



Appendix Four

Capital Investment Plan 2012/13 to 2015/16

Council – 1st February 2012

1. What we are trying to achieve and the impact on our customers

- 1.1 The Capital Investment Plan is a means by which the Council delivers key parts of its aims and objectives. This report outlines the level of new resources likely to be available for capital spending and their allocation to capital schemes over the next four years in order to achieve some of these aims.

2. Recommendation(s) for decision

That Council on 1st February 2012 approves:

- 2.1 **the Capital Investment Plan for 2012/13 – 2015/16 (Appendix 5)**
- 2.2 **the initial four year indicative allocations of funding to schemes/services for planning purposes to support the Capital Investment Plan 2012/13 to 2015/16 (paragraph A3).**
- 2.3 **the delegation of the approval of specific capital schemes in 2.2 above to the Chief Executive in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer.**
- 2.4 **the Prudential Indicators for 2012/13 (Appendix 6)**

3. Key points and reasons for recommendations

- 3.1 The Council needs to review and roll forward its 4-year Capital Investment Plan to enable forward planning of both the current capital plan and any additional projects for which new funding can be identified. This review needs to consider the demand for new investment, evidenced by the Capital Projects Reserve List and other known issues, compared with predictions of any new resources that may become available in the next 4 years.
- 3.2 It should be noted that the Capital Investment Plan is a rolling four year plan that is updated every quarter for new resources and/or changes to projects and their funding/timing.
- 3.3 The draft Capital Investment Plan was available for scrutiny since December 8th 2011 and was reviewed by the Overview and Scrutiny Board on the 20th

January 2012. This final version of the Capital investment Plan incorporates a number of updates in particular for Childrens services, where the capital allocations for 2012/13 have been announced by the Department for Education.

For more detailed information on this proposal please refer to the supporting information attached.

**Paul Looby
Chief Finance Officer**

Supporting information

A1. Introduction and history

- A1.1 The Capital Investment Plan for 2012/13 – 2015/16 is attached at Appendix 5. This is the Capital Investment Plan as reported for quarter two 2011/12 adjusted for any proposed changes in funding and schemes.
- A1.2 The Plan (including the current financial year and only including government funding where announced) totals £74 million of which £31 million is expected to be spent in 2011/12 and the remaining £43 million is planned to be spent in the 4 years 2012/13 to 2015/16. The Council has not been notified of all allocations of funding for future years and some are indicative only. When funding is confirmed or updated these will be incorporated into the Plan.
- A1.3 The Capital Investment Plan is heavily influenced by the reduced levels of funding for Councils as part of the 2010 Comprehensive Spending Review for both capital and revenue expenditure. Where possible the impact of capital expenditure on the revenue budget, such as from schemes funded from prudential borrowing, will be kept to a minimum.
- A1.4 The Council has fully committed to the South Devon Link Road as a high priority scheme for the Torbay area. As previously approved the Council will fund an £18m contribution to this important scheme. The approval allows for funding to be made from prudential borrowing but other funding sources may be substituted as they come available.
- A1.5 The Council's capital allocations for education are reducing due to the number of schools within Torbay converting to Academy status. The Council is not responsible for the capital repair and maintenance of Academy schools, but remains responsible for the provision of school places, also known as "basic need". The reduced estimate of capital grant over the next four years now reflects a continued growth in the number of Academy schools.

A2 Estimate of Capital Funding

- A2.1 In the absence of all future funding allocations, for planning purposes, a summary of estimated new capital funding, excluding borrowing, over the next four years is as follows:

Estimate - Nov 11	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	Total £m
Capital Grant					
- Allocated/Provisional	5.7	2.1	2.4	0	10.2
- Estimate	0.8	3.7	3.3	5.4	13.2
Capital Receipts					
- Estimate	0	1.0	1.0	1.0	3.0
Contributions					
- S106 Estimate	0.5	0.5	0.5	0.5	2.0
- CIL Estimate	0	1.0	1.0	1.0	3.0
Total	7.0	8.3	8.2	7.9	31.4

- A2.2 No supported borrowing allocations are expected from central government over the Comprehensive Spending Review period. This table excludes any additional grants that may be awarded by central government or other bodies on a “bid” basis and any prudential borrowing schemes approved by the Council over the next four years.
- A2.3 From the table above, for planning purposes, £31m can be used as the total new capital funding available for the next four years to be allocated to schemes, with the caveat that very little has been announced or received beyond 2012/13. (Where the government has previously made an announcement of future year allocations this was already included in the 2011/12 Capital Investment Plan). A prudent estimate has been made for both capital receipts and Community Infrastructure Levy.
- A2.4 Funding will only be added to the Capital Investment Plan when, on balance, the funding is likely to be received. Funding will be recorded in the Capital Investment Plan as an unallocated source of funding until approval for the scheme to commence is given. The government un ring fenced grant funding, as at January 2012, notified but not allocated, is shown as a separate heading within Appendix One. If the estimated funding in the table above is realised then the total Plan for current and future four years could exceed £90 million.
- A2.5 In line with the proposed Capital Strategy “the Council allocates capital grant to projects in line with agreed priorities. Service intentions of the identified government body awarding the grant may be taken into account in determining allocations”.

A3 Initial Four Year Allocation of Funding to Schemes

- A3.1 Based on the estimate of new capital resources available over the next four years the proposed indicative allocations to services are shown in the table below.
- A3.2 Each scheme will be subject to examination of more detailed proposals. If following consideration, they do not fit within the priorities; there may be adjustments within the funding envelope. If additional resources become available from additional grants, capital receipts or developer contributions these will be added to the Capital Investment Plan prior to allocation to schemes/services. Therefore the total capital funding allocated to services over

the four years of the Plan could be greater than the current prudent estimates made.

Scheme	£m
Employment Schemes – such as Riviera Centre investment	2.0
Torre Abbey – Council maximum funding pending English Heritage Grant and other income. *	2.0
Victoria Pier Structural Repairs – Council match funding to a bid for to the Environment Agency *	1.4
Grants for both Disabled Facilities and Childrens Adaptations	3.2
Affordable Housing (linked to S106 funding)	2.0
Provision for Infrastructure Works – allocation to be prioritised by service	2.0
Potential Capitalisation of redundancy costs for budget reductions in 2013/14 & 2014/15	1.0
Improving Leisure Facilities – such as Torbay Leisure Centre investment	1.2
Schools – Devolved Formula Grant (ring fenced)	0.6
Schools – Basic Need (including school places) and capital repairs – allocation to be prioritised by service	9.0
Transport – Structural Repairs and Integrated Transport – allocation to be prioritised by service	6.0
Adult Social Care – allocation to be prioritised by service	1.0
Total Schemes	31.4

Note * - some schemes are already part of the approved capital plan but funded from prudential borrowing. It is now proposed to use other capital resources to fund those schemes.

- A3.3 The Capital Investment Plan includes schemes in the current Plan such as schemes funded from prior year allocations and prudential borrowing schemes such as the South Devon Link Road and Princess Promenade.
- A3.4 Council, in February 2011 when considering the 2011/12 Capital Plan, approved that “That the Chief Finance Officer be requested to work with Council Officers to develop a scheme to start in April 2012 as part of the Capital Plan for a Community Fund of £250,000 a year. The Chief Finance Officer is tasked to identify options to fund this scheme. This fund should allow communities across Torbay to place bids for grassroots infrastructure projects. Officers should ensure that the scheme is developed to be open and transparent”. At present no funding has been identified for this scheme which could cost £1m over the four years of the Capital Investment Plan. Officers will however present a report on this proposal at a future Council meeting along with potential funding streams.

A3.5 These schemes in the table above have been prioritised based on a number of factors. These include:

- funding of existing Council commitments – e.g Torre Abbey
- urgent infrastructure/repair works – e.g Infrastructure provision
- linked to funding requirements – e.g S106 for affordable housing
- link to central government allocations – e.g schools & transport
- statutory requirements – e.g Disabled Facility Grants
- Member priorities to support employment e.g Riviera Centre

A3.6 Detail of schemes on the Council capital reserve list can be found in the appendix to the Capital Strategy available on the Council's intranet.

http://insight/capital_strategy_2011_v1.0.doc

A3.7 Although indicative allocations have been made the schemes will only proceed once approved by the process described in paragraph A6 below.

A3.8 The approval of a four year allocation of funding enables flexibility in the timing of schemes where, as an example, more schemes could be approved in the initial years where the Council can support the temporary cash flow impact.

A4 Current Capital Investment Plan

A4.1 The current Capital Investment Plan (as at Quarter Two 2011/12) was presented to Council on the 8th December 2011. As approved in February 2011 the 2011/12 government (un ring-fenced) grants were allocated back to services in line with the government announcements. The unringfenced grants for future years that have been announced are now held “corporately” pending allocation to services. The Plan will continue to be updated on a quarterly basis as capital funding is confirmed and schemes approved.

A4.2 The current Capital Investment Plan contains three issues which are worthy of specific comment:

There is a requirement to generate a further £3.4m of capital receipts. The Economic Development Company estimates that this should be achieved by the end of 2012/13. Although this is still a risk until the funding is actually received.

The Office Rationalisation Project is now a £9.5 million project using prudential borrowing. This requires annual accommodation savings of approximately £0.665 million per annum to fund the borrowing costs of the revised project. It is anticipated that these savings will be realised as office accommodation is vacated over the next two years.

The current approved plan includes two schemes, South Devon Link Road and Princess Promenade, which will be funded from prudential borrowing if other funding sources cannot be realised. In this scenario this will result in annual ongoing revenue cost of approximately £1 million per annum for 25 years. The ongoing revenue costs will not

reach this level until 2016/17 after completion of the Link Road.

A5 Comparison of Council Allocation to Estimated Central Government (unring fenced) Grant Allocations

A5.1 The DCLG website states the following in relation to capital grants

“The Spending Review provided freedom and flexibility to councils as part of the Coalition Government’s decentralisation agenda, as well as delivering a fair though challenging settlement for local government. In providing more freedom and flexibility, capital grants to councils have been greatly simplified. The majority of capital grants are now completely non-ring fenced, and there are far fewer different grant regimes for councils to deal with”.

A5.2 A summary of the Council’s provisional four year allocation compared to the estimated central government allocations is as follows:

Service	Torbay Initial Allocation	Potential Government Allocation	Variance
	£m	£m	£m
Childrens – schools & social care	9.6	9.6 *	0
Transport	6.0	9.0	(3.0)
Disabled Facility Grants & Childrens adaptations	3.2	3.2	0
Adult Social Care	1.0	1.6	(0.6)
Total	19.8	23.4	(3.6)

* Future capital grants from the Department of Education will be diverted, in part, directly to Academy schools which reduces the Council’s grant funding in future years.

A5.3 The table shows that £3.6m is proposed to be allocated from un-ring fenced grants to other Council priorities which are primarily linked to infrastructure or asset repairs or employment related schemes. Although the DCLG have clearly stated that these grants are unringfenced it is unclear how the individual central government department will react to Councils prioritising on a local level. If the South Devon Link Road is included then the Council’s total transport spend increases by £18 million.

A5.4 However, as stated in paragraph A3.2 above, depending on actual scheme detailed proposals and additional resources the total capital funding allocated to services over the four years of the Plan could be greater than the current prudent estimates made.

A5.5 If these grants are not used to support other Council priorities, these other schemes, if approved, will have to use prudential borrowing which will be funded from future year revenue budgets which will put additional pressure on

the Council's limited revenue resources.

A6 Capital Scheme Approval Process

6.1 Linked to the changes to the Capital Strategy the Council is proposing to fundamentally change the management of its capital plan for 2012/13 onwards.

6.2 The key stages in the revised process are as follows:

a) Officers and Members identify and submit capital schemes, on an ongoing basis, to the Chief Executive in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer for inclusion in the capital reserve list in a specified format (an outline business case). If the initial business case is supported the scheme will be included on the Capital Reserve list for potential inclusion in the Capital Plan. The current reserve list in the Capital Strategy will be refreshed in line with the new process.

b) Estimate of capital funding available for four years is made

c) Capital schemes are prioritised in line with Capital Strategy and corporate priorities

d) Council allocates un ring fenced capital grant funding to schemes in line with its priorities. Service intentions of the identified government body awarding the grant will be considered in determining allocations.

e) Initial four year allocations of funding to schemes/services for planning purposes approved by Council as part of annual Capital Budget.

f) Council delegates the approval of specific capital schemes within the approved capital plan in (e) above to the Chief Executive in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer.

g) If a scheme is to progress further and be approved/funded there will be a requirement for a detailed business plan. This will apply to both new schemes and schemes identified for funding within the initial four year allocation of funding. Detailed business plan to be submitted to the Chief Executive in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer:

If scheme is to be funded from initial four year (approved) allocations the scheme will be approved by Chief Executive in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer and progressed when funding confirmed or,

if new funding, in addition to the approved four year allocation in (e) above, is to be used and if scheme is supported by Chief

Executive in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer it will be recommended to Council for approval.

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

i) The capital plan will be updated and any recommendations for schemes to be approved by Council included in the next quarterly Capital Monitoring Report.

j) Previous Council approvals for capital schemes to be funded from prudential borrowing will be considered for funding from future capital funding to avoid ongoing increased revenue costs.

k) 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 capital scheme approval process.

A7 Invest to Save Schemes/Self Funding Schemes

A7.1 These are schemes that, although initially funded from prudential borrowing, will generate revenue savings or additional income to fund the revenue costs of the prudential borrowing. The current Plan includes a number of these types of schemes that have been previously approved by Council such as the Office Rationalisation Project.

A7.2 These schemes will be subject to the approval process described in A6 above and if supported by the Chief Executive in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer will be recommended to Council for approval in the next quarterly Capital Monitoring report.

A7.3 There are a number of schemes that have been identified that may be brought forward in the future to be included in the capital scheme approval process.

A7.4 Repayment periods for prudential borrowing normally reflect the estimated asset life. If a service wishes to repay over a shorter period then the interest costs, and therefore the annual repayment in each year will be higher, however in total the repayments will be lower.

A8 Allocations to be Prioritised by Services

A8.1 The initial four year allocation sets provisional four year totals for infrastructure works, transport, children's and adult social care. All these service areas have submitted schemes on the capital reserve list (within the Capital Strategy) in excess of the funding available. The services will have to consider the schemes that they wish to fund and consider the prioritisation of these schemes including the consideration that the specification proposed for each scheme is reduced.

A8.2 Service proposals will then be submitted for approval as paragraph A6 above.

A9 Capital Receipts

- A9.1 The disposal of surplus and under-used assets to generate capital resources is critical to the development of the Capital Investment Plan Budget.
- A9.2 The current Capital Investment Plan requires £3.4 million capital receipts from asset disposal. To date (January 2012) the Council has generated £1.1m of this total leaving a balance of £2.3m to be funded. The expected receipts from the sale of assets linked to specific projects, such as Old Paignton Library and the Tesco Development in Brixham will be supplemented by any receipts arising from the Asset Rationalisation Plan.
- A9.3 The Economic Development Company estimate that the current target will be met by the end of 2012/13.
- A9.4 The estimate of future funding (A2.1 above) has an additional capital receipt target of £1m per annum from 2013/14 onwards. There is still the possibility of significant receipts in the future from sites such as Churston Golf Club land and the disposal of land on Preston Down Road. The Council will continue to review the continuing economic climate and the impact it is having on land and building values.
- A9.5 Disposal of sites at low or nil value competes with achieving the disposal target required to fund other priorities and any new schemes. There are a number of circumstances where the Council could dispose of assets at nil or below market value. In each case the opportunity cost of a disposal at nil value will be subject to the Capital Scheme approval process:

Areas where this could arise are:

- Community Asset Transfer (or other community based transfer)
- Transfer to related companies such as Economic Development Company
- Transfer to Local Asset Backed Vehicle
- Transfer of Land for affordable housing schemes

- A9.6 Right-to-Buy sales by Sanctuary Housing on former Council house stock have dropped to very low levels. At this stage no assumptions of income for affordable housing from this source have been made. If any receipts arise they will be allocated to affordable housing.

A10 Other Funding

- A10.1 **Grants** – The options for bidding for additional capital grants have declined in relation to the Government's overall reductions in capital funding available to the public sector. In addition a number of government agencies are being abolished or merged such as the demise of Regional Development Agencies. The Council will aim to be aware of any funding opportunities from both existing bodies and any new/replacement bodies such as Regional Growth Funds.

A10.2 Section 106 (Planning gain) monies – Any amounts expected in respect of Section 106 agreements will be applied and added to the Capital Plan when received and allocated in line with the conditions in the S106 agreement. Once the Community Infrastructure Levy is introduced in 2012 it is expected that only S106 contributions for affordable housing will be received.

A10.3 Community Infrastructure Levy (CIL) - The Council is expected to introduce a CIL charging structure and the required Regulation 123 list during 2012. The Regulation 123 list is the list of infrastructure capital schemes that developers' contributions will be used to part fund. The prioritised allocation of the levy to Council schemes will be important as this funding replaces the S106 funding that was used to support a range of schemes including transport and schools. This list will be closely linked to the Council's capital reserve list. An income of £1.0m per annum has been included in the capital funding table above.

A10.4 New Homes Bonus - A potential new source of revenue funding that could be applied to support prudential borrowing is the New Homes Bonus that has been introduced by the Coalition government from 2011/12 that provides a revenue grant to Councils based on the number and type of houses built in their area.

A10.5 NNDR reforms – a potential funding source for capital projects resulting from the proposed changes to NNDR from 2013. The Government issued a consultation document on these reforms in December 2011.

A10.6 Private Finance Initiative (PFI) – the Council already has a PFI scheme for Westlands and Homelands Schools and has committed to the Energy From Waste (EFW) Scheme with Plymouth City and Devon County Councils. When the EFW scheme is signed the Council's long term liabilities will increase by its share of the value of the total EFW liability asset to be repaid over 25 years.

A10.7 Sale of Council Investments – the Council has interests in a number of companies that could be disposed of at some point.

A10.8 Council Bonds – The Council could issue bonds to fund infrastructure works. The Local Government Association is expected to provide more detail on a "bond agency" in early 2012.

A11 Links to other Documents

A11.1 The proposed capital plan has links to other documents which Members may wish to refer to when considering the capital plan proposals. These include

a) Current Capital Plan – last revision in Quarter Two Capital Budget Monitoring report presented to Overview and Scrutiny in November 2011

b) Summary Capital Strategy – Council's approved policies for the allocation of capital funding to services – Appendix 1.

c) Capital Strategy – available on the Council's intranet site.

d) Asset Management Plan 2011/12. Appendix 2 & 3

e) Community Infrastructure Levy Regulation 123 List – will be presented to Council during 2012 which will identify capital infrastructure schemes that CIL could be applied to.

f) Service specific capital plans such as the Local Transport Plan and the Primary Schools Strategy.

A12 Alternative Service Delivery

A12.1 The Council has been establishing alternative service delivery models or new delivery vehicles that will generate investment and capital projects in Torbay without the requirement for cash support from the Council, although the Council contribution would be in the way of enabling the project and the transfer/strategic lease of assets.

A12.2 Developments in this category have and could include the creation of a Local Asset Backed Vehicle, social enterprises, transfer of land to the Economic Development Company and the leasing of land and assets to TOR2. In addition developers could be approached to fund or part fund Council projects in return for future income streams.

A13 Contingency

A13.1 The Capital Investment Plan of £74 million has an overall contingency of £1.1 million equal to approximately 1.5% of the plan to meet cost overruns or shortfalls in funding.

A14 Treasury Management Strategy

A14.1 The impact of the proposals in the capital plan, revenue budget and medium term resource plan will be incorporated in the Council's 2012/13 Treasury Management Strategy.

A15 Affordability of Capital Plan and Prudential Indicators

A15.1 The Chartered Institute of Public Finance & Accountancy Code of Practice recommends a set of Indicators designed to help Councils to ensure their capital investment plans are "affordable", "prudent" and "sustainable". These Prudential Indicators are required to be approved by Council.

A15.2 These indicators based on the proposed Capital Investment Plan and Revenue Budget are included as Appendix 6 to this report. The indicators do not raise any immediate concerns that the Council needs to address.

A16. Risk assessment of preferred option

A16.1 Outline of significant key risks

The main risks associated with reviewing the Capital Plan Budget are:

Risk	Impact	Mitigation
Impact of economic conditions on capital receipts	Contributions and capital receipts could be lower	Use of professional advice of valuations

and developer contributions.		Use of future “profit share” on developments
Reaction of central government departments to the Council’s proposed use of local freedoms in allocating grants.	Future capital grants could be lower from individual departments or adverse publicity	Intentions of government departments part of the prioritisation process DCLG comments on local freedoms
Reduction in capital allocations	Limit spend to just “basic need” on schools and transport.	All capital works to be prioritised and supported by detailed business case to target resources
Reduction in Council capital expenditure	Less fee income for Council staff working on capital projects Less income for suppliers including TOR2.	Staff allocated to other schemes
Uncertainty over future year government allocations for capital grants.	Funding shortfall if schemes approved prior to funding	Funds only added to capital investment plan when confirmed or indicative announcements made.
The effect on service provision of not undertaking high priority projects	Access to key assets will be limited in the future because of public safety concerns.	£2m for prioritised infrastructure works included in investment plan
The robustness of business plans.	Costs and/or income understated	Detailed business case submitted to Chief Executive

A17. Other Options

A17.1 As the majority of capital funding from central government from 2011/12 is now un ring fenced the Council has greater ability to allocate funding to its own local priorities. This could include consideration of the Community Fund scheme as outlined in paragraph A3.4 above.

A18. Summary of resource implications

A18.1 As this report is the proposed capital plan, there are no other resource implications at this stage of the Budget development process. When final recommendations on the approval of capital schemes are made there will inevitably be financial, personnel and property implications. These implications will be addressed by the requirement for a detailed business plan to be submitted prior to a scheme’s approval.

A19. What impact will there be on equalities, environmental sustainability and crime and disorder?

A19.1 An equalities impact assessment for the Capital investment Plan was completed as part of the 2012/13 budget process and is attached at Appendix 7. The development of individual capital projects will address these issues.

A20. Consultation and Customer Focus

A20.1 This report is part of the budget consultation process where the Mayor's budget proposals are open for scrutiny. The Corporate Asset Management Team, Commissioners and Overview and Scrutiny Board are consulted throughout the Budget development process.

Appendices

Appendix 5 Draft Capital Plan Budget 2012/13 – 2015/16
Appendix 6 Draft Prudential Indicators 2012/13
Appendix 7 Combined Impact Assessment

Documents available in members' rooms

None

Background Papers:

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

Summary Capital Strategy
Capital Strategy 2011
Asset Management Plan
Medium Term Resource Plan
Capital Plan Budget Monitoring Quarter Two 2011/12