



Meeting: Overview and Scrutiny Board
Council

Date: 27th January 2016

3rd February 2016

Wards Affected: All

Report Title: 2015/16 Capital Plan Quarter 3 Update including Capital Strategy 2016/17, Capital Plan 2016/17 – 2019/20 and Corporate Asset Management Plan 2015-2019.

Is the decision a key decision? Yes

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1. Proposal and Introduction

- 1.1 The Capital Plan budget totals £99.9 million for the 4 year programme, with £28.6 million currently scheduled to be spent in 2015/16, including £11.7m on the South Devon Highway. The Capital Plan currently requires £2.2 million from capital receipts and capital contributions over the life of the Plan.
- 1.2 The Council's Capital Plan is updated on a quarterly basis which includes any new funding announcements and allocations. It provides high-level information on capital expenditure and funding for the year compared with the last Plan update as reported to Council in December 2015, relating to Quarter 2 position.

2. Reason for Proposal

- 2.1 Quarterly reporting to both the Overview and Scrutiny Board (OSB) and to Council is part of the Council's financial management.
- 2.2 For Council to approve the 2015/16 quarter three position as its Capital Plan 2016/17 – 2019/20 and Capital Strategy 2016/17 as part of the 2016/17 budget process.
- 2.3 There are a number of new capital projects recommended for approval which both aim to generate future income for the council or aim to provide funding over the next four years for some essential capital projects.

3. Recommendation(s) / Proposed Decision

Overview & Scrutiny Board

- 3.1 That the latest position for the Council's Capital expenditure and funding for 2015/16 be noted and that the Board make recommendations, if required, to Council in respect of Quarter Three monitoring.
- 3.2 That, as part of the budget setting process for 2016/17; the Board review the Capital Strategy, Capital Plan and Corporate Asset Management Plan Strategy and make recommendations to the Mayor, if required, prior to Council approval of those Plans and Strategy for 2016/17 in February 2016.

Council

- 3.3 That the latest position for the Council's Capital expenditure and funding for 2015/16 be noted.
- 3.4 That 2016/17 Capital Strategy (set out at Appendix 1) be approved.
- 3.5 That prudential borrowing of £10 million for an Investment Fund to enable acquisition of properties for investment purposes to be funded from future rental income be approved and that purchases within the Fund to be subject to specific criteria:
- Rate of Return expected to exceed 6% per annum net of costs
 - Property assessed as an asset life in excess of 50 years (or repayment period)
 - Tenants assessed as reasonable credit quality and pre lets agreed if possible
 - Independent valuation of asset to support purchase price
 - Any UK property to be considered subject to no more than 50% in any county area.
 - Any sale proceeds of assets purchased to be reinvested in fund.

and that the allocation of the Fund, if the criteria is met, be agreed by Executive Director of Operations and Finance in consultation with the Chief Finance Officer and the Mayor.

- 3.6 That prudential borrowing of £3 million for essential capital repair works be approved with the cost of borrowing to be included in future year revenue budgets and that the allocation of the budget be agreed by the Executive Head – Business Services in consultation with the Chief Finance Officer and the Mayor.
- 3.7 That prudential borrowing of £0.350 million to upgrade and update the Council's CCTV equipment be approved with the cost of borrowing to be included in future year revenue budgets offset by any future external contributions and any resulting revenue savings.
- 3.8 That prudential borrowing of £1.0 million for an IT Investment Fund for 2016/17 to 2019/20 be approved with the cost of borrowing to be included in future year revenue budgets and that the allocation of the Fund be agreed by Executive Director of Operations and Finance consultation with the Chief Finance Officer, the Executive Head – Customer Services and the Executive Lead for Customer Services.
- 3.9 That the capital budget for the Disabled Facilities Grant reserve of £0.398m (from prior year underspends) be allocated to support capital “invest to save” initiatives in both children's and adult social care to support vulnerable members of the community.
- 3.10 That the reallocation of £0.5m within the existing schools capital allocation to provide two mobile accommodation buildings at Paignton Community Sports Academy be approved to meet an immediate need for pupil places.
- 3.11 That the allocation of £0.350m to improvements at The Strand in Torquay in line with the proposed Corporate Plan Delivery Plans be approved and that the Council determine whether this is funded from:
- Option 1: prudential borrowing where the cost will be included in future year revenue budgets; or
- Option 2: the Comprehensive Spending Review Reserve.
- 3.12 That the Council will not take up the option in 2016/17 of using capital receipts to fund one off revenue costs of transformation to meet future budget reductions.
- 3.13 That, subject to approval of 3.5 to 3.12 below, the budget forecast for 2016/17 to 2019/20 at Appendix 2 be approved as the Capital Plan.
- 3.14 That the Corporate Asset Management Plan for 2015 – 2019 (as set out in Appendix 4) be approved.

4 Supporting Information and Impact Assessment

- 4.1 Members of the Overview and Scrutiny Board and Council receive regular budget monitoring reports on the Council's Capital Plan throughout the year. The Council's four year Capital Plan is updated each quarter through the year. This report is the monitoring report for the third quarter 2015/16 and includes variations arising in this quarter to the end December 2015. For the purposes of Standing Order F3 in relation to Budget and Policy Framework, this report also sets out the Mayor's proposals for revisions to the Capital Plan and the Capital Strategy as part of the 2016/17 budget setting process.
- 4.2 Supporting Information on the capital issues facing the Council were included along with the Capital Strategy as part of the Quarter Two Capital Plan Update report presented to Overview and Scrutiny Board and Council in November 2015. This supporting information is included again at Appendix 3.
- 4.3 The overall funding position of the 4-year Capital Plan Budget of £99.9 million, covering the period 2015/16 – 2018/19, is primarily fully funded but still relies upon the generation of £2.2 million of Capital income from capital receipts and capital contributions over the life of the Capital Plan.
- 4.4 Of this £2.5m, £2.0 million was required from capital receipts before the end of the current Plan period. Of this sum £0.3 million has been received by the end of December 2015, leaving a balance of £1.7 million still to be realised. It is only after this target has been reached that any capital receipts should be applied to new schemes.
- 4.5 The other element of this £2.2m funding requirement, involves £0.5m required from capital contributions including community infrastructure levy which is expected to be approved during 2016.
- 4.6 The movements in the estimate of expenditure in 2015/16 on the Capital Plan between the last monitoring report at September 2015 of £30.2m and the latest budget for 2015/16 of £28.6 m are shown below.

Scheme	Variation in 2015/16	Change £m	Reason
Estimate as at Q2 2015/16		30.2	Capital Plan Update, 2015/16 Quarter 1
Joint Commissioning Team			
Childrens' Services			
2 Year Old Provision	Part Budget rephased to 2016/17	(0.1)	Priorities to be determined
Brookfield Project	Rephasing to 2016/17	(0.3)	Delays resulting from later land acquisition
Capital Repairs and Maintenance 15/16	Part budget to 2016/17	(0.1)	Some works to commence in Easter holidays
Devolved Formula Capital	Part budget to 2016/17	(0.1)	Some schools do not require funds in 2015/16
Education Review	Budget re profiled to 2016/17	(0.1)	Timing of likely expenditure reviewed
		(0.7)	
Joint Operations Team			
Community and Customer Services			
Torre Abbey Ph 2	Budget moved to 2016/17 and saving	(0.1)	Scheme saving and small budget to 2016/17
Transport - Edginswell Station	Additional budget	0.1	Funding to complete initial design work
Western Corridor	Budget re profiled to 2016/17	(0.8)	Latest forecast is that some of this scheme will be now be incurred in 2016/17.
		(0.8)	

Corporate and Business Services			
Torquay Inner Harbour Pontoons	New scheme	0.1	Provide additional berths
Fleet Purchases	Budget re profiled to 2016/17	(0.2)	No plans to purchase fleet in quarter four.
		(0.1)	
Estimate – Quarter Three 2015/16		28.6	

5.0 2016/17 Capital Strategy and Corporate Asset Management Plan

- 5.1 The proposed capital strategy is attached at Appendix 1. There are two significant changes in strategy, both of which are linked in part to feedback from the recent Corporate Peer Review.
- 5.2 Firstly there is an increased priority on capital projects that will generate future income to the Council to support its ongoing viability despite funding reductions.
- 5.3 In addition the strategy is more “open minded” to funding essential capital projects where there is no income stream by spreading the cost over a number of years by means of prudential borrowing.
- 5.4 The Capital Plan supporting information lists a number of projects that have been identified by officers as potential future capital projects. Within the overarching aim of supporting capital projects that will generate future income for the Council, this list will be reviewed and prioritised by the Executive Head of Business Services and reported back to a future meeting of the Council.
- 5.5 The Corporate Asset Management Plan is attached at Appendix 4. This is a key document that outlines the Council’s approach to all aspects of its asset management (excluding transport assets) including leases, disposals and maintenance.

6.0 Efficiency Strategy

- 6.1 As part of the local government finance settlement announced December 2015, councils now have an option of using capital receipts to fund the revenue costs of transformation schemes. Any proposed usage to be included as part of a Council approved “Efficiency Strategy” prior to the start of a financial year.
- 6.2 Precise details of this requirement have, at the time of writing this report, not been issued by DCLG. However due to the Council’s current outstanding capital receipts target of £1.7m to fund previous expenditure this option is not proposed to be used in 2016/17.

7.0 Expenditure

- 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 2. The Plan now totals £100 million over the 4 year period of which £29 million relates to 2015/16 and £41 million relates to 2016/17.
- 7.2 The purpose of this report and the monitoring statement attached is to highlight any existing or potential issues which may affect the delivery of the major projects included in the Plan and to consider any potential effect on corporate resources.
- 7.3 Expenditure to the end of this third quarter was £12.7 million with a further £5 million of commitments on the Council’s finance system. The expenditure of £12.7 million is only 43% of the latest budget for 2015/16. This compares with £10 million (or 49% of outturn) for the third quarter last year. It is recognised that for a number of schemes, notably the South Devon Highway (2015/16 budget £11.7m), the Council will not incur expenditure until later in the year.

	2010/11 £m (%)	2011/12 £m (%)	2012/13 £m (%)	2013/14 £m (%)	2014/15 £m (%)	2015/16 £m (%)
Quarter One	10 (23%)	3 (14%)	2 (11%)	4 (23%)	2 (10%)	1 (3%)
Quarter Two	13 (30%)	7 (32%)	4 (21%)	4 (23%)	4 (20%)	4 (13%)
Quarter Three	9 (21%)	5 (22%)	5 (26%)	3 (18%)	4 (20%)	8 (27%)
Quarter Four	11 (26%)	7 (32%)	8 (42%)	6 (35%)	10 (50%)	
Total In Year	43	22	19	17	20	29

7.4 Updates to Capital Plan

7.5 Joint Commissioning Team

7.6 Affordable Housing – Additional resources of £0.1 million have been added to the 2016/17 budget arising from S106 (Planning gain) contributions received.

7.7 Autism Innovation Grant (£0.018m) – due to the low value of this grant, this capital grant has been allocated to provide resources to enable the service to undertake revenue expenditure.

7.8 Empty Homes - As part of the revenue budget proposals for 2016/17 £0.1m of Right to Buy clawback receipts will be used to fund the 2016/17 (and final) £0.1m contribution to the £0.5m empty homes budget to realise an ongoing revenue budget saving. To the end of December 2015 only £0.040m has been spent.

7.9 Adult Social Care Grant - As part of the revenue budget proposals for 2016/17 £0.3m of the 2016/17 grant allocation will be used to support the revenue budget by exchanging funding with the Council's revenue contribution to the costs of the South Devon Highway to realise an ongoing revenue budget saving.

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

Two Year Old Provision – £0.1m moved to 2016/17 awaiting prioritisation of options.

Brookfield House site - £0.3m rephasing required as a result of delay in land acquisition.

Capital Repairs 2015/16 - £0.1m moved as some tendered works will not commence until Easter 2016.

Devolved Formula Capital - £0.1m rephasing required since not all schools are likely to draw down their funding before year end.

Youth Modular Projects – minor adjustment as priorities are to be agreed.

7.11 Paignton Community Sports Academy - an accommodation issue has arisen unexpectedly at this school. The Council needs to provide some temporary accommodation for this September i.e. two mobiles at an expected cost of £0.5 m. It is planned to reallocate existing funds from the Childrens Services capital programme, and members are asked to approve this alteration.

Joint Operations Team

7.12 Community and Customer Services

7.13 Strand Regeneration – This scheme was approved by Council in September 2015, subject to funding being identified. It is requested that Council approve the allocation of £0.350m to improvements at the Strand in Torquay in line with the proposed Corporate Plan Delivery Plans. Council to determine whether this is funded from prudential borrowing where the cost will be included in future year revenue budgets or from the Comprehensive Spending Review Reserve.

- 7.14 Street Lighting Energy Reduction Phase 2 - a second phase of works to reduce energy consumption and carbon emissions from Highways street lighting has been approved by Council (on 10 December 2015) and added to the Capital Plan in 2016/17. The £1.1m scheme will replace existing lanterns with LED lanterns and will be funded by prudential borrowing and/or Salix funding.
- 7.15 Torre Abbey Phase 2 – there remains an unresolved issue with one of the contractors which could roll into next year. Otherwise there are no outstanding items and there should be a small saving of £0.06m on the scheme.
- 7.16 Transport Structural Maintenance – the Government has announced that part of the future years' funding provided to authorities is to be 'top-sliced' for an Incentive Fund. In effect this portion of funding cannot be guaranteed and will only be available if the Council can demonstrate it is delivering value for money in carrying out cost effective improvements. This element of funding has now been shown on a separate line in the Capital Plan and is not yet secure, pending the Government's assessment of the Authority's banding.
- 7.17 Transport – Invest to Save. To mitigate the impact of reducing revenue funding for highways over the next few years, the Council will seek examples from other Councils to consider a business case for a capital invest to save proposal for investment in the highway network to reduce future revenue costs.
- 7.18 Transport – Edginswell Station. Additional resources of £0.1m have been provided to complete initial design costs for this scheme, partly funded by S106 contributions and partly from Integrated Transport Block. Further funding still needs to be secured before the construction phase of the project can be considered. Since funding is not yet in place, it is unlikely that any construction will begin until at least 2017/18 so the budget has been transferred accordingly.
- 7.19 Transport – Western Corridor. - Following a review of likely expenditure levels £0.8m of the budget has been moved to 2016/17. The Tweenaway Cross to Waterleat Road Scheme was reappraised following more detailed estimates and preliminary design works. This delayed the scheme to be commenced towards the end of this financial year rather than being completed by that time. An interim widening scheme planned for the southbound approach to the Yalberton Road junction was also planned this financial year, however restrictions to comply with Wales and West Utilities requirements meant that the works could only be carried out after major service diversion works were completed and will therefore be carried out as part of the main junction widening in the next financial year.
- 7.20 Disabled Facilities Grants (DFG) – A Council decision is still required regarding the possible reallocation of £0.398 million of prior years' unallocated DFG resources. As a result it is recommended that the capital budget for the Disabled Facilities grant reserve of £0.398m (from prior year unspent DFG funds) is allocated to support capital 'invest to save' initiatives in both children's and adult social care. In relation to the 2015/16 DFG allocation of £1.0m, expenditure on DFGs at the end of December was £0.5 million, with a remaining budget for the year of £0.5m. There is currently no waiting list for grants. It is expected that the service will request that some of the 2015/16 budget to be moved to future years.
- 7.21 CCTV – It is recommended that prudential borrowing of £0.350 million to upgrade and update the Council's CCTV is approved to prevent system failure and realise future year revenue savings on support and maintenance contracts. Cost of borrowing of approx £45,000 per annum for 10 years to be included in future year revenue budgets offset by any future external contributions and reduced ongoing revenue costs.
- 7.22 IT Replacement – It is recommended that prudential borrowing of £1.0 million for a future IT Investment Fund for 2016/17 to 2019/20 be approved. Cost of borrowing of approx £125,000 per annum for 10 years to be included in future year revenue budgets. Allocation of the Fund to be by Executive Director of Operations and Finance in consultation with the Chief Finance Officer, the Executive Head – Customer Services and the Executive Lead for Customer Services. The aim is that this budget will fund the next four years of IT investment. It is likely that the majority of this spend will be used to replace IT licences and equipment as well as investment in new technology to realise revenue savings.

7.23 Corporate & Business Services

7.24 Essential Repair Works – It is recommended that prudential borrowing of £3 million for essential capital repair works fund be approved. Cost of borrowing of approx £210,000 per annum for 25 years to be included in future year revenue budgets. Allocation of the budget to be by Executive Head for Business Services in consultation with the Chief Finance Officer and the Mayor in line with a prioritised list of works. The aim is that this budget will fund the next four years of essential capital works. It is likely that the majority of this spend will be on sea facing structures.

7.25 Claylands Redevelopment –in December 2015 Council approved a project for the proposed redevelopment of Council owned land known as ‘Claylands’ located on the Brixham Road in Paignton using a combination of Council and Heart of the South West Local Enterprise Partnership funding. The LEP have indicated support of £2.5m for site remediation of 10 acres (gross) of brown field land and essential site access and other site infrastructure that is needed to create circa 6 acres (net) of developable employment land. The Council’s investment of £7.5m will come from Prudential Borrowing which will be conditional upon ‘pre-lets’ and further delegated approvals. This will fund the construction of office, factory and/or warehouse premises on Claylands for occupation by third party private sector employers. The scheme has been added to the 2016/17 Capital Plan but is subject to final approval of LEP funding and satisfactory pre letting agreements.

7.26 Council Fleet Vehicles – the Council is unlikely to acquire further vehicles in the current financial year so £0.140m budget is transferred to next year (2016/17).

7.27 Torquay Inner Harbour pontoons – following the successful introduction of mooring pontoons in the Inner Harbour some additional berths will be provided at a cost of £0.050m. It is expected that these could produce income of around £36k per annum. This scheme has been added to the 2015/16 Programme. Other major repair works at Brixham Harbour (£0.090m) and the acquisition of a new Harbour workboat (£0.050m) have also been added to the Capital Plan in 2016/17. All these works will be funded from Harbour Reserves.

7.28 Investment Fund - That prudential borrowing of £10 million for an Investment Fund to enable acquisition of properties for investment purposes to be funded from future rental income be approved. Purchases within the Fund to be subject to specific criteria:

- Rate of Return expected to exceed 6% per annum net of costs
- Property assessed as an asset life in excess of 50 years or repayment period
- Tenants assessed as reasonable credit quality and pre lets agreed if possible
- Independent valuation of asset to support purchase price
- Any UK property to be considered subject to no more than 50% in any county area.
- Any sale proceeds of assets purchased to be reinvested in fund.

The allocation of the Fund, if criteria met, to be by Executive Director of Operations and Finance in consultation with the Chief Finance Officer and the Mayor.

This fund is primarily to focus on projects that will generate future income to the Council to support its ongoing viability despite funding reductions. Regeneration schemes may be included in this category if the criteria are met; however the priority is for the purchase of assets for an investment return. Note rate of return to be defined as a % of purchase costs.

8 Receipts & Funding

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

	2015/16	2016/17	2017/18	2018/19	Total @ Q3 15/16
	A	B	C	D	E
Funding	£m	£m	£m	£m	£m
Unsupported Borrowing	13	19	9	3	44
Grants	13	19	14	4	50
Contributions	1	0	0	0	1
Reserves	0	1	0	0	1
Revenue	1	0	0	0	1
Capital Receipts	1	2	0	0	3
Total	29	41	23	7	100

8.2 Grants

8.3 Capital Grants continue to be the major funding stream (over 60% in last 3 years) for the Council to progress its investment plans. An element of these grants result from “bid” processes from other public sector bodies. The Council used £13 million of grants in 2014/15 and is currently estimating to use £13m of grants in 2015/16.

8.4 Since the last Capital update (Quarter 2 2015/16) reported to Council in December 2015, the Council has not been notified of any additional capital grant allocations.

8.5 Capital Receipts

8.6 The approved Plan relies upon the generation of a total of £2.0 million capital receipts from asset sales by the end of 2016/17 of which £0.3m has been received by the end of December 2015 (no change from last report), leaving a target of £1.7m still to be achieved.

This target is expected to be achieved provided that -

- approved disposals currently “in the pipeline” are completed
- the Council continues with its disposal policy for surplus and underused assets and,
- no more new (or amended) schemes are brought forward that rely on the use of capital receipts for funding.

8.7 The Government has recently announced plans to allow authorities flexibility to use capital receipts received in 2016/17 to 2018/19 to fund the revenue costs of projects designed to reduce future revenue costs and/or transform service delivery. These costs can be treated as capital expenditure (under a specific Government Direction) and can be financed from capital receipts generated in those years. Capital receipts unapplied at 31 March 2016 are not eligible for flexible treatment.

8.8 Torbay Council already has an outstanding requirement to generate capital receipts of £1.7million as noted above, to fund the existing Capital Plan so is unlikely to generate further capital receipts to fund these costs. However where authorities wish to utilise this flexibility, an ‘Efficiency Strategy’ needs to be approved by full Council, including separate disclosure of the individual projects to be funded.

8.9 Capital Contributions – S106 & Community Infrastructure Levy

8.10 The general target for securing capital contributions to fund the 4-year Capital Plan, following review of the Budget in February 2013 was £0.5 million (required by March 2016). In addition the South Devon Highway business case estimated external contributions including s106 payments of £2.1m to help fund the scheme (£0.108m, received since 2014).

8.11 The intention is that capital contributions are applied to support schemes already approved as part of Capital Plan and not allocated to new schemes unless the agreement with the developer is specific to a particular scheme outside the Capital Plan.

- 8.12 Income from Section106 capital contributions so far in 2015/16 only amount to £0.02 million.
- 8.13 A recent Government announcement changed a number of rules relating to Section 106 agreements which now restricts these funds and will mean alternative funding sources may be required to fund some capital schemes, including the South Devon Highway, where £2.1 million of S106 (or CIL) funding was estimated.
- 8.14 In particular, since the South Devon Highway was completed before a CIL scheme was formally adopted, it is unlikely that the necessary funds can be generated for this scheme. This will mean that an alternative funding source will be required, presumably additional Prudential Borrowing. The increased revenue cost of this has been factored into the 2016/17 budget proposals.
- 8.15 It is expected that, linked to the adoption of the Local Plan late in 2015, a Community Infrastructure Levy scheme is due to be approved in 2016.

9.0 Borrowing and Prudential Indicators

- 9.1 There was no borrowing taken or repaid during the quarter.
- 9.2 The Council's capital expenditure has an overall positive impact on the Council's Balance Sheet. Expenditure in the Capital Plan on the Council's own assets will increase the value attached to the Council's fixed assets. As at 31 March 2015 the Council's "Non Current Assets" were valued at £307 million.
- 9.3 Council is being asked to approve Prudential Borrowing for various new schemes as outlined in the table below:

Proposed Scheme	Budget (to be funded by Prudential Borrowing) £m	Reason
Investment Fund	10.00	To fund appropriate property acquisitions to secure future rental stream/capital growth
Essential Capital Repair Works	3.00	Provide funds for essential repairs to assets as required (e.g. including Cliff falls)
CCTV Equipment	0.35	Provide funds to update and upgrade CCTV equipment
Corporate IT Developments	1.00	To enable upgrades and replacements to ICT equipment

- 9.4 The above borrowing, if approved, combined with the approvals for prudential borrowing in relation to Claylands (£7.5m) and Street Lighting (£1.1m) is likely to result the need for the Council to externally borrow funds in the next four years. This potential impact is reflected in the Treasury Management Strategy 2016/17.

Appendices:

Appendix 1 - Capital Strategy, October 2015 (updated Jan 16)

Appendix 2 - Capital Plan summary – Quarter Three 2015/16

Appendix 3 – Capital Plan Supporting Information (updated Jan 16)

Appendix 4 – Corporate Asset Management Plan

