



Contact: Kate Spencer
Telephone: 01803 207014
E-mail address: scrutiny@torbay.gov.uk
Date: Wednesday, 23 January 2019

Overview and Scrutiny
Town Hall
Castle Circus
Torquay
TQ1 3DR

Dear Member

OVERVIEW AND SCRUTINY BOARD - WEDNESDAY, 30 JANUARY 2019

I am now able to enclose, for consideration at the Overview and Scrutiny Board to be held on Wednesday, 30 January 2019, the following reports that were unavailable when the agenda was printed.

Agenda No	Item	Page
5.	Integrating the Health and Care System in Devon	(Pages 2 - 4)
6.	Budget Monitoring 2018/2019 - Quarter Three	(Pages 5 - 23)
8.	Corporate Capital Strategy	(Pages 24 - 46)

Yours sincerely

Kate Spencer
Overview and Scrutiny Lead

Members of the committee have been previously briefed on STP updates and the development of an Integrated Care System in Devon. The purpose of this paper is to provide an update on latest developments.

1. National Developments

Across the country, since 2017 areas have been progressing the plans for their integrated care systems with support from regulators as part of a national programme of development (so-called Wave 1 and 2 ICSs), sharing their learning and experiences.

Becoming a recognised Integrated Care System means that locally partners and systems are able to work together and with regulators in different ways, taking on more responsibilities for determining how resources are used with more influence and flexibility in the way that these are deployed. NHSE has identified the core capabilities that systems need to be able to demonstrate to be recognised as ICSs which include and working with areas to assess their levels of maturity against these. These capabilities include demonstrating that for the local population, systems partners have effective leadership and relationships; demonstrate ability to deliver good outcomes and performance; strong financial management; and able to redesign care and implement new ways of meeting needs in line with strategic ambitions.

On 10th January 2019 The NHS Long Term Plan was published, which sets out national ambitions for the next 10 years. This can be found here <https://www.longtermplan.nhs.uk> and a summary is attached as an appendix to this briefing note. Each system is required to submit its 5-year plan by Autumn 2019.

2. STP Updates

Partners in the Devon STP have made good progress on a number of important developments in recent months. The most notable are as follows:

Creating a new Digital Strategy

Our system Collaborative Board has emphasised that developing electronic records that “feel like one system” is a priority if we are to achieve our goal of functioning as an Integrated Care System.

The STP priorities list being “digitally enabled” as one of the design criteria by which all future service developments must be produced. As such, there has never been a better opportunity for us to use technology and information not just to enable change, but to lead our community in building a modern NHS that delivers higher quality, safer care to the people of Devon.

Our new Digital Strategy sets out the overall direction for IM&T and digital services for health and care within Devon.

Collaborating on workforce

Devon STP partners have also signed up to a system-wide Workforce Strategy. It sets out five key areas of priority:

- i. **Right person, right skills, right place, right time.** Priorities moving forward include: developing system-wide portfolio careers; undertaking a system approach to international recruitment for nurses and medics; and, alongside a national recruitment campaign for key

workers, a regular cycle of career fairs in Devon.

- ii. **Growing Devon's future workforce.** Priorities moving forward include: further developing 'Proud to Care'; creating a structured system approach to work experience in health and social care; creating a system wide attraction, recruitment and retention strategy; and establishing holistic workforce data for proactive system workforce planning.
- iii. **Effective use of a flexible workforce.** Priorities moving forward include: establishing a single shared Devon temporary workers bank and creating a competitive pay framework; and creating a Devon recruitment bureau with single streamlined business processes to reduce recruitment time.
- iv. **Growing Devon's strategic partnerships with local and national education providers.** Priorities moving forward include: developing close working partnership with Local Enterprise partnerships; building experiential learning through creation of case studies as a mechanism of identifying best practice and enable rapid improvement.
- v. **The health and social care sector is the best place to work in Devon.** Priorities moving forward include: continuing to develop the new Devon system leadership programme, working with the Leadership Academy as pilot site; creating a 'Devon Offer' with consistent Terms and Conditions with flexible benefit packages; and establishing flexible shift working to support 7 day working.
Partners have also joined forces to support our European staff, as a result of Brexit, and have agreed a new approach to the international recruitment of key staff.

3. Developing the Integrated Care System in Devon

Following the report to all three health and wellbeing boards in Devon on the emerging priorities and design and development of our integrated care system in September/ October 2018, we have been progressing work to explore how our ICS should operate to deliver the system plan on a page and most importantly improve outcomes for our population.

We have been supported nationally through participation in the Aspiring ICS programme, which was tailored locally to focus on specific areas of development including: developing population health management approaches to care redesign, financial planning and exploring effective system governance. Part of this developmental work has included exploratory conversations with all three health and wellbeing boards and scrutiny committees in December 2018 about their roles in the emerging ICS.

In Devon, system partners have continually emphasised the importance of democratic accountability in the development of our ICS and the inclusion of wider determinants of health in our plans and aspirations for our populations; an ambition that goes further than the approaches taken in many other parts of the country.

Over the next 6 months we need to:

- i. Develop a local 5-year plan in response to the national NHS Long Term Plan that shows how we will work together across NHS and Local Authorities that shows how we work together to improve outcomes for our population and makes our ambitions and strategy happen. System leaders have agreed that a key priority in Devon will be to address inequalities by ensuring resources are deployed in line with strategic ambitions, population needs and outcomes.

- ii. Design the most effective ways of working together both locally in local communities and places as well as across the wider Devon system, with the right system governance that allows for transparent and responsive decisions and implementation of the plan.
- iii. Engage with stakeholders and local communities in developing our thinking in both what we want to deliver (the plan) and how we will work together (system working) to deliver it.



Meeting: Overview and Scrutiny Board **Date:** 30 January 2019
Council 31 January 2019

Wards Affected: All Wards

Report Title: Budget Monitoring 2018/19 – Quarter Three

Is the decision a key decision? No

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

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

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

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 2018/19.
- 1.2. As at the end of quarter three 2018/19 the Council's **Revenue** budget is predicting an over spend of £2.7m for the financial year before the application of identified one off funding of (£2.6m). There was a small improvement from the quarter two position however the overspend of £4.2m within Children's Services remains a real cause for concern and in the absence of more compensating savings in other services the Council has identified one off funding of £2.6m to fund the majority of the over spend.
- 1.3. The Council's Senior Leadership Team put in place in August 2018 arrangements for a moratorium on all spend or recruitment that was not urgent or required to meet statutory duties. The Chief Finance Officer also arranged additional processes to monitor and challenge orders and contracts placed by officers across the Council. As reported in the quarter two monitoring report the Chief Finance Officer has also provisionally allocated the Comprehensive Spending Review (CSR) Reserve in order to contribute to meeting the in-year overspend pending after other recovery options including any proposals from the 2019/20 Review of Reserves.
- 4-3 The **Capital** Plan budget totals £212m for the 4 year programme, with £94m currently scheduled to be spent in 2018/19, including £50m on Investment Fund acquisitions and £13m on various Regeneration projects. The Capital Plan now requires £2.7 million from (new) capital receipts and capital contributions over the life of the Plan.
- 1.4. Appendix Three is an expanded narrative of the **capital schemes** expected to incur expenditure in 2018/19 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

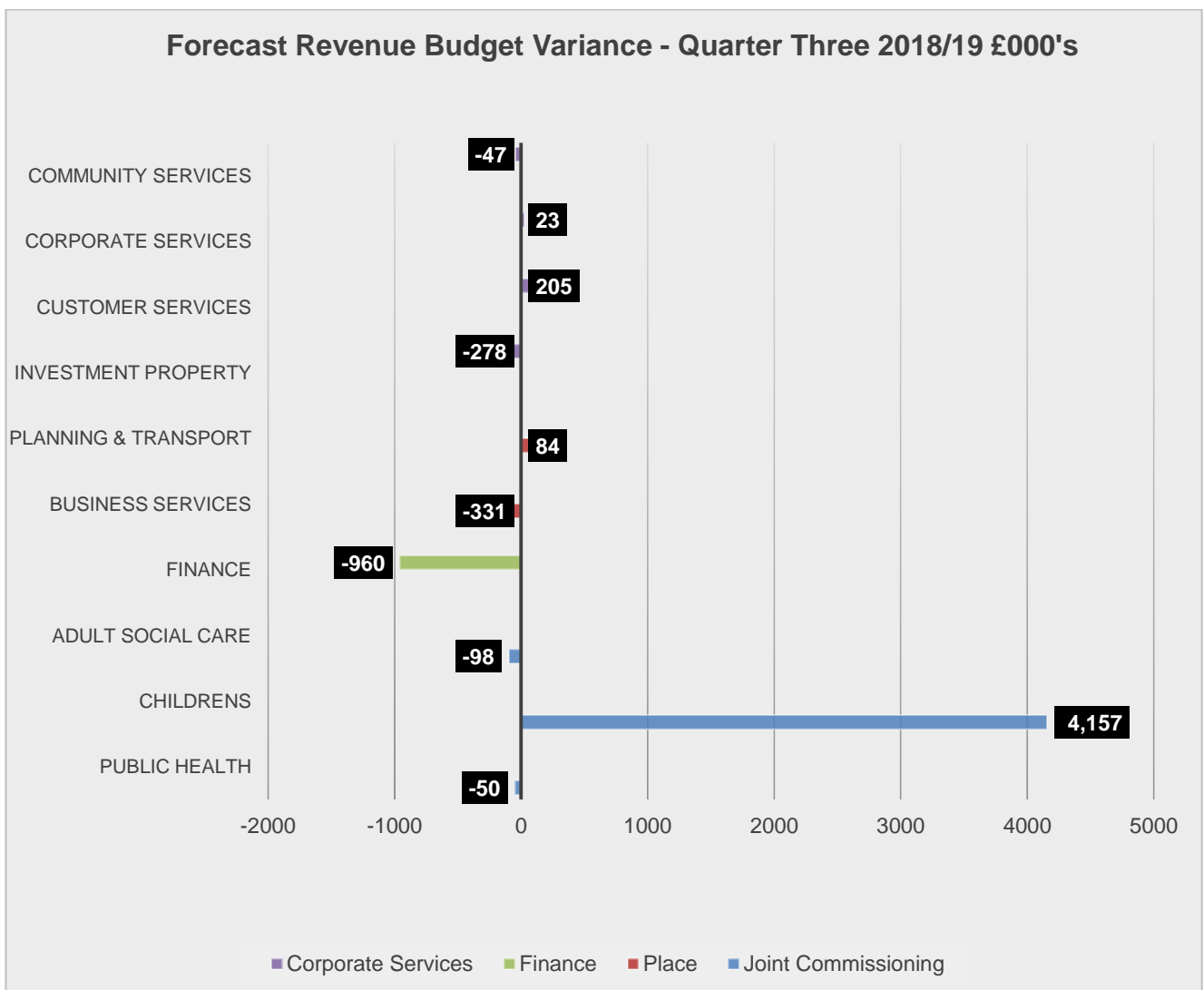
2.1 Overview and Scrutiny Board: That the Board considers the current position and make any comments and/or recommendations to the Council.

3. Reason for Recommendation/ Proposed Decision

3.1 Council: Monitoring Report for noting

4. 2018/19 Revenue Budget Summary Position

4.1 As at Quarter 3 the Council’s revenue budget is predicting an over spend for 2018/19 after the application of one off funding of £0.1m. Within this position there is a £4.2m overspend in Children’s Services, offset by under spends in other services and the application of one off funding. A bar chart summarising the projected budget variance by service for 2018/19 is as follows:



Children's Social Care

- 4.2 The 2018/19 budget for Children's social care was increased by £3m, a 10% increase on the 2017/18 budget to reflect the levels of spend, in particular on Looked After Children. As previously reported in the six months to end of June 2018 the service experienced a 20% increase in Looked After Children numbers. (In December 2017 the number of looked after children was 293 which had increased to 358 by the end of June 2018). Anecdotally other Councils in the south west and nationally are also experiencing a rise in numbers, but not at the percentage increase Torbay has experienced. Since June the total number of looked after children have stabilised, although with monthly variations in cases, their relative complexities and associated cost. As at mid-January 2019 were 357 looked after children.
- 4.4 The current forecast for the service is an overspend of £4.2m The reasons are as previously documented, namely, a clear trend that the complexity and unit cost of many care plans are increasing, and in part as a result of the national increase in demand for children's social care there is an ongoing challenge to attract and retain experienced social care staff. These challenges are in the context of the "inadequate" OFSTED judgement for the service in July 2018.
- 4.5 Based on recent activity in both looked after children cases and ongoing staffing/agency recruitment issues it could be expected that the overspend may increase in the last quarter of the year. Any increase beyond the current forecast would have to be funded from the Comprehensive Spending Review Reserve.

Higher Needs Block – Special Education Needs

- 4.7 As previously reported the schools' higher needs block in the Dedicated Schools Grant (DSG) has been under financial pressure as a result of an increasing level of referrals from schools for higher needs support for children, resulting in a forecast over spend in 2018/19 of £2.9m. 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 that the Council will fund. The overspend in previous years has already resulted in a "negative" DSG reserve of £0.6m (after the agreed 2018/19 transfer of funding between DSG "blocks").
- 4.6 In January 2019 the Department of Education announced additional allocations of £0.268m for both 2018/19 and 2019/20 to support a degree of higher needs block cost pressures. It is clearly welcome that the DfE have recognised that financial pressures that are arising in this service, however the value of the additional support is less than 10% of the current year forecast overspend. Taking into account the extra funding, which with the support of Schools Forum will be applied to the current overspend, and the forecast overspend in year the cumulative deficit will be £3.2m. This overspend will have to be "made good" by DSG funding in future years.

Investment Property

- 4.9 In the third quarter of 2018/19 the Council completed the purchase of two properties, one in Bodmin and one in Babbacombe, for a total of £12m including purchase costs. The costs of the borrowing required for the purchases are to be funded from future rental streams.

Adult Social Care (ASC)

- 4.10 The majority of spend for this service is with the ICO under a fixed contract payment. The Council will continue to work with its partners to allocate the Improved Better Care Fund in the most effective way for all partners. The Council, in October 2018, was allocated £0.829m of one off funding for the financial year to support winter pressures in social care which has been allocated primarily to the ICO to support the domiciliary care issues. Within the 2018/19 ring fenced Improved Better Care Fund funding allocation the it has been agreed with the ICO, linked to the Risk Share Agreement, to allocate £2.0m direct to the ICO for agreed schemes to improve outcomes in health and care that were presented to the Health and Wellbeing Board in March 2018 and £1.4m for aspects of market management in line with strategy.

Provisional Local Government Finance Settlement 2019/20

- 4.12 The Provisional Local Government Finance Settlement 2019/20 was announced on the 13th December 2018. This included the one off allocation of an amount “held back” by MHCLG in 2018/19 in relation to the NNDR retention scheme that is now not required and therefore it has been released back to Councils. Torbay’s share of this is £0.491m and will be accounted for as 2018/19 income, and is therefore additional money in year and shown as a Sources of Funding in the table below.
- 4.13 Detailed Position- The budget position for each service is shown in the table below:

Service	2018/19 Budget			Forecast Full Year Variance
	Expenditure £000s	Income £000's	Net £000's	£000's
Adult Social Care	52,936	(12,278)	40,658	(98)
Children's Services	82,000	(50,140)	31,860	4.157
Public Health	10,097	(721)	9,376	(50)
Joint Commissioning	145,033	(63,139)	81,894	4,009
Business Services	31,110	(16,854)	14,256	(331)
Planning and Transport	10,317	(2,599)	7,718	84
Director of Place	41,427	(19,453)	21,974	(247)
Community Services	4,362	(2,444)	1,918	(47)
Corporate Services	6,947	(2,073)	4,875	23
Customer Services	66,890	(63,468)	3,422	205
Investment properties	5,871	(8,923)	(3,052)	(278)
Corporate Services	84,070	(76,908)	7,162	(97)
Finance	20,988	(20,012)	976	(960)
Gross Revenue Budget	291,518	(179,512)	112,006	2,705
Application of one off funding	0	0	0	(2,122)

Sources of Funding	397	(112,403)	(112,006)	(491)
Net Revenue Budget	291,915	(291,915)	0	92

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

Service	Variance to Budget £m	Main Variances in 2018/19
Adult Social Care	(0.1)	Fixed payment agreed with ICO for 2018/19, with small underspends on some client budgets.
Children's Services	4.2	As detailed earlier
Public Health	(0.1)	Primarily a ring fenced budget
Director of Place	(0.2)	Projected over spend primarily linked to staffing issues in planning, offset by expected savings in concessionary fares and lower than budgeted waste tonnages.
Corporate Services	0.2	Projected over spend in governance, human resources, legal services and an income shortfall in printing offset in part by salary savings elsewhere in the services in this area.
Finance and Central	(1.0)	Primarily the £0.6m additional gain on NNDR Pilot with continued reductions on pension costs, additional investment income and a net saving within financial services.
Investment Properties	(0.3)	As detailed earlier
Sub Total	2.7	
Sources of Funding	(0.5)	One off release of NNDR funding by MHCLG announced in 2019/20 provisional local government finance settlement
Application of one off Funding	(2.1)	Release of unspent capital budgets and earmarked reserve
Total	0.1	Projected over spend

5 Action to Mitigate Overspend

- 5.2 The projected overspend of £2.7m for the year based on the third quarter remains a cause for concern. The estimated "unallocated" balance on the Comprehensive Spending Review Reserve (CSR) is insufficient to fund the projected overspend. In order to protect what remains of the CSR Reserve the Chief Finance Officer has provisionally allocated this reserve to contribute to meeting the in-year overspend.
- 5.2 As previously reported the Chief Finance Officer continues to closely monitor the position with the Elected Mayor and his Executive Leads and the Senior Leadership Team.
- 5.3 In the quarter two monitoring report it was stated that the Chief Finance Officer with the support of the Senior Leadership Team would:

- a) Review earmarked reserves to both; apply reserves to spend in 18/19 where possible and transfer any “surplus” earmarked reserves to the CSR reserve. Proposals arising from this will be included in the 2019/20 Review of Reserves report.

This review has been undertaken and the 2019/20 Review of Reserves report is issued as part of the Elected Mayor’s final budget proposals. The Adult Social Care Reserve of £1.552m will be released in full to support adult social care spend in 2018/19.

- b) Review the Capital Plan to “return” any revenue funding allocated to as yet unspent capital projects.

This review has been undertaken. The funding for the unspent capital budgets for Empty Homes (£0.457m not spent since 2013) and Housing Grant (£0.113m not spent since 2009) will be returned as one off revenue funding in 2018/19. The Empty Homes budget was established in 2013 from a top slice of the (revenue) New Homes Bonus Grant to invest to increase future grant. However with the expected ending of the New Homes Bonus Grant in 2020/21 this budget is no longer needed.

- c) Review corporate expenditure to consider whether any expenditure can be transferred to future years.

This review has been undertaken. No MRP will be charged in year on Investment Properties purchased within the year (£0.278m reported in quarter two).

- d) Review the Capital Plan to consider the “pausing” of capital projects, including schemes using prudential borrowing that are funded from the Council’s revenue budget.

This review has been undertaken: There are no projects for which a pause would result in a change in the revenue budget as the majority of capital expenditure is funded from borrowing to be repaid from future income.

- 5.4 All the above measures, with a total of £2.1m of funding to be applied in quarter three, are short term or “one off” measures to support the current position. The implications of the 2018/19 forecast on both the 2019/20 budget and reserve levels were included in the Elected Mayor’s Final budget proposals issued in late January 2019.

Risks & Sensitivity

- 5.5 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 assumptions, demand and the impact of the action taken in year to mitigate the projected overspend.
- 5.6 There are a number of financial risks facing the Council as shown below:

Risk	Impact	Mitigation
Achievement of approved savings for 2018/19	Medium	18/19 Budget monitoring and "saving tracker" monitored by senior staff.

Achievement of Children's Services cost reduction plan	High	Regular monitoring of performance and recovery plan.
Identification, and achievement, of £14.7m of savings for 2019/20 to 2021/22 per Medium Term Resource Plan March 2018	19/20 Low 20/21 and 21/22 High	Transformation Team set up to coordinate the implementation of potential transformation savings. Mayor's 2019/20 final budget proposals issued in January 2019 proposes a balanced budget Senior Leadership Team and Mayor's Executive Group considering options for future years.
Unable to recruit staff and need to use agency staff.	High	Children's Services have experienced difficulties for several years. This issue is now appearing in other services including planning and legal services.
Pressure achieving income targets in some services	Low	A small number of services are not meeting their income targets (which increase by 3% each year).
Additional demand for services particularly in children's social care	High	18/19 Budget monitoring, use of service performance data and recovery plan.
Investment Property Income changes	Low	Regular review of income and tenant negotiation

6. Balance Sheet issues

Borrowing

- 6.1 In quarter three the Council borrowed a further £5m, primarily to fund investment property loans and acquisitions. Total borrowing as at 31 December was £285m. Borrowing is still below the approved Operational and Authorised limits for the year.

Council Subsidiary Companies

- 6.2 The Council has interests in a number of companies. The financial performance for 2017/18 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 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

- 6.4 The total value of debtor write offs in the third quarter of 2018/19 was:

Service	Number of records written off	Value of write offs £000's
Council Tax	1273	122
NNDR	19	115
Housing Benefit	-	101

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 £212m over the 4 year period of which £94.1 m relates to 2018/19 and £90.8m relates to 2019/20.
- 7.2 The movements in the estimate of expenditure in 2018/19 on the Capital Plan between the last monitoring report at September 2018 of £83.4m and the current approved budget for 2018/19 of £94.1m are shown below. Please note the format of this table shows schemes ordered by Council's Targeted Actions, as is Appendix 1.

Scheme	Variation in 2018/19	Change £m	Reason
Estimate as at Q1 2018/19		83.4	Capital Plan Update – 2018/19 Quarter 2 (Report 5 th Dec 2018)
Budget changes since last report (Q2 2018/19)			
Protecting Children			
Capital repairs & maintenance 16/17 & 17/18	Reallocation of part budget	(0.2)	Allocated to Medical Tuition Service relocation
Medical Tuition Service	Increase budget	0.2	Transfers from other schemes
New Paignton Primary School	Budget moved	(0.6)	Budget to 2019/20 when payment expected
Secondary School Places	Reduced budget	(0.1)	Reduced school contribution
		(0.7)	
More Prosperous Torbay			
Better Bus Area	Budget reinstated	0.1	Unused budget reinstated
Edginswell Business Park	Budget moved	3.0	Budget transferred from 19/20 to fund site acquisition.
Investment Fund	Budget adjustment	9.9	To reflect Harbour View now part of Town Centre Regen
	Part budget rephased	(5.0)	Rephased budget to 2019/20
Land acquisitions from TCCT	New budget	2.4	Acquire sites from TCCT
TEDC Capital Grant	Budget reduced	(0.2)	Residual budget not required
TEDC Capital Loan	New budget	1.5	Loan for purchase and development of industrial site
Town Centre Regeneration	Budget adjustment	0.3	Harbour View transferred from Investment Fund and rephased
Transport – Highways Maintenance	Budget increase	0.6	Increased Government allocation
Transport – Western Corridor	Budget increase	1.3	Additional budget required to complete final (Windy Corner) phase of project.
	Budget to 2019/20	(1.0)	

			Rephased for Windy Corner works
		12.9	
Attractive and Safe place			
CCTV Equipment	Moved budget	(0.3)	Budget transferred to 2019/20 to reflect spending patterns.
Flood Alleviation - Cockington	Rephased budget	(0.1)	Part of Budget moved to 2019/20
Flood Alleviation - Monksbridge	Rephased budget	(0.1)	Part of Budget moved to 2019/20
Hollicombe Cliffs	Reduced budget	(0.2)	Reduced external contributions
		(0.7)	
Protect and Support Vulnerable Adults			
Affordable Housing	Rephased budget	(1.0)	Budget moved to 2019/20
Disabled Facilities Grant	Increased budget	0.2	Additional 2018/19 Government grant allocation.
		(0.8)	
Corporate Support			
Fleet acquisitions	New budget (future years)	Council 31 January 2019	Acquisition of refuse vehicles for TOR2 contract (£4.3m in future years)
		0.0	
Estimate – Quarter Three 2018/19		94.1	

8 Updates to Capital Plan:

There are a number of variations to budgets on various schemes as detailed below.

8.1 Protecting Children

8.2 Capital Repairs and Maintenance 2014/15 and 2016/17 to 2017/18 – Total of £0.159m from these budget lines have been transferred to Medical Tuition Service relocation.

8.3 Ellacombe Academy Early Years – additional funding for increased costs from redesign required for Planning. The additional resources have been transferred from savings on Secondary School Expansion (Torquay Academy) scheme.

8.4 Medical Tuition Service relocation – Resources previously anticipated from savings on other Education schemes have now been identified and transferred to this project.

8.5 New Paignton Primary School – The Council's contribution to the new school is not likely to be required until 2019/20 and consequently £0.6m budget has been transferred to next financial year.

8.6 Secondary School Expansion – Project has been completed and savings have reduced the school contribution and other savings used to support Ellacombe Early Years project.

- 8.7 Youth Modular Projects – the remaining funds on this budget line have been transferred to the Medical Tuition Service relocation.
- 8.8 **More Prosperous Torbay**
- 8.9 Better Bus Area – Last quarter it was reported that the remaining budget for this scheme was being removed. However there are currently discussions on related potential uses of these funds and consequently the budget of £0.09m has been reinstated pending further options and results of these discussions.
- 8.10 Claylands Redevelopment – Tenders for the building contract have been received and the successful bidder will be appointed in the New Year, after the lease for the building has been agreed.
- 8.11 Edginswell Business Park – The Council completed the acquisition of this site just before Christmas 2018 for £3.0m (including purchase costs). The site will now be developed to provide a commercial unit. The budget was held in 2019/20 but £3.0m has now been moved to the current year to fund the site purchase.
- 8.12 Investment Fund – A further acquisition has been made to increase the Council's Investment portfolio with the purchase of a site in Bodmin which has an existing tenant. In addition the development of a hotel adjoining the Terrace Car Park which was being funded from these resources has been transferred to Town Centre Regeneration and there is a consequent budget adjustment of £10.8m between the two budget lines. The budgets have similarly been rephased to reflect this change.
- 8.13 Land acquisition from TCCT – The surrender of land at Preston Down Road and Collaton St Mary for approx. £2.450m (including SDLT) from TCCT was approved by Council on 18 December 2018. The acquisitions will ultimately be funded from capital receipts to be received from the future sales of the sites for development. In the short term however it may be necessary to use temporary borrowing to fund the expenditure until the disposal proceeds are realised in full.
- 8.14 Land Release Fund – As reported to Council in December 2018, a negotiated deal has now been agreed with the TCCT to enable the Council to acquire the sites at Preston Down Road and Collaton St Mary to enable the development of housing units as required under the terms of the Land Release Fund grant received.
- 8.15 TEDC Capital Loan/Grant – Funding available to TEDC for work at Kings Ash House (an old scheme) was not required and consequently the remaining budget of £0.15m has been removed from the Capital Plan. There are still funds available, if required, for development work at Cockington Car Park.
- 8.16 A further £1.5m loan to the TDA was approved by Council on 18 December 2018 to enable the purchase of land and subsequent development of industrial units at Torbay Business Park, Whiterock, Paignton.

- 8.17 Town Centre Regeneration – this budget will now be used to fund the Harbour View hotel development (as noted in paragraph 8.12 above). The budget has been adjusted to reflect this change.
- 8.18 Transport – Highways Maintenance – Following the Government Budget announcements in November 2018 the Council has been allocated £0.646m to help improve the repair of local roads (including potholes) and structures.
- 8.19 Transport Integrated Transport Schemes – A further transfer of future years' budgets (£0.35m) has been made to support the final (Windy Corner) phase of the Western Corridor project.
- 8.20 Transport –Western Corridor – Tenders have now been received for the Windy Corner phase of works along the Western Corridor and the latest business case has been presented to the Local Enterprise Partnership (LEP) who have approved this final phase of the scheme. The budget has been increased by a total of £1.6m to reflect the likely remaining costs and then, £1m of the Western Corridor budget has been rephased to future years to reflect the latest expenditure predictions.
- 8.21 This increase in scheme cost has resulted in a potential funding shortfall in the existing funding allocated to the Western Corridor in the Capital Plan. Funds have been identified by officers which should cover the shortfall (mainly Section 106 agreements) but there are risks associated with some of these resources as some are not yet paid and others unlikely to be received for two or three years. In addition the use of a further £0.35m from Integrated Transport resources (in future years) is now required. It is also proposed that the sale proceeds from the proposed disposal of a property (Smallcombe, Kings Ash Road) which was acquired to provide land for the road improvements be used to fund the project. The property was originally purchased from the scheme resources.

8.22 **Attractive and Safe Place**

- 8.23 CCTV Equipment – Progress on replacing equipment has been slower than expected for a number of reasons and consequently £0.27m budget has been moved to next year. The Council has received a contribution from the Office of the Police and Crime Commissioner towards the project.
- 8.24 Council Fleet Vehicles – As due to be reported to Council on 31 January 2019 there is a proposal to purchase 22 no. replacement kerbside recycling vehicles and 6 no. refuse collection vehicles at a total cost of £4.308m. These purchases will be spread between 2019/20 (11 kerbside recycling vehicles and 6 refuse vehicles, total £2.7m) and 2020/21 (11 kerbside recycling vehicles £1.6m). The vehicles purchased in 2019/20 will be leased to TOR2 for the continuation of the refuse collection contract.
- 8.25 Cockington Flood alleviation – work to be tendered in January 2019 with start on site expected February 2019 and completion in December 2019. £0.125m budget has been moved to next year to reflect this. The Monksbridge Flood alleviation scheme is similarly to be tendered in January 2019 again expecting to start on site in February

2019 and works expected to be complete by October 2019. Further, budget of £0.075m has been moved to match the estimated spending pattern. Some Council funding of approx. £0.04m to support these projects is still to be identified but is hoped to become available from savings on related projects.

- 8.26 Flood Defence schemes (with Env Agency) – Projects for Paignton/Preston Flood Defence, Collaton St Mary, Paignton and River Fleet, Torquay are listed with the Environment Agency as potential projects requiring Environment Agency grant in aid in the coming years. The grant application for the Collaton St Mary Flood Alleviation scheme has been submitted to the Environment Agency with expected grant support of £0.238m and a Council contribution of £0.259m which will come from the Land Release Fund resources. It is estimated that works could commence in October 2019. If approved by the EA the scheme will be added to the Capital Plan. Applications in respect of the other schemes will follow, at which time those details will be reported.
- 8.27 Hollicombe Cliffs Rock Armour – this scheme has been finalised and the saving has been used to provide some of the Council's match funding required for current flood alleviation schemes at Cockington and Monksbridge.
- 8.28 Princess Pier Structural repair – The remaining works planned for this year should be completed in February which means that £0.05m can be moved to next year for further work.
- 8.29 **Protect and Support Vulnerable Adults**
- 8.31 Affordable Housing – Whilst work continues to identify suitable sites and schemes it is unlikely that significant expenditure will occur this financial year so £1m of the available budget has been transferred to next financial year.
- 8.32 Disabled Facilities Grants – An additional DFG grant allocation of £0.159m has been awarded by the Government and it is proposed to add this allocation to the current year DFG budget. There is a requirement to spend this (new) allocation by 31 March 2019.
- 8.33 Extra Care Housing – As presented to Housing Committee January 2019 the potential purchase of a site for Extra Care Housing funded from ring fenced Adult Social Care resources.
- 8.34 **Corporate Support** - no significant issues to report.

9 Receipts & Funding

- 9.1 The funding identified for the latest Capital Plan budget is shown in Annex 1. This is based on the latest prediction of capital resources available to fund the budgeted expenditure over the next 4 years. A summary of the funding of the Capital Plan is shown in the Table below:

	2018/19	2019/20	2020/21	2020/21	Totals @ Q3 18/19
Funding	£m	£m	£m	£m	£m
Unsupported Borrowing	68	73	24	0	165
Grants	20	11	3	0	34
Contributions	1	1	0	0	2
Revenue	1	2	0	0	3
Reserves	1	1	0	0	2
Capital Receipts	3	3	0	0	6
Total	94	91	27	0	212

10. Grants

10.1 The Council has been notified of the following capital grant allocations:

Dept. for Transport – Grant of £0.646 million to repair local roads (including potholes) and structures.

Ministry of Housing, Communities and Local Government – additional Disabled Facilities Grant allocation for 2018/19 of £0.159m

11. Capital Receipts

11.1 To date in 2018/19 under £0.1m of capital receipts have been generated with an expected £0.8m to be received in February 2019. Amendments to the Capital Plan during Quarter 3 2018/19 has altered the overall funding position of the Plan and currently the approved Plan relies upon the generation of a total of £2.7 million additional capital receipts from asset sales.

12. Capital Contributions – S106 & Community Infrastructure Levy

12.1 No significant Section106 capital contributions have so far been received in 2018/19.

12.2 The Council's Community Infrastructure Levy (CIL) scheme came into effect from 1 June 2017. The main capital project identified for funding from CIL receipts is the South Devon Highway. No significant CIL funds have yet been received in 2018/19.

Appendices:

Appendix 1 - Capital Plan expenditure and funding summary – Quarter Three 2018/19

Appendix 2 Capital Plan Project update – Quarter 2 2018/19

CAPITAL PLAN - QUARTER 3 2018/19 - EXPENDITURE

Appendix 1

							Revised 4-year Plan Dec 2018						
	Cost Centre	Latest Est Scheme Cost	Expend in Prev Years (active schemes only)	Actuals & Commitments 2018/19 Qtr 3	Previous 2018/19 (@ Q2 18/19)	2018/19 Q3 Adjustments	New Schemes 2018/19	Total 2018/19 Revised	2019/20	2020/21	2021/22	Total for Plan Period	
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
PB = Approved Prudential Borrowing schemes													
Protecting children and giving them the best start in life													
	Brookfield Site / Brunel Academy Phase 1	YEC10	1,050	497	496	553		553				553	
	Brunel Academy Ph 2 Vocation Classrooms	YEC14			12	250		250	750			1,000	
	Capital Repairs & Maintenance 2014/15 (incl. Furzeham)	YEE39	743	743		9	(9)	0				0	
	Capital Repairs & Maintenance 2016/17 and 2017/18	YEE41	113		107	263	(150)	113				113	
	Capital Repairs & Maintenance 2018/19	YEE42	378		239	358		358	20			378	
	Cockington Primary expansion	YEA24	3,144	3,142	2	5	(3)	2				2	
	Devolved Formula Capital	YEE10			75	156		156				156	
	Early Years - Ellacombe Academy Nursery	YEA41	908	275	603	588	45	633				633	
	Early Years - White Rock Primary Nursery	YEA40	420	406	2	14		14				14	
	Education Review Projects	YET01			42	0	3	3	125	729		857	
	Healthy Pupils Capital Fund	YEE50	39		37	39		39				39	
	Medical Tuition Service - relocation	YEC13	601		59	200	196	396	205			601	
	New Paignton Primary school	YEA39	609	7		602	(600)	2	600			602	
	Roselands Primary - additional classroom	YEA42	599		32	40		40	559			599	
	Secondary School places	YEB22	2,187	937	1,202	1,420	(170)	1,250				1,250	
	Special Provision Fund (SEND)	YEC12	616		157	282		282	167	167		616	
	Torbay School Relocation	YEC11	1,200	182	2	18		18	500	500		1,018	
	Youth Modular Projects	YEF11	372	372		37	(37)	0				0	
			19,540	6,561	3,067	4,834	(725)	0	4,109	2,926	1,396	0	8,431
Working towards a more prosperous Torbay													
PB	Claylands Redevelopment	YNA12	10,400	185	721	1,529		1,529	7,310	1,376		10,215	
	DfT Better Bus Areas	YJC02	1,183	1,095		0	88	88				88	
PB	Edginswell Business Park	YNA14	6,620	25	3,476	95	3,000	3,095	3,500			6,595	
PB	Employment Space, Torbay Business Park	YNA13	6,644	5,011	1,604	1,633		1,633				1,633	
PB	Innovation Centre Ph 3 (EPIC)	YNA05	7,749	777	5,761	6,295		6,295	677			6,972	
PB	Investment Fund	YAB42-44	200,200	119,744	32,923	45,000	4,883	49,883	30,573	0		80,456	
	Land acquisitions from TCCT	YNA33	2,444					2,444				2,444	
	Land Release Fund projects	YNA30-32	0	0	59			0	0			0	
	Old Toll House, Torquay	YCE26	20	9	11	11		11				11	
PB	Oxen Cove Landing Jetty	YMB05	1,966	119	723	1,847		1,847				1,847	
	Oxen Cove Shellfish processing facility -design work	YMB06	0	0	0	0		0	0			0	
PB	South Devon Highway - Council contribution	YJC07	20,224	17,694	556	2,123		2,123	407			2,530	
PB	TEDC Capital Loans/Grant	YNA11 / 06	4,040	1,965		725	(150)	1,500				2,075	

CAPITAL PLAN - QUARTER 3 2018/19 - EXPENDITURE

Appendix 1

							Revised 4-year Plan Dec 2018						
	Cost Centre	Latest Est Scheme Cost	Expend in Prev Years (active schemes only)	Actuals & Commitments 2018/19 Qtr 3	Previous 2018/19 (@ Q2 18/19)	2018/19 Q3 Adjustments	New Schemes 2018/19	Total 2018/19 Revised	2019/20	2020/21	2021/22	Total for Plan Period	
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
PB	= Approved Prudential Borrowing schemes												
PB	Town Centre Regeneration Programme	YNA20-23 / YA	25,016			0	266	266	16,750	8,000		25,016	
	Transport Highways Structural Maintenance	YJA01/YJB01		504	1,555		646	2,201	1,174	1,174		4,549	
	Transport Integrated Transport Schemes	YJC01/YJD01		755	775		12	787	550	562		1,899	
	Transport - Torquay Gateway Road Improvements	YJC18	2,927	1,050	89	63		63	1,764	50		1,877	
	Transport - Torquay Town Centre Access	YJC17	530	414	6	116		116				116	
	Transport - Tweenaway Junction	YJC06	4,899	4,899	9			0				0	
	Transport - Western Corridor	YJC14	12,271	7,324	2,390	2,600	277	2,877	1,870	200		4,947	
PB	Upton Place, Lymington Road (Student Accommodation - Town Hall Car Park)	YNA15	0			0		0	0			0	
			307,133	160,311	49,587	64,367	9,022	3,944	77,333	64,575	11,362	0	153,270
Ensuring Torbay remains an attractive and safe place to live and visit													
	Babbacombe Beach Road	YJE02	70	0		70		70				70	
	Brixham Harbour - Breakwater	YMB04	3,853	0	3,532	3,853		3,853				3,853	
	Brixham Harbour - Fendering	YMB07	300	6	306	294		294				294	
PB	CCTV equipment	YBD02	472	0	152	362	(210)	152	320			472	
	Clennon Valley Sport Improvements	YCE28	70	2	30	68		68				68	
	Flood Alleviation - Cockington	YKA30	328	6	30	250	(125)	125	197			322	
	Flood Alleviation - Monksbridge	YKA31	412	10	37	275	(75)	200	202			402	
	Flood Defence schemes (with Env Agency)	YKA17/20/21/	630	630	1	1	(1)	0				0	
PB	Freshwater Cliffs Stabilisation	YKA27	375	330	41	45		45				45	
	Haldon Pier - Structural repair Phase I&2	YMA04	3,045	3,045		19	(19)	0				0	
	Hollicombe Cliffs Rock Armour	YKA26	1,351	1,330	22	213	(192)	21				21	
	Libraries Unlimited ICT Upgrades	YCA04	107	0		107		107				107	
PB	Paignton Harbour Light Redevelopment	YMC01	600	0	98	100		100	500			600	
PB	Parkwood Loan re Torbay Leisure Centre	YCE29	1,700	515	1,185	1,185		1,185				1,185	
	Princess Gardens Fountain	YCE30	122	117	65	5		5				5	
	Princess Pier - Structural repair (with Env Agency)	YMA04	1,683	85	885	981	(31)	950	648			1,598	
PB	Public Toilets Modernisation Programme	YKA29	1,180		732	770	10	780	400			1,180	
	Torbay Leisure Centre - structural repairs	YCE21	541	541		0		0				0	
	Torre Abbey Renovation - Phase 2	YCB04	5,010	4,992		18		18				18	
	Torre Abbey Renovation - Phase 3 (Torbay Council commitment)	YCB06	0			0		0	0			0	
	Torre Valley North Enhancements	YCE25	127	40		87		87				87	
	Torquay Harbour - Beacon Quay Decking	YMA11	80		80	80		80				80	
	Torquay Harbour - Town Dock Pontoons Replacement	YMA10	263	263	15			0				0	
			22,319	11,912	7,211	8,783	(643)	0	8,140	2,267	0	0	10,407
Protecting and supporting vulnerable adults													

CAPITAL PLAN - QUARTER 3 2018/19 - EXPENDITURE

Appendix 1

							Revised 4-year Plan Dec 2018					
	Cost Centre	Latest Est Scheme Cost	Expend in Prev Years (active schemes only)	Actuals & Commitments 2018/19 Qtr 3	Previous 2018/19 (@ Q2 18/19)	2018/19 Q3 Adjustments	New Schemes 2018/19	Total 2018/19 Revised	2019/20	2020/21	2021/22	Total for Plan Period
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
PB = Approved Prudential Borrowing schemes												
	Adult Social Care			42	780			780				780
	Affordable Housing	2,883	1		1,497	(1,000)		497	2,385			2,882
	Extra Care Housing	1,400							1,400			1,400
PB												
	Housing Rental Company - Loan				0			0	12,500	12,500		25,000
	Housing Rental Company - Aff Hsg Developments	100		18	100			100				100
	Sanctuary HA - Hayes Road Pgn	250	250		0			0				0
	Disabled Facilities Grants			482	1,338	159		1,497				1,497
	Empty Homes Scheme	500	43		0			0	457			457
	Private Sector Renewal				0			0	113			113
		5,133	294	542	3,715	(841)	0	2,874	16,855	12,500	0	32,229
Corporate Support												
PB												
	Corporate IT Developments	1,035	417	184	618			618				618
PB												
	Council Fleet Vehicles	4,771	333		130			130	2,694	1,614		4,438
PB												
	Essential Capital repair works	872	0		0			0	872			872
	Enhancement of Development sites	327	125	71	202			202				202
	Flexible Use of Capital Receipts (NB. Not Capital expenditure)	657	300		357			357				357
	Office Rationalisation Project - Electric House refurbishment	700	326	370	374			374				374
	Payroll Project	370	358	10	9			9	3			12
	General Capital Contingency	631	0		0			0	631			631
		9,363	1,859	635	1,690	0	0	1,690	4,200	1,614	0	7,504
TOTALS			180,937	61,042	83,389	6,813	3,944	94,146	90,823	26,872	0	211,841
CAPITAL PLAN - QUARTER 3 2018/19 - FUNDING												
	Unsupported Borrowing				58,641	7,543	1,500	67,684	73,907	23,470		165,061
	Grants				19,882	109		19,991	10,315	3,336		33,642
	Contributions				749	32		781	1,485			2,266
	Revenue				452	283		735	1,640	203		2,578
	Reserves				1,250	(205)		1,045	1,096	(137)		2,004
	Capital Receipts				2,415	(949)	2,444	3,910	2,380			6,290
	Total				83,389	6,813	3,944	94,146	90,823	26,872	0	211,841

Capital Plan Projects		Project status report
PB	= Approved Prudential Borrowing schemes	
Protecting children and giving them the best start in life		
	Brookfield /Brunel Academy Phase 1	Project on site. Completion end of Feb 2019.
	Brunel Academy Phase 2 Vocational Classrooms	Design work underway. Planning application expected early 2019.
	Capital Repairs & Maintenance 2016/17 & 2017/18	Agreed programme underway. Various works.
	Capital Repairs & Maintenance 2018/19	Agreed programme underway. Various works.
	Cockington Primary expansion	Project complete.
	Devolved Formula Capital	On-going delegated funding stream for maintained schools. Various works underway.
	Early Years - Ellacombe Academy Nursery	Project complete & final account agreed. Project overbudget due to redesign for planning.
	Early Years - White Rock Primary Nursery	Project complete. Small retention to be paid Jan 2019. Building Regulation issue still to be resolved
	Education Review Projects	Resources earmarked for future secondary school expansion. Options/feasibility work underway.
	Healthy Pupils Capital Fund	Agreed programme underway. Various works.
	Medical Tuition Service relocation	Awaiting planning decision in Jan 2019. Start on site March. Completion by 1st Sept.
	New Paignton Primary school	Council contribution. Awaiting invoice from ESFA.
	Roselands Primary Bulge Classroom	Awaiting planning decision in Jan 2019. Start on site Feb/March. Completion by 1st Sept.
	Secondary School places	Project complete. Final account agreed and project below budget. School contribution reduced from £225k to £100k
	Special Provision Fund	Action plan detailing agreed investment published. Year 1 projects underway.
	Torbay School Relocation	Feasibility underway. Update report to Members Jan 2019. Works to start Summer 2019.
Working towards a more prosperous Torbay		
PB	Claylands Redevelopment	Successful building tenderer to be appointed in New Year, when lease agreed and work will commence on site.
	DfT Better Bus Areas	Budget reinstated pending review of potential usage.
PB	Edginswell Business Park	Site now purchased.
PB	Employment Space	Scheme completed and tenant in occupation
PB	Investment Fund	Nine sites acquired with one other at 'exchanged contracts' stage. Others opportunities being considered.
	Land acquisitions from TCCT	Expected to acquire sites in Feb 2019
	Land Release Fund projects	Schemes at 3 locations to enable land to be released for future housing developments - budget and costs now initially in revenue.
PB	NGP - Torbay Innovation Centre Ph 3 (EPIC)	Work is progressing well. The building is weather tight and remains on programme to open in April 2019. Works are currently focused on the internals and M&E elements.

Capital Plan Projects		Project status report
PB	= <i>Approved Prudential Borrowing schemes</i>	
PB	Oxen Cove Landing Jetty	Still awaiting MMO licence to commence works: expected by Feb 19
PB	South Devon Highway - Council contribution	Post construction costs
PB	TEDC Capital Loans/Grant	Funds available to draw on as required by TEDC to finance capital schemes
PB	Town Centre Regeneration Programme	Harbour View hotel development now part of Town Centre regeneration and incurring expenditure
	Transport Integrated Transport Schemes	Fleet Street Complete, works in connection with approved Business Cases under way
	Transport Structural Maintenance	Surface Dressing Programme complete, Resurfacing and reconstruction programme is well advanced
	Transport - Torquay Gateway Road Improvements	Shiphay Lane to Lowes Bridge land acquisition being progressed
	Transport - Torquay Town Centre Access	Works complete pending final inspection
	Transport - Tweenaway Junction	Noise compensation claims nearing completion
	Transport - Western Corridor	Brixham Road Widening continuing, Windy Corner Improvement due to commence in early 2019
Ensuring Torbay remains an attractive and safe place to live and visit		
	Babbacombe Beach Road	Awaiting progression of Developments
	Brixham Harbour - Breakwater structural repairs	Contractors on site early Dec; stoneworks will commence late Dec with est. project finish date May 19
	Brixham Harbour - Fendering	Parts ordered and awaiting delivery. Est. completion date March 19
PB	CCTV equipment	The project has been implemented more slowly than planned due to unforeseen third party building issues, that have need to have lease agreements in place, and the loss of Victoria Car Park as a key staging post for the wireless system, which has meant that Paignton and Brixham are being re-designed.
	Clennon Valley Sport Improvements	Order placed for some works
	Flood Alleviation - Cockington	Detailed design works underway. Further grant in aid funding from EA was claimed in December 2018. Works will be tendered in January 2019 and commence on site late February/early March 2019. All works should be completed by end of December 2019 (please note no works will be carried out during the ,main tourist season).
	Flood Alleviation - Monksbridge	Detailed design works completed. Further grant in aid funding from EA was claimed in December 2018. Works are to be tendered in January 2019 and will commence on site in February 2019. All works should be completed by end of October 2019.
PB	Freshwater Cliffs Stabilisation	All works completed.
	Hollicombe Cliffs Rock Armour	Retention money now paid, invoices received from Royal Haskoning and these have been paid in December. The compensatory work requested by Natural England have been agreed and the cost of these has now been paid to TCCT .
	Libraries Unlimited ICT upgrades	Required for Library ICT upgrades - replacement of un supported kit
PB	Paignton Harbour Light Redevelopment	Rent negotiations being reviewed in light of recent site visit by prospective tenant. Expect plans to be submitted to Development Management in Jan 19
PB	Parkwood Loan re Torbay Leisure Centre	Project due for completion in February 2019
	Princess Gardens Fountain	Project completed, over budget but additional funds (Section 106) to be agreed to be transferred into project.
	Princess Pier - Structural repair (with Env Agency)	Majority of works planned this year are already complete. The final section of work to apply the protective coatings to the steel supporting frame above the water level is ongoing and is approximately 75% complete. All works this financial year should be completed by the end of February 2019. Please note that the cost of the Beacon Quay decking (£82,047.70) is included within these figures.

Capital Plan Projects		Project status report
PB	= <i>Approved Prudential Borrowing schemes</i>	
PB	Public Toilets Modernisation Programme	Refurbishment of several toilet blocks has commenced and a clear project plan is in place. We would not anticipate any change in the set budget although some works timing is linked to obtaining planning consent.
	Torre Abbey Renovation - Phase 2	Final draft of monograph has come in, there are a few minor amendments before finally concluded.
	Torre Valley North Enhancements	These funds need to be reallocated and consideration might be given to ring-fencing their future use for abnormal costs related to sports leases.
	Torquay Harbour - Beacon Quay decking	Project completed - see also Princess Pier note.
Protecting and supporting vulnerable adults		
	Adult Social Care	Project(s) still to be identified although proposals are being discussed.
	Affordable Housing	Initial investigation work underway at some appropriate sites
PB	Housing Rental Company - Loan	Finance approved to help establish and resource Housing Company
	Housing Rental Company - Affordable Housing development	Funds for necessary works to obtain planning permission on Council sites.
	Disabled Facilities Grants	Statutory provision of financial assistance for adaptations to private residences enabling independence for recipients
Corporate Support		
PB	Corporate IT Developments	Required for Corporate hardware replacements
PB	Council Fleet Vehicles	Balance of funding available for acquisition of Council's fleet vehicles as required. Consideration will need to be given to replenishing this fund in future years and thought should also be given to allocating the borrowing and running costs to the operational service areas to help drive a culture of cost control.
PB	Essential Capital repair works	Consideration will need to be given to replenishing this fund in future years.
	Enhancement of Development sites	Budget to enable moderate expenditure to enhance value of potential sites.
	Flexible Use of Capital Receipts	Government has introduced flexibility to allow use on transformative projects which produce ongoing savings
	Office Rationalisation Project - Electric House refurbishment	Works to update office accommodation are largely complete. Some residual costs to pay.
	Payroll Project	The budget is still required to implement outstanding modules which includes Recruitment and HR Case Management. Progress has been slow in 2018 due to resources generally in the Payroll Team, but it is hoped that the last remaining modules will be implemented in the early part of 2019, or work will commence as a minimum.
	General Capital Contingency	Contingency for unforeseen emergencies or funding shortfalls



Meeting: Overview & Scrutiny Board **Date:** 30 January 2019

Council **Date:** 7 February 2019

Wards Affected: All

Report Title: Capital Strategy 2019/20

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

1. Proposal and Introduction

- 1.1 The Council has a statutory responsibility to comply with the CIPFA Prudential Code (revised December 2017) which is the “proper practice” document linked to the Local Government Act 2003. Part of this compliance is to approve a Capital Strategy.
- 1.2 The 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.
- 1.3 The revised Prudential Code places more emphasis on the risks associated with Council capital activities in particular the higher risks associated with more commercial activities and requires the Chief Finance Officer to “report explicitly on the affordability and risks associated with the capital strategy”.
- 1.4 In accordance with the Council’s Constitution, the Capital Strategy is required to be approved on an annual basis.

2. Reason for Proposal

- 2.1 The Council has a responsibility to approve a Capital Strategy each year.

3. Proposal

Overview and Scrutiny Board

3.1 That the Capital Strategy be reviewed.

Council

3.1 That the Capital Strategy be approved

4. Supporting Information

4.1 The Capital Strategy is an overarching document. There are clear links to other documents such as

- Treasury Management Strategy – the operational plan for management of treasury activities including borrowing.
- Asset Management Plan – the operational plan for management of assets
- Capital Plan and quarterly Budget Monitoring – the key documents for the financial reporting on the capital plan, both its expenditure and funding.

Appendix 1 – Capital Strategy



CAPITAL STRATEGY
& CAPITAL RECEIPTS STRATEGY

Review JANUARY 2019

CONTENTS

1. Introduction
 2. Guiding Principles
 - 2.1 Approaches to Borrowing
 - 2.2 Long Term Liabilities
 - 2.3 Grants
 - 2.4 Capital Receipts and Capital Contributions
 - 2.5 Capital Receipts Strategy
 - 2.6 Revenue and Reserves
 - 2.7 Prioritisation and Approval
 - 2.8 Affordability and Sustainability of Proposals
 - 2.9 Management and Monitoring of Capital Plan
 - 2.10 Alternative Funding and Delivery Opportunities
 - 2.11 Investment Opportunities
 - 2.12 Loans for capital purpose
 - 2.13 Asset Disposal Strategy
 - 2.14 Capital expenditure and assets held by subsidiary companies
 - 2.15 Training and Skills
 - 2.16 Treasury Management Implications
 3. Head of Finance's Statement on Delivery, Affordability and Risk of Capital Strategy
-
- Appendix 1 - Summary of Assets financed from borrowing
- Appendix 2 - Definition of Capital Expenditure
- Appendix 3 - Capital Reserve List – December 2018

1. Introduction

A Capital Strategy is a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

This Strategy is based on principles of the Prudential Code for Capital Finance in Local Authorities (December 2017). The key messages from the Code is, in relation to capital expenditure, the consideration of Prudence, Affordability and Sustainability.

The Capital Strategy therefore 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.

Inevitably the full picture of the control system around the Council's wide range of capital expenditure and its funding is reflected in a range of documents, monitoring and management arrangements. A summary of five key aspects of capital activities are shown in the table below

Capital Expenditure	Debt and Borrowing Treasury Management (TM)	Commercial Activity	Other Long-Term Liabilities (e.g PFI schemes)	Knowledge and Skills
<ul style="list-style-type: none"> •strategic service plans + asset management plans + capital strategy •pipeline process •capitalisation rules •long-term forecasts •basis of estimating future costs and sensitivity to risk 	<ul style="list-style-type: none"> •projections of external debt and internal borrowing •how debt will be repaid •authorised limit and operational boundary •how TM decisions are made and how they are scrutinised 	<ul style="list-style-type: none"> •dependency of budget on commercial activity •policies for approval and scrutiny •on-going management •implications of borrowing 	<ul style="list-style-type: none"> •identification and approval •on-going monitoring 	<ul style="list-style-type: none"> •knowledge and skills available •use of advisers •training plans
Key Documents				
Capital Strategy	Treasury Management Strategy	Capital Strategy	Treasury Management Strategy	Treasury Management Strategy
Asset Management Plan	TM Mid-Year Review	Investment and Regeneration Strategy	Statement of Accounts	
Council Reports	TM Outturn Report	Capital Budget		

Housing Committee Reports	Revenue Budget	Revenue Budget		
Capital Budget	Medium Term Resource Plan	Medium Term Resource Plan		
Quarterly Budget Monitoring Reports		Statement of Accounts		
Statement of Accounts				
Key Committees and Meetings				
Council	Audit Committee	Audit Committee	Audit Committee	
Housing Committee	Council	Investment and Regeneration Committee		
Capital & Growth Board				

Capital investment is technically described as: **Expenditure on the acquisition, creation, or enhancement of ‘non-current assets’ i.e. items of land, property and plant which have a useful life of more than 1 year.** A fuller definition is attached at Appendix 2. Expenditure outside this definition will be, by definition, revenue expenditure.

Most non-current 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 Balance Sheet value (as at 31/3/18) of approx. £445 million, of which £115m are Investment Properties. The outstanding borrowing as at 31/12/18 was £285m with £19m of long term liabilities in relation to PFI schemes.

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 which is the key **operational** asset plan covering repairs and maintenance.

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 capital 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 (such as Housing Committee and Investment and Regeneration Committee).

The Prudential Code was revised in December 2017 and requires authorities to ensure that decisions for capital expenditure and investment plans are made with sufficient regard to the long run financing implications and potential risks to the authority and include effective due diligence.

The Council's 2019/20 Treasury Management Strategy recognises the potential need to take an additional £129m of borrowing (net of MRP) to support a number of capital projects, potentially increasing the Council's overall debt (excluding PFI liabilities) to be in excess of £423m.

Based on current economic forecasts a borrowing cost of 3% should be assumed for new borrowing in 2019/20.

A summary of the Council's current and projected borrowing position identifying the approved schemes that have/will resulted in the 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 on Council Tax). However the Council has changed its risk appetite in the past two years and is now approving a significant 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 repairing the asset to the overall economy of the Bay. The cost of such borrowing falls on the tax payer through payments of debt interest on the Council's revenue account and repayment of debt over a specified period of time. There may still be a need for such borrowing but each proposal should be reviewed on a case by case basis with the project evaluation clearly stating how the borrowing is to be afforded. Given the significant ongoing financial challenges facing this Council over the next few years it is likely that such schemes will be an "exception".

2.2 Long Term Capital Liabilities

The Council can also finance capital expenditure by means of a long term PFI contract, whereby the a private sector company will build and then supply an asset (usually) with services as well) back to the Council for a specified number of years. At the end of the contract the asset transfers to the ownership of the council. The value of the asset and the associated liability over the life of the contract to fund that asset is reflected on the Council's balance sheet. As with borrowing, any decisions on agreeing contracts that result in a long term liabilities are made with sufficient regard to the long run financing implications and potential risks to the authority and include effective due diligence.

Council's may also lease in assets for service delivery rather than purchase. Depending on the lease terms, including the length of lease, these assets and the associated liability over the life of the lease to fund that asset is reflected on the Council's balance sheet. Changes in International Financial Accounting Standards (IFRS16) in relation to lease recognition from 2020/21 (with a restated comparative year of 2019/20) may result in more leased in assets and liabilities being reflected on the Council's balance sheet.

2.3 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 un-ring fenced 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.

Any un-ring fenced capital grants received will be reported to Council. The presumption is

that the grants will be allocated in line with the service intentions of the identified government body awarding the grant, however Council has the option to reallocate. Once capital grants have been allocated to a specific service, individual schemes within that allocation are subject to each individual scheme being approved by the relevant Director in consultation with the 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 with the Executive Lead for Finance 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.

2.4 Capital Receipts and Capital Contributions

The Council receives capital receipts and capital contributions from:

- Asset Disposals
- Right to Buy Clawback
- S106 and Community Infrastructure Levy (CIL)
- Repayment of loans for a capital purpose

Asset Disposals

The 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 to support previously incurred expenditure 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.

The Council can, by approval, transfer or dispose of assets at below market price for service purposes but this is on an exception basis and the full implications of not achieving market value needs to be considered.

Asset Disposals at nil consideration or below market value

In considering asset disposals, the Council will comply with its 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. 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 approved Housing Strategy, although this policy could be reviewed to provide additional resources for projects in other service areas.

S106 contributions and Community Infrastructure Levy (CIL)

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 line with Council’s capital scheme priorities.

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 that has not yet been met. 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 approved by full 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.

2.5 Capital Receipts Strategy

DCLG have revised their 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 and subsequently extended in December 2017 to March 2022. This 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 full Council. By approving this document Council will be approving this flexibility to be used as appropriate 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”.

2.6 Revenue & 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. However the Council would be able, subject to the approval of the Head of Finance, to use prudential borrowing to replace any revenue or reserve funding used or proposed to be used. This will result in a **one off** return of revenue funding to the Council’s revenue budget offset by higher MRP and interest costs to fund the prudential borrowing costs in future years.

2.7 Prioritisation and Approval

It is always difficult to make choices between competing priorities within a top tier Council that delivers so many varied services. It is the responsibility of senior officers and members to consider and prioritise the competing demands for capital resources in the context of the limited central government funding now awarded.

The Council maintains and reports on a rolling four year capital plan (including its funding) that is updated and reported to Senior Leadership Team and Members on a quarterly basis. The capital plan will include any capital expenditure approvals by Council in the previous quarter.

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

- 1) A service can submit a capital business case for consideration by the Head of Finance and the officer Capital and Growth Board at any stage of a financial year. The capital business case will be linked to that service’s needs. A Capital Reserve list is maintained and updated on an annual basis for inclusion in the Capital Strategy.
- 2) For a specific scheme to be approved/funded there will be a requirement for a detailed capital business case. The capital business cases are to be initially submitted to both the Head of Finance and the officer Capital and Growth Board prior to wider consultation with the Council’s senior leadership team and the Executive.

If a scheme is to be funded from (previously approved by Council) allocations the scheme will be approved as stated in the approval or, if the approval process not stated, by the Chief Executive in consultation with the Executive Lead for Finance and Head of Finance and progressed when funding confirmed or,

if new (confirmed) funding is to be used for a scheme to be funded by, say, a specific grant and if the scheme is supported by the Chief Executive, in consultation with the Executive Lead for Finance and Head of Finance, it will be reported to Council.

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 are subject to each individual scheme being approved by the Chief Executive in consultation with the Executive Lead for Finance.

- 3) Proposals for invest to save or self-financing schemes, (usually financed from prudential borrowing), will also require a detailed capital business case. The capital business case are to be initially submitted to the Head of Finance and the officer Capital and Growth Board. If the scheme is supported it will be recommended to Council for approval.
- 4) Any recommendations for schemes to be approved by Council will be included in the next quarterly Capital Plan Update Report.
- 5) Other schemes that do not require financial support but include the use of Council assets as a Council contribution to a scheme will also be subject to the Council's approval process.
- 6) 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.
- 7) Where specific approval process has been set up and approved by Council e.g. Investment and Regeneration Committee or Housing Committee that process will apply.

2.8 Affordability and Sustainability of Proposals

The Capital Business Case will identify the projected running costs and financing costs of the relevant asset and assessed the affordability of the proposals both for the initial investment and over the life of the asset. In all cases the capital expenditure and any ongoing costs must be sustainable in relation to the Council's medium term financial plans.

For existing assets the Asset Management Plan will identify the projected running costs and financing costs of the asset and assessed the affordability of the asset over its asset life.

Where an asset is directly linked to generating an income or rental stream, such as an Investment Property, the initial Capital Business case (or Council report) will need to consider the future risks to those revenue returns and how these will be mitigated. This may result in the creation of an earmarked reserve for both income volatility and future asset related expenditure.

2.9 Management and Monitoring of Capital Plan

The key objective of the Council's management and monitoring of the Capital Plan is to ensure that all Members have visibility of the capital plan and the approval of individual capital projects to encourage collective responsibility for the capital expenditure on a project and the success of the schemes themselves.

Arrangements to include:-

- 1) Overview and Scrutiny Board and Council will receive 3 quarterly monitoring report and one outturn report each year.
- 2) A Capital budget for forthcoming year will be part of each financial year's budget proposals
- 3) Committees set up for specific purposes to receive update reports
- 4) A newly established (Nov 2018) officer Capital and Growth Board now reviews the

Council's Capital Plan and the governance arrangements associated with its various projects

- 5) Senior Leadership Team and the Executive to have responsibility for the oversight and challenge on the delivery of the capital plan including slippage and outcomes.
- 6) The capital business cases are to be initially submitted to both the Head of Finance and the officer Capital and Growth Board prior to wider consultation with the Council's senior leadership team and the Executive.

2.10 Alternative Funding and Delivery Opportunities

As Council capital funding is reduced the Council will continue to consider other methods of supporting capital expenditure within the Bay, using alternative funding, such as social investment, private sector finance and third sector funding or by other bodies delivering capital schemes instead of the Council.

The Council 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 work with other bodies to secure capital investment or consider use of its own assets in a development, but restricts schemes to those which support corporate priorities or statutory service objectives and where it can be proved that the project is sustainable, and requirements for match-funding and future revenue consequences have been considered and approved along with an assessment of the opportunity costs of alternative options. All schemes are to be agreed with the Executive Lead for Finance and Head of Finance prior to submission and/or contractual commitment.

2.11 Investment Opportunities – Non Treasury Investments

Linked to its approach to borrowing and the Council's Investment and Regeneration Strategy the Council will consider, if the opportunities arise and there is a "multiple benefit", 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. CIPFA has classified investment properties as a Non Treasury Investment for reporting purposes and included in the Treasury Management Code of Practice.

The Council will continue to review the guidance associated with this activity. In October 2018 CIPFA released a 'Statement on Borrowing in Advance of Need and Investments in Commercial Properties' expressing concerns in relation to the acceleration of the practice of borrowing to invest in commercial properties and in particular the proportionality in relation to an authority's resources.

<https://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/treasury-and-capital-management-panel>

The risks associated with investment properties and the Council's strategy in mitigating these risks are outlined and described in the Council's Investment and Regeneration Fund Strategy. The Strategy envisages proposals in two categories:

1. Investment opportunities that deliver both a financial return to the Council and a benefit, improvement or development of the area – 'Investment Opportunities,'
2. Regeneration investment opportunities that deliver significant regeneration benefits to the area – 'Regeneration Investment Opportunities.'

<https://www.torbay.gov.uk/council/policies/corporate/investment-strategy/>

The Council's Treasury Management Strategy Statement also includes references to the monitoring and reporting of the Council's Non Treasury Investments (NTI).

2.12 Asset Disposal Strategy

Purchases of assets by the investment fund are primarily to be retained in the long term. However the benefit of selling the assets will be regularly reviewed by Head of Business Services in consultation with the TDA Head of Estates for potential disposal at which point any outstanding debt will be repaid. The review will need to consider the resulting impact on the Council's revenue budget from the lost income stream and any costs of disposal.

2.13 Loans for Capital Purposes

Loans for a capital purpose can also be approved by full Council subject to a business case and due diligence on the borrower 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 parties 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.

2.14 Capital expenditure and assets held by wholly owned subsidiary companies

The Council has overall control of these entities and therefore is ultimately responsible for the companies' assets and liabilities. The controls of any subsidiary's activities are controlled by the Council's 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 would be 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 quarterly capital monitoring arrangements.

2.15 Training and Skills

The Council needs to ensure that all decisions in relation to capital are properly informed.

Linked to the Treasury Management Strategy a list of officers and members and their relevant qualifications and training undertaken will be maintained. Training will be provided as required.

In relation to skills the Head of Finance, Monitoring Officer and Executive Head of Business Services will ensure that the appropriate expertise is always resourced in relation to any financial, legal and asset related due diligence required.

2.16 Treasury Management Links

All capital decisions to be funded by prudential borrowing will directly impact on the Council's Treasury Management activities. The level and timing of the capital expenditure will be reflected in the capital plan once approved and in the strategic cash flow forecasts to plan

for the required borrowing. The resulting costs (Interest and MRP) and any income to fund those costs will be included in the standard budget monitoring and budget setting process. Total borrowing will also be monitored by the annual setting of both the Operational and Authorised Limits (for borrowing).

2.17 Balance Sheet Issues

The impact of capital projects and any prudential borrowing used have an impact on the Council's balance sheet.

- 1) Increase in the value of the Council's non-current assets
- 2) Increase in the value of Council's long term debtors (if capital loan provided)
- 3) Increase in the Council's long term borrowing
- 4) Maturity profile of borrowing and repayment of borrowing
- 5) Profile of capital loan repayments
- 6) Increase/decrease in Capital Financing Account (CFA) by new borrowing offset by MRP.
- 7) Annual depreciation on operational assets
- 8) Annual revaluation or impairment on operational assets
- 9) Annual valuations of investment properties
- 10) Impact on Council's cash flow in delivery stage or on purchase
- 11) Impact on Council's cash flow at time of borrowing

The value of non-current assets should always exceed the value of the outstanding liabilities. In addition the value of the outstanding liabilities should not exceed, in the medium term, the Capital Financing Requirement (which is the measure of a Council's underlying need to borrow).

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 (December 2017) and as "proper practice" must be adhered to. The following extracts from the Code summarise the Code's approach to level of borrowing (self-regulating) and the governance that should apply.

"the local authority shall ensure that all its capital and investment plans are affordable, prudent and sustainable.

'A local authority shall determine and keep under review how much money it can afford to borrow.'

"the level of capital investment that can be supported will, subject to affordability and sustainability, be a matter for local discretion"

3.2 Torbay Council Borrowing Position - Note: PFI transactions have been excluded.

All borrowing	As at 31.12.18	Projected 31.3.21
	£m	£m
External Borrowing	285	423
Interest and repayment of principal costs	15	24

Interest repayment cost as a % of net revenue budget	14%	22%
--	-----	-----

Investment Fund Purchases only	As at 31/12/18	Projected 31/3/21	10% sensitivity On Asset value and income
	£m	£m	£m
External Borrowing	152	200	
Interest and repayment of principal costs	6	8	
Rental Income from Investment Properties	(9)	(12)	1.2
Estimated Value of underlying assets for prudential borrowing	144	189	(18.9)
Interest and repayment cost as a % of net revenue budget	5%	7%	
Interest and repayment cost net of investment properties as a % of net revenue budget	(3)%	(4)%	

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 £1.2m pa.
2. Value of underlying asset decreases by 10%. Assuming £200m invested, balance sheet value will fall of £18.9m.
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 borrowing position

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 investment properties these are more sensitive to the market fluctuations identified above. A MRP is applied to repay the borrowing over the estimated asset life (up to the maximum 50 year asset life identified in the MHCLG Statutory Guidance). An Investment Fund reserve is used (funded from rental income) to mitigate against future income volatility on these assets.

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 £24m by 2021, 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 Head of Finance Report

Within the 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 project supported by each project having a client officer and an project manager who are responsible for the delivery of the project (appropriate skills, contracting, planning etc.) and the subsequent achievement of the objectives of that project.

Members, via Overview and Scrutiny and Council receive quarterly updates to the capital plan. These updates are driven by the requirement by 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 project 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 be included in the following years 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 both 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.

For any new borrowing, and this is a greater risk as the value of borrowing increases, this does increase the councils overall liabilities that will need to be repaid in the future. 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 £423m and ongoing fixed costs of approx. £24m per annum by 2021. This is a clear risk that all members need to be aware of.

However this risk for all assets 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 (Investment and Regeneration Committee and Council) which has included member training, second opinion on asset values, due diligence, site visits, surveys etc.

There are risks (and rewards) associated with the purchase of this type of assets, therefore all members need to have sight of, and understand the risks and rewards inherent in these commercial investments.

Conclusion

The current system of borrowing is still a self-regulatory system which means that responsibility for borrowing decisions, and the level of borrowing incurred by a Council are determined at a local level. In particular elected members have a key role.

“..the responsibility for decision making and ongoing monitoring in respect of capital expenditure, investment and borrowing, including prudential indicators, remains with full Council”. Prudential Code December 2017

The Head of Finance’s personal view is that borrowing decisions result in a long term commitment to fund that borrowing, and that all decision making should be as transparent as possible both all Members and the residents of Torbay.

The pace and level of change in the council’s borrowing is significant. The Council’s position by the end of 2020/21 could be £423m of borrowing, with a £24m ongoing revenue cost and £12m of rental or interest income from Investment Fund activities. Therefore all members need to be fully informed as to all implications of its capital investment decisions, in particular those funded from borrowing.

Summary of Assets funded by Council Borrowing

Appendix 1

Investment Fund purchases shaded

	Net Debt on Asset	Total Repayment period	Annual Interest and Repayment Cost	Income Stream or saving to cover Debt
	£m (rounded)	years	£m	
DCC Transferred Debt from 1998	19	50	1	
Supported Borrowing – mostly schools and transport spend from 1998 to 2010.	73	50	5	
Sub Total:	92		6	
Individual Schemes funded or part funded from borrowing (>£1m rounded)				
Beach Chalets	2	10/25		Yes
Brixham Regeneration	4	40		Yes
Car Parks	1	25		No
Haldon pier	2	25		No
Inner harbour pontoons	1	25		Yes
Office Rationalisation	7	25		Yes
Paignton Library	3	40		Yes (Part)
Princess Promenade	2	25		No
South Devon Highway	15	40		No
Street Lighting	1	4		Yes
Toilets	1	25		No
Torquay Town Dock	1	25		Yes
Capital loan – TDA, Kings Ash House	2	25		Yes
Wren Park – Investment	21	50		Yes
Ferndown – Investment	27	50		Yes
Gadeon House – Investment	17	50		Yes
Fugro House – Investment	21	50		Yes
Capital Loan - South Devon College	4	100		Yes
Capital Loan – Care Home	1	25		Yes
Employment Space – White Rock	7	25		Yes
Medway – Investment	32	50		
Sub Total:	172		9	
Total Borrowing Requirement – as at 1/4/18 (Actual debt £273m)	264		15	
2018/19 Individual Schemes funded or part funded from borrowing				
Capital Loan – Parkwood Leisure	2	12		Yes
Woodwater House – Investment	10	50		Yes
Twyver House - Investment	13	35		Yes
The Range - Investment	9	35		Yes

Factory Unit Bodmin - Investment	3	35		Yes
Edginswell Business park - Land	3	25/40		Yes
Sub Total:	40		2	
Total Borrowing Requirement – as at 31/12/18 (Actual debt £285m)	£304m		17	
Borrowing approved but not (fully) spent as at 31/12/18				
THAT Group Loan	9	10?		Yes
Amazon, Exeter	15	50		Yes
Hotel, Chippenham	7	35		Yes
Old Toll House	1	35		Yes
Investment Fund to £200m	14	50		Yes
Claylands Redevelopment	8	25/40		Yes
Corporate IT	1	10		No
Edginswell Business park - building	4	25/40		Yes
EPIC	2	25		Yes
Major Structural Repairs	1	25		No
Breakwater, Brixham	2	25		No
Oxen Cove Jetty	1	40		Yes
Paignton Harbour Lights	1	25		Yes
South Devon Highway (Remainder)	3	40		No
Town Centre Regeneration (TCR)	14	25		Yes
Harbour View Car Park – TCR	11	35		Yes
Capital Loan – Housing Company	25	25		Yes
Capital Loan – TDA Paignton Units	2	25		Yes
Toilets – Healthmatic contract	1	25		Yes
Sub Total:	119		7	
Estimated Borrowing Requirement – as at 31/3/21	423		24	
<i>PFI Schemes – EFW & Schools</i>	19			No
Estimated Capital Financing Requirement – as at 31/3/21	442			

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 & property which have a useful life of more than 1 year)

This definition of capital expenditure that the Council has to comply with for the classification and, therefore, the funding of capital expenditure is linked to International Financial Reporting Standards. “Qualifying Capital Expenditure” under 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 01/04/10) is under International Financial Reporting Standards (IFRS) rules. The relevant standard is IAS16 which has the following definition of capital expenditure:

“Expenses that are directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management”.

“Directly attributable” i.e. if building a school – costs linked to the actual construction of the building, not temporary accommodation, moving people around etc.

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 i.e. it is not necessary for the expenditure to improve the condition of the asset beyond its previously assessed standard of performance – the measurement is against the actual standard of performance at the date of expenditure; e.g. if service potential or asset life is increased.

CAPITAL PLAN - RESERVE LIST DECEMBER 2018

Capital Scheme	Ref.	Main Funder	Cost to Council £m
Protecting Children			
PARIS replacement - social care case management	100	TC	1.000
Funding for primary school places in Paignton (beyond existing allocations)	101	TC	1.800
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
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	1.200
Backlog Transport Infrastructure R&M	402	TC	20.000
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 Integrated Transport schemes as per specific planning documents for both these functions

NEWS PROJECTS TO BE ADDED FOR 2018 UPDATE:

Brixham Harbour Regeneration (N Arm breakwater, Fish Quay expansion & pontoon berths)	600	TC	14.000
Crossways, Paignton - purchase	601	TC	tbc
Upton Place - approved scheme not progressed	602	TC	tbc
Waste Vehicles purchase - post TOR2	603	TC	5.000
Investment in former TOR2 services	604	TC	tbc
Ongoing Investment in IT	605	TC	0.500