sport Pitches improvements	409	TC	0.500
Princess Theatre Investment	410	AC	1.000
Illumination (Festoon lighting) Replacement - phase 2	411	TC	0.072
Oldway Mansion - Future Use of Asset	412	TC	tbc
Torquay Harbourside, Option 1 (Public Realm)	413	TC	0.350
Torquay Harbourside, Option 2 (Extend Torquay Harbour)	414	TC	4.000
Torquay Harbourside, Option 3 (New Torquay Harbour)	415	TC	7.000
Vulnerable Adults			
Affordable Housing - via Housing Company (beyond £25m allocation)	500	TC	tbc
Extra Care Housing	501	TC	tbc

Note:
Structural Highways and Integratred Transport schemes as per specifc planning documents for both these functions

Meeting: Council **Date:** 8 February 2018

Wards Affected: All

Report Title: Corporate Capital Strategy (including the Capital Receipts Strategy)

Is the decision a key decision? Yes

When does the decision need to be implemented? Immediately

Executive Lead Contact Details: Mayor Gordon Oliver, Executive Lead for Finance, 01803 207001, mayor@torbay.gov.uk

Supporting Officer Contact Details: Martin Phillips, Head of Finance, 01803 207285, martin.phillips@torbay.gov.uk

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1. Proposal and Introduction

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

1.2 The Strategy links with both the Treasury Management Strategy and the Corporate Asset Management Plan.

2. Reason for Proposal

2.1 To enable the Council to agree the Corporate Capital Strategy as required by the Constitution.

3. Recommendation(s) / Proposed Decision

3.1 That the Corporate Capital Strategy (including the Capital Receipts Strategy) as set out in Appendix to the submitted be approved.

Appendices

Appendix 1: Proposed Corporate Capital Strategy (including the Capital Receipts Strategy)

February 2018

Corporate Capital Strategy (including the Capital Receipts Strategy)

TORBAY COUNCIL

Contents

1 Introduction

The Corporate Capital Strategy is the policy framework document that sets out the principles to be used to guide the allocation of capital investment across all the Council's services and informs decisions on capital spending priorities within the Council's 4-year Capital Plan. In addition as part of the Strategy the Head of Finance reports on the delivery, affordability and risks associated with this Strategy.

Capital investment is technically described as **"Expenditure on the acquisition, creation, or enhancement of 'long term assets'"**. This is items of land, property and plant which have a useful life of more than 1 year. A fuller definition is attached at Appendix 2. Expenditure outside this definition will be, by definition, revenue expenditure.

Most long term assets are properties that are used in service delivery. The Council's land, buildings and infrastructure asset base of some 3,700 properties has a current use Balance Sheet value of approx. £375 million.

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

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

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

The management of the Capital Plan is also supported by the Council's approved Financial Regulations.

2 Guiding Principles

2.1 Approach to Borrowing

The Council is able to borrow money on the money market or from the Public Works Loans Board to fund capital schemes or, on a short term basis, use its own internal resources (i.e. cash flow). However for all schemes initially funded from borrowing, the Council will have to fund the principal repayment and interest costs.

The Council is only able to borrow under the guidance contained in the CIPFA Prudential Code whereby, in summary, the Council is required to ensure that all borrowing is both prudent and affordable. All schemes funded from prudential borrowing are approved by full Council, although in some cases approval of individual schemes within an overall allocation by Council have an alternative approval process.

The consultation on the proposed changes to the Prudential Code and the Treasury Management Code closed in the autumn and the outcome is expected to be in place before April 2018. The changes are likely to reflect a requirement for councils to have a higher level of diligence on its capital expenditure including commercial activities such as investment properties.

In addition DCLG are consulting on changes to the prudential framework of capital finance. The changes to the prudential framework (i.e. the local authorities investment code and the minimum revenue provision (MRP) guidance) may have an impact on both the Council's assessment of the financial viability of a project (from changes to the MRP guidance) and on an expectation that borrowing will only be for investments that have "multiple objectives" and make a contribution to the core objectives of the Council.

The Council's revised 2017/18 Treasury Management Strategy recognised the potential need to take an additional £200m of borrowing to support a number of capital projects, potentially increasing the Council's overall debt (excluding PFI liabilities) to be in excess of £437m. Based on current economic forecasts a borrowing cost of 3% - 3.5% should be assumed for new borrowing in 2018/19.

A summary of the Council's current and projected borrowing position identifying the approved schemes that have/will result in borrowing are listed in Appendix 1. This is a useful summary for members to understand the assets financed from borrowing.

The Council takes a prudent approach to new borrowing, paying particular regard to the robustness of the business case to include forward predictions of affordability, with the aim that projects should be self-funding (i.e. create a revenue stream so that the cost of borrowing is cost neutral to the Council). However the Council has changed its risk appetite in the past year and is now approving a significant number of projects to be funded by borrowing and also a number of projects that are more commercial in nature. All new proposals for a self-funding or invest to save scheme supported by borrowing must have a robust business case that is presented to senior members and officers prior to approval by Council.

Each business case must clearly identify and consider the ongoing revenue implications of:-

- fixed interest and principal repayment costs
- associated income stream
- volatility of the income stream
- the contribution to the general fund or breakeven point
- the sensitivity of the that contribution
- achieve the target return linked to the purpose of the spend
- ensuring asset value exceeds outstanding debt.

All of the above need to be considered for the whole life of the asset.

Each business case must clearly identify and consider the ongoing balance sheet implications of:-

- the change in the level of Council debt
- address how changes in asset value will be funded i.e. capital appreciation and impairment and the total of assets funded by borrowing.

To ensure all member are fully informed of the risks and rewards associated with borrowing reporting will include:-

- Total debt of the Council
- The underlying assets funded by that debt
- Ongoing revenue costs of principal and interest
- Income Streams associated with that asset
- Implications of changes in asset values or income streams

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

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

2.2 Grant Allocations

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

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

Any unringfenced capital grants received, even if these are allocated with service intentions of the identified government body awarding the grant, will be required to be approved by Council. Consequently once capital grants have been allocated to a specific service by Council, individual schemes within that allocation are subject to each individual scheme being approved by the relevant Director in consultation with the Elected Mayor and Head of Finance.

The Council continues to bid for additional external grant funding but restricts schemes to those which support corporate priorities or statutory service objectives and where it can be proved that the project is sustainable, and requirements for match-funding and future revenue consequences have been considered and approved. All bids are to be agreed by the Chief Executive in consultation with the Elected Mayor and Head of Finance prior to submission. Where external grants are used the grant conditions of linking to the capital grant and future use of the asset need to be adhered to.

2.3 Capital Receipts and Capital Contributions

The Council receives capital receipts and capital contributions from:

- Asset Disposals
- Right to Buy Clawback
- Section 106 and Community Infrastructure Levy (CIL)
- Repayment of loans for a capital purpose.

Asset Disposals

The current policy is to pool all receipts from the sale of all assets sold to support the Capital Plan in line with funding the Council's priorities. The current Capital Plan has a capital receipts target (£0.9m as at Quarter 2 2017/18) to support the approved Plan that has not yet been met. All capital receipts received should be allocated to support this target and not allocated to new schemes, subject to any potential use of capital receipts under the Capital Receipts Strategy (see para 2.4 below) and any loan repayment. An asset disposal will be deemed to occur when the Council transfers the freehold or a long lease (usually over 40 years).

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

The Council will aim to maximise its capital receipts, where possible, by enhancing the land prior to disposal; e.g. by obtaining planning permission or providing a development plan. As appropriate the Council may dispose of assets by tender or by public auction.

Asset Disposals at nil consideration or below market value

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

The Localism Act 2011 introduced the "Community Right to Bid" and placed a duty upon local authorities in England to maintain a list of assets of community value. Once an asset is "Listed" any disposal will be under the Community Asset Transfer policy or for market value by tender/auction.

Where the Council proposes to dispose of, or grant a long lease, at nil consideration or at a value below market value this is required to be approved by Council in accordance with the Corporate Asset Management Plan. This will also apply where the disposal is for a community or service benefit.

There may be circumstances, such as the transfer of community school assets under the Academies Act, where assets will also be disposed of at nil consideration.

Right-to-Buy Clawback

100% of these receipts are currently used to support the provision of the housing function, although this policy could be reviewed to provide additional resources for projects in other service areas.

Section 106 contributions and Community Infrastructure Levy (CIL)

Section 106 (S106) monies come from developer contributions through the planning system. Unless there are service specific conditions on the use of the S106, the monies should be used to support existing Council priorities and commitments rather than be allocated to new schemes. Any S106 monies received without a service or scheme specific allocation within the planning agreement will be allocated in accordance with this Capital Strategy.

Any monies received for infrastructure from the Community Infrastructure Levy will not be allocated to a specific service but will be allocated under the CIL arrangements ("the Regulation 123 List") in line with Council's capital scheme priorities including any specific funding requirements such as the South Devon Highway.

The current policy is to pool all capital contributions to support the Capital Plan in line with funding the Council's priorities. The current Capital Plan has a capital contributions target to support the approved Plan. All capital contributions received should, where possible, be allocated to support this target and not allocated to new schemes.

Repayment of loans for a capital purpose

Where the Council provides a loan for a capital purpose this will be subject to approval by Council and accounted for as capital expenditure. The repayment of a loan by the borrower will be treated as a capital receipt; however any receipts of this nature will be specifically applied to reduce the value of the Council's outstanding loan.

2.4 Capital Receipts Strategy

The Department for Communities and Local Government (DCLG) revised the statutory guidance in relation to the Local Government Act 2003 on the use of capital receipts for the period from April 2016 to March 2019. (note: now extended after draft Local Government Finance Settlement in December 2017). This now provides councils with the flexibility to use capital receipts for "the revenue costs of service reform". This flexibility is subject to a Strategy for the use of capital receipts being approved by Council. By approving this document Council will be approving this flexibility to be used as deemed appropriate by the Head of Finance with any use reported to Council as an amendment to the Council's Capital Plan.

Potential uses for capital receipts (subject to the capital receipts being received and Council approval of changes to Capital Plan) would be to support any implementation costs for the Council's Transformation Programme.

DCLG within their statutory guidance have included a number of examples of the type of expenditure that would meet the definition of "revenue costs of service reform".

2.5 Revenue and Reserves

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

Once a revenue contribution has been applied to a capital project it cannot be returned to revenue**.**

2.6 Prioritisation and Approval

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

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

1. If a specific scheme is to be approved/funded there will be a requirement for a detailed business case to be submitted to the Chief Executive in consultation with the Elected Mayor and Head of Finance:

    If new, confirmed and specific funding is to be used for the scheme and if the scheme is supported by the Chief Executive in consultation with the Elected Mayor and Head of Finance it will be recommended to Council for approval

    If funding has been allocated by Council to a service without individual schemes being identified at the time of approval (such as a general allocation to schools for "basic need" projects), individual schemes within that allocation may be approved by the Chief Executive in consultation with the Elected Mayor and Head of Finance.

2. Proposals for invest to save or self-financing schemes, (usually financed from prudential borrowing), will also require a detailed business case to be submitted to the Chief Executive in consultation with the Elected Mayor and Head of Finance. If the scheme is supported it will be recommended to Council for approval.

3. Once new schemes are approved, the Capital Plan will be updated and progress will be reported in the ongoing Capital Plan Monitoring Reports.

4. Schemes that do not require financial support but include the use of Council assets as a Council contribution to a scheme will also be subject to the Council's approval process.

5. Where there is a proposal to transfer capital resources from a previously approved scheme to a new scheme and there is a change of "policy", the new scheme will be approved by Council.

6. Where an alternative specific approval process has been set up and approved by Council (e.g. Investment Committee) that process will apply.

2.7 Management and Monitoring of Capital Plan

Arrangements to include:-

1. Ahead of any consideration by the Council, Capital Scheme business cases will be presented to the Chief Executive (who may seek advice from the Senior Leadership Team). In accordance with this Strategy, the Chief Executive will consult the Mayor who may seek the views of his Executive (either informally through the Mayor's Executive Group or formally through the Policy Development and Decision Group)

2. Senior Leadership Team will have responsibility for the oversight and challenge on the delivery of the Capital Plan including slippage and outcomes, reporting issues by exception to the Elected Mayor at meetings of the Policy Development and Decision Groups.

3. Overview and Scrutiny Board and Council will receive regular monitoring reports and one outturn report each year.

4. Committees set up for specific purposes will receive regular update reports

5. Overview and Scrutiny Board and Council will receive the proposed Capital Plan for the forthcoming year.

2.8 Alternative Funding and Delivery Opportunities

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

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

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

All schemes are to be considered by the Chief Executive (in consultation with the Elected Mayor and Head of Finance) prior to agreement (as per this Strategy and the Council's Constitution) and/or contractual commitment.

2.9 Investment Properties

Linked to its approach to borrowing and the Council's Investment Fund Strategy, the Council will consider, if the opportunities arise, the purchase of land and property as an investment to both generate an ongoing income stream or to realise an increased capital value in the future. In the consideration of these purchases the Council will consider the DCLG investment principles of "security, liquidity and yield" as applicable.

Purchases of assets through the Investment Fund are primarily to be retained in the short term and reviewed as part of an ongoing annual asset management strategy. However, where a full provision for the repayment of the borrowing (MRP) is not made, there is a then an expectation that these assets will be disposed of in line with the approved business case to repay any outstanding debt. The Council therefore would need to plan for both the disposal of these assets and the resulting impact on the Council's revenue budget from the lost income stream and any costs on disposal.

2.10 Loans for Capital Purposes

Loans for a capital purpose may also be approved by Council subject to an appropriate business case and due diligence including, as appropriate, guarantees and bonds to secure the repayment of the loan. The loan value will not exceed the value of the underlying asset at any time and there should be no third party legal charge on the asset. Interest will be charged on the loan at a market rate, this will include loans to Council subsidiary companies. This will ensure compliance with State Aid regulation.

2.11 Capital Expenditure and Assets held by wholly owned Subsidiary Companies

The Council has overall control of a number of wholly owned subsidiary companies and therefore is ultimately responsible for those companies' assets and liabilities. Activities of these subsidiaries are controlled by the Council through 'reserved matters' listed within the Memorandum and Articles of Association of the company. These 'reserved matters' cover capital expenditure and the making of any borrowing. The assets and liabilities of all Council companies are consolidated into the Council's group accounts.

As these capital assets and liabilities are part of the Council's overall financial position, the Council will report on the total group assets and liabilities and the associated risk and reward.

In relation to the reserve matters on capital expenditure the Council will apply the same process as applied to its own capital expenditure and will monitor and report performance of the capital assets as part of the Council's capital monitoring arrangements.

2.12 Transparency and Openness

The Council will try to meet DCLG expectations that Councils are better at explaining the "why" and not just the "what" for their investment activity, and apply transparency and openness to all decisions and reporting on capital expenditure.

2.13 Capacity, Skills and Culture

The Council will try to meet DCLG expectations that, for all officers, members and other individuals involved in the decision making process for commercial investments, disclosure is made of the knowledge and expertise these key individuals.

3 Head of Finance Statement on Delivery, Affordability and Risk of Capital Strategy

3.1 Background

The current guidance for a council's level of borrowing is the Prudential Code (2013). The following extracts from the Code summarise the Code's approach to level of borrowing (self regulating) and the governance that should apply.

> Key objectives of the Code are to ensure, within a clear framework, that local authorities' **capital investment plans are affordable, prudent and sustainable**.
>
> Local Government Act 2003: '**A local authority shall determine and keep under review how much money it can afford to borrow**.'
>
> Under the prudential system, **individual authorities are responsible for deciding the level of their affordable borrowing**, having regard to CIPFA's Code, which has been given legislative backing. **The system is designed to encourage authorities that need and can afford to undertake capital investment to do so.**
>
> **The prudential system is based on principles rather than prescription. This places the responsibility for the success of the system on the professional judgement of practitioners themselves.**
>
> The introduction of the Code reflects a move towards more self-regulation for local authorities and hence effective corporate governance is one of the key elements to successful implementation of the Code..... **local authorities need to ensure that they have effective governance processes in place and that there is a sense of ownership within the authority.**
>
> It is therefore important that this decision-making process for setting the authority's prudential indicators is able to identify and evaluate risks, while also including **arrangements to reduce such risks to an acceptable level.**
>
> The Chief Finance Officer is responsible for determining and presenting possible capital investment options to members and offering them professional advice. <u>**However, it is the duty of elected members to balance the constraints of affordability with the demands of services for capital investment, and in all but most exceptional cases it will be for elected members to make the necessary judgement.**</u>

It should be noted that CIPFA are currently revising both the Treasury Management Code of Practice and the Prudential Code and DCLG are also consulting on changes to the prudential framework for capital finance. This report has included relevant element of the consultations however this report may need to be updated once the documents have been issued as "final". The proposed changes are also likely to have an impact on the Treasury Management Strategy (which includes the Investment Strategy) and MRP Policy for 2018/19.

3.2 Torbay Council Position Statement

All borrowing	As at 1.4.17	As at 31.10.17	Projected 31.3.20	10% sensitivity on income
	£m	£m	£m	£m
External Borrowing	153	223	436	
Interest and repayment of principal costs	10.0	12.7	21.5	
Income related to borrowing	(1.9)	(8.1)	(16.3)	1.6
Estimated Value of underlying assets for prudential borrowing	67.0	132.4	337.8	
Interest repayment cost as a % of net revenue budget	9%	12%	20%	
Interest repayment cost net of investment income (including investment properties) as a % of net revenue budget	7%	6%	9%	

Note: Private Finance Initiative transactions have been excluded from this table.

Investment Fund Purchases only	As at 1.4.17	As at 31.10.17	Projected 31.3.20	10% sensitivity On Asset value and income
	£m	£m	£m	£m
External Borrowing	21	86	200	
Interest and repayment of principal costs	0.8	3.4	7.4	
Rental Income from Investment Properties	(1.3)	(5.5)	(11.2)	1.1
Estimated Value of underlying assets for prudential borrowing	20.2	81.6	188.6	(18.9)
Interest repayment cost as a % of net revenue budget	1%	3%	7%	
Interest repayment cost net of investment properties as a % of net revenue budget	(1)%	(2)%	(3)%	

Potential impact of investment market fluctuations

1. Value of rental income on investment properties decreases by 10%. Assuming £200m invested, revenue budget will have a shortfall of £1.1m pa.

2. Value of underlying asset decreases by 10%. Assuming £200m invested, balance sheet value will fall of £18.9m. In the scenario where the outstanding borrowing exceeds the asset value, that shortfall will impact on the revenue budget via a higher MRP charge e.g. an £18.9m impairment would have a £1.9m pa effect on the revenue account if shortfall recovered over 10 years.

3. General economic conditions may affect the both the rental income and asset values such as economic downturn, BREXIT and the retail environment. Locally tenants may choose not renew leases or re-negotiate a lower rental.

3.3 Summary of the position statement

It can be seen that the risk principally lies in the Council's Investment Portfolio. The remainder of the borrowing is linked to a range of operational assets which are expected to be used in the long term and have a full provision for the full recovery of principal over the asset life. All operational assets are supported by a robust business case and, while there is a risk in income returns not being achieved, overall these are not significant.

In relation to the properties within the Investment Portfolio, these are more sensitive to the market fluctuations identified above. Where there is an assumption that these assets are only held in short term prior to sale therefore a full provision for the full recovery of principal of the asset life may not be applied. To mitigate, a contribution to the capital funding reserve is applied but this does not cover the full value of the loan.

This has two key implications: if an asset is subsequently deemed to be held in the long term a full Minimum Revenue Provision (MRP) will be required which is an increased cost to the revenue account. Conversely when the asset is sold this will result in an income stream being lost from revenue and new sources of income will need to be found. However the loan will be cleared and there may be a one off gain or loss on disposal. The Council will need to include these scenarios in its medium term resource planning and asset disposal strategy.

Due to the current low borrowing rates, the Council has fixed all of its loans and adopted a flat maturity profile. This mitigates the risk of increasing rates in the long term. However the increased borrowing will increase the Council's fixed interest and borrowing costs to be in excess of £21 million per annum by 2020, which will be an annual charge to the revenue budget. This fixed cost is partially offset by income streams from the assets funded from borrowing.

3.4 The Delivery, Affordability and the Risks associated with the Strategy

Within the (draft) Prudential Code it is the responsibility of the Chief Finance Officer to explicitly report on the delivery, affordability and the risks associated with this Strategy.

Delivery

The delivery of the individual schemes on the plan are directly linked to the original approval of the capital scheme supported by each project having a client officer and an project manager who are responsible for the delivery of the project and the subsequent achievement of the objectives of that project.

Members, at meetings of both the Overview and Scrutiny Board and the Council, receive regular updates to the Capital Plan. These updates are driven by the requirement of financial reporting, however in doing so Members can review and challenge the delivery of projects and any changes to both the timing and value of the Capital Plan.

If, subsequent to the capital scheme being completed, there are variations to the income expected to be generated from that asset, these will be reported as a variance in the quarterly revenue budget reporting and, if ongoing, will be included in the following year's revenue budget proposals.

The Council’s Senior Leadership Team has oversight for the delivery of and challenge to the Capital Plan.

Affordability

Affordability is critical in applying the Capital Strategy and approving projects for inclusion in the Capital Plan. This is mostly demonstrated by a specific report on the project being presented to Council for approval, supported by a business case identifying the expenditure and funding, appraisal of alternative options and the risks and rewards for the approval of the scheme.

All projects need to have a clear funding source. If external funding such as an external grant is to be used there needs to be a clear funding commitment.

Affordability of each project needs to be clear, not only for the funding of the capital spend, but also to cover any ongoing costs of the operation and funding of that capital spend.

Where borrowing is to be used the affordability is of greater importance and the affordability has to include the interest costs of that borrowing and the provision for the repayment of the borrowing. This repayment is matched to a prudent asset life and any income streams estimated to fund this asset must be sustainable. The “rules” around the governance of this borrowing is outlined in the Prudential Code (as summarised above).

At no stage should the asset value be lower than the value of outstanding debt unless there is a clear plan to mitigate that shortfall or to sell that asset.

Risks

The risks associated with a significant Capital Plan and a significant level of borrowing can be mitigated and indeed should be mitigated as “business as usual” (i.e. all capital projects are supported by business plan, have adequate project management and/or project boards, suitable skills for the delivery of the project, tax planning, cash flow, clear operational plan for the use of the asset, use of specific committees, security and due diligence on loans and purchases, use of external advice where appropriate, project contingencies, full tender process and regular and transparent reporting to members.)

There are clear links from the Capital Plan to the Treasury Management Strategy, prudential indicators, authorised borrowing limits and the revenue budget. These are also subject to review and oversight by members at Audit Committee and Council.

Any new borrowing increases the Council’s overall liabilities that will need to be repaid in the future. This is a greater risk as the value of borrowing increases. In addition this increases the Council’s level of fixed interest and repayment costs that it will incur each year. This is currently increasing rapidly and could exceed a borrowing liability of £437 million and ongoing fixed costs of over £21 million per annum by 2020. This is a clear risk that all members need to be aware of.

However this risk for all (non-Investment Fund) schemes is mitigated by a robust business case and a full MRP that will repay the borrowing costs over a (prudent) asset life. Any variation in expected income is an issue however given the wide range of operational assets and different income streams this is not a significant risk.

As outlined above in the position statement, investment properties are a different type and level of risk. Risk arises from both variations in income streams (tenant non-renewal etc.) and from asset values (impact economic conditions and retail trends etc.) The Council has established a clear strategy, criteria and a governance route for these purchases which has included member training, second opinion on asset values, due diligence, site visits, surveys etc.

Investment properties can have a full MRP (calculated on an annuity bass) applied. How ever in some circumstances a partial MRP/capital funding reserve contribution may be made on these properties that aim to strike a sensible balance between being prudent and short term investment returns. In these cases although the repayment of purchase costs is being funded over 10 years, the full repayment of the borrowing does rely on the future disposal of the asset to clear the outstanding borrowing. There are risks (and rewards) associated with the purchase of this type of asset, therefore all members need to have sight of, and understand the risks and rewards inherent in these commercial investments.

Concept of Proportionality

As a direct result of Councils' increasing commercial activities funded from borrowing, the DCLG are now referring to the "concept of proportionality" and the resulting "level of debt and aggregate risk being proportionate to the size of the authority".

As a guide, pending the results of the current DCLG consultations, indicators of proportionality for the Council could be.

Measure	Position as at 31/10/17	Potential Position
Contribution Investment Properties make to core functions	Net estimated surplus for 18/19 for only purchases to date is £1.9m which is 1.7% of net budget.	If £200m invested surplus could rise to £4m which is 3.6% of net budget.
Contribution Investment Properties make to core functions	Estimated rental income for 18/19 for only purchases to date is £5.5m which is 5.0% of net budget.	If £200m invested rental income could rise to £11m which is 10.0% of net budget.
Total Borrowing related to Investment properties	As at 31/10/17 £88m which is 38% of total borrowing of £223m	If £200m invested that would be 46% of the projected borrowing total of £437m
Total Borrowing related to "long term assets"	As at 31/10/17 £223m total borrowing is 59% of total long term assets as at 31/3/17 of £375m	If borrowing rises to £437m with a corresponding increase in the value of long term assets then borrowing will be 66% of long term assets.
Total Borrowing costs as a percent of net budget	As at 31/10/17 borrowing costs of £223m are £13m which is 12% of net budget	If borrowing rises to £437m borrowing costs are £21.5m which is 20% of net budget.

3.5 Conclusion

The current system of borrowing is a self-regulatory system which means that responsibility for borrowing decisions, and the level of borrowing incurred, by a Council is determined on a local level. Therefore Elected Members have a key role.

However, it is the duty of elected members to balance the constraints of affordability with the demands of services for capital investment, and in all but most exceptional cases it will be for elected members to make the necessary judgement.

The Head of Finance's professional view is that, as all borrowing decisions result in a long term commitment to fund that borrowing, all decision making should be as transparent as possible to both all Members and the residents of Torbay.

The pace and level of change in the Council's borrowing is significant, up to £437 million of borrowing, a £21 million ongoing revenue cost and £12 million of asset related income (mostly rental income). Therefore all members need to be fully informed as to all implications of its capital investment decisions, in particular those funded from borrowing.

Appendix 1 - Summary of Assets funded by Council Borrowing (as at 31/10/17)

	Net Debt on Asset	Repayment period	Annual Interest and Repayment Cost	Income Steam or saving to cover Debt
	£m		£m	
DCC Transferred Debt from 1998	19.3	50	1.3	
Supported Borrowing – mostly schools and transport spend from 1998 to 2010.	73.4	50	4.5	
Sub Total:	**92.7**		**5.8**	
Individual Schemes funded or part funded from borrowing				
Fleet vehicles	0.2	7		No
Beach Chalets – Meadfoot	1.9	25		Yes
Beach Chalets – other	0.4	10		Yes
Brixham Regeneration	4.3	40		Yes
Car Parks	1.0	25		No
Car Parking meters	0.3	10		Yes
Freshwater Cliff	0.4	40		No
Haldon pier	1.5	25		No
Illuminations	0.2	10		No
Inner harbour pontoons	0.8	25		Yes
Office Rationalisation	6.8	25		Yes
Paignton Library	3.1	40		Yes (Part)
Princess Promenade	1.7	25		No
South Devon Highway	14.7	40		No
Street Lighting	1.3	4		Yes
Toilets	0.5	25		No
Torquay Town Dock	0.8	25		Yes
Velo park, Paignton	0.4	40		Yes
Capital loan – TDA	1.5	25		Yes

Wren Park – Investment	21.1	40/100		Yes
Sub Total:	**62.9**		**4.2**	
Total Borrowing Requirement – as at 1/4/17 (Actual debt £153m)	**155.6**		**10.0**	
2017/18 Individual Schemes funded or part funded from borrowing				
Ferndown – Investment	27.4	40/100		Yes
Gadeon House – Investment	16.9	40/100		Yes
Fugro House – Investment	20.4	40/100		Yes
Capital Loan - South Devon College	4.0	25		Yes
Sub Total:	**68.7**		**2.7**	
Total Borrowing Requirement – as at 31/10/17 (Actual debt £223m)	**224.3**		**12.7**	
Borrowing approved but not spent as at 31/10/17				
Capital Loan – Care Home	1.0	25		Yes
Investment Fund to £200m	113.2	40/100		Yes
CCTV replacement	0.4	10		No
Claylands Redevelopment	7.5	25/40		Yes
Corporate IT	1.0	10		No
Edginswell Business park	6.6	25/40		Yes
Employment Space – White Rock	6.6	25		Yes
EPIC	2.0	25		Yes
Major Structural Repairs	2.6	25		No
Oxen Cove Jetty	1.5	40		Yes
Paignton Harbour Lights	0.5	25		Yes
South Devon Highway (Remainder)	2.8	40		No
Town Centre Regeneration	25.0	25		Yes
Upton Place	14.2	25		Yes
Fleet vehicles (remainder)	0.1	7		No
Capital Loan – Housing Company	25.0	25		Yes
Capital Loan – Parkwood Leisure	1.7	12		Yes

Capital Loan – TDA (remainder)	0.6	25		Yes
Capital Loan – Torquay Academy	0.3	7		Yes
Sub Total:	**212.6**		**8.8**	
Estimated Borrowing Requirement – as at 31/3/20	**436.9**		**21.5**	
PFI Schemes – EFW & Schools	*19.6*			No
Estimated Capital Financing Requirement – as at 31/3/20	***456.5***			

Note: The **capital financing requirement** is a calculation based on the Council's balance sheet to reflect the Council's underlying need to borrow to finance its capital expenditure. This calculation also includes any other long term financing of its assets such as PFI schemes and finance leases. Actual borrowing may be higher or lower than the capital financing requirement at a point in time, but in the medium term actual council borrowing and asset related liabilities should not exceed this value.

Appendix 2 - Definition of Capital Expenditure

Capital investment is simply described as:

> *Expenditure on the acquisition, creation or enhancement of "non-current assets"*
>
> *(non-current assets are items of land and property which have a useful life of more than 1 year)*

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

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

"Proper Practice" (from 1 April 2010) is under International Financial Reporting Standards (IFRS) rules. The relevant standard is IAS16 which has the following definition of capital expenditure:

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

"Directly attributable" means that, for examples, if building a school, it is the costs linked to the actual construction of the building, not temporary accommodation, moving people around etc.

Subsequent Capital Expenditure on an asset is defined as:

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

Future economic benefits means that it is not necessary for the expenditure to improve the condition of the asset beyond its previously assessed standard of performance. The measurement is against the actual standard of performance at the date of expenditure; e.g. if service potential or asset life is increased.

TORBAY COUNCIL

Meeting: Council **Date:** 8 February 2018

Wards Affected: All

Report Title: Review of Reserves 2018/2019

Is the decision a key decision? Yes

When does the decision need to be implemented?

Executive Lead Contact Details: Mayor Gordon Oliver, Executive Lead for Finance, 01803 207001, mayor@torbay.gov.uk

Supporting Officer Contact Details: Martin Phillips, Head of Finance, 01803 207285, martin.phillips@torbay.gov.uk

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1. Proposal and Introduction

1.1 The Council holds a number of reserves as part of its approach to maintaining a sound financial position, protecting the Council to some degree from volatility in the risk in its budget going forward. The requirement for financial reserves is linked to legislation such as the Local Government Act 1992 which requires Councils to "have regard" to the level of reserves needed to meet future expenditure when calculating a budget. Part of sound financial management is to assess the adequacy of these reserves and release those reserves no longer required.

2. Reasons for Decision

2.1 A Review of Reserves is a key part of the Council's budget setting process. Consideration of reserve levels is linked to legislation for budget setting contained in both the Local Government Acts of 1992 (section 31A & 42A) and 2003 (section 25) and linked to section 114 of the Local Government Finance Act 1988.

2.2 The Council is facing significant financial pressures in 2017/18 from Children's social care with the current predicted overspend on this services of £2.4m. These overspends are partly offset by savings in other services resulting in a predicted overspend (as at quarter two) in 2017/18 of £2.0m. This overspend will need to be funded.

2.3 Due to the significant financial risks facing the Council in 2018/19 and future years it is essential that the Council's reserves provide a sufficient contingency to meet this increasing risk and to ensure a robust budget. Consistent to the 2017/18 Review of Reserves and the Medium Term Financial Plan, it is still recommended that, as a result of the level of current and previous year budget variations, to maintain the balance at a minimum of £2m. This approach to maintain a balance of £2m in the CSR was supported by CIPFA during their Financial Resilience inspection. (This is in addition to the general fund balance).

2.4 The Council is undertaking a number of new activities that have a higher level of risk associated with them, such as the Investment Fund and Housing Companies where the Council is investing/proposing to invest a significant amount of borrowing to support. There is a risk that the projects will not deliver the income required to cover the “fixed” costs of the borrowing. These risks will be mitigated by business cases and due diligence. However these activities are more commercial in nature and therefore carry a higher level of risk and reward. The risk/reward is linked to changes in income streams, (such as rent), and also fluctuations in the values of any underlying assets.

2.5 A significant financial risk facing the council was in relation to the judicial review on care home fees dating back to 2014/15. The Council has appealed one element of the original judgment from 2016 and in October 2017 the judgment was awarded in the councils favour. This has removed the financial risk from the original judicial review.

2.6 This change has two significant implications for the Council’s financial and reserve planning. Firstly the Comprehensive Spending Review reserve now has sufficient funds to fund the projected £2m 2017/18 overspend, therefore allocations from other earmarked reserves is not now required. Secondly the balance on the CSR reserve is now projected to be at the recommended £2m level therefore no contribution to this reserve is now required as part of the 2018/19 budget. The Mayor will consider this issue in his final 2018/19 budget proposals in January 2018. It must however be noted that the budget proposals presented in October 2017 still had a £0.8m target to be achieved.

2.7 It is clear that the Council has lower levels of general fund reserves at 4.2% than other Councils.

2.8 Members are again reminded of the advice previously given by the Head of Finance, that reserves should not be used for supporting ongoing recurring expenditure. Use in that way is not financially sustainable as reserves can only be spent once.

3. Recommendation(s)/Proposed Decision

3.1 That £2.0 million be earmarked in the Comprehensive Spending Review Reserve to fund the predicted 2017/18 Council overspend.

3.2 That £0.200m be transferred from the Comprehensive Spending Review Reserve to the IT Replacement Fund.

3.3 That £0.050m be allocated from the Comprehensive Spending Review Reserve to a Swimming Pool Reserve to support the 2018/19 budget proposal

Appendices

Appendix 1 Review of Reserves 2018/19
Appendix 2 Summary of Council Reserves

Supporting information

A1. <u>Introduction</u>

A1.1 A Review of Reserves is part of the Council's annual budget process.

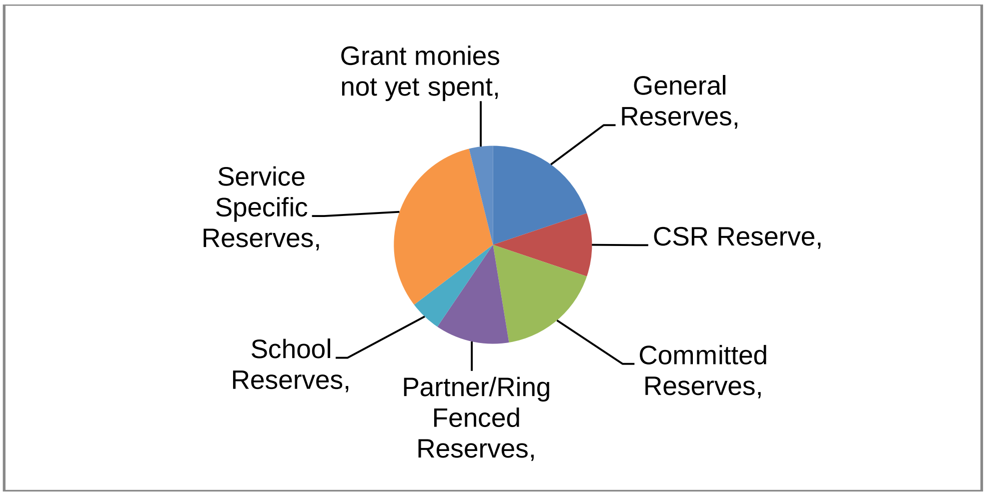
A2 <u>Review of Reserves 2018/19</u>

A2.1 <u>Overview</u>

A2.2 As at 31/03/2017 Torbay Council's reserves were as follows:-

	31/3/16 actual	**Change in year**	**31/3/17 actual**	**31/3/18 estimate**
	£m	£m	£m	£m
General Fund Reserve	4.4	0.2	4.6	4.6
Sub Total - General Reserves	**4.4**	**0.2**	**4.6**	**4.6**
Comprehensive Spending Review Reserve	3.7	0.7	4.4	2.4
Committed Reserves	5.8	(1.0)	4.8	4.0
Committed Reserves - Grant monies not yet spent	2.0	(0.2)	1.8	(0.9)
Partner/Ring Fenced Reserves	3.1	(0.1)	3.0	2.8
School Reserves	2.4	(0.5)	1.9	1.2
Children's Services 5 Year Strategy Res.	1.1	(1.1)	0	0
Other Service Specific Reserves	7.2	(0.1)	7.1	7.3
Sub Total – Earmarked Reserves	**25.3**	**(2.3)**	**23.0**	**16.8**
Total Reserves	**29.7**	**(2.1)**	**27.6**	**21.4**

A2.3 From the table above, the estimated balances (in £m) as at 31/3/18 after the recommended allocations is as follows:



A2.4 A list of the Council's Reserves as at 31/03/2017 is attached in Appendix 1.

A2.5 This report is, for another year, highly influenced by the significant financial risks facing the Council both from current financial pressures within Children's social care (safeguarding and wellbeing). In the short term risk from Adults Social care have been mitigated by the agreement to a revised risk share agreement that limits the Council's exposure to financial risk. There is an ongoing risk that, without mitigation, in future years the Council will not have enough identified reserves to support any one off expenditure required to meet any in year budget shortfalls, costs for restructuring due to budget reductions, any changes to the approved Children's Services Cost Reduction Plan and any delays in implementing savings.

A2.6 The implication of the judgment on care home fees in the Council's favour will enable the Council to maintain a balance of at least £2m in the CSR Reserve to reflect this risk. The 201718 Review of Reserves report council approved that "That Council notes the significant financial pressures facing the Council in future years and agrees, as a policy decision, the allocation of additional funds, as required, to the Comprehensive Spending Review Reserve in each budget process to increase, and then maintain, an ongoing minimum balance in the reserve of £2m". This policy still stands and the projected level of this reserve is currently sufficient to meet this target therefore an additional contribution will not be required in 2018/19 budget proposals.

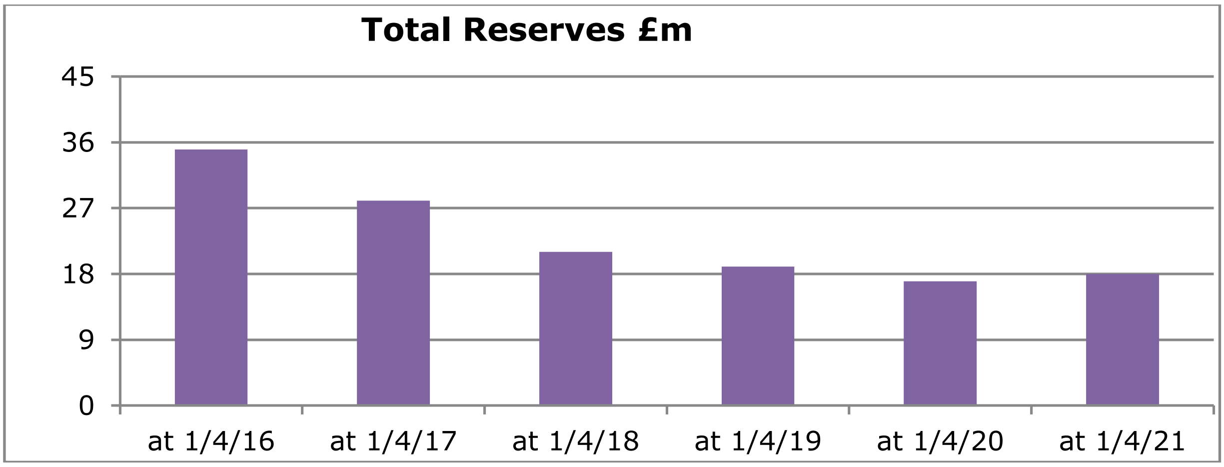
A2.7 The Council has had unprecedented financial challenges from reduced funding levels over the past few years and is facing a further £8m reduction in its Revenue Support Grant from 2017/18 (£14m) to 2019/20 (£6m), in addition to any future expenditure pressures such as inflation and increase in demand. There have been no funding announcements for 2020/21.

A2.8 With the significant uncertainly facing the Council from the DCLG's funding review, NNDR 100% rates retention consultations and the higher levels of volatility in NNDR income compared to Council Tax it is clear that Councils need to mitigate and plan for variations in income as well as expenditure.

A2.9 To be able to meet future year budgets and reduce the reliance on the use of reducing reserves it is essential the Council progresses and achieves both its transformation programme and the improvement plan and medium term financial strategy for children services.

A2.10 Of particular significance for 2018/19 is the new partnership with Plymouth City Council for the management of childrens' services, the risks and rewards in relation to Investment Properties and the risks and rewards in relation to the Council's new housing companies.

A2.11 Each reserve has been assessed for its estimated balance as at 31st March 2018 and for the estimated additions or withdrawals from the reserve during 2018/19 and future years. This is included in the table at Appendix 1. <u>This table is shown after the recommendations arising from this report,</u>



A2.12 The table, (based on this review of reserves), shows that the level of reserves is expected to decrease by £6m during 2017/18 to £21m. The actual balance at year end will depend on spend during the year and any year end service carry forwards from unspent revenue funds and/or unspent grant allocations.

A2.13 Adults Social Care

A2.14 A revised risk share was negotiated in October 2017 with both the ICO and CCG due to in place for 2018/19 and 2019/20 with the Council funding a higher "fixed" annual payment in exchange for no exposure to the risk of changes in cost. This therefore reduces the exposure to financial risk on this service to nil. However if this fixed payment does not exist, say after the contract period, then the Council will again be exposed to the risk of volatility of both demand and cost in this key service. Therefore future risk assessments could be higher than the risk assessment for 2018/19.

A2.15 Childrens Social Care

A2.16 This service has experienced a high level of financial volatility over the past few years and has exceeded its approved budget for the past few years and is projected to overspend by £2.4m in 2017/18 (quarter 2). The Childrens Services Financial Strategy was approved by Council in February 2017.

A2.17 The proposed budget for 2018/19 for the service is being increased to reflect the current year financial position for childrens services with the aim of setting a robust budget for that service. This increase is offset, in part, by estimated expenditure reductions of £1.5m linked the service's improvement plan and medium term financial strategy approved by Council in February 2017.

A2.18 The Council expects to have commenced its partnership working with Plymouth City Council in 2018/19. One off "implementation" funding has been awarded to Plymouth from the Department of Education this should be sufficient to cover the initial costs of transition.

A2.19 As part of the 2014/15 Review of Reserves the Council approved "the transfer of £1.5m from the PFI Sinking Fund to Children's Services on an "invest to save" basis. Children's Services to repay the reserve in future years". Members are reminded that if the reserve is not repaid then it will be necessary for Children's Services to fund the future costs of the PFI school contract. The service will have to budget for and identify funding for these increased costs. The reserve is projected to be depleted during 2019/20 therefore children services need to plan for the funding of this contract.

A2.20 In 2016/17 Council noted, *"that in the short term, Children's Services are unlikely to be able to repay £3.4m in the short term to earmarked reserves, as identified in the Children's Services Recovery Plan (October 2014). In addition Council approved that the future repayment of the earmarked reserves of £3.4m as per the Children's Services Recovery Plan (October 2014 version) and the £1.5m repayment to the PFI reserve is included in any (potential) future year Annual Strategic Agreements with the Integrated Care Organisation (ICO) and in the ICO business plan for the proposed Childrens' Services transfer to the ICO"*. Although the service will not transfer to the ICO, but will now form a contractual partnership with Plymouth City Council, this repayment will still need to be included in any future longer term financial planning.

A3.0 **Guidance on the Management of Reserves**

A3.1 The CIPFA guidance on Reserves and Balances (LAAP bulletin 99 issued July 2014) advises that "Chief Finance Officers should take account of the strategic, operational and financial risks facing the authority. The assessment of risks should include external risks, such as flooding, as well as internal risks, such as the ability to deliver planned efficiency savings".

A3.2 The CIFPA guidance lists a number of assumptions to be considered when forming a budget, which although these directly link to the setting of a budget, the level of risk and uncertainty of these assumptions are be relevant in determining an appropriate level of reserves. Assumptions to consider include inflation, demand led pressures, delivery of planned savings and risks from new partnerships or ways of working.

A3.3 In undertaking a detailed annual review of reserves that is presented to both Overview and Scrutiny Board and Council, Torbay Council is largely complying with most of the recommendations in the Audit Commission report "Striking a Balance".

A3.4 It is important to differentiate between general and uncommitted reserves and reserves held for a specific purpose. It is only the general and uncommitted reserves that could be used to support "short term costs". As shown in the table above, as at 31st March 2017 the Council's uncommitted reserves were the Comprehensive Spending Review reserve (£4.4m) and the Council's general fund balance (£4.6m) which is discussed later. The Council does not have a large value of unallocated reserves compared to its overall budget or compared to the value of budget reductions required over the next few years or compared to the value of the in year budget variances in social care over the past few years.

A3.5 The Head of Finance is reluctant to use any reserve funds, which can only be spent once, to support ongoing expenditure as this is not financially sustainable, as it only delays the impact of the required budget reductions.

A3.6 This position taken by the Head of Finance is similar to CIPFA guidance which says "Councils should be particularly wary about using one off reserves to deal with shortfalls in current funding. Where such action is to be taken, this should be made explicit, and an explanation given as how such expenditure will be funded in the medium to long term".

A4 Earmarked Reserves

A4.1 The following paragraphs make specific comments on a number of reserves. A summary of each reserve and their purpose is included as Appendix Two. During this review a number of balances (£0.5m) have been identified by Head of Finance as surplus and these have been transferred to the CSR Reserve. Further information on all Council Reserves is available that shows details about each reserve, including the reason/purpose of the reserve, how and when the reserve can be used and the process for retention of each reserve to ensure continuing relevance and adequacy.

A4.2 Comprehensive Spending Review Reserve – balance £4.4m 31/3/17

A4.3 The Comprehensive Spending Review Reserve was originally established in 2010/11. The purpose of this reserve was identified as follows:

- short term support for the (revenue) budget while services adjust spending to new levels
- financing of any costs in relation to reducing services and therefore staff numbers
- to support any initial costs of changing service delivery that will result in future savings

Any use of this reserve for invest to save schemes must be supported by a robust business case and agreed by the Head of Finance.

The CSR included a balance for the results of the judicial review appeal on care home fees dating back to 2014/15. The Council has appealed one element of the original judgment from 2016 and in October 2017 the judgment was awarded in the councils favour. This has removed the financial risk from the original judicial review. This change has two significant implications for the Council's financial and reserve planning. Firstly the comprehensive spending review reserve now has sufficient funds to fund the projected £2m 2017/18 overspend, therefore allocations from other earmarked reserves is not now required. Secondly the balance on the CSR reserve is now projected to be at the recommended £2m level therefore no contribution to this reserve is now required as part of the 2018/19 budget. The Mayor will consider this issue in his final 2018/19 budget proposals in January 2018. It most however be noted that the budget proposals presented in October 2017 still had a £0.8m target to be achieved.

A number of specific issues are also to be addressed from this reserve:

- Costs of exit packages arising from budget decisions will continue to be funded
- Part funding of the office rationalisation project focusing on improvement works to Electric House to be repaid from future year rental income from the lease of two floors of Torhill House
- Creation of a specific reserve of £50,000 linked to the 2018/19 budget proposal for one off costs for the two community run swimming pools in Brixham and Torquay
- Allocation of £200,000 to IT replacement reserve to ensure adequate resources for the current IT replacement demands in 2018/19.
- Allocation of up to £450,000 for one off costs from the (proposed) new contractual arrangements for the provision of library services from April 2018.
- Allocation of up to £150,000 for one off costs from the (proposed) new contractual arrangements for the provision of toilet services from April 2018.
- Allocation for any one off costs associated with the (proposed) new contractual arrangements for the delivery of the leisure activities including Clennon Valley Leisure Centre and the Velopark.

A4.7 Committed Reserves – balance £6.6m 31/3/17

A4.8 These reserves arise as a result of differences in timing between the reserve being established and the expenditure being incurred and are therefore, in effect, committed reserves. Some of these are short term, such as service carry forwards, unspent revenue grants and the collection fund, where the expenditure should be incurred within 12 months. Other reserves are spreading costs over a number of years, such as the PFI sinking fund that equalises the costs of the annual unitary charge over the 25 years of the contract.

A4.9 Within revenue grants, the reserve for Dedicated Schools Grant is estimated to be "negative" by £1.1m. Funding for schools activities are primarily funded though the dedicated schools grant (DSG). The Council does not receive any schools funding within its own grant and funding allocations. This grant is allocated in "blocks" to cover different activities – in 17/18 these "blocks" are early years, higher needs and schools. The higher needs block has in the past 12 months been under financial pressure as a result of an increasing level of referrals from schools for higher needs support for children resulting in an over spend in 2017/18 of £1.1m.

A4.10 The Council does not receive any funding for schools therefore the over spend will remain in the DSG to be funded in future years and is not a cost the Council will fund. As a recognition of this pressure the Schools Forum, (who have a governance role in the allocation of schools funding), have been supportive and have agreed an allocation of 0.5% of the 18/19 schools block of the DSG (approx. £0.350m) to part fund this overspend. The Council considered submitting to Department of Education a request (a disapplication) to Department of Education that additional funds are transferred from the schools block in 2018/19 to fully fund the 2017/18 overspend. However this was not submitted as it was considered that a better approach to reducing this demand, (and therefore cost), is to work directly with schools to jointly work on a solution to this issue.

A4.11 <u>Partner/Ring Fenced Reserves – balance £4.9m 31/3/17</u>

A4.12 These reserves are outside the Council's direct control, in that the reserves are linked to funds held (or are managed by) by partner organisations, schools or ring fenced Council services such public health. The harbour reserves have been included in this category as the service has operates as if it were ring fenced.

A4.13 The balance of £1.9m held by schools as at 31st March 2017 under delegated funds will change based on expenditure in schools and are likely to continue to reduce as more Council schools become academies. As a result a reduction in the balances held by schools has been shown in Appendix 1.

A4.14 <u>Specific Issue Reserves - balance £6.9m 31/3/17</u>

These are reserves set aside for specific expenditure purposes.

A4.15 <u>Investment Fund Reserve</u>

The Council has now invested £118m in investment property in the past year (as at 31st December 2017) and could invest another £82m to the Council approved limit of £200m. This, more commercial activity, introduces new risks and rewards for the Council to manage. The risks in relation to variations in income such as changes in rent, void periods, rent reviews, landlord costs etc. This is mitigated by making an annual contribution to a specific reserve that, as a principal is 0.25% per annum of the purchase costs. This will be reviewed by Head of Finance in light of any known or potential changes in future years.

The Council also has to mitigate for any changes in asset value and fund the repayment of the borrowing incurred on the purchase of the asset. It is important that the value of the asset does not reduce below the level of outstanding debt on the asset. To mitigate this risk, and to provide for the repayment of the borrowing if the asset is not sold in the medium term, a contribution to the capital funding reserve will be made.

A4.16 <u>Regeneration Reserve</u>

As approved by Council the estimated in year surplus of £0.2m on the return from Fugro

House (Investment Fund purchase) is to be allocated for regeneration. Pending specific plans for the use of this funding this surplus has been transferred to a specific earmarked reserve.

A4.17 IT Replacement Reserve

Based on current estimates of the costs of essential IT replacement and investment in 2017/18 and 2018/19 an additional £0.2m is required to supplement the current capital allocation for IT investment.

A4.18 Insurance Reserve

The balance as at March 2017 for both the insurance reserve was £2.9 million. The Council's insurance team in consultation with the Head of Finance reviews the earmarked amounts on an annual basis and takes advice from an insurance actuary to ensure the adequacy of the reserves. The last actuarial review was a mini review as at March 2016.

The Council currently has a very strong low risk profile based on its claims history however this could be adversely affected if the Council incurs a number of higher cost claims. Given the potential long lead in time for certain insurance claims, such as those relating to social care and certain types of industrial diseases, any shortfall in this reserve may not be realised for a number of years. This reserve will require careful monitoring of the impact of future liabilities on a regular basis.

A new insurance risk arising from the purchase of investment properties is to ensure that these properties are adequately covered. This cost under the lease is met by the tenants. Insurance related risks for the council companies such as TDA and the Housing companies are funded by those companies.

A5 Review of Provisions, other Potential Liabilities and potential risk from Council Companies

A5.1 The Council has provided a number of guarantees for pension liabilities to services now outsourced, such as TOR2 and the TDA, however it is unlikely that these guarantees will result in a cash payment from the Council. In the exceptional case of the pension liability being realised it is likely the liability will be transferred to the Council's own pension liability which will be reflected in future employer contribution rates.

A5.2 All companies owned by the Council are ultimately part of the Council's overall (consolidated) financial position.

The TDA, 100% owned by the Council, has now established a trading subsidiary Complete Cleaning Solutions limited and intends to establish a second trading company during 2017/18. Although there are no significant risks from these companies expected, these companies are owned by the Council therefore the Council must ensure it reviews the Company's performance.

The Council has also now set up Torbay Housing Company and is in the process of setting up a holding company and a development company. All 100% owned by the Council. As with the TDA and its companies, although there are no significant risks from these companies expected, these companies are owned by the Council therefore the Council must ensure it reviews the Company's performance.

A5.3 In addition to earmarked and general reserves the Council also holds provisions for a number of issues where the Council has a clear liability which is likely to result in a payment but the amount and timing of the potential payment is uncertain.

A5.4 As at 31/03/2017 Torbay Council's provisions were as follows:-

31/3/16		**31/3/17**	**Change**
£m		**£m**	£m
0.4	Insurance Provision	**0.4**	0
2.1	NNDR Appeals	**1.5**	(0.6)
0.2	Other Provisions	**0**	(0.2)
2.7	**Total Provisions**	**1.9**	**(0.8)**

A5.5 The provisions above were based on the latest information as to the value of the potential liability, as such no changes in the value of these are proposed. It is expected that provisions will be typically used within 2017/18 except insurance where the "time lag" on claims being notified and settled is often over one year. Other provisions tend to be linked to specific issues.

A5.6 The provision for NNDR appeals as at 31st March 2017 is part of the NNDR Business Rates Retention Scheme and forms part of the Collection Fund. The Council gains or loses a 49% share of any movements in NNDR income. This includes the ongoing impact and repayment from any successful NNDR appeals made.

A6.1 <u>Collection Fund</u>

The Collection Fund Adjustment Account (formally Collection Fund Reserve) is slightly different from all other reserves and includes both Council Tax and NNDR. For Council Tax, legislation requires any balance (surplus or deficit) to be applied at the next Council Tax setting to the three major precepting authorities (Torbay, Devon & Cornwall Police Authority and Devon and Somerset Fire Authority). (Note Brixham Town Council as a minor precepting body does not bear any share of surplus or deficit).

For NNDR, as a result of the introduction of the new Local Government funding arrangements from April 2013, the Council bears a 49% share of the risk and reward of changes in the level of National Non Domestic Rate income. Changes from the Council's initial National Non Domestic Rate income estimate arising from changes in yield and collection will now also result in a Collection Fund surplus or deficit. The Council's share of any surplus or deficit will impact on the forthcoming year. The Council holds a NNDR equalisation reserve to help smooth the volatility of income, set at 5% of the Council's annual NNDR retained income under a 49% retention scheme.

Estimates of future year surpluses are included in the 2018/19 Budget Setting process and reflected in the Medium Term Resource Plan.

The Council, as part of a joint submission with all other Councils in Devon, applied to be a NNDR pilot area for 2018/19. This bid has now been approved by DCLG for 2018/19 only, as only one year "pilot status" will be confirmed, the Councils risk on NNDR volatility and growth will be a shared risk between all Devon Council's. This should provide a level of certainty for Torbay's NNDR income in 2018/19.

A7 <u>General Fund Reserve - Risk Assessment and Sensitivity/Scenario Appraisal</u>

A7.1 The Councils General Fund Reserves of £4.6 million represents 4.2% of the Council's net

2017/18 budget. This level of "unallocated financial reserves" is lower than average compared to other unitary Councils.

A7.2 The CIPFA guidance on reserves does not recommend a minimum level of reserves. It states that "Local Authorities should make their own judgments on such matters taking into account all the relevant local circumstances which will vary between Authorities". CIPFA also state that "a well-managed authority with a prudent approach to budgeting should be able to operate with a relatively low level of reserves".

A7.3 A risk assessment of all 2017/18 budgets suggest that the maximum overspend in any year, if all services were subject to adverse pressures and where there isn't any specific service related earmarked reserve, would be £6.5 million or 6% of 2017/18 net revenue budget. An estimate should be added to reflect any, as yet unknown, in year budget pressures, potential Bellwin scheme claims (emergency planning), to reflect the financial risks inherent in any significant new partnerships such as Housing Company and Childrens' services partnership with Plymouth City Council, investments, funding changes, outsourcing or capital developments, say £2.6 million. This would result in a required General Fund reserve of £9.1 million or 8% of net budget. The current level of General Fund Reserve will cover just over 50% of this sum.

A7.4 This risk assessment overall is lower than the previous year as although some of the higher value areas of volatility that were identified as a high risk last year have continued to cause pressures on the Council's revenue budget, the risk is lower as the council has a fixed payment to for Adult Social care in 2018/19 and 2019/20. This fixed payment (agreed October 2017) does remove volatility from the largest budget/service the Council has. However if this fixed payment does not exist, say after the contract period, then the Council will again be exposed to the risk of volatility of both demand and cost in this key service In addition the challenges of achieving the ongoing significant budget reductions from central government create a major risk of budget variations.

A7.5 A prudent risk based approach to budget setting and reserve levels will have mitigated some risks of an overspend, although it should be noted that in areas of high risk such as, Children's Social Care, have already declared significant budget pressures over the past few years. It is vital that the improvement plan and medium tern financial strategy for this service is delivered to reduce the levels of (financial) risk around this service.

A7.6 However it is unlikely that all budgets will be adversely affected in the same year or that there will be no underspending arising from savings or additional income. Therefore the General Fund Reserve should be equal to 50% of the total assessed risk in any financial year (which equals to 4.1% of estimated 2018/19 net revenue budget). This for 2018/19 will result in a required general fund reserve balance of £4.5 million. At this stage the current general fund balance of £4.6 million is in line with that assessed target.

A7.7 However following consideration of the above, in the opinion of the Head of Finance, as the level of Council's reserve is low compared to other Councils and the continued spending pressures within children social care, the Mayors 2018/19 budget proposal to increase this reserve by £0.250m should be supported.

A7.8 The 2018/19 budget to be presented in February 2018 to Members will also include an assurance statement from the Head of Finance about the adequacy of the proposed financial reserves, in accordance with the requirements of section 25 of the Local Government Act 2003.

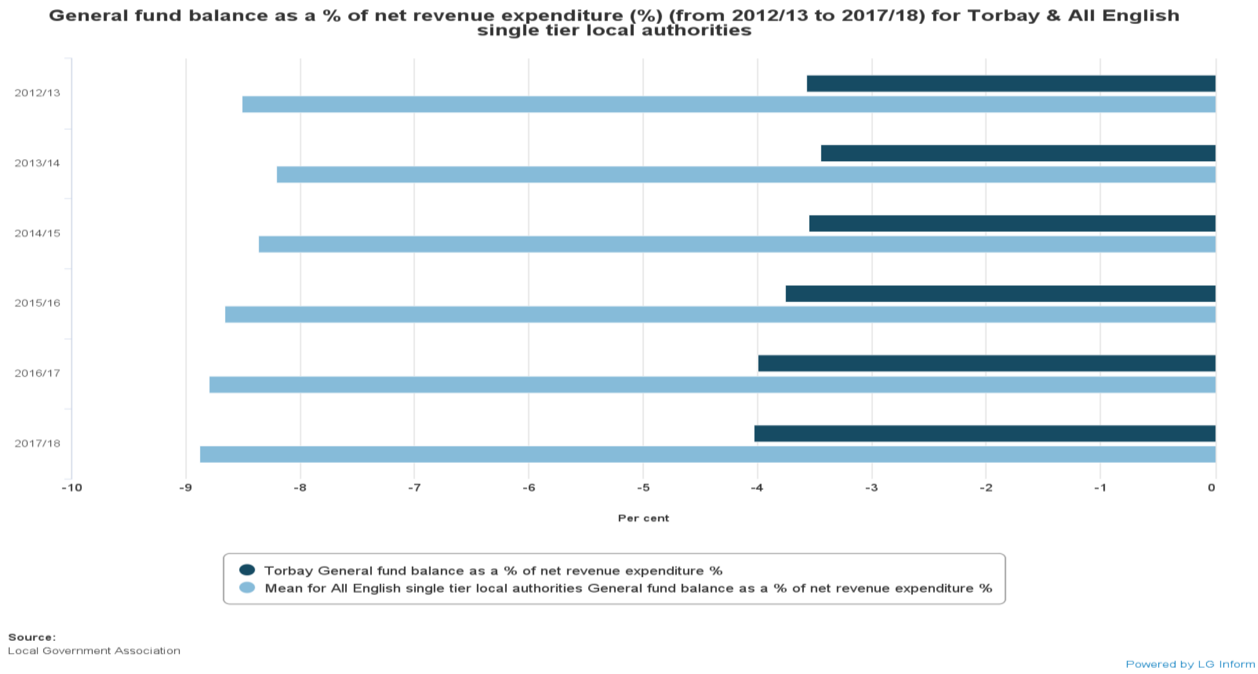
A8 **<u>Capital Investment Plan</u>**

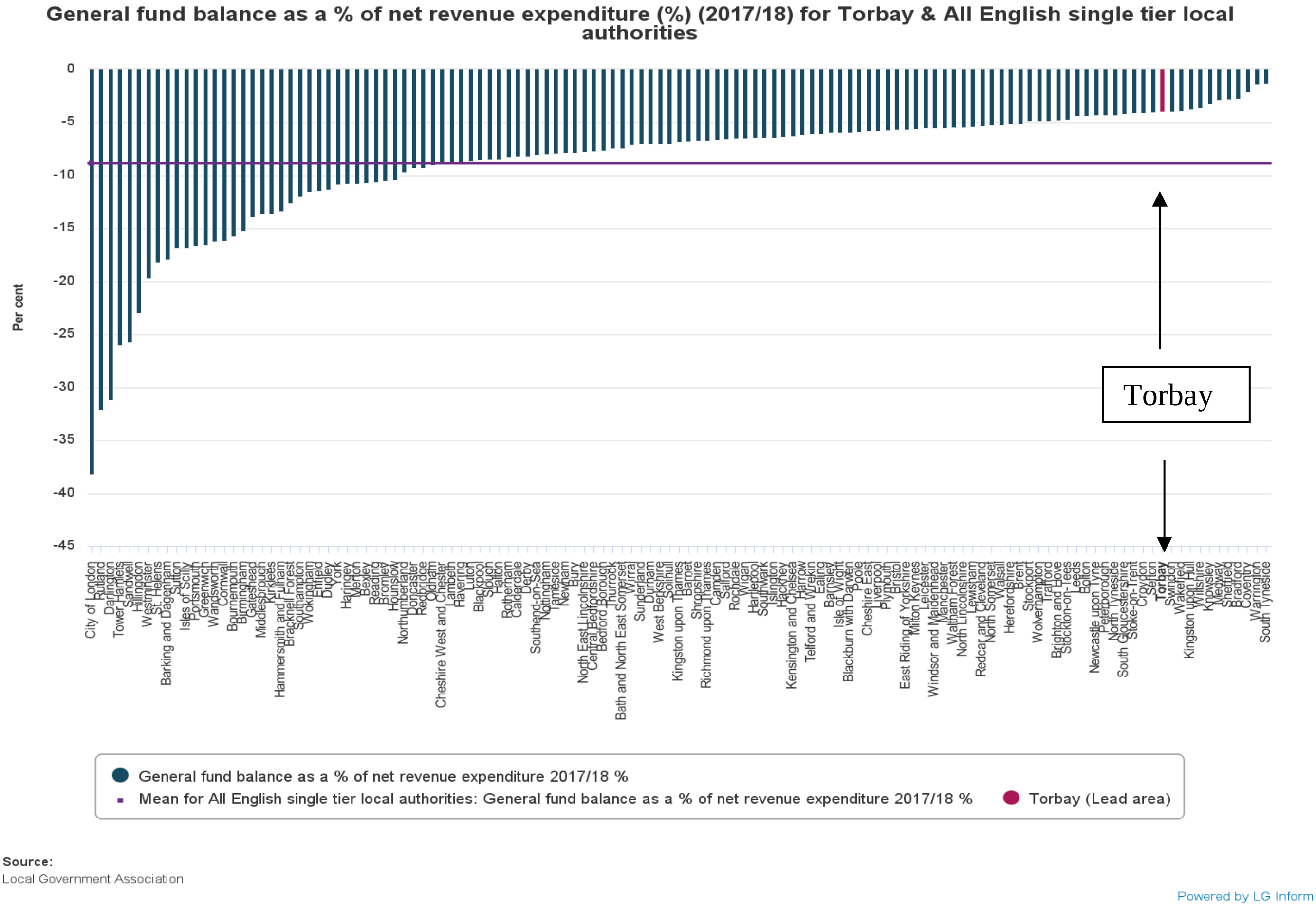
A8.1 It is assumed that in the circumstances of a significant overspend within the Council's capital programme this will be covered by alterations to the timing of the Council's capital investment plan; use of the capital contingency or from additional borrowing within the Council's approved Prudential Indicators. Any additional borrowing costs would have to be met from the Council's revenue budget.

A8.2 The Council's capital plan has a contingency of £0.6 million. It should be noted that all capital projects should have contingencies within the individual project costs.

A9 <u>Comparison with Other Councils:</u>

A9.1 The Local Government Association holds statistical data for all Councils. This includes an indicator of the "general fund balance as a percentage of net revenue expenditure". Torbay's percentage for 2017/18 was 4% compared to an average for all unitary councils of 9%.





A10 Head of Finance Statement.

A10.1 The Council is continuing to face unprecedented financial challenges. I am satisfied that the Council's General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council's Financial Plans for 2018/19 to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment, if the following actions are undertaken:

a) The CSR has a balance of £2.0m to fund 2017/18 projected overspend
b) The General Fund reserve has a minimum balance equal to 4.2% of net budget
c) That a minimum **ongoing** balance of £2m is maintained for in the CSR reserve
d) That Children's Social Care, with Plymouth City Council, deliver the expected improvements and cost reductions for 2018/19
e) That the revised Risk Share Agreement for Adult Social Care is maintained for 18/19 and future years
f) That a balanced revenue budget can be set for 2018/19
g) That the budgeted Investment Property surplus for 2018/19 is achieved.
h) That the Council continues to delivers its transformation programme at pace

A11 Governance of Reserves.

A11.1 Appendix 1 shows the projected balances of the reserves at the end of the current financial year and future years. These balances are based upon planned levels of spending. In the event of any unplanned expenditure occurring in the financial year current Standing Orders and Financial Regulations will apply.

A11.2 The Reserves will continue to be reported as part of the Council's Statement of Accounts and subject to this annual review and challenge as part of the budget process by both members and senior officers. Councilors should consider the Council's General Fund Reserve as part of the annual budget setting process. Any quarterly reporting of issues relevant to earmarked reserves will be on an exception basis.

A11.3 Schools reserves are part of the delegated schools funding and these reserves remain at the discretion of the Head Teachers and Governing Bodies.

A12 Risk assessment of preferred option

A12.1 Outline of significant key risks

A12.2 It is important that the issues raised in this report are considered by Members and appropriate action is taken, where necessary, to ensure that the Council has adequate reserves in the short and medium term. Failure to consider the issues raised within this report and take appropriate action could result in the Council having insufficient reserves that could adversely impact on the revenue budget and the longer term financial viability of the Council.

A12.3 The major risks facing the Council at present are the extremely challenging budget reductions as part of the Government's Comprehensive Spending Review and ongoing financial pressures from both Children's social care and, in the longer term, adults' social care.

A12.4 It is important for the Council to review its risks and rewards in relation to new activities, such as Investment properties and its interests in its companies if the level of activity in those companies changes. Companies include the TDA and its subsidiary companies and the newly established Housing companies.

Review of Reserves 2018/19

- **Reserves** - -	**Balance as at at 1/4/17** **£'000**	**Balance as at at 1/4/18** **£'000**	**Balance as at at 1/4/19** **£'000**	**Balance as at at 1/4/20** **£'000**	**Balance as at at 1/4/21** **£'000**
General Reserves					
General Fund	4,623	4,623	4,623	4,623	4,623
	4,623	4,623	4,623	4,623	4,623
Earmarked Reserves					
Uncommitted Reserves:					
Budget Pressures	62	0	0	0	0
Comprehensive Spending Review	4,419	2,377	2,036	1,996	1,916
	4,482	2,377	2,036	1,996	1,916
Committed Reserves:					
Approved Service Carry Forwards	982	422	242	242	242
Capital Funding Reserve	2,098	2,326	2,580	2,527	3,341
Council Elections	48	90	133	0	43
Grants	1,825	-939	-615	-616	-616
NNDR Collection Fund	1,022	750	750	750	750
PFI Sinking Fund	668	404	141	0	0
	6,643	3,054	3,232	2,903	3,759
Partner/Ring Fenced Reserves					
Devon Audit Partnership	19	19	19	19	19
EDC Reserves (Funds paid in advance)	805	805	205	205	205
Education Schools Exit Packages	222	165	82	0	0
Harbours Reserves	828	561	358	236	143
Public Health Reserve	1,174	1,227	1,310	975	975
School Balances	1,881	1,197	958	766	613
	4,929	3,974	2,933	2,201	1,955
Specific issues					
Art Objects Purchased Fund	25	25	25	25	25
Crisis Support Reserve	634	534	434	334	234
Employment Fund	247	178	0	0	0
Employment Issues	24	24	24	24	24
Equipment Reserves	177	57	68	79	91
Geopark	46	46	26	0	0
Green Travel Plan	106	86	66	46	26
Highway Reserves	482	382	282	182	82
Insurance Reserves	2,889	2,882	2,882	2,882	2,882

IT Equipment Reserve	74	200	0	0	0
Invest for Income Reserve	75	0	0	0	0
Investment Fund	10	501	553	605	822
Office Accommodation Reserve	230	360	0	0	0
Oldway Mansion Reserve	571	495	469	443	417
Planning Reserve	288	217	167	67	67
Regeneration Reserve	0	200	200	200	200
Salix Reserve	216	105	170	235	235
Swimming Pool Reserve	0	50	50	50	50
Town Centre Regeneration	230	168	58	15	15
Tourism	37	22	22	22	22
Training and Development Reserve	43	38	38	38	38
Transformation Reserve	121	400	200	0	0
Waste Strategy	414	414	414	414	414
	6,938	7,382	6,147	5,660	5,643
Total Earmarked Reserves	22,991	16,788	14,348	12,761	13,273
0					
TOTAL RESERVES	**27,614**	**21,411**	**18,971**	**17,384**	**17,896**

Summary of Council Reserves

Name of Reserve	**Description of Reserve**	**Responsible Officer**
Capital Funding	To reserve funding for items in the approved Capital Plan Budget.	Martin Phillips Head of Finance
Carry Forwards	Balance of any Service specific Carry Forward of budget	Martin Phillips Head of Finance
Comprehensive Spending Review Reserve	To fund costs associated with meeting budget reductions as a result of the Government's comprehensive spending review.	Martin Phillips Head of Finance
Community Development Trust Reserve	Reserve established by support the creation and three year support for a Community Development Trust.	Caroline Dimond Director Public Health
Crisis Fund	Reserve to support the costs of social fund and exceptional hardship	Bob Clark Executive Head Customer Services
Regeneration/TDA Reserve	Reflects the value of funds awarded to the TDA where the work has yet to be completed.	Kevin Mowat Executive Head Business Services
Employment Issues Reserve	To support employment related issues, such as equal pay and payroll related issues.	Anne-Marie Bond Assistant Director Corporate and Business Services
Employment (Growth Fund) Reserve	Reserve established from the New Homes Bonus grant to create a Growth Fund to support employment opportunities.	Kevin Mowat Executive Head Business Services
Equipment Fund	To facilitate renewal of equipment within services where the replacement is at irregular periods.	Various
Geo Park Conference	To support costs of Geo Park activities	Kevin Mowat Executive Head Business Services
Grants recognised but not used	Reflects the value of revenue grants (without conditions) received by 31st March but not yet used to support expenditure	Martin Phillips Head of Finance
Harbours	Torquay, Paignton and Brixham Harbours – To finance Harbour expenditure schemes for the purpose of Harbour Users.	Kevin Mowat Executive Head Business Services
Highways Act Reserves	Reserve holding funds received under Highways Acts and other legislation where the Council holds funds to do works.	Ian Jones Head of Highways
Insurance Reserve	To set aside amounts to cover the future cost of past uninsured events which result in a loss to the Council. This reserve covers potential future liabilities arising from the Council's previous insurers Municipal Mutual Insurance Ltd not having sufficient solvency, to meet pre 1998 claims from Devon County Council, amounts for specific uninsured risks and a general reserve to meet as yet unknown insurance claims	Anne-Marie Bond Director Corporate and Business Services
IT Equipment Reserve	To provide funds for priority driven replacements of IT equipment.	Bob Clark Executive Head Customer Services
Investment Fund Reserve	Reserve to mitigate any variations in income or costs associated with	Kevin Mowat Executive Head

	Investment Fund properties such as void and rent free periods	Business Services
NNDR Equalisation Reserve	Reserve to smooth the volatility of NNDR income including appeals, s31 grant and the performance of the Devon wide NNDR pool.	Martin Phillips Head of Finance
Office Accommodation Reserve	Reserve to help meet the short term revenue costs of the rationalisation of office accommodation.	Kevin Mowat Executive Head Business Services
Oldway Mansion Reserve	Reserve funded from the developer contribution to be used for the benefit of the Mansion.	Kevin Mowat Executive Head Business Services
Misc. Specific Reserves	Includes: Council Elections, , Art Objects, Devon Audit Partnership, Green Travel Plan and Salix (energy initiatives).	Various
PFI Sinking Fund	To provide funds to meet the liabilities under the PFI agreement over 25 years (The Spires and Homelands Schools) and to provide funding towards Paignton Community College expansion project.	Andy Dempsey Director of Children's Services
Planning Reserve	To provide for costs of Local Plan Inquiry held every 4/5 years and masterplan delivery.	Kevin Mowat Executive Head Business Services
Public Health	Reflects carry forward of ring fenced funds for Public Health	Caroline Dimond Director Public Health
Regeneration Reserve	A reserve to support economic regeneration and employment initiatives	Kevin Mowat Executive Head Business Services
School Balances	Reflects the carry forward by schools of their delegated school budget share.	Rachel Williams Head of Schools
School Redundancy Reserve	Reserve to support the costs of redundancies for schools based staff	Andy Dempsey Director of Children's Services
Swimming Pool Reserve	Reserve established as part of 2018/198 budget proposals to support unplanned expenditure or income variances for community run internal swimming pools.	Kevin Mowat Executive Head Business Services
Tourism (Strategic Events) Reserve	Reserve established in 2012/13 to support tourism and events.	Kevin Mowat Executive Head Business Services
Town Centre Regeneration	Reserve established to fund the staffing and feasibility costs associated with the Town Centre Regeneration project	Kevin Mowat Executive Head Business Services
Training and Development Reserve	New reserve to support the training and development needs of senior staff and members.	Anne-Marie Bond Director Corporate and Business Services
Transformation Reserve	Reserve to support expenditure on projects associated with the Council's transformation programme.	Anne-Marie Bond Director Corporate and Business Services
Waste Disposal Strategy Reserve	Reflects the reclassification of part of the equipment fund as a specific reserve for Waste Disposal Initiatives.	Kevin Mowat Executive Head Business Services