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Thursday, 2 February 2017

## Adjourned Meeting of the Council

Dear Member

I am pleased to invite you to attend an adjourned meeting of Torbay Council which will be held in **Rosetor Room, Riviera International Conference Centre, Chestnut Avenue, Torquay, TQ2 5LZ on Thursday, 9 February 2017 commencing at 5.30 pm**

The items to be discussed at this meeting are attached.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Steve Parrock".

Steve Parrock  
Chief Executive

(All members are summoned to attend the meeting of the Council in accordance with the requirements of the Local Government Act 1972 and Standing Orders A5.)

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**A prosperous and healthy Torbay**

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For information relating to this meeting or to request a copy in another format or language please contact:

**June Gurry, Town Hall, Castle Circus, Torquay, TQ1 3DR  
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[www.torbay.gov.uk](http://www.torbay.gov.uk)

# Adjourned Meeting of the Council Agenda

## 1. Apologies for absence

## 2. Declarations of interests

- (a) To receive declarations of non pecuniary interests in respect of items on this agenda

**For reference:** Having declared their non pecuniary interest members may remain in the meeting and speak and, vote on the matter in question. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.

- (b) To receive declarations of disclosable pecuniary interests in respect of items on this agenda

**For reference:** Where a Member has a disclosable pecuniary interest he/she must leave the meeting during consideration of the item. However, the Member may remain in the meeting to make representations, answer questions or give evidence if the public have a right to do so, but having done so the Member must then immediately leave the meeting, may not vote and must not improperly seek to influence the outcome of the matter. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.

**(Please Note:** If Members and Officers wish to seek advice on any potential interests they may have, they should contact Governance Support or Legal Services prior to the meeting.)

## 3. Transformation Project - Children's Services Medium Term Finance Strategy (Pages 4 - 26)

To consider the submitted report on the above.

## 4. Revenue Budget 2017/2018 (Pages 27 - 58)

To consider the recommendations of the Mayor on the Revenue Budget proposals for 2017/2018:

- Mayor's Budget Proposals
- Chief Finance Officer's Report
- Proposed Budget Digest (including the proposals for service change, income generation and savings) – circulated separately
- Equality Impact Assessments – circulated separately
- Proposed Fees and Charges – circulated separately

(see [www.torbay.gov.uk/budget-201718](http://www.torbay.gov.uk/budget-201718) )

## 5. Capital Plan Budget 2017/2018 (Pages 59 - 70)

To consider the recommendations of the Mayor on the Capital Plan Budget proposals for 2017/2018 and the application of Capital

Projects Scoring Matrix to the reserve list of Capital Schemes.

- 6. Review of Reserves** (Pages 71 - 84)  
To consider the submitted Policy Framework document on a review of the Council's reserves and any recommendations from the Overview and Scrutiny Board.
- 7. Treasury Management Strategy 2017/18 (incorporating the Annual Investment Strategy 2017/18 and the Minimum Revenue Provision Policy 2017/18)** (Pages 85 - 111)  
To consider the submitted report on the above Policy Framework documents and the recommendations of the Audit Committee.
- 8. Corporate Asset Management Plan** (Pages 112 - 159)  
To consider the submitted report on a review of the Council's Corporate Asset Management Plan (Policy Framework document).
- 9. Corporate Capital Strategy including the Capital Receipts Strategy** (Pages 160 - 173)  
To consider the submitted report on the review of the Council's Corporate Capital Strategy (Policy Framework document).

**Note**

An audio recording of this meeting will normally be available at [www.torbay.gov.uk](http://www.torbay.gov.uk) within 48 hours.



**Meeting:** Council

**Date:** 9 February 2017

**Wards Affected:** All

**Report Title:** Transformation Project - Children's Services Medium Term Finance Strategy

**Is the decision a key decision?** Yes

**When does the decision need to be implemented?** As soon as possible

**Executive Lead Contact Details:** Councillor Julien Parrott, Executive Lead for Adults and Children, [julien.parrott@torbay.gov.uk](mailto:julien.parrott@torbay.gov.uk)

**Supporting Officer Contact Details:** Andy Dempsey, 01803 208949, [andy.dempsey@torbay.gov.uk](mailto:andy.dempsey@torbay.gov.uk)

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## 1. Proposal and Introduction

- 1.1 Shortly after his appointment in July 2016, the interim Director of Children's Services (DCS) was asked by the Chief Executive and Executive Lead Member to undertake a review of the Children's Services' 5 Year Financial Strategy to determine whether the targets it contained were realistic and achievable. This reflected a concern that, despite the Children's Services' budget benefiting from contributions from reserves of £2.3m (2015/16) and £1.1m (2016/17), the Department was projecting an overspend of £1.3m at Quarter 1 with the potential for this to reach around £2.2m by year end.
- 1.2 The DCS undertook a review of the Children's Services' 5 Year Plan reporting his findings to corporate SLT on 30 August 2016 and Mayor's Executive Group on 6 October 2016. Alongside this, action was taken by the DCS to freeze vacancies and reduce agency costs in order to address the in year pressure.
- 1.3 The review conducted by the DCS concluded that the savings envisaged in the previous plan were not achievable due to a range of factors. The savings envisaged in the 5 Year Financial Strategy were to be achieved, in the majority, through a reduction in placement costs and within that two key elements. Firstly, it envisaged bringing Children Looked After (CLA) numbers in line with statistical comparators by 2018/19 and, secondly, a shift in the balance of placement spend from high cost residential and independent foster care placements towards in care foster care provision. The review further identified that the strategy was unsuccessful because the pace and scale of CLA reduction was unrealistic and the necessary underpinning processes were not established.

1.4 A revised Children's Services 'Medium Term Financial Strategy (2017-2021)' has now been prepared by the DCS, a copy of which is attached at Appendix 1.

## **2. Reason for Proposal**

2.1 The revised Medium Term Financial Strategy (MTFS) covers the period 2017/21 and aims to align activity to reduce costs with that underway to improve services and outcomes for children. This acknowledges that Children's Services are currently subject to intervention and likely to transfer to an alternative delivery model over the next 12 – 18 months. The plan has also benefited from the work undertaken by Peopletoo (a consultancy commissioned by the Local Government Association) and the Chartered Institute of Public Finance and Accountancy (CIPFA) – looking at Social Care costs.

2.2 The key objectives of the MTFS over the period 2017 - 2021 are:

- to bring social care staffing and support costs more in line with statistical comparators;
- to bring placement costs and the children looked after population costs more in line with statistical comparators;
- to put in place the management culture, business processes and arrangements to ensure future performance and expenditure compares favourably with statistical comparators on a sustained basis;
- to align activity to reduce expenditure with improvement activity; and
- to ensure the Children's Services budget is stabilised in support of transition to an alternative delivery model (ADM).

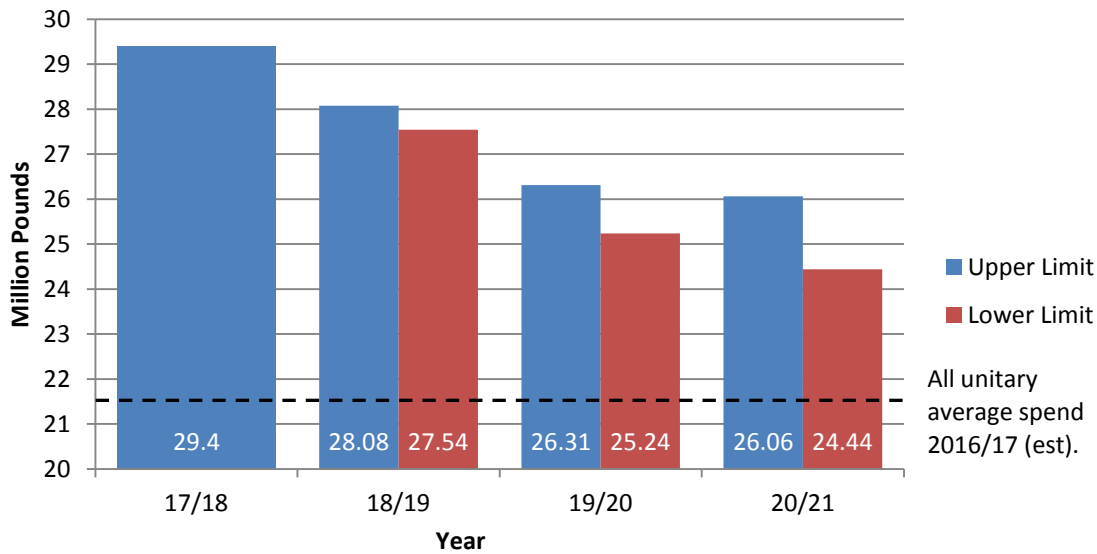
2.3 The key savings elements within the MTFS will arise across 4 key themes:

- the re-profiling of costs within the CLA population to reduce proportionate and absolute expenditure on residential and independent foster care placements;
- the gradual reduction of the CLA population to bring it in line with statistical comparators at an achievable rate;
- the reduction of social care staffing and support costs to bring these in line with statistical comparators; and
- savings from other areas of activity, primarily from commissioned activities.

2.4 Attached to the MTFS is an action plan setting out a range of proposals whose pace and scale have been aligned with a measured journey towards the performance of statistical comparators. The graph below sets out the projected savings overtime and the extent to which costs will be brought into alignment with national comparators. It is important to recognise that savings from a net reduction in CLA numbers will vary considerably depending upon the child's placement type and subsequent destination. As a consequence, the MTFS projects a range of savings a cautious approach has also been taken to the incorporation of it's

proposals into the 2017/18 revenue budget. Overall, the MTFS increases the projected savings from Children's Services for 2017/18 from £900k to around £1.3m.

**Figure - Reduction in Children's Services Expenditure**



### 3. Recommendation(s) / Proposed Decision

- 3.1 That the Children's Services Medium Term Finance Strategy (MTFS) (2017 – 2021) and the revised contribution to the 2017/2018 Revenue Budget as set out in Appendix 1 to the submitted report be approved.

### Appendices

Appendix 1: Children's Services' Medium Term Financial Strategy 2017 – 2021 (Rev 2)

### CHILDREN'S SERVICES MEDIUM TERM FINANCIAL STRATEGY (REVISION 2)

2017 – 2021

#### 1. Background

- 1.1 The Children's Services budgets for 2015/16 and 2016/17 benefited from contributions from central reserves of respectively £2.3m and £1.1m, with the 2016/17 budget set at £28.9m. The previous Children's Services 5 year Financial Strategy, agreed by full Council in October 2014 as part of the budget process, proposed the gradual reduction of expenditure and return of revenue to balances, through a combination of measures to reduce placement and staffing costs.
- 1.2 However at the end of Quarter 1 of the current financial year, which is Year 2 of the 5 year strategy (2016/2021), Children's Services were projecting an overspend of £1.3m. Action taken by the new Director of Children's Services (DCS) in July, to freeze vacancies and reduce agency costs, has gone some way to address this but slippage with placement changes built into the current year has the continued potential to cause a significant overspend. A worst case scenario, allowing for no savings from the 2016/17 placement changes or actions to address other cost pressures would result in an overspend of around £2.2m. The proposed budget for 2017/18 reflects the financial position in the current year.
- 1.3 This Medium Term Financial Strategy (MTFS) sets out a revised approach towards the reduction of costs by aligning the change process with the development of the capacity and culture within Children's Services necessary to ensure its delivery. The scale and pace of change has also been carefully profiled to ensure this is normative rather than exceptional and is further informed by the work undertaken by the Chartered Institute of Public Finance Accountants (CIPFA) and Peopletoo (commissioned by the Local Government Association (LGA)) to review social care expenditure and costs.
- 1.4 Attached at Appendix 1 is a detailed action plan and at Appendix 2 is a summary of the savings proposals for the period 2017 - 2021. It should be emphasised that this is a financial strategy setting out a range of potential savings, based on a significant planned change in practice occurring within the context of our improvement journey. How those savings are incorporated within the budget setting process will be a matter for further discussion and consideration.

#### 2. Why have previous plans failed?

- 2.1 The reductions in costs envisaged in the previous 5 year financial strategy arose in the significant majority through a reduction in placement costs and, within that, two key elements. Firstly, it envisaged bringing Children Looked After (CLA) numbers in line with statistical comparators by 2018/19 and; secondly, a shift in the balance of placement spend away from high cost residential and independent foster care placements, towards in house foster care.
- 2.2 The table below outlines the reduction in the CLA population proposed by the 5 year financial strategy both in absolute numbers and as a rate per 10,000 population

(which is the comparator used by the Department for Education (DfE) set against the current position.

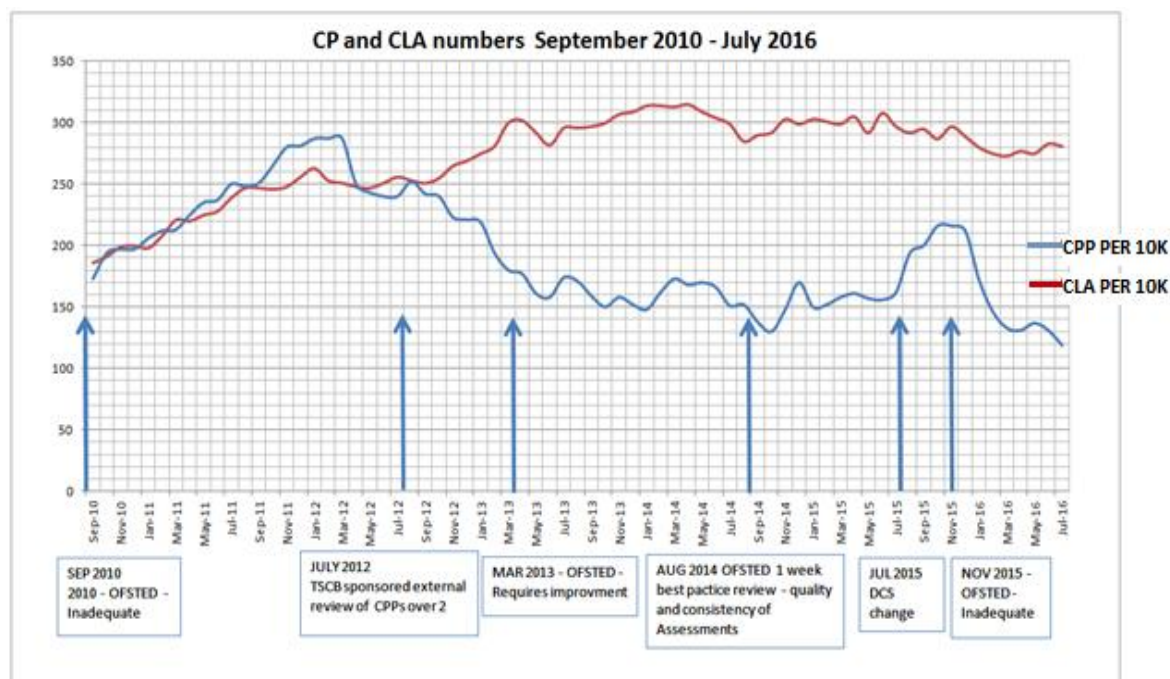
**Table 1: Previous 5yr Plan for CLA population reduction**

Torbay CLA Population				
YEAR	November 2016	2016/17	2017/18	2018/19
<b>Number</b>	279	242	211	180
<b>Rate/10K</b>	111	97	84	72

2.3 It should be noted that the above figures do not include children coming to Torbay under the Unaccompanied Asylum Seeking Children (Unaccompanied Asylum Seeking Children Scheme (UASC), where direct placement costs will be met by Central Government for any child requiring to be accommodated, with numbers limited to 0.07% of child population (18 in total currently 4).

2.4 Torbay has had one of the highest CLA rates (per 10k child population) nationally for some time. The graph below outlines the changes in the CLA and child protection populations over time, and includes the dates of Ofsted inspections and other key milestones. The graph illustrates what could be argued to be a ‘**low risk – high cost**’ strategy for social care that developed in response to the 2010 Ofsted inspection and has continued more or less unchanged to date. When considered in this context, the aim of the previous financial plan to bring the CLA population in line with statistical comparators over three years represented a fundamental shift in approach.

**Graph: Child Protection and Children Looked After Numbers 2010 – 2016**



2.5 The current year of the previous 5 year financial plan also included 27 placement changes/exits from care due to be delivered during 2016/17, from July 2016



onwards. As part of the work commenced by the new DCS at the request of the Executive Lead Member to address the in year pressure, it was identified that the July and early August dates had slipped. The table below sets out the monthly increases in the budget pressure that will occur if these changes are not achieved. Work is now underway to progress the changes via a dedicated placements/contracts team, the details of which are set out later in the report.

**Table 2: Cumulative costs incurred through placement slippage 2016/2017**

<b>Month</b>	<b>Increase (£)</b>
July (2016)	7,526
August	21,560
September	82,105
October	101,205
November	108,655
December	158,471
January	181,763
February	164,173
March (2017)	181,763
<b>Total</b>	<b>1,007,221</b>

**2.6** There are a number of significant factors contributing to the failure of the previous financial strategy:

- the pace and scale of reduction in the CLA population was unrealistic, requiring a level of performance that no other local authority has achieved on a sustained basis, against a background of growth elsewhere. Over the period 2011 – 2015 CLA populations increased 6% nationally (average) and 12% amongst statistical comparators;
- the national increase in the number of children in care is being driven by a number of factors around which there is a broad consensus: a much better awareness and identification of child abuse and neglect from a range of partners; the better application of consistent thresholds to receive help as a result of revised statutory guidance ('Working Together to Safeguard Children' 2015); a growing professional risk aversion amongst partners driven by national child care scandals ('I don't want it to be me...'); some evidence of the impact of recession and austerity on families; the discovery of 'new' forms of abuse such as child sexual exploitation; the creation of a number of new policy initiatives such as 'staying put' which allow teenagers to stay in their foster care placements; children remanded to custody being treated as children in care; a range of new legal processes such as the 'public law outline' which drive local authorities to put more case decisions before the family courts; a drive by the courts for all cases to conclude within 26 weeks; and finally national policy such as the redistribution of unaccompanied asylum seeking children. Many of these policy initiatives and changes are arguably good things but have; it could be argued, led to higher rates of awareness and activity across a wider range of risk factors leading to higher numbers of children in care.

- the essential arrangements to deliver the significant change in strategy from a low risk - high cost approach towards a focus on exits from care and the redistribution of costs away from residential and independent foster care agencies towards in house foster provision, were not put in place. Most obviously the department had no dedicated placements/contracts team resulting in social workers undertaking placement searches and negotiating costs with no expertise in this area, and little or no central co-ordination of placement activity. This has also contributed to the overall problem with costs due to the use of higher cost independent foster carers, when in house foster carer capacity was available;
- the practice and management culture within Children's Services was not aligned with the change in strategy which has continued to favour placement stability over effective permanence planning. As a consequence, a significant proportion of the CLA population has long term foster care as their permanence plan, with few planned exits from care other than via adoption and age;
- the necessary management oversight and performance arrangements to link practice and placement planning with the development of costs were not in place. This includes the costs and accessibility of specialist education provision, which has resulted in cost being incorrectly aligned to the Higher Needs block of Dedicated Schools Grant (DSG).

### **3. Key Objectives**

**3.1** The key objectives of the MTFs over the period 2017 - 2021 are:

- to bring social care staffing and support costs more in line with statistical comparators;
- to bring placement costs and the children looked after population costs more in line with statistical comparators;
- to put in place the management culture, business processes and arrangements to ensure future performance and expenditure compares favourably with statistical comparators on a sustained basis;
- to align activity to reduce expenditure with improvement activity;
- to ensure the children's services budget is stabilised in support of transition to an alternative delivery model (ADM).

### **4. Links with Improvement Activity**

**4.1** Torbay Children's Services is currently in DfE intervention with the Chief Executive of Hampshire County Council appointed as the DfE Commissioner, and Hampshire Children's Services acting as improvement partner. A significant element within the improvement journey has been the focus on ensuring that the basics of effective practice are in place from first contact through to permanence.

**4.2** The links between improved outcomes for children and sound financial management are obvious. Poor decision making and planning results in delay, a lack of good

quality placement options, drift in progressing the child's journey and the inefficient use of key resources. All of these are features of Torbay Children's Services that are being addressed through the improvement journey, whilst simultaneously supporting the financial strategy. The most significant barrier to achieving the latter is cultural. There remains a lack of financial awareness amongst middle management and permeating downwards, alongside a lack of grip on resource based decision making.

- 4.3** Change in this critical area will be driven by the DCS and Interim Assistant Director Children's Safeguarding as part of the management and governance aspect of the improvement journey. Undoubtedly, this work will require a significant transformation in the way in which social workers are required to work. As well as the work being undertaken to reform the governance of children's social care, significant intellectual resource will need to be applied to develop a new operating model that enables families to be more resilient and able to change in order that more children and young people can be safely cared for in their family rather than brought into care.
- 4.4** The work to secure efficiencies must also be carefully balanced with improvement activity, with the emphasis on building the necessary culture and organisational infrastructure for both, being the key priority for 2017/18. This will be an important consideration for the DfE Commissioner.

## **5. Priority Area for Actions**

- 5.1** The key savings elements within the MTFs will arise across 4 key themes:
- the re-profiling of costs within the CLA population to reduce proportionate and absolute expenditure on residential and independent foster care placements;
  - the gradual reduction of the CLA population to bring it in line with statistical comparators at an achievable rate;
  - the reduction of social care staffing and support costs to bring these in line with statistical comparators;
  - savings from other areas of activity, primarily from commissioned activities.
- 5.2** The MTFs takes a phased approach with the immediate priority placed on the balance of costs within existing CLA population levels and reviewing the costs of existing residential placements to ensure these provide value for money. Savings from reducing the CLA population and reduced staffing and support costs will become more significant as the improvement journey becomes embedded, from 2018/19 onwards. Each of the key themes is set out in more detail below.
- 5.3 Re-profiling of Placement Costs**
- 5.3.1** Both the CIPFA peer review team and Peopletoo, commissioned by the LGA, have identified that the numbers of residential placements and use of Independent Fostering Agencies are higher than statistical comparators. Not only are CLA numbers exceptionally high, unit costs and the number of residential placements for those children are also high. Spending on the 28 children currently in residential placements costs around £5.3m per annum, with the costs per child ranging from £377k per annum for one child, with an average placement cost of £190k per annum. However, it is important to note that Torbay's proportionate use of residential 12% is

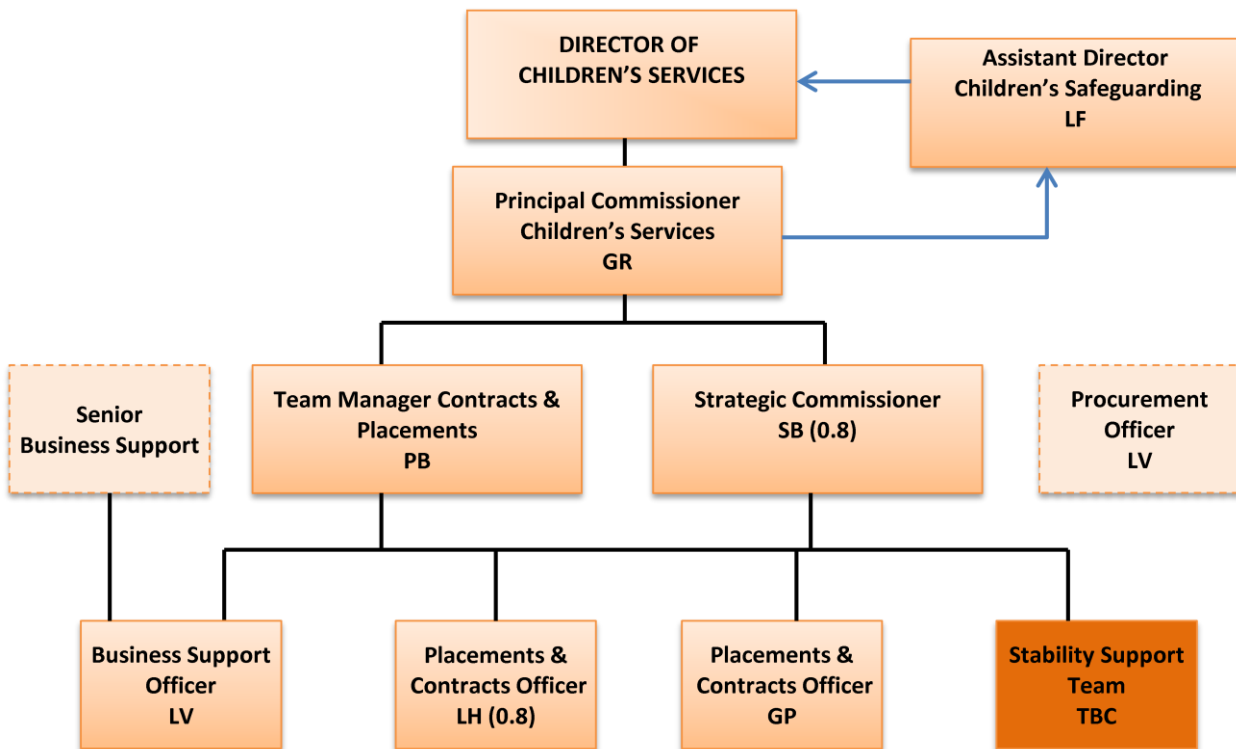
not markedly out of sync with statistical comparators (11%) and national (9%), highlighting the need to address the population numbers.

**5.3.2** The MTFS proposes the gradual increase in foster care capacity, across both in house and independent foster carers, and to make better use of in house resources as the means of reducing spend on residential placements, as part of an improved permanence strategy that also delivers better outcomes for children. The growth in capacity is set out in more detail in Appendix 1.

**5.3.3** A dedicated placements and contracting team, reporting to the Assistant Director Children's Safeguarding will be in place from 5 December to support this part of the MTFS. The structure for the team, which will take responsibility for all placement work within the department, is set out below. The placements and contracting team will be crucial to the development of a proactive, child centred permanence strategy and undertake the following key functions:

- bringing all elements of Children's Services contracts and commissioning into one place;
- conducting searches for placements and update records with finance, contract and quality data;
- ensuring that placements information is accessible on the child's file with evidence of agreements and authorisations;
- ensuring market development for sufficiency for CLA – meeting with providers and co-commissioners to ensure a diverse range of provision to meet the needs of Torbay children;
- managing relationships with a range of providers;
- working with the Peninsular Group to ensure the needs of Torbay are met through Peninsular market development and commissioning;
- ensuring that there are robust contracts in place for all placements and services, with regular review to ensure these are proportionate to need, achieving best value for the LA;
- ensuring that financial regulations are met through the procurement of all eligible services;
- providing a range of information and data on demand, cost and volume to develop the market position statement and sufficiency strategy;
- providing financial monitoring of the placements budget in conjunction with Finance colleagues.

## Placement, Commissioning and Contracts Team



### 5.4 CLA Population and Total Costs

**5.4.1** The previous financial plan envisaged a rate of reduction in the CLA population (around 30+% in total over 3 years) which was unrealistic, when compared to the performance of other Local Authorities (LA's), and represented a profound shift in the culture of the department which has been focussed on a 'low risk-high cost' strategy for a number of years. Matters were further compounded by underdeveloped permanence planning in which too many children had long term foster care as their only permanence plan.

**5.4.2** Permanence can be understood as a framework that comprises emotional permanence (attachment), physical permanence (placement stability) and legal permanence (the carer has parental responsibility for the child). Permanence for individual children can be delivered via a range of options:

- a successful return to the birth family;
- family or friends, preferably supported by a private law order such as Child Care Arrangement Order or Special Guardianship Order (SGO);
- long term foster care, where it is agreed the child will remain with the foster carers until adulthood;
- adoption, for children unable to return to their birth or wider family.

**5.4.3** It is important to note that the objectives of the MFTS can only be achieved through high quality, child centred permanence planning as an integral element within Torbay's improvement journey. This will encompass any changes of placement for children remaining in care, through what might be termed 'step downs', alongside planned exits from care. Put simply, children cannot and will not be moved between placements or subject to change in their legal status solely to achieve cost savings.

**5.4.4** Effective permanence planning requires the combined work of social care and educational practitioners and Independent Reviewing Officers (IRO), whose role is to ensure that care planning is subject to challenge and scrutiny. Analysis of the CLA population and of the wider processes/resources to deliver effective permanence planning, within the context of the previous 5 year plan, highlighted the following:

- there was an absence for children looked after of a management tool/tracker to connect permanence planning with the development of costs over time. Financial costs for CLA were subject to detailed monitoring but this was not linked to care planning, which in turn lacked a focus on permanence. A tracker has now been introduced which will outline planned exits over each month and enable senior managers to monitor progress and changes in costs;
- there is a lack of evidence of effective permanence planning for a significant number of children currently in long term foster care. There are also a number of older children with limited permanence options and who are likely to remain in care until they are 18 years, but with some older children also suitable for reunification;
- the impact of the IROs as a driving force for effective permanence planning is difficult to discern;
- currently the majority of exits from care in the current year will derive from maturation (18 years) and adoption – rehabilitation/private law orders barely feature. It is also the case that some children exiting care at 18 years will have continuing costs due to their vulnerabilities;
- a lack of clarity around decision making and oversight of placements where there is a significant and specialist educational component.

**5.4.5** The CLA population at the end of November 2016 is at **279**. The review of the current CLA population recently completed at the request of the DCS has identified around **49 planned exits** for 2017/18 (not net reduction). As such, although the rate of new entrants to care is now in line comparators, the potential for immediate and significant reductions in the CLA will be limited until a more proactive approach towards permanence planning becomes embedded over the coming months.

**5.4.6** The MFTS proposes a net reduction of between **10-15** per year for each year of the strategy commencing 2018/19 which is a more realistic and achievable target given the barriers to change identified above. A reduction in the population may well occur during 2017/18 but it would be prudent to progress the revision of our permanence strategy before setting targets for that year. The proposed reduction will bring

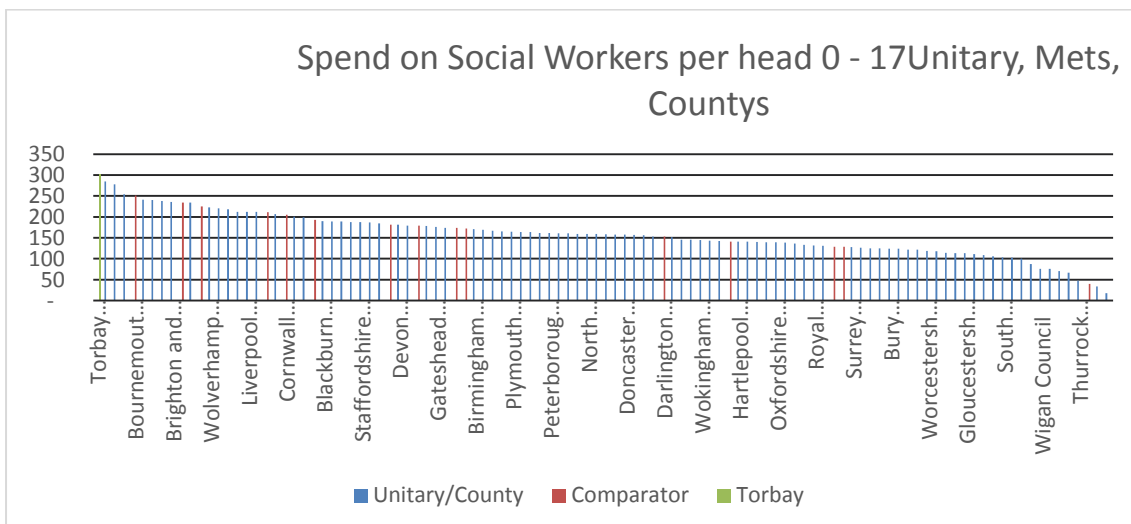
Torbay closer to the statistical neighbour average but will occur within the context of a general rise in CLA populations across the country.

**5.4.7** Cost savings from a net reduction in CLA numbers will vary depending on the children’s placement type within care and their subsequent destination. A child leaving residential care to return home would deliver the greatest saving based on average costs but is also the most unlikely in practice terms, albeit that there will be some opportunities. Most of our children looked after are in foster care and continuing support through a SGO will feature in many exits from care, thereby involving the continuation of costs albeit at a reduced rate. As a consequence, the MFTS takes a cautious approach towards savings from CLA reductions at least until the tracking systems recently established are embedded and able to provide a fuller appreciation of any changes in cost to senior managers. It is also the case that projected savings will have a wide upper and lower range, due to the number of permutations and combinations of placement type and routes out of care. This is reflected in the Action Plan at Appendix 1.

**5.5 Social Worker Staffing and Support Costs**

**5.5.1** In July, the incoming DCS took action to address the in year budget pressure through the freezing of vacant posts and reduction of agency spend which delivered around £420K in 2016/2017 and £780K for the full year 2017/18. The CIPFA data which has indentified Torbay as an outlier in terms of spend will not account for these reductions or conversely, the additional investment in Business Support Posts put in place in 2016/17. Notwithstanding the factoring in of these changes, it is acknowledged that Torbay’s staffing and support costs are higher than comparators.

**5.5.2** The graph below shows spend on social workers in population terms. Torbay is represented in grey as the highest proportionate spender on the far left, its comparator group in orange, other unitaries, counties and metropolitan authorities in blue (London Boroughs excluded). This shows the highest spend on social work per head of population (0-17 years) outside of London, which will required to be unpicked through a detailed review of social care staffing and support costs, which is proposed within the Action Plan attached at Appendix 1. This process will need to factor in the very high levels of demand in Torbay to ensure caseloads remain within acceptable limits.



**5.5.3** The freeze on vacancies and agency spend introduced by the DCS in August 2016 will have a full year value of around £780k for 2017/18. This will deliver around £260k of net savings in that year, when allowance is made for the vacancy management target of £520k built into the 2016/17 budget. There are also around 7 business support posts on 12 month contracts will cease during 2017/18 and it is likely these will not be replaced delivering a further saving of around £129k.

**5.5.4** The DCS and Interim Assistant Director Children's Safeguarding will be undertaking a detailed review of social care structures to identify the potential for further staffing efficiencies to be implemented from 2018/19 onwards, as improvement becomes embedded. Acknowledging that the service is in intervention there are no detailed, costed proposals to further reduce social care staffing during 2017/18, until improvement is embedded and populations and caseloads allow for this. The MTFs does, however, propose a managed reduction in agency spend from 2017/18 alongside the staffing savings identified above.

## **5.6 Other Savings' Proposals**

**5.6.1** It is proposed to increase the timeliness and number of adoptions to bring these more in line with statistical comparators as part of our improved permanence planning. Currently we are planning for 22 adoptions in 2016/17. Peopletoo have modelled a saving of around £174k per annum based on reducing adoption timescales by 75 days, based on average daily care costs. Current projections suggest we are on target to exceed this reduction but further analysis is needed to determine the extent of savings.

**5.6.2** Early help arrangements are not clear and consequently form a key element within the improvement plan. It is not possible to model savings at this stage which will arise from the prevention of cases escalating to high cost services and cases stepped down successfully.

**5.6.3** Peopletoo has suggested that a range of commissioned services could be redesigned and/or re-procured to deliver efficiencies. These are identified within the action plan at pages 14/15 of the Action Plan. A number of these elements also appear within the Draft Revenue Budget currently subject to consultation and as such further work will be needed to align both sets of proposals.

## **6. Action Plan**

**6.1** A detailed action plan setting out how savings will be realised is attached at Appendix 1 with a summary of savings set out in Appendix 2. This draws heavily on the work undertaken by Peopletoo, who were commissioned by the LGA as part of their broader support to Torbay Council. It has also been shared with the CIPFA peer review team who have advised that it is a reasonable and credible plan, based on their own assessment of Torbay Children's Services expenditure.

**6.2** A number of the savings relating to CLA costs are based on a precise number of additional placements delivering a change in the proportionate split of residential, independent and foster care placements. Increases in the numbers and timeliness of adoption and an increase in the use of SGO's are further features. The savings totals are estimates based on current average costs and reflect the balance of



placement costs within the existing population. A number of the savings are already contained within the draft Revenue Budget (2017/18) currently subject to consultation and further work will be needed to ensure the proposals within the MFTS are aligned. The 2017/18 savings figure has also been adjusted by 50% to allow for the gradual implementation of savings proposals over the year. The figures have also been rounded to the nearest £1k.

## **7. Monitoring and Review**

- 7.1** Progress to deliver the savings outlined within the MFTS will be monitored through a variety of mechanisms. It will be a standing item on Children's Services Senior Leadership Team (SLT), with regular updates to Corporate SLT, alongside regular review via the one to one meetings between the DCS and Chief Executive and Executive Lead Member.
- 7.2** The Members Monitoring Group, comprising of elected member representatives from all political groups, will also work with the DCS to monitor progress and, when appropriate, make recommendations to further develop or amend the overall strategy. The MFTS will also feed into the corporate quarterly cycle of budget and performance reporting to Mayor's Executive Group and full Council.

## **8. Conclusions**

- 8.1** Children's Social Care has two significant areas of expenditure that are key to unlocking the potential for substantive efficiencies and integral to our improvement journey. The population and consequential spend on CLA (circa £13.9m) are comparatively high as are our staffing and support costs (circa £11.9m). Torbay Children's Services are therefore expensive and underperforming when compared with statistical neighbours – a situation that has occurred due to a complex set of historical and situational factors. Practice, care planning and management oversight have all been weak compounded by the failure to direct the required resources, both within the department and corporately, to the points of maximum impact and need.
- 8.2** As a consequence, the MFTS takes a measured approach towards these two major areas of spend to ensure the necessary infrastructure and culture is put in place during 2017/18 to secure the delivery of a sustainably improved level of performance in subsequent years. The redistribution and overall reduction of CLA costs will not occur until permanence planning is effective, including concurrent planning for unborn children in appropriate cases. Staffing and support costs will reduce in 2017/2018 however a detailed review of social care and early help staffing structures will be necessary, alongside a sustained improvement in performance, before a definite view of future costs can be determined with confidence.
- 8.3** The Action Plan attached at Appendix 1 sets out a range of proposals whose pace and scale have been aligned with a measured journey towards the performance of statistical comparators. A number of the proposals, such as the development of in-house or partnership residential provision, will require further more detailed business cases to be developed. As such, the MFTS will continue to mature over time and careful consideration will be needed to determine how savings proposals will be captured within the Council's budget planning cycle. This will also encompass how and when the department will be in a position to return the £3.4m investment from Council reserves.

Andy Dempsey

Director of Children's Services

(Rev 2: 11 January 2017)

## Torbay Children's Social Care Financial Action Plan – November 2016

Activity	Additional Resources / Actions Required	Planned Saving (link with Financial Improvement Plan)
<p><b>PLACEMENT MANAGEMENT: RE PROFILING OF EXPENDITURE</b></p> <p><b>Strategic Aim:</b></p> <p>Strengthen our Permanence Planning and Sufficiency Strategy to ensure there is a robust, efficient and effective plan in place to meet the demands of Torbay's CLA population going forward.</p> <p><b>Operational Objectives</b></p> <ul style="list-style-type: none"> <li>• Increase the capacity in-house foster care placements thereby reducing the usage of IFA placements for less complex cases, realigning the current split of 70% In House placements to 30% IFAs to 80% / 20%.</li> <li>• Improve the percentage of children leaving care as a result of placing within a connected person or via an SGO placement to a level in line with statistical neighbours.</li> <li>• Develop of a clear strategy to increase the capacity of higher skilled IFA placements that can support wrap around Foster Care placements and hence reduce the usage of residential provision.</li> <li>• Explore the development of in house/partner managed residential provision to reduce the cost of procuring external placements.</li> <li>• Ensure the sufficiency strategy takes account of appropriate educational provision within placement decisions and capacity building.</li> <li>• Refresh decision making processes and management</li> </ul>	<p>A dedicated contracting/placements team has been established (commencing 5.12.16) to progress the capacity development necessary to deliver these elements.</p> <p>This proposal will require a detailed business case and engagement with local housing/residential care providers. There may well be some capital expenditure required.</p>	<p><b>Reduction in usage of Independent Fostering Agency Placements.</b> <i>Proposal based on moving from a 2016/17 split of 70%-30% In House to IFA to 80%/20% - total increase of 20 In House Placements over 3 years:</i></p> <p>2017/18: £129k (5 placements)  2018/19: £181k (7 placements)  2019/20: £207k (8 placements)</p> <p><b>Reduction in externally provided residential placements through development of higher skilled IFAs with wrap around care.</b>  <i>The difference in annual cost of a residential placement versus a high end IFA is £126,705. Proposal is to transition 10 young people from Residential to IFAs over 3 years.</i></p> <p>2017/18: £253k (2 placements)  2018/19: £506k (4 placements)  2019/20: £506k (4 placements)</p> <p><b>Create 3 x 2 bed in-house homes as a replacement for high cost placements.</b>  <i>Based on the average annual cost of the 5 most expensive placements minus the estimated cost of running 3 x 2 bed in house homes (£1,582k - £840k = £742k saving).</i></p> <p><b>Implementation by 2019/20</b></p>

oversight arrangements to ensure placement decisions take account of the costs of educational provision.	Increasing exits from care will form a key element within the department's revised permanence strategy.	2019/20: £742k  <b>Improve the percentage of children leaving care as a result of placing with a Connected Person or SGO.</b> <i>Current percentage 8% against SN average and national average of 11% (2014/15 figures). To reach target of 11% would equate to moving 9 children to CP/SGO placements, based on average foster care costs.</i>  2017/18: £49k (3 placements) 2018/19: £98k (6 placements)
Activity	Additional Resources required	Planned Saving (link with Financial Improvement Plan)
<p><b>ADOPTION: SCALE AND TIMELINESS</b></p> <p><b>Strategic Aim</b></p> <p>Review and strengthen the Adoption Strategy to grow capacity to ensure there is a robust, efficient and effective plan in place to meet the demands of Torbay's LAC population in respect of adoption as a positive outcome from care.</p> <p><b>Operational Objectives:</b></p> <ul style="list-style-type: none"> <li>• Increase the number of children who leave care as a result of adoption to a level in line with statistical neighbours.</li> <li>• Accelerate the pace of adoption from entering care to becoming adopted to a level in line with statistical neighbours.</li> </ul>	<p>Our timeliness of adoption is already improving from the baseline identified by Peopletoo 623 days (3 yr rolling average). Based on current projections this will reduce to 516 at end of 2016 and 447 at end of 2017.</p>	<p><b>Improving the percentage of children leaving care as a result of adoption.</b> <i>Based on increasing the percentage leaving for adoption from 16% to SN average of 23% (2014/15 figures), equating to 20 additional placements. Saving based on average foster care placement cost at 70%/30% current In House / IFA split.</i></p> <p>2017/18: £85k (3 placements) 2018/19: £141k (5 placements) 2019/20: £141k (5 placements) 2020/21: £197k (7 placements)</p> <p><b>Acceleration of Adoption from the point of entering care.</b> <i>Based on reducing the time from care to adoption by 75 days to become in line with statistical neighbours. Saving based on average foster care placement cost at 70%/30% current In House / IFA split.</i></p> <p>2017/18: £174k</p>

Activity	Additional Resources required	Planned Saving (link with Financial Improvement Plan)
<p><b>EARLY HELP</b></p> <p><b>Strategic Aim:</b></p> <p>Reconfigure the approach to Early Help so that there is a clear and understood approach which supports prevention activity.</p> <p><b>Operational Objectives</b></p> <ul style="list-style-type: none"> <li>• Reconfigure the “front door” to Early Help and Children’s Social Care into a single first point of access.</li> <li>• Re-define the remit of the in house services under Early Help to ensure that they are focussed on priorities and that their remit and criteria is fully understood.</li> <li>• Re-evaluate the approach to supporting partners to fully play their part in the delivery of Early Help.</li> <li>• Review Children’s Centre provision, including Health Visitors and School Nurses, to ensure that provision is targeted at and effective for those most in need.</li> <li>• Further develop the Early Help / Community Hub model to support self-help and community resilience as part of a preventative approach.</li> <li>• Further develop processes within social care planning to support an effective Early Help approach.</li> <li>• Align the Troubled Families programme with the revised Early Help strategy to maximise impact on families crossing both cohort boundaries.</li> </ul>	<p>A TSCB Task and Finish Group chaired by the Assistant Director: Safeguarding will commence the work to reconfigure the local strategy in December 2016.</p>	<p>There are no direct financial targets attached to this activity but an effective Early Help service will support a reduction in the numbers of children requiring statutory social care intervention.</p> <p>It is not realistic at this stage to model this saving, but as and when demand reduces, such modelling could be done as part of a review of the resource needed to manage lower levels of demand.</p>

Activity	Additional Resources required	Planned Saving (link with Financial Improvement Plan)
<p><b>COMMISSIONING</b></p> <p><b>Strategic Aim</b></p> <p>Support a review of the corporate approach to commissioning to ensure that it is joined up, focussed on priorities and promotes value for money.</p> <p><b>Operational Objectives (for Children's Services)</b></p> <ul style="list-style-type: none"> <li>Engage existing providers in a dialogue around future service provision</li> <li>Re-procure/model services as necessary</li> </ul>	<p>Commissioning is a corporate activity and hence any proposal to review commissioning processes will require the engagement of Council stakeholders outwith Children's Services.</p>	<p><b>Careers South West</b>  <i>Based on a proposed reduction to contract to reflect a pay per activity approach.</i></p> <p>2017/18: £25,000  2018/19: £40,000  2019/20: £10,000</p> <p><b>Review Children's Centre Provision</b>  <i>Based on a reduction to contract through further emphasis on a targeted approach.</i></p> <p>2017/18: £57,500  2018/19: £69,000  2019/20: £103,000</p> <p><b>Young People's and Young Parents' Supported Accommodation</b></p> <p>2017/18: £75,000  2018/19: £40,000  2019/20: £10,000</p> <p><b>Youth Homelessness</b>  <i>Based on a proposed reduction to contract</i></p> <p>2017/18: £116k</p>
Activity	Additional Resources required	Planned Saving (link with Financial Improvement Plan)
<p><b>SPECIAL EDUCATIONAL NEEDS PROVISION</b></p> <p><b>Strategic Objective</b></p> <p>Ensure the Special Educational Needs Offer provides value for money whilst meeting the needs of young people and their families</p>	<p>The Contracting and Placements Team will be undertaking a review of commissioned activity and usage. This will encompass the interface between social care and educational decision making to ensure costs are not merely shunted from social care to the higher needs block (Dedicated</p>	<p>No direct financial targets attached at this stage – this requires scoping out of existing thresholds spend and contractual arrangements.</p>

<p><b>Operational Objectives</b></p> <ul style="list-style-type: none"> <li>• Review criteria for the access to provision to ensure that the needs of the most vulnerable are met whilst achieving value for money.</li> <li>• Review arrangements of the contracting of SEND provision</li> <li>• Review and accelerate the process for the transition from statements to ECH Plans</li> </ul>	Schools Grant).	
<p><b>HOME TO SCHOOL TRANSPORT</b></p> <p><b>Strategic Objective</b></p> <p>Develop a formal Home to School Transport Strategy which outlines the approach taken with a focus on how young people will be supported where appropriate to increase their independence.</p> <p><b>Operational Objectives</b></p> <ul style="list-style-type: none"> <li>• Develop a formal Independent Travel Training programme</li> <li>• Consider the introduction of a transport buddies programme (utilising existing escorts) as an alternative to taxis.</li> <li>• Undertake a review of routes where the numbers remain low on a particular vehicle to establish if there is further opportunity for route optimisation, underpinned by the use of route optimisation software.</li> </ul>	<p>The change process will aim to optimise routes and maximise independent travel by young people.</p> <p>These will be capital costs in the procurement of route optimisation software and changes to capita which are estimated to be in the region of £50k</p>	<p><b>Implement Independent Travel Training and Transport Buddies programme for children with disabilities.</b></p> <p><i>Analysis of the current cohort has identified 25 young people who, with support, and successful training, could travel independently over the next two years. Average saving per child £3,735 minus bus pass of £540 per person</i></p> <p>2017/18: £39k 2018/19: £39k</p> <p><b>Develop usage of external escorts to support more independent travel for children with disabilities.</b> <i>Based on a 5 hour saving to the Council per week x 38 weeks plus on 20% costs – using living wage £9</i></p> <p>2017/18: £20,520 (10 additional escorts – total 20) 2018/19: £21,520 (10 additional escorts – total 30)</p> <p><b>Adopt a route optimisation model to ensure high levels of occupancy and limit the number of routes in use.</b></p>

Activity	Additional Resources required	Planned Saving (link with Financial Improvement Plan)
<p><b>LEAVING CARE SUPPORT:</b></p> <p><b>Strategic Objective</b></p> <p>Review the Leaving Care policy to ensure that there is an efficient and cost effective approach taken to the provision of Leaving Care packages.</p> <p><b>Operational Objectives</b></p> <ul style="list-style-type: none"> <li>• Map out on an individual basis the young people who are receiving Leaving Care packages, to establish an exact picture of both spend and provision</li> <li>• Undertake a value for money exercise on each case to establish where more cost effective options could be explored.</li> </ul>		<p>Exact identification of saving requires coping out pending a review of individual cases. Benchmarking data with statistical neighbours is not yet available.</p> <p>The budget for 2016/17 is correctly projected at an overspend of £197,086 from a budget of £250,000.</p> <p>The proposed savings to bring this budget back into line are therefore scoped below:</p> <p>2017/18: £67k 2018/19: £80k</p>
Activity	Additional Resources required	Planned Saving (link with Financial Improvement Plan)
<p><b>AGENCY STAFFING:</b></p> <p><b>Operational Objective</b></p> <p>Reduce the numbers of social care agency staff to bring in line with statistical neighbours.</p>	<p>The DCS and Assistant Director Safeguarding will undertake a fundamental review of social care staffing structure, working closely with finance colleagues. This will seek to reduce agency usage as part of the change process.</p>	<p>The proposal envisages a net reduction in agency staffing of</p> <p>2017/18: £101k (4 staff) 2018/19: £51k (2 staff)</p> <p><i>Based on a further reduction of 6 agency social workers over 2 years, based on the average difference between an agency and permanent social worker being £25,267 per annum</i></p>



Activity	Additional Resources required	Planned Saving (link with Financial Improvement Plan)
<p><b>REDUCTION IN CLA POPULATION AND ASSOCIATED COSTS:</b></p> <p><b>Operational Objective</b></p> <ul style="list-style-type: none"> <li>• Refresh our permanence and sufficiency strategies</li> <li>• Implement robust processes to oversee placement and permanence planning to ensure they are child centred and provides value for money.</li> </ul>	<p>The DCS and Assistant Director Safeguarding will be working with Heads of Service to revise our permanence strategy which will be key to bringing the CLA population in line with comparators. A <u>net</u> reduction of between 10 – 15 placements is envisaged for each year commencing 2018/19. In light of the weaknesses in current permanence planning no net reduction is planned for 2017/18. It will also be important to distinguish this Workstream and savings from activity to increase the rate of timeliness of adoptions.</p>	<p>The savings accruing will depend on the child's current placement and route out of care. In some cases such as Special Guardianship there will be continuing costs. Savings for a child leaving foster care for an SGO could be as little as £5k per annum, other routes deliver savings in the range £20k to £40k. The most impacted route of residential to care has not been included as this is likely to be an exceptional occurrence. Reunification may be a route for some older children but this will occur only through the lens of effective permanence planning.</p> <p>Savings based on net reduction of 10/15 per annum would be (£50k/£75k-£400k £600k)</p>
Activity	Additional Resources required	Planned Saving (link with Financial Improvement Plan)
<p><b>Strategic Aim</b></p> <p>To bring staffing and support costs in line with statistical comparators.</p> <p><b>Operational Objective</b></p> <p>Undertake a comprehensive review and restructure of social care services.</p> <p>Refresh workforce recruitment, development and retention strategy.</p>	<p>The DCS and AD Safeguarding will be working closely with finance and HR colleagues to review existing staffing structures and develop a sustainable staffing base for future provision.</p>	<p>Savings are included for 2017/18 based on the full year impact of the actions taken in August 2016 and non renewal of Business Support posts due to end in year. This will deliver around £389k of savings in 2017/18.</p> <p>Further savings will be identified following the establishment review completed by the DCS and AD.</p>

## Financial Improvement Plan 2017/18 – 2020/21

Opportunity	2017/18	2018/19	2019/20	2020/21	TOTAL
	£	£	£	£	£
Reduce usage of Independent Fostering Agency placements and create more in-house placements	129k	181k	207k		517k
Reduction in externally provided residential placement through exploration of wrap around Foster Care placements	253k	506k	506k		1,265m
Explore the creation 3 x 2 bed in-house homes			742k		742k
Improving percentage of children leaving care as a result of placing within an SGO or connected persons placement	49k	98k			147k
Improving percentage of children leaving care as a result of adoption	85k	141k	141k	197k	564k
Acceleration of Adoption in order to reduce spend on Placements	173k				173k
Commissioning – Careers South West*	25k	40k	10k		75k
Commissioning – Children’s Centre Provision	57k	69k	103k		229k
Commissioning – Young People’s / Parents Supported Accommodation	75k	40k	10k		125k
Youth Homelessness*	116k				116k
Implement Independent Travel Training and Transport Buddies programme for children with disabilities*	39k	39k			78k
Develop usage of external escorts to support more independent travel for children with disabilities*	20k	20k			40k
Review of Leaving Care packages	67k	80k			147k
Managed reduction in use of agency staff*	101k	50k			151k
Reduction in CLA population and associated costs		50k-600k	50k-600k	50k-600k	150k-1.8m
Staffing and Support Costs*	389k	TBC	TBC	TBC	389k
<b>TOTAL</b>	<b>1.578m</b>	<b>1.314m – 1.864m</b>	<b>1,769m – 2,319m</b>	<b>247k – 797k</b>	<b>4.908m – 6.558m</b>
<b>Budget adjustment of 50% to allow for the gradual in year implementation of savings.</b>	<b>789k</b>				

\* = Included within revenue budget 2017/18



Fit  
for  
the  
future

creating a prosperous and healthy Torbay

February 2017

## Budget Proposals 2017/2018

Mayor's Response to Consultation

# Statement by the Mayor

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In accordance with the Council's Constitution I am proposing the provisional budget for 2017/2018 for the members consideration.

As I explained when I published my draft proposals in November, the council is committed to creating a prosperous and healthy bay and a council fit to meet the challenges of the future. The Council continues to find alternative ways of working and do things differently. However, reductions in local government grants from Central Government and increasing demands on our services mean that difficult decisions have to be made.

I am proposing a Revenue Budget of £109.6 million for 2017/2018. Due to the magnitude of savings and the increasing demand for services, the Council will face another challenging year.

In proposing this budget, I am recommending that Council Tax should be increased by 3.99% but that the Council does not increase Council Tax by the additional 1% for adult social care which has recently been permitted by the Government. I make this recommendation as, whilst we continue to see economic regeneration in Torbay, our local economy remains fragile, with many residents on fixed incomes and families struggling to make ends meet.

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

I have considered all the responses I received carefully. I have also considered the decisions and changes that have taken place since November and have had to balance the Council's priorities in developing my proposals. What follows is a summary of the changes that I am proposing since my draft budget was published in November 2016.

In relation to **Children's Services**, the Overview and Scrutiny Board highlighted that the Director of Children's Services should be able to identify further savings before the budget is agreed. I am pleased that a Children's Services Medium Term Financial Strategy will be considered by the Council on 9 February 2017 which aims to align activity to reduce costs with the work already underway to improve services and outcomes for children.

Through undertaking the work to produce the new Strategy and as a result of the consultation, it has become clear that the amount of savings to be achieved from the proposals in relation to Information, Advice and Guidance for Young People and Home to School Transport will not be as high as previously stated. Following the funding allocation from Government in December 2016, the amount of savings within the support to schools and education will also not be as high as expected. However, higher than anticipated savings have been identified in relation to employee costs within Children's Services and additional savings are proposed through improvement to permanence planning and placement costs.

I would welcome the Overview and Scrutiny Board continuing to support the Executive Lead and Director for Children's Services in reviewing for the delivery of the new Strategy to ensure that it meets its stated aims.

The Overview and Scrutiny Board set out its view that the Risk Share Agreement (RSA) with the Integrated Care Organisation (ICO) (who deliver **adult social care** on behalf of the Council) presented a

significant financial risk to the Council. The ICO has since given notice to the Council that it will withdraw from the RSA from 1 January 2018. The financial pressures within the NHS (both nationally and locally) are well documented. As a result of those pressures, the Council has a projected overspend for adult social care of £1.7m in the current financial year. I had already proposed that £1 million of extra funding be allocated to Adult Social Care and I now proposing to increase that by a further £725,000 in order to provide a contingency for next year.

Over the course of the consultation period, it became clear that the pilot scheme for a new model for the Young Parents Service has been successful and that the service is now fully utilised. I am therefore proposing to maintain funding for this service which helps to prevent children and young people needing support from more costly Council services.

I am proposing that £136,000 is permanently added to the budget in order to continue to invest in services for victims of domestic violence and abuse. Without this additional funding the current service would close mid way through the year.

As part of its funding settlement, the Government announced an Adults Social Care Grant, with the amount received by Torbay being £832,000. However, nationally this grant is being funded from changes to the New Homes Bonus scheme meaning that Torbay Council also loses £798,000 of funding from this funding stream.

The agreement of the Council Tax Base by the Council in December has been used to calculate how much would be raised by increasing Council Tax by 2% for Adult Social Care. This is £30,000 more than anticipated in November 2016.

During the consultation, I had a large response to the proposals in relation to **Public Health**. The reduction in Government grant has meant that all the services provided by Public Health have been reviewed and difficult decisions will need to be made.

However, I am proposing that a smaller reduction in funding is made to the Lifestyles Service than that originally proposed. A revised model will still be put in place but the additional funding will mean that more people will be enabled and supported to make changes to their lifestyles.

To offset this increased spending, the number of universal Health Checks provided will be limited from 1 April 2017 resulting in a significantly more targeted approach. In addition, other public health services will be re-commissioned during 2017/2018 with the aim of realising savings through efficiency and/or service redesign by 31 March 2018.

In relation to the proposals within **Community Services**, the Overview and Scrutiny Board sought assurance that the CCTV service could be maintained in the long term. My proposed reinvestment in this service seeks to develop a system which is more efficient and resilient to future changes. This will comprise an independent assessment of the system before the new specification is developed, so that it is capable of operating in a commercial environment.

I note the views of the Board that the proposal to reduce highways spend should not be implemented. For clarity, the current proposal will keep the level of spend on routine repairs and maintenance to the carriageway at the current level. There would be a temporary reduction in condition surveys and the contributions to partnership initiatives and the car park variable message signs would not be used for the year. Given the other financial pressures facing the Council, I believe that the impact of this proposal will be minimal and it therefore remains in my budget proposals.

Negotiations have taken place with the bus operators during the consultation period and I am now able to estimate the savings that can be made to the concessionary bus fares budget as approximately £150,000. We are continuing to negotiate with bus operators locally against the nationally agreed funding formula.

By paying TOR2 in advance for the cyclical works that it undertakes, the Council is able to save £225,000.

I am not proposing any changes to the proposals in relation to **Customer Services**.

Within **Corporate Services**, I am still proposing that the establishment of a service delivery company be investigated. However, the level of savings that this will achieve is still to be determined and a report will be brought to Council in due course.

The Council agreed a revised Council Tax Support Scheme in December 2016 and this will increase the income collected by the Council by £300,000.

Within **Business Services**, the expected return on the Capital Investment Fund has increased by £450,000, this is in recognition of their work to date, and anticipated work throughout the remainder of the year.

The Overview and Scrutiny Board recommended that no reductions be made to the repairs and maintenance budget. The Executive Head of Business Services will make every effort to identify all those savings from the utilities and premises costs of the Council's estate.

The Board also recommended that the proposed savings to be made by the TDA should be removed. I am proposing that the level of savings proposed be reduced to £150,000. I remain committed to the regeneration of Torbay and this commitment is reflected in the Capital Plan with major regeneration projects such as the redevelopment of Claylands, employment space at Torbay Business Park and the Electronics and Photonics Innovation Centre.

The revenue budget which I put before you includes service changes, income generation and efficiencies totalling £7.6 million. Despite this, the Council still spends approximately £3.2m per week on services in the community (excluding funding for schools and housing benefit payments). In terms of the Council's capital expenditure, I am proposing that the Council spends £56 million in 2017/2018 on schemes which are all aimed meeting the ambitions of the Corporate Plan. The majority of the Capital Plan has already been agreed by the Council and there are no changes proposed at this stage.

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

**Gordon Oliver**  
**Elected Mayor of Torbay**

# Introduction

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This document and the papers which support it set out the Mayor's proposals for Torbay Council's budget for 2017/2018. It is part of the longer-term work that is continuing to ensure that the Council is fit for the future.

The first version of this report was issued in November 2016 for consultation. During the consultation period, feedback has been received from service providers, partner organisations, service users, the community and voluntary sector and the general public. The report reflects the feedback received and outlines the changes that have been made to the Mayor's proposals as a result. It also reflects the details of the Local Government Funding Settlement which was published in December 2016.

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

- **Torbay Council – Draft Revenue Budget Digest**  
This provides a description of what each Council service does and how much it is proposed that they will spend next year including how much income they will receive. It sets out details of all of the proposals for service change, income generation and savings in order to produce a balanced budget for 2017/2018.
- **Equality Impact Assessments**  
Where a proposal has been assessed as having a material impact on service users, an Equalities Impact Assessment has been prepared. These have been updated with the results of the consultation and any mitigating actions identified.
- **Fees and Charges**  
The amount that the Council proposes to charge for its services over the next year.
- **Treasury Management Strategy**  
This aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations and effectively control the associated risks.
- **Capital Plan**  
This sets out the amount that it is proposed to spend in 2017/2018 on the capital projects that the Council is undertaking.
- **Corporate Asset Management Plan**  
This sets out the strategies that the Council will use to rationalise the number of assets that it has, replace them where appropriate and improve the quality of the remaining assets.
- **Capital Strategy**  
This sets out the principles to be used in the allocation of capital investment across all the Council's services and informs decisions on capital spending priorities within the Council's four year Capital Plan.
- **Reserves**  
The current and forecast position on the use of Council reserves.

The Mayor's final budget proposals will be available at the Council meeting on 2 February 2017. This meeting will adjourn to let all members of the Council consider his final proposals.

The Council will meet again on 9 February 2017 to discuss the revenue and capital budgets and if the proposed budgets are approved by a majority of members then they will be adopted on the night. If an objection to the budget is proposed and approved by a majority of councillors, the Council will adjourn again. Any objections will be considered by the Mayor and he will respond to the meeting of the Council on 23 February 2017 when a final decision will be made by the whole Council.

Council Tax levels will be set at the meeting of the Council on 23 February 2017 as the Council has to wait for notifications from the Fire and Rescue Authority, the Police Authority and Brixham Town Council before setting the overall Council Tax for Torbay.

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

Once the budget for 2017/2018 is agreed by the Council a final report will be published which will explain what the Council will spend during the years alongside its priorities for the year.



# Revenue Budget 2017/2018

The Council's financial planning for 2017/2018 started in June 2016 and the Mayor's draft budget proposals were published on 4 November 2016 for six weeks of public consultation.

The proposals set out now for 2017/2018 include £7.6 million of savings to be made through changes to services, raising of income or reductions in expenditure. These savings are part of the £21.5 million of savings which will need to be by 2020 to provide a balanced budget as set out in the Council's Efficiency Plan.

## Funding Changes

The budget has been updated as various funding and income streams have been confirmed since the draft budget proposals were published in November 2016. The changes in funding are set out in the Table 1 below:

Description	Increase in Funding £000	Reduction in Funding £000	Commentary
Revenue Support Grant		2	The Provisional Settlement announced by the Government on 16 December 2016 was in line with the four year settlement figures.
Council Tax Income	482		The Council Tax Base was set by Council on 8 December 2016. This was higher than forecast primarily due to the Council approved changes to the Council Tax Support Scheme
New Homes Bonus	2,300		Revised presentation - transfer from service income
Other Grant and Funding Changes		82	Latest estimates of other grant funding such as (transitional) Education Support Grant, Collection Fund and National Non-Domestic Rates.
<b>Net Funding Changes</b>	<b>2,698</b>		

## Service Expenditure Changes

Since the Mayor's budget proposals were issued on 4 November 2016 the Mayor has considered the views of the wider community and Members of the Council which have been provided during the consultation period. This has included the views of the Council's Overview and Scrutiny Board which were set out in its report to the Mayor available at [www.torbay.gov.uk/scrutiny](http://www.torbay.gov.uk/scrutiny).

The results of the consultation have been included within each relevant Equality Impact Assessment and in the overall report from the consultation exercise. The budget proposals issued in November 2016 have been updated (including any new proposals) and are set out in the Budget Digest. All of these documents are available at [www.torbay.gov.uk/budget2017-18](http://www.torbay.gov.uk/budget2017-18).

A summary of changes in income and expenditure since the initial proposals were published are summarised in the following Table 2. The table at the end of this document lists all of the Mayor's proposals with those highlighted indicated the amended or new proposals.

Description	Reduction in Expenditure £000	Increase in Expenditure £000	Commentary
Schools and Education		50	Saving reduced in light of 17/18 funding allocations
Information, advice & guidance young people		119	Saving on contracts not achievable in 2017/18
Home to School Transport		77	Saving reduced after assessment of numbers and impact
Childrens Services employee costs	170		Further reductions proposed in the service including agency staff
Children's Services Financial Plan	411		To reflect achievement of a proportion of savings on permanence planning and placement costs identified in childrens services finance plan.
Adult Social Care		725	Potential additional Adult Social Care from RSA and post RSA (Total ASC contingency £1.725m)
Adult Social Care		30	2% ASC precept revised to match final tax base
New (one off) Adult Social Care Grant	832		New, one year only, grant to support adult social care
Loss of New Homes Bonus Grant		798	Reductions to scheme now brought forward by DCLG to fund adult social care grant
Young Parents		33	Proposal not now recommended
Domestic Abuse		136	Contract for this service now supported
Public Health – Lifestyles		226	Change to proposal for this service
Public Health – Health Checks	60		Change to proposal for this service
Use of Public Health Reserve	166		Additional one-off use of reserves, pending contract re-procurement
Concessionary Fares	150		Estimated saving from contract agreements with suppliers
TOR2	225		Net discount on advance payment of cyclical fee to TOR2.
Service Company		66	Proposal still valid, actual savings to still be determined
Investment Fund	450		Revised estimate reflecting the expected return on the Capital Investment Fund and the recent decision of the Investment Committee..
Economic Development Company		150	Reduced level of savings to be provided by EDC linked to the Business Plan.
Actuarial Review pension fund	7		Impact of revised employers contribution rate for Local Government Pension Scheme and forecast discretionary pension payments
New Homes Bonus		2,300	Transfer to Sources of Finance – revised presentation
Changes in other grants & inflation	285	151	Revised 2017/18 allocations for a number of service specific grants.
Contingency for funding changes	500		NNDR1 and Collection Fund surplus now calculated and therefore this sum can be released.
Transformation	300		Use of 2016/17 underspend from transformation programme combined with use of capital receipts flexibility
<b>Net Expenditure Changes</b>		<b>1,305</b>	

## Summary Budget Proposals

As a result of the changes to funding and service expenditure detailed in the sections above, the Mayor's budget proposals for 2017/2018 are as follows:

	2017/2018	
	£000	£000
Mayor's Budget Proposal (November 2016) – <b>Funding</b>	106,944	
Funding Changes (from Table 1 above)	2,698	
Mayor's Budget Proposal (February 2017) – <b>Funding</b>		<b>109,642</b>
Mayor's Budget Proposal (November 2016) – <b>Net Expenditure</b>	106,944	
Reversal of Use of Reserves	1,393	
Service Expenditure Changes (from Table 2 above)	1,305	
Mayor's Budget Proposal (February 2017) – <b>Net Expenditure</b>		<b>109,642</b>

## Revenue Budget 2017/2018

The Council is being asked to approve the Mayor's proposal for the total net revenue budget for 2017/2018 and the budget that will be required to be funded from Council Tax, as set out in the following table:

	2017/2018	
	£000	£000
Net Revenue Expenditure	108,487	
Adult Social Care (funded from 2% Council Tax)	1,155	
Total Net Revenue Expenditure		<b>109,642</b>
<b>Funded by:</b>		
Business Rate Retention Scheme	(30,760)	
Revenue Support Grant	(14,188)	
Other Grants – New Homes Bonus, Education Support Grant and Local Services Support Grant	(2,454)	
Council Tax Requirement	(60,075)	
Collection Fund (Council Tax and NNDR)	(2,165)	
Total Income		<b>109,642</b>

The value of Council Tax resulting from a rise in the Torbay element of the Council Tax of 3.99% is £60.075 million. A 3.99% rise will increase the Band D Council Tax in Torbay by £52.33 (of which the 2% rise for adult social care is £26.23).

When the Council formally sets the Council Tax, the Council's budget has to include the budget for the Brixham Town Council which is due to be confirmed on 16 February 2017. The value of this precept will be included as part of the Torbay Council budget for Council Tax setting purposes.

The Council is also being asked to approve the allocation of the 2017/2018 revenue budget to individual services as identified in the Budget Digest which has been circulated separately. The allocation of budget to services is a key part of the Council's financial control arrangements. The Financial Regulations in the Constitution govern any subsequent in-year budget changes. The approval of fees and charges for 2017/2018, in addition to supporting the achievement of budgeted income, provides clarity to services and service users. The Officer Scheme of Delegation governs any subsequent in-year fees and charges changes.

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

Service	Expenditure £000	Income £000	Net £000
<b>Joint Commissioning Team</b>			
Children's Services	77,614	(48,740)	28,874
Adult Social Care	42,539	(1,946)	40,593
Public Health	11,116	(1,479)	9,637
<b>Sub-Total – Joint Commissioning Team</b>	<b>131,269</b>	<b>(52,165)</b>	<b>79,104</b>
<b>Joint Operations Team</b>			
Community and Customer Services	103,018	(75,652)	27,366
Corporate and Business Services	37,858	(34,686)	3,172
<b>Sub-Total – Joint Operations Team</b>	<b>140,876</b>	<b>(110,338)</b>	<b>30,538</b>
<b>Total</b>	<b>272,145</b>	<b>(162,503)</b>	<b>109,642</b>

# Capital Plan 2017/2018

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

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

Over £44 million is planned to be spent as we work towards a more prosperous Torbay. Schemes such as the redevelopment of Claylands, investment at Torbay Business Plan and the creation of the Electronics and Photonics Innovation Centre are aimed at ensuring jobs are maintained and created in Torbay. We will continue to maintain and improve the infrastructure within Torbay.

We will invest to ensure Torbay remains an attractive and safe place to live and visit including the replacement of our CCTV system. We will work with partners such as the Environment Agency to secure our sea defences.

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

# Table of all proposals

(The shaded proposals have changed or been added since November 2016)

Protecting children and giving them the best start in life			
Ref.	Service Area	2017/18 £000	2018/19 £000
1.1	Schools and Education	50	
1.2	Torbay Youth Service	175	0
1.3	Info, Advice and Guidance	25	40
1.4	Integrated Youth Support	80	
1.5	Substance Misuse Service	21	
1.6	Home to School Transport	59	59
1.7	Staffing	437	
1.8	Permanence Planning	411	

Ensuring Torbay remains an attractive and safe place to live and visit (continued)			
Ref.	Service Area	2017/18 £000	2018/19 £000
4.17	Street Wardens	22	
4.18	Concessionary Bus Fares	150	
4.19	Dog Warden Service	25	
5.1	Library Services	70	200
7.4	Beach Services	26	20

Working towards a more prosperous Torbay			
Ref.	Service Area	2017/18 £000	2018/19 £000
7.1	Parking Review and Strategy	50	50
7.2	Review of Assets	50	50
7.3	Investment Portfolio	600	0
7.5	Tor Bay Harbour	42	78
7.6	Spatial Planning	44	20
7.7	Economic Development	150	200
7.8	Estates and Maintenance	150	
7.9	Land Drainage	25	
7.10	Asset Disposal Costs	16	

Protecting and supporting vulnerable adults			
Ref.	Service Area	2017/18 £000	2018/19 £000
2.1	Integrated Care Organisation	900	0
2.2	Healthwatch	10	11
2.3	Youth Homelessness	5	
2.4	Tenancy Training	5	
2.5	Community Engagement	22	
2.6	Citizens Advice Bureau	8	6
2.7	Young Parents	0	0
2.8	seAp		3
2.9	Project Search		38
2.10	Cumberland Mental Health Support	10	
2.11	Homelessness and Hospital Discharge	15	
2.12	Simple Aids for Daily Living	20	20

Promoting healthy lifestyles across Torbay			
Ref.	Service Area	2017/18 £000	2018/19 £000
3.1	Community Development Trust	16	60
3.2	Lifestyle Service	119	
3.3	Health Checks	65	0
3.4	Sexual Health Services	106	50
3.5	Public Health Reserve	166	
3.7	Substance Misuse Services	156	77
3.8	Smoke Free South West	10	
3.9	Public Health Nursing	255	73
3.10	Public Health Administration	121	93

Corporate Support			
Ref.	Service Area	2017/18 £000	2018/19 £000
5.2	IT Services	145	10
5.3	Benefit Operations	47	52
5.4	Housing Benefit	100	
5.5	Printing	25	25
6.1	Income Optimisation		250
6.2	Minimum Revenue Provision	790	
6.3	External Audit Fees	30	
6.4	Pension Enhancements	50	50
6.5	Policy and Business Support	10	45
6.6	Communications		8
6.7	Internal Audit	20	20
6.8	Finance	25	50
6.9	Members Allowances	7	7
6.10	Governance Support	20	18
6.11	Human Resources		44
6.12	Corporate Recruitment	7	
6.13	Legal Services	5	5
6.14	Insurance Premiums	50	
6.15	Bank Charges and Fees	5	
6.16	Interest Payable		70
6.17	Collection of Council Tax and Business Rates	250	250
6.18	Retained Business Rates		25
6.19	Council Tax Support	300	
6.20	Pension Arrangements	0	0
6.21	TOR2 Advance Payment	225	

Ensuring Torbay remains an attractive and safe place to live and visit			
Ref.	Service Area	2017/18 £000	2018/19 £000
4.1	Events and Culture Review	20	20
4.2	Sports and Leisure Review	45	
4.3	Enforcement Pilot	25	
4.4	Public Toilets		250
4.5	Grounds Maintenance		50
4.6	Events Development	15	15
4.7	Observation Wheel	10	
4.8	Food Safety	46	
4.9	Street Lighting	82	
4.10	Highway Maintenance	250	
4.11	Highways Inspections	60	
4.12	Road Safety Services	68	
4.13	Geopark Support		20
4.14	Recycling Support	35	
4.15	Natural Environment	61	
4.16	Energy from Waste	125	



**Meeting:** Council **Date:** 2 February 2017

**Wards Affected:** All

**Report Title:** Revenue Budget 2017/2018

**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](mailto:mayor@torbay.gov.uk)

**Supporting Officer Contact Details:** Martin Phillips, Head of Finance, 01803 207285, [martin.phillips@torbay.gov.uk](mailto:martin.phillips@torbay.gov.uk)

## 1. Proposal and Introduction

- 1.1 The Council has a statutory responsibility to set a budget each year. By setting and approving the net revenue budget for 2017/2018, the budget allocations proposed and the expenditure undertaken will be used to achieve a range of objectives across a number of plans within the Council. This will meet the ambitions expressed within the Corporate Plan and other related strategies.
- 1.2 In accordance with the Council's Constitution, Members are asked to either confirm their agreement to the recommended budget or put forward objections, and then amendments for consideration at future meetings.
- 1.3 Within the budget setting process, the Chief Finance Officer must statutorily provide advice as to the robustness of the budget and this report sets out this opinion.

## 2. Reason for Proposal

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

## 3. Mayor's Budget Proposal

- 3.1 That the proposals identified for service change, income generation and efficiencies in 2017/2018 and 2018/2019 be approved.
- 3.2 That the net revenue expenditure of £109.642m resulting in a Council Tax requirement of £60.075m for 2017/2018, a 3.99% increase which includes a 2% increase in Council Tax specifically for adult social care be approved.

- 3.3 That, in relation to 3.2 above, the Council's commitment (by a statement signed by the Chief Financial Officer) to allocate the additional funding of £1.155m raised by the 2% increase in Council Tax to adult social care be confirmed.
- 3.4 That the Dedicated Schools Grant be used in accordance with the Schools Financial Regulations and that the Chief Finance Officer be authorised to make amendments as required when the final figures are confirmed.
- 3.5 That, in accordance with the requirement of the Local Government Act 2003, the advice given by the Chief Finance Officer with respect to the robustness of the budget estimates and the adequacy of the Council's reserves (as set out in the report) be considered and noted.
- 3.6 That is be noted that Brixham Town Council has yet to set its budget for 2017/2018 and this precept, when known, will be included as part of the Torbay Council budget for Council Tax setting purposes.

#### **4. Background Information**

- 4.1 The Mayor has published his Budget Proposals and these have been circulated to all Members of the Council. All Members have also been provided with copies of the supporting information which has been published alongside the Budget Proposals:
- Chief Financial Officer's Report
  - Revenue Budget Digest 2017/2018 (including the proposals for service change, income generation and savings)
  - Fees and Charges 2017/2018
  - Equality Impact Assessments
- 4.2 In developing the budget proposals for 2017/2018, a number of proposals for service change, income generation and savings have also been identified for 2018/2019. Approval of those proposals is being sought at this stage. Further proposals for future year's savings will be brought forward over the course of the coming year as the Council's transformation programme continues to be implemented in line with the approved Efficiency Plan.

#### **5. Robustness of the budget estimates**

- 5.1 Key to budget setting is the robustness of the budget proposals, which is linked to both service demands and the risks associated with those services. A number of assumptions have been made in the development of the budget for 2017/2018 in order to mitigate against the risks. A number of specific risks and their mitigation are shown below:

<b>Risk</b>	<b>Risk Rating (High/Medium/Low)</b>	<b>Mitigation</b>
Inability to deliver a balanced budget over the next three financial years	High	Annual Planning cycle for budgeting supported by the transformation programme.
Overspend against the proposed 2017/2018 Adult Services budget	High	Specific contingency budget of £1.725m for some of the Council exposure under the Risk Share Agreement (RSA) for adult social care.  Action being taken by Director of Adults



<b>Risk</b>	<b>Risk Rating (High/Medium/Low)</b>	<b>Mitigation</b>
		<p>Services (DAS) and S151 officer to hold the Integrated Care Organisation (ICO) to account for their expenditure in 2017/18.</p> <p>Proposals include a 2% increase in Council Tax for adult social care, (maximum possible rise 3%).</p>
Potential additional costs in 2017/18 after the expiry of the current RSA with the ICO and CCG (from January 2018)	High	Action being taken by DAS, Executive Lead and S151 officer to propose resolution to the risk around the notice to the RSA given by the ICO.
Identified budget reductions for 2017/2018 are not achieved	Medium	<p>Monthly monitoring of current year financial position by Senior Leadership Team including a "savings tracker".</p> <p>Contingency budget of £0.250m in 2017/18 revenue budget.</p> <p>Directors, Executive Heads and all managers have a responsibility to ensure they maintain their spend within the approved budget allocation.</p> <p>The Council also has in place a series of regular revenue and capital monitoring reports, which are presented to the Overview and Scrutiny Board and the Council which review the budget on a quarterly basis throughout the financial year, which mitigates against the risk of inadequate financial control.</p>
Overspend against the proposed 2017/2018 Children's Services budget	Medium	Director of Children's Services (DCS) has a service recovery plan that is being implemented, supported by a range of monitoring and performance arrangements.
Volatility of NNDR Income	Medium	Provision for appeals and non collection included in 2017/18 NNDR income estimate.
Insufficient income generated in future years	Medium	Annual Planning cycle for budgeting supported by the transformation programme.
Loss of Judicial Review appeal in relation to care home fees	Medium	Specific contingency budget for Council exposure for 2017/18 and for past years balance held in reserve.
Insufficient reserve levels	Medium	Review of Reserves report presented to the Council and £5.1m maintained in the General Fund balance.
Currently unknown financial issues arising during the financial year	Low	Review of Reserves report presented to the Council and £5.1m maintained in the General Fund balance.
Exposure to changes in interest rates	Low	Treasury Management Strategy to be approved by the Council. All borrowing currently on fixed rate deals.
Inflationary pressures	Low	Budget build has included estimates of inflation where applicable.
Income linked to major prudential borrowing schemes not achieved at forecast levels.	Low	Approval by Council supported by a detailed business case
Insufficient capacity to deliver the Transformation Programme	Low	Provision in 2017/18 budget for £0.6m for transformation and £0.3m to increase Council capacity in key positions.

- 5.2 In accordance with the requirement of the Local Government Act 2003, the Chief Financial Officer must report to the Council on “the robustness of the estimates made for the purposes of the (budget) calculations” and the “adequacy of the proposed financial reserves”.
- 5.3 Taking account of the financial risks facing the Council and the mitigations outlined in paragraph 5.1 above, the Chief Financial Officer’s Statement is as follows:

“I have taken into account information, risks and assurances from the Mayor, the Executive and the Senior Leadership Team in forming my opinion. I can only give a qualified opinion that the 2017/2018 budget is based on robust budget estimates. This qualified opinion is solely as a result of the significant risks facing the Council in respect of adult social care expenditure.

It is imperative that I detail the significant risks associated with adult social care expenditure. The risks arise from two issues. Firstly under the Risk Share Agreement (RSA) with the Integrated Care Organisation (ICO) the Council is exposed to a 9% share of any ICO deficit. The current ICO financial position demonstrates an increasing deficit, with their financial position for 2017/18 also reliant on a significant value of savings which are yet to be delivered. Secondly, the ICO has given notice to withdraw from the current RSA, therefore at this stage the Council does not have a contract, nor a cost for that service, for the last three months of the 2017/18 financial year. Both of these issues result in significant risks to the Council.

The Mayor’s final budget proposals do provide a sum as a contingency for adult social care in mitigation of these risks, and the Mayor has increased the level of this from that contained within his original proposals. It is, however, my clear advice that, even taking this into account, significant financial uncertainty still exists. This risk would be further mitigated against if the Council were to increase Council Tax by the further 1% permissible in 2017/18 for adult social care.

I will be seeking continued assurances from the Chief Executive and the Director of Adult Social Care over the first quarter of the financial year that actions are being taken to minimise the risks in adult social care. At the same time I will also be working with the Chief Executive and Senior Leadership Team to minimise risks elsewhere and ensure progress of the transformation programme. I will report back to the Council at its July meeting on the assurances received.

This opinion is supported by the maintenance of Council reserves at a prudent level and the delivery of the agreed Efficiency Plan supported by a focused transformation programme and a dedicated transformation team to lead the programme, in order to achieve a balanced and robust budget until 31 March 2020.”

- 5.4 In relation to reserve levels, the statement in the review of reserves report is

“The Council is continuing to face unprecedented financial challenges. At this stage I can only state that I can be satisfied that the Council’s General Fund and Earmarked Reserves, including Insurance Reserves, are

adequate for the Council's Financial Plans for 2017/18 to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment, if the following actions are undertaken:

- a) The Comprehensive Spending Review (CSR) Reserve has a balance of £2.0m to fund 2016/17 projected overspend,
- b) The General Fund reserve has a minimum balance equal to 5% of net budget ,
- c) By 2019/20 a minimum ongoing balance of £2m is budgeted for in the CSR reserve,
- d) Children's Social Care achieve their improvement plans,
- e) Adult Social Care (via the ICO) develop and achieve a realistic cost reduction plan and the future contractual arrangements for adult social care from January 2018 are developed at pace,
- f) A balanced budget can be set for 2017/18,
- g) The Council delivers its transformation programme at pace.”

#### 5.5 Statement from the Chief Executive

“All members of the Council are aware of the ongoing financial pressures faced by Torbay Council. We are continuing to work together to deliver our Transformation Programme in order to meet the targets that the Council set in its Efficiency Plan which covers the next three years. I wish to remind members that the Efficiency Plan continues to show a significant funding gap.

The proposed budget relies upon a number of non-recurring sources of funding. Whilst allowing the Mayor to propose a balanced budget for 2017/2018, the use of non-recurrent sources of funding adds to the significant gap in future years. Additionally, there are low levels of reserves and the Chief Financial Officer has consistently advised that reserves cannot be relied on to address foreseeable budget pressures.

Members are also aware of the pressures within the Integrated Care Organisation, the impact that this is having on the Council in the current financial year and the likely impact that there will be on the Council in 2017/2018. This has been detailed in the Chief Financial Officer's Statement.

The Senior Leadership Team will continue to work with our partners to find a local solution for the delivery of an integrated health and social care system which meets the needs of our population but which does not further increase the pressure on Council finances.

The Executive and Senior Leadership Team will also work with other local authorities, the Local Government Association and the Association of Directors of Adult Services to lobby for national solutions to the crisis in health and social care. However, the Government has already recognised that there is a need for additional funding and has provided flexibility for councils to raise Council Tax by a total of 3% for adult social care in 2017/2018 and 2018/19.

It is the unanimous view of the Senior Leadership Team that full advantage should be taken of this flexibility in the next financial year in order that the Council's base budget can be increased and built on in future years. The Senior Leadership Team therefore strongly recommends that Council Tax is raised by 3% for additional adult social care costs in 2017/18.”

# REVENUE BUDGET 2017/2018

## Chief Finance Officer's Report

Published: 2 February 2017

## **1 Introduction**

- 1.1 This report by the Council's Chief Finance Officer supports both the Mayor's Budget proposals and the opinion on the robustness of the budget estimates given in the covering report to the Revenue Budget 2017/18.
- 1.2 This report aims to provide further information and an overview of a number of key factors, including a number of "technical" finance issues, that have influenced the 2017/18 budget and raises issues for future financial years.

## **2 Overview – Context and Outlook**

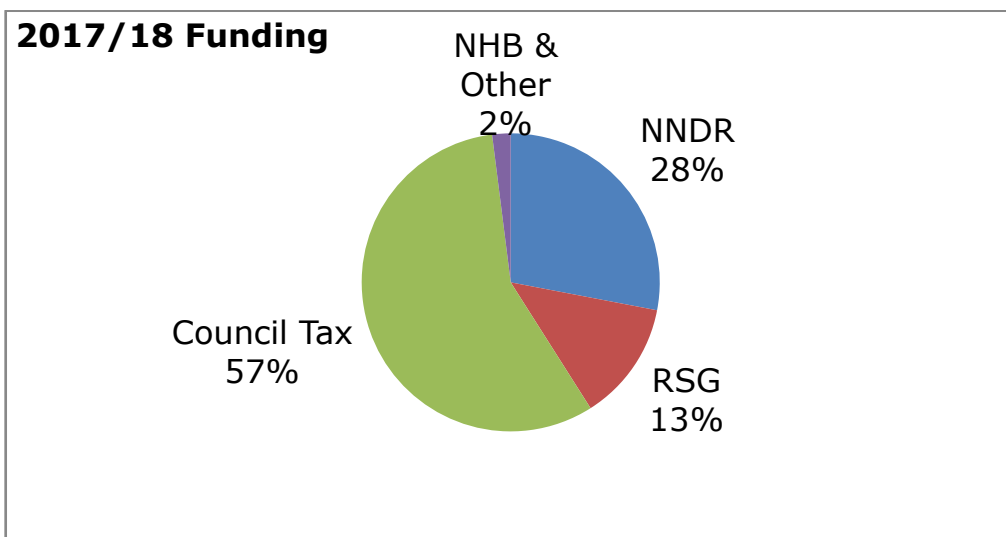
- Budget Overview 2017/18
- Local Government Settlement 2017/18
- Dedicated Schools Grant 2017/18
- Adult Social Care
- Children's Services
- Estimation of Collection Fund Surplus/Deficit 2017/18
- Council Tax and Referendum Limits 2017/18
- Better Care Fund 2017/18
- Link between Capital Plan and Revenue budget
- External Peer Reviews
- Transformation Programme
- Longer Term Future Council Funding

## **3 Budget Overview 2017/18**

- 3.1 The 2017/18 budget is for the second financial year after the election of the Conservative Government in May 2015. Government announcements including the four year Spending Review (November 2015) and the subsequent Local Government Finance Settlements and Autumn Statement 2016 has confirmed the continuation of the national "austerity" process where local government funding is being significantly reduced as demand for services and service costs continue to rise.
- 3.2 Although the new Prime Minister and Chancellor have signalled some softening and/or extending the period of austerity this has not been applied to Local Government Funding with the Chancellor in his Autumn 2016 statement confirming the control totals in the Spending Review 2015 and with DCLG confirming the "four year offer" to Councils. This results in Torbay's Revenue Support Grant reducing from £27m in 2015/16 to £6m in 2019/20.
- 3.3 These ongoing reductions in core funding combined with rising costs and demand continue to create significant financial challenges to the Council. It is absolutely essential that Members consider the 2017/18 budget proposals in the context of the significant future year budget reductions required.
- 3.4 The Council's financial planning for 2017/18 started in June 2016 and the Mayor's provisional budget proposals were published on 4th November 2016 enabling a period for consultation and scrutiny of the proposals.

- 3.5 The proposals for 2017/18 have required over £7.6m of reductions to achieve a balanced budget. This has required the proposal of a number of difficult choices for the Council. The reductions identified for 2017/18 are a good step towards the total estimated reductions required over the next four years, but this is in the context of an estimated £20m of further reductions to be achieved over the next three financial years.
- 3.6 The proposals have sought to limit the impact of the reductions on the more vulnerable in society and within Children's social care the Council is recommended to invest additional funds for the safeguarding of children.
- 3.7 To support the difficult budget challenges facing the Council it is proposed by the Mayor that the Council increases its Council Tax requirement by 1.99%. In addition it is proposed by the Mayor to take the option of supporting adult social care by raising the Council tax by a further 2%. (maximum permitted in 2017/18 is 3%).
- 3.8 Members of the Overview and Scrutiny Board (Priorities and Resources) examined the proposals in detail and stakeholders and residents have had the opportunity to make representations on the proposals through the consultation. The Mayor reviewed all of the responses received and the final saving proposals were drawn up after consideration of the responses.
- 3.9 This report supports the Revenue Budget 2017/18. Other budget related reports being presented to Council in February which are relevant to the Council's overall financial position are:
- a) 2016/17 Revenue Budget Monitoring Report – Quarter Three
  - b) 2016/17 Capital Plan Monitoring Report – Quarter Three
  - c) 2017/18 Capital Plan
  - d) Capital Strategy and Capital Receipts Strategy
  - e) Corporate Asset Management Plan
  - f) 2017/18 Treasury Management Strategy, including Investment Policy and Minimum Revenue Provision Policy
  - g) 2017/18 Review of Reserves
  - h) Annual Strategic Agreement (for adult social care)
  - i) Children's Services Financial Plan (February 2017)
- 3.10 In addition members may wish to also refer to the Efficiency Plan and Medium Term Resource Plan, both are available on the Council's website.
- 3.11 Budget Digest pages, Fees and Charges and updated budget proposals sheets are available separately along with any relevant equalities impact assessments.
- 3.12 A summary of the Council's 2017/18 budget is as follows:

	<b>2017/18</b>	
	£'000	£'000
<b>Mayor's Budget Proposal:</b>		
Net Revenue Expenditure	108,487	
Adult Social Care funded from 2% Council Tax	1,155	
<b>Total Net Revenue Expenditure</b>		<b>109,642</b>
<b>Funded By:</b>		
Business Rate Retention Scheme	30,760	
Revenue Support Grant	14,188	
New Homes Bonus Grant	2,300	
Other Grants	154	
		<b>47,402</b>
Council Tax Requirement	60,075	
Collection Fund - NNDR/Council Tax	2,165	
		<b>62,240</b>
<b>Total Income</b>		<b>109,642</b>



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

Business Unit/Service	16/17 Budget	2017/18		
	Net	Expenditure	Income	Net
	£000's	£000's	£000's	£000's
<b>Joint Commissioning Team (JCT)</b>				
Adult Social Care Total	39,293	42,539	(1,946)	40,593
Dedicated Schools' Grant	0	36,786	(36,786)	0
Children's Services	28,955	40,828	(11,954)	28,874
Reserve identified for Children's	(1,100)	0	0	0
Public Health and Community Safety	9,892	11,116	(1,479)	9,637
<b>Sub Total – Joint Commissioning Team</b>	<b>77,040</b>	<b>131,269</b>	<b>(52,165)</b>	<b>79,104</b>
<b>Joint Operations Team (JCT)</b>				
Community & Customer Services	28,107	36,874	(9,213)	27,661
Housing Benefit	(195)	66,144	(66,439)	(295)
Corporate & Business Services	7,202	37,858	(34,686)	3,172
New Homes Bonus Grant (now in funding)	(3,098)	0	0	0
<b>Sub Total – Joint Operations Team</b>	<b>32,016</b>	<b>140,876</b>	<b>(110,338)</b>	<b>30,538</b>
<b>TOTAL</b>	<b>109,056</b>	<b>272,145</b>	<b>(162,503)</b>	<b>109,642</b>

#### 4 Local Government Settlement

4.1 The DCLG announced the Local Government Finance Settlement on 16th December 2016. Since that date a number of individual departmental announcements have also been made. Where these are known, these have been included in the 2017/18 budget proposals.

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

- The Council's Revenue Support Grant (RSG) is as per the four year funding "offer" linked to the submission of an Efficiency Plan in October 2016. Torbay's RSG is to reduce from £20m in 2016/17 to £14m in 2017/18. Torbay's RSG is to reduce to £14m in 2018/19 and to £6m in 2019/20. Nationally only 10 Councils did not take the four year funding "offer".
- Referendum limit for all Councils set at 2% and over for 2017/18, or by £5 (excluding the option for adult social care). DCLG projections of spending power for Councils assume that this rise is approved.



- Councils with social care responsibilities previously had the option of increasing council tax by a further 2% per annum for each of the next three years to help meet the increased costs of adult social care. Over three years this would have been a total of 6% - i.e. (2+2+2). However Councils now have the option of changing the profile of those increases to be 3% per annum for the first two years – i.e. (3+3+0), but keeping a total rise over three years of 6%. A two percent rise generates £1.155m for adult social care and a three percent rise generates £1.732m
- There are significant changes to the calculation of the New Homes Bonus Grant. The “reward” for housing growth will now be paid for four years not six (with a transition year in 2017/18 of five years). Reward will only be paid on growth over a threshold of 0.4% and only paid on planning approvals for housing granted without an appeal. These changes were due to impact from April 2018 but have been brought in a year early in April 2017. This is a loss of grant of £0.8m for the Council in 2017/18.
- The bringing forward of the reduction in new homes bonus grant was to fund a new, one year only, adult social care grant. Torbay’s allocation is £0.8m which has been shown as income to adult social care in the Council’s budget.
- The combined impact of the above two grant changes on Torbay as a unitary council is therefore neutral.
- No (national) support or recognition for funding issues in Children's Social Care.
- To recognise the impact of the 2017 NNDR revaluation on the Council’s 49% share of NNDR income DCLG have adjusted the Council NNDR top up grant by a “proxy” calculation. This increase in top up grant is offset by the reduction in NNDR income from the revaluation. DCLG will revisit the adjustment when actual 2016/17 data is known.
- 100% NNDR retention (currently 49%) by “end of parliament” for Councils is still an active proposal. A Local Government Finance Act is expected in 2017 to establish the legal basis for this change although the detail of how the scheme will operate is yet to be confirmed. The introduction of this change will, in theory, be fiscally neutral as RSG and other funding will be adjusted and, as yet unnamed, new responsibilities to be passed to Councils. This could include public health and housing benefit administration. The challenge for DCLG and local government is to have a system that both rewards growth but also maintains a link to a councils “need” for funding.

4.3 Note: in writing this report (30/1/17) the final local government finance settlement has not been issued by DCLG.

## **5 Dedicated Schools Grant**

5.1 The Council has to confirm that it will be directing the entire grant received in respect of Dedicated Schools Funding through to those areas defined in the School Finance Regulations. For 2017/2018 the allocation of Dedicated Schools Grant before academy school recoupment is £95.3m. Of this total, it is recommended that approximately £36.8m be included in the Council’s budget for schools related expenditure for its own (maintained) schools.

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

## 6 Adult Social Care

6.1 The budget for Adult Social Care comprises the following elements

### 2016/17

ASC Budget	38,193
2% Council Tax Precept	1,100

**Total ASC 2016/17** **39,293**

### 2017/18

Total ASC 2016/17	39,293
2% Council Tax Precept	1,155
ICO Efficiencies/Savings	(955)
Social Care Grant	(833)
Inflation/additional budget	2,658

**Total ASC 2017/18** **41,318** (ASC £40.593m, Corporate £0.725m)

Net Increase year on year 2,025 5% increase

6.2 As outlined in the Revenue Budget covering report there are significant risks associated with adult social care expenditure. The risks arise from two issues. Firstly under the RSA with the ICO the Council is exposed to a 9% share of any ICO deficit. The current ICO financial position demonstrates an increasing deficit, with their financial position for 2017/18 also reliant on a significant value of savings which are yet to be delivered. The National regulators for the NHS now require a greater 'surplus' to be achieved by the ICO and CCG in order to receive additional transformation monies, and this is different to the original 5 year business case the Council signed up to. Secondly, the ICO have given notice to withdraw from the current RSA, therefore at this stage the Council does not have an acceptable contract, or a clear cost for that service, for the last three months of the 2017/18 financial year. Both of these issues result in significant risks to the Council given there are upward price pressures on providers in the independent sector.

6.3 The Mayor's final budget proposals do provide a sum as a contingency for adult social care in mitigation of these risks, and the Mayor has increased the level of this from that contained within his original proposals. It is however clear that, even taking this into account, significant financial uncertainty still exists. This risk would be further mitigated against if the Council were to increase Council Tax by the further 1% permissible in 2017/18 for adult social care, however even with this additional increase a significant risk still exists. The national debate on adult social care and the sustainability of it has been fronted by ADASS with national government and the response which allows a local tax to be used for adult social care is intended to support those areas like Torbay which are struggling to sustain social care services.

- 6.4 The summary in 6.1 above demonstrates that the Council expenditure on ASC has increased year on year over the value of the 2% council tax precept raised for adult social care. This additional funding is expected to be paid to the ICO under the RSA agreement to meet the service's needs as outlined in the Annual Strategic Agreement.
- 6.5 For clarity the Council's budget proposals for 2017/18 includes the contract sum as agreed in the September 2015 Risk Share Agreement to the ICO for adult social care of £35.6m adjusted for an element in relation to care home fees of £0.860m. The budget proposals include the subsidy to the CCG of £0.9m as a result of the national mediation process in 2016/17 between the council and the CCG for the Better Care Fund. If the current RSA does expire then this payment will not be made beyond that point and the Council and CCG will have to renegotiate the allocation of the Better Care Fund in line with national guidance.

## 7 Children's Services

- 7.1 The budget for Children's Services comprises the following elements

### 2016/17

Children's Budget	28,955
-------------------	--------

<b>Total Children's 2016/17</b>	<b>28,955</b>
---------------------------------	---------------

### 2017/18

Total 2016/17	28,955
Placement Costs - rebase	1,000
Placement cost savings	(411)
Inflation/Pension	462
Funding Change	(285)
Efficiencies/Savings	(847)

<b>Total 2017/18</b>	<b>28,874</b>
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Net Decrease year on year	(81)	0.3% decrease
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- 7.2. The budget for children's services for 2017/18 is influenced by the Council's (new) Director of Children's services that commenced in July 2016. In addition to taking steps in 2016/17 to stabilise the financial position the Director has also revised the Ofsted Improvement Plan and set out a revised Medium Term Financial Strategy, with support from internal and external sources. The changed approach places a focus on activity that will improve outcomes for children and families whilst also addressing areas of high aggregate spend and per capita costs. A (prudent) proportion of the potential savings identified for 2017/18 have been included in the 2017/18 budget proposals.
- 7.3. As a result of the above, the base budget for Children's Services has remained more or less unchanged year on year. Previous financial plan agreed in October 2014 had envisaged a reduction in £1.1M in the base budget for 2017/18 which has not proven practicable. This acknowledges that the actions to date, whilst delivering tangible savings, have merely gone some

way to addressing historical overspends, although the revised strategy does aim to reduce the base budget in future years to bring it in line with comparators.

## 8 Estimation of Collection Fund Surplus/Deficit

- 8.1 The Council makes an estimate of the surplus or deficit on the Collection Fund at year end from under or over achieving the estimated council tax collection rate. As the Council sets a collection rate within its tax base equivalent to the amount collected in the 12 months of the next financial year any surplus primarily represents the collection of sums due in respect of previous years. This indicates a level of success in collecting old year debts and raises the overall, longer term, collection rate to above the in year rate of 96%.
- 8.2 The latest estimate of the Collection Fund in year in respect of Council Tax as at 31 March 2017 is a £2.6m surplus.
- 8.3 This surplus has to be shared in 2017/18 between Torbay Council, Devon and Cornwall Police and Crime Commissioner's Office and Devon and Somerset Fire and Rescue Authority in accordance with their demands on the Collection Fund for 2016/17. The estimated share of the 2016/17 surplus to be distributed in 2017/18 is as follows:

	Share of Surplus £m	Share %
Torbay Council	2.215	84%
Devon and Cornwall Police and Crime Commissioners Office	0.291	11%
Devon and Somerset Fire and Rescue Authority	0.135	5%
Totals	2.641	100%

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

## 8.5 National Non-Domestic Rates

- 8.6 The Council's NNDR income comprises three parts: Its 49% share of NNDR income, a s31 grant to reflect the loss of NNDR income to the council from central government changes to the NNDR (e.g. SBR) and a Top Up grant that reflects the difference in the Council's assessed "need" for funding compared to its actual ability to raise NNDR income (as assessed in 2013).
- 8.7 The 2017 NNDR revaluation has impacted on Torbay. DCLG have stated their intention for this change to be fiscally neutrals to Councils. For Torbay the gross rateable values fell 6% from £98m to £92m.
- 8.8 To reflect this loss of income DCLG have increased the Council's Top Up Grant to £14.0m. This was calculated under a "proxy" calculation linked to 2015/16 data so will be updated for 2016/17 actual data in due course. Council's 49% share of NNDR income has reduced from the revaluation and has been estimated at £14.9m for 2017/18 (as per NNDR1 return to DCLG). The 2017/18

NNDR income figure is also influenced by national changes to the NNDR reliefs and thresholds. As a result the Council is estimated to receive £1.8m of funds (as s31 grant) to compensate for the financial impact of these national changes. Within the NNDR1 the value of the transitional arrangements for the phasing in of the financial impact on the 2017 revaluation on businesses is £3.6m. These arrangements are fiscally neutral for the Council.

8.9 Since the introduction of the Business Rates Retention Scheme in April 2013, the Council is also required to declare a surplus or deficit for NNDR in a similar way as set out above for council tax. The forecasting of NNDR has involved a wide range of complex variables and influences and is a new area which has caused further complications for medium term financial planning. The NNDR 1 form is the primary return to meet this outcome and an extract is attached as appendix one.

8.10 Overall the Council has declared an estimated deficit position of £0.106m on its Collection Fund in respect of NNDR as at 31st March 2017. This is apportioned between the Council (49%), the Devon and Somerset Fire and Rescue Authority (1%) and central government (DCLG) (50%). The Council's share of the deficit is £51,000. The NNDR reserve will be used in 2016/17 to smooth the impact and timing of this variance between the section 31 NNDR grant and the NNDR deficit being funded.

## **9 Council Tax and Referendum Limits**

9.1 To control the level by which local authorities can increase Council Tax, the Government has set limits at which point a referendum would be required. This have been set at 2% or over for 2017/2018. The Mayor's budget proposal is for a 1.99% increase in this element.

9.2 The Council is responsible for social care and is therefore able to raise its Council Tax from April 2017 by a further 3% each year subject to the increased tax income being allocated to adult social care. The Mayor's budget proposal is for a 2% increase in this element. A two percent rise generates £1.155m for adult social care and a three percent rise would generate £1.733m

9.3 Therefore the Mayor is proposing a 3.99% rise in the Torbay Council share of the overall Council Tax for 2017/2018.

9.4 Councillors will be aware that the Council Tax bill sent out to residents is made up of three main component parts, namely Torbay Council, Devon and Cornwall Police Authority and Devon and Somerset Fire and Rescue Authority. The Secretary of State will consider the three component parts, not the overall bill, and, if one of the three organisations were capped, the Council would have to re-bill.

9.5 Councillors will also be aware that, in addition, there will be a separate Council Tax charge for residents in the Brixham Town Council area.

9.6 At the time of writing, Brixham Town Council, the Devon and Cornwall Police and Crime Commissioner's Office and the Devon and Somerset Fire and Rescue Authority have not set their budgets for 2017/2018 or their Council Tax level. Once these have been declared they will be including in the Council Tax setting report which will be presented to the Council at the end of February 2017.

- 9.7 In 2016/17 the Torbay Council area had the lowest band D Council Tax in Devon at £1,564.31 including (Adult Social Care, Fire and Police precept). A summary of other local Council's Band D rates are as follows:

	Torbay (Unitary council)	Plymouth (Unitary council)	Exeter (City Council)	South Hams (District Council)	Teign – bridge (District Council)
District Council	-	-	140.05	150.42	155.17
Devon County (including Adult Social Care precept)	-	-	1,207.62	1,207.62	1,207.62
<b>Total including Adult Social Care Precept</b>	<b>1,311.49</b>	<b>1,346.99</b>	<b>1,347.67</b>	<b>1,358.04</b>	<b>1,362.79</b>
Fire & Police	252.82	252.82	252.82	252.82	252.82
<b>Band D (excluding parish precepts)</b>	<b>1,564.31</b>	<b>1,599.81</b>	<b>1,600.49</b>	<b>1,610.86</b>	<b>1,615.61</b>

## 10 Better Care Fund

- 10.1 From April 2015 central government integrated some social care funding and some health funding into a Better Care Fund which is operated as a pooled budget (approx £12m) between the Council and the Clinical Commissioning Group (CCG) as the host. For the Council this includes the s256 funds (£3m) the Council had received directly for adult social care.
- 10.2 In the agreed RSA for ASC which predated the BCF changes the Council had committed the value of the former s256 grant within its RSA contract payment. In March 2016 the CCG informed the Council that they would be cutting the value for social care within the BCF by £0.9m. The result of this is that the Council has to fund this shortfall by means of payment to the CCG. If the RSA does finish in line with the ICO twelve month notice period then this payment will not be made from January 2018 and the Council and CGG will renegotiate the BCF allocation in line with national guidance. The Council has not yet received national guidance for BCF which is due at the end of January 2017 for schemes that are due to commence in April 2017.

## 11 Link between Capital plan and Revenue budget

- 11.1 There is always a strong link between the Council's capital expenditure and its revenue income and expenditure in particular from capital expenditure funded from borrowing. All borrowing will result in increased revenue costs from both interest costs and principal repayments (reflected by the minimum revenue provision). For the majority of schemes, such as an "invest to save" scheme, these costs should be offset by an income or rental stream. There have, however, been capital projects approved funded initially by prudential borrowing that have an ongoing revenue cost.
- 11.2 The capital plan 2017/18 identifies the schemes funded from both types of prudential borrowing and identifies the ongoing revenue costs of those projects that do not have an income stream. These costs total in 2017/18 approx. £1.5m which include the interest and MRP costs in relation to South Devon Highway. The 2017/18 capital plan does not include the approval of any new borrowing schemes therefore the 2017/18 costs will be similar to 2016/17.

## **12 External Peer Reviews**

- 12.1 In November the Council's financial position and its financial management was subject to two "peer" reviews from the LGA and CIPFA. Both reports are being reported to Council at its meeting on 2 February 2017.
- 12.2 The reviews were useful in that they both highlighted a number of key issues for the Council. The issues particularly relevant to the Council's finances were:
- Need to make tough financial decisions at pace to achieve a balanced budget
  - Need to ensure due diligence is maintained when doing "new" activities
  - Focus on the key issues that will make a financial difference
  - Critically review the current RSA for ASC
  - Support service improvements in Children Services
  - Increase levels of both uncommitted (CSR) and general reserve
  - Ensure have the correct capacity to ensure the achievement of financial gains
- 12.3 In addition the reviews provided some useful benchmarking information on both income and expenditure which officers are investigating. Both reviews acknowledged the good job the Council's finance team was doing in very challenging circumstances.

## **13 Transformation**

- 13.1 Key to the longer term financial viability of the Council's the Council's transformation programme supported by a dedicated transformation team. The team has started to develop projects to help deliver financial savings. A number of these projects have already resulted in some savings which have been incorporated in the 2017/18 budget.
- 13.2 The financial challenge facing the council is significant therefore the transformation process is key to bringing forward viable projects "at pace". It is expected that the Council's 2018/19 and 2019/20 budget will be significantly informed by these projects.

## **14 Longer Term Future Council Funding**

- 14.1 DCLG, in the 2016/17 local government finance settlement, announced an (optional) four year funding settlement. Torbay in October 2016 accepted DCLG's offer of a four year minimum funding settlement linked to the Councils approval of an "efficiency plan" in September 2016.
- 14.2 The Medium Term Resource Plan will be updated by end of March 2017 to include the impact of the 2017/18 budget and the latest estimates of future year costs and funding. As a guide, prior to more detailed work being undertaken post budget setting, it is estimated that between 2017/18 and 2019/20 the Council will require in the region of £20m of reductions to achieve a balanced budget.
- 14.3 It is important for Members to be updated and then consider the potential future funding position for Councils by the end of the current parliament and what actions need to be taken in the short term. Central Government proposals are for Councils to retain 100% of NNDR while removing revenue support grant completely. In addition NNDR income may also replace other grant funding such as public health and housing benefit administration grant.

- 14.4 The aim is that Councils will then be self sufficient from central government “general” funding with Council funding being council tax and NNDR. The government in January 2017 announced the Local Government Finance Act which will establish the legal basis for the funding change along with a number of other local government and NNDR changes.
- 14.5 Councils therefore have a clear incentive that to secure funding for services in the future, there has to be increases in both its council tax base (housing) and NNDR (business).
- 14.6 This reliance on local taxation as the prime source of funding has risks as the link between a council’s need for funding to provide services (linked to population and demand) and its funding now linked to economic growth may not move in a similar direction. In addition NNDR income is volatile and is, to a large extent, outside a Council’s direct control. For example in 2015 a high court judgment on NNDR for GP surgeries has reduced Councils’ NNDR tax income in 2015/16 and future years. Under 100% NNDR income Torbay Council would have to fund all the cost implications of this judgment over which it had no control.
- 14.7 Although there is some certainty over future year RSG allocations there is uncertainty over a number of other elements of council funding in future years. The government has recently announced the results of its review of the New Homes Bonus Grant. However to be confirmed are the results of review of council funding formula which will increase or decrease the councils funding baseline, the actual proposals for the introduction of 100% NNDR retention by Councils and the linked potential allocation of new responsibilities to councils, allocation of funds for adult social care in the Enhanced Better Care Fund and the changes to funding from the final 2017 NNDR revaluation calculation due in 2017/18. All of these could impact significantly on future year council funding and budgets.

Appendix 1: NNDR1 2017/18



**NATIONAL NON-DOMESTIC RATES RETURN - NDR1  
2017-18**

Please e-mail to: [nldr.statistics@communities.gsi.gov.uk](mailto:nldr.statistics@communities.gsi.gov.uk) by no later than **31 January 2017**.  
In addition, a certified copy of the form should be returned by no later than **31 January 2017** to the same email address

**All figures must be entered in whole £**

If you are content with your answers please return this form to DCLG as soon as possible

Select your local authority's name from this list:

Authority Name  
E-code  
Local authority contact name  
Local authority contact number  
Local authority e-mail address

Torbay UA
E1102
Wendy Urban
01803 207520
wendy.urban@torbay.gov.uk

Ver 1

**PART 1A: NON-DOMESTIC RATING INCOME**

**COLLECTIBLE RATES**

1. Net amount receivable from rate payers after taking account of transitional adjustments, empty property rate, mandatory and discretionary reliefs and accounting adjustments £ **34,263,772**

**TRANSITIONAL PROTECTION PAYMENTS**

2. Sums due to the authority **0**

3. Sums due from the authority **3,609,793**

**COST OF COLLECTION (See Note A)**

4. Cost of collection formula **195,813**

5. Legal costs **0**

6. Allowance for cost of collection **195,813**

**SPECIAL AUTHORITY DEDUCTIONS**

7. City of London Offset : Not applicable for your authority **0**

**DISREGARDED AMOUNTS**

8. Amounts retained in respect of Designated Areas **0**

9. Amounts retained in respect of Renewable Energy Schemes (See Note B) **0**

of which:  
10. sums retained by billing authority **0**

11. sums retained by major precepting authority **0**

**NON-DOMESTIC RATING INCOME**

12. Line 1 plus line 2, minus lines 3 and 6 - 9 **30,458,166**

Please investigate the error messages shown below and make the appropriate changes to the form. Any comments should be added at the bottom of Part 4

Line 12 does not equal line 1 plus line 2, minus lines 3 and 6 to 9. Please check why.

Local Authority : Torbay UA

Ver 1.00

**PART 1B: PAYMENTS**

**This page is for information only; please do not amend any of the figures**

The payments to be made, during the course of 2017-18 to:

- i) the Secretary of State in accordance with Regulation 4 of the Non-Domestic Rating (Rates Retention) Regulations 2013;
  - ii) major precepting authorities in accordance with Regulations 5, 6 and 7; and to be
  - iii) transferred by the billing authority from its Collection Fund to its General Fund,
- are set out below

	Column 1 Central Government	Column 2 Torbay UA	Column 3	Column 4 Devon and Somerset Fire Authority	Column 5 Total
	£	£	£	£	£
<b>Retained NDR shares</b>					
13. % of non-domestic rating income to be allocated to each authority in 2017-18	<b>50%</b>	<b>49%</b>	<b>0%</b>	<b>1%</b>	<b>100%</b>
<b>Non-Domestic Rating Income for 2017-18</b>					
14. Non-domestic rating income from rates retention scheme	<b>15,229,083</b>	<b>14,924,501</b>	<b>0</b>	<b>304,582</b>	<b>30,458,166</b>
15.(less) deductions from central share	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
16 <b>TOTAL:</b>	<b>15,229,083</b>	<b>14,924,501</b>	<b>0</b>	<b>304,582</b>	<b>30,458,166</b>
<b>Other Income for 2017-18</b>					
17. add: cost of collection allowance		<b>195,813</b>			<b>195,813</b>
18. add: amounts retained in respect of Designated Areas		<b>0</b>			<b>0</b>
19. add: amounts retained in respect of renewable energy schemes		<b>0</b>	<b>0</b>		<b>0</b>
20. add: qualifying relief in Enterprise Zones		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
21. add: City of London Offset		<b>0</b>			<b>0</b>
22. add: additional retained Growth in Pilot Areas		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
23. add: in respect of Port of Bristol hereditament		<b>0</b>			<b>0</b>

<b>Estimated Surplus/Deficit on Collection Fund</b>	£	£	£	£	£
24. % of non-domestic rating income to be allocated to each authority in 2016-17 (for row 25)	50%	49%	0%	1%	100%
25. Estimated Surplus/Deficit at end of 2016-17	-51,782	-50,746	0	-1,036	-103,564
<b>TOTAL FOR THE YEAR</b>	£	£	£	£	£
26. Total amount due to authorities	15,177,301	15,069,568	0	303,546	30,550,415

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Local Authority : Torbay UA Ver 1.00

**PART 1C: SECTION 31 GRANT (See Note C)**  
**This page is for information only; please do not amend any of the figures**  
*Estimated sums due from Government via Section 31 grant, to compensate authorities for the cost of changes to the business rates system announced in the 2013, 2014 & 2015 Autumn Statements*

	Column 2 Torbay UA	Column 3	Column 4 Devon and Somerset Fire Authority	Column 5 Total
	£	£	£	£
<b>2015-16 Multiplier Cap</b>				
27. Cost of 2% cap on 2015-16 small business rates multiplier	224,188	0	4,575	228,763
<b>Small Business Rate Relief</b>				
28. Cost of doubling SBRR & threshold changes for 2017-18	1,392,580	0	28,420	1,421,000
29. Cost to authorities of maintaining relief on "first" property	6,363	0	130	6,493
<b>"New Empty" Property Relief</b>				
30. Cost to authorities of giving relief to newly-built empty property	0	0	0	0
<b>"Long Term Empty" Property Relief</b>				
31. Relief on occupation of "long-term empty" property	5,069	0	103	5,172
<b>Rural Rate Relief</b>				
32. Cost to authorities of providing 100% rural rate relief	0	0	0	0
<b>Local Newspaper Temporary Relief</b>				
33. Cost to authorities of providing relief	0	0	0	0
<b>Enterprise Zone qualifying relief in 100% pilot areas</b>				
34. Amount of qualifying relief	0	0	0	0
<b>TOTAL FOR THE YEAR</b>	£	£	£	£
35. Amount of Section 31 grant due to authorities to compensate for reliefs	1,628,200	0	33,228	1,661,428

**NB** To determine the amount of S31 grant due to it, the authority will have to add / deduct from the amount shown in line 35, a sum to reflect the adjustment to tariffs / top-ups in respect of the multiplier cap (See notes for Line 35)


**Certificate of Chief Financial Officer / Section 151 Officer**

I confirm that the entries in this form are the best I can make on the information available to me and amounts are calculated in accordance with regulations made under Schedule 7B to the Local Government Act 1988. I also confirm that the authority has acted diligently in relation to the collection of non-domestic rates.

Name of Chief Financial Officer or Section 151 Officer : .....

Signature : .....

Date : .....



**Meeting:** Council

**Date:** 2 February 2017

**Wards Affected:** All

**Report Title:** Capital Plan 2017/2018

**Is the decision a key decision?** Yes

**When does the decision need to be implemented?**

**Executive Lead Contact Details:** Mayor Gordon Oliver, Executive Lead for Finance, 01803 207001, [mayor@torbay.gov.uk](mailto:mayor@torbay.gov.uk)

**Supporting Officer Contact Details:** Martin Phillips, Head of Finance, 01803 207285, [martin.phillips@torbay.gov.uk](mailto:martin.phillips@torbay.gov.uk)

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## 1. Proposal and Introduction

- 1.1 Torbay Council's Capital Plan totals £130 million for the 4 year programme to 31 March 2020 with £42.3 million scheduled to have been spent in 2016/17 and £56.3 million due to be spent in 2017/2018. The Council's Capital Plan is updated on a quarterly basis as new funding announcements and allocations are made.
- 1.2 The attached document provides high-level information on the proposed capital expenditure and funding for 2017/2018 and is part of the total Plan. Shown against the targeted actions of the Council's Corporate Plan, it gives details of the capital schemes which have previously been approved by the Council. However, in some cases, it sets out funding which has been allocated to services but where specific schemes have not yet identified.
- 1.3 Included with the attached document is the Council's Capital Reserve List (as well as approved projects which have not yet commenced). Each project has been scored using the agreed scoring matrix. The scored list will be used to help inform decisions by evaluating competing projects on the Council's Capital Reserve List (or new bids for capital funding) as and when capital resources become available. The capital matrix is an aid to evaluate priorities between often very disparate schemes; however allocation of funding to capital is ultimately a Council decision at the time funding becomes available.

## 2. Reason for Proposal

- 2.1 To enable the Council to agree its Capital Expenditure for the 2017/2018 financial year as required by the Constitution.

### **3. Recommendation(s) / Proposed Decision**

- 3.1 That the Capital Plan for 2017/2018 as set out in Appendix 1 to the submitted report be approved.

### **Appendices**

Appendix 1: Proposed Capital Plan for 2017/2018

# CAPITAL PLAN

**2017/2018**

Published: Wednesday, 01 February 2017

## Capital Plan Budget 2017/2018

Torbay Council's Capital Plan totals £130 million for the 4 year programme to 31 March 2020 with £42.3 million scheduled to be spent in 2016/17 and £56.3 million due to be spent in 2017/2018<sup>1</sup>.

This document provides high-level information on the proposed capital expenditure and funding for 2017/2018 and is part of the total Plan. Shown against the targeted actions of the Council's Corporate Plan, it gives details of the capital schemes which have previously been approved by the Council. However, in some cases, it sets out funding which has been allocated to services but where specific schemes have not yet identified.

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

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

As explained in the Council's Capital Strategy, Appendix 2 to this Plan shows the Capital Reserve List (as well as approved projects which have not yet commenced). Each project has been scored using the approved scoring matrix. The scored list will be used to help inform decisions by evaluating competing projects on the Council's Capital Reserve List (or new bids for capital funding) as and when capital resources become available.

The capital matrix is an aid to evaluate priorities between often very disparate schemes; however allocation of funding to capital is ultimately a Council decision at the time funding becomes available.

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<sup>1</sup> Capital Plan – Quarter 3 Monitoring Report (Council, 2 February 2017)

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

Scheme Name	Description	Latest Approval	Total Estimated Scheme Cost £000	2017/2018 Budget £000
Capital Repairs and Maintenance 2016/2017	Department for Education funding for schools capital repairs and maintenance which is allocated to Council maintained schools.	Council – 27 October 2016	150	150
Early Years – Ellacombe Academy Nursery	Grant funding from the Department for Education to expand Little Stars Nursery from 24 to 48 places.	Council – 2 February 2017	721	471
Early Years – White Rock Primary Nursery	Grant funding from the Department for Education for a new 26 place nursery.	Council – 2 February 2017	313	63
Education Review Projects	This budget has been established from unallocated education capital funding to be used to support future projects.	n/a		200
Secondary School Places (Torquay Academy)	A need for secondary school places in Torquay was identified following consultation. This was agreed by the Council with Basic Need Funding being allocated.	Council – 24 September 2015	2,057	1,216
Torbay School Relocation	The Council agreed the reallocation of £3m previously allocated to Children’s Services for the relocation of Torbay School. The decision was subsequently made to relocate Torbay School from its present site at Torquay Road, Paignton to the MyPlace facility in Paignton in order to better meet the needs of the young people attending this Special School.	Council – 26 February 2015 Chief Executive – 8 July 2016	3,300	2,000
<b>Sub-total</b>				<b>4,100</b>

## Targeted Action 2: Working towards a more prosperous Torbay

Scheme Name	Description	Latest Approval	Total Estimated Scheme Cost £000	2017/2018 Budget £000
Claylands Redevelopment	Council-owned land at Claylands will be redeveloped using a combination of Council and Heart of the South West Local Enterprise Partnership funding. When fully developed the site will support approximately 350-400 jobs and will support the growth of the business rate base.	Council – 10 December 2015	10,000	8,500
Employment Space – Torbay Business Park	Investment at Torbay Business Park.	Council – 8 December 2016	6,684	6,644
Investment Fund	This fund is provided to enable the Council to acquire properties. In addition, the fund will be used to increase the Council's business tax base by investing capital resources within Torbay to stimulate growth.	Council – 22 September 2016	50,000	10,000
Electronics and Photonics Innovation Centre (EPIC)	This is Phase Three of the Innovation Centre project which will support the electronics and photonics sector by providing office and clean room space for small start-up businesses.	Council – 26 February 2015	7,221	6,505
Old Toll House, Torquay	This is improvement works at the Old Toll House in Torquay to enable the property to be used in the future to generate a rental stream.	Council – 25 September 2014	150	131
South Devon Highway	The scheme is substantially complete but there are still other costs to be determined (including compensation claims) before the final cost of this major infrastructure improvement is known.	Council – 13 February 2008	20,224	1,500
TEDC Capital Loans/Grants	The Council agreed a loan for a capital purpose to the TDA to enable the TDA's acquisition and related works at Kings Ash House, Paignton.	Council – 26 February 2015	2,474	575
	The Council agreed a loan for a capital purpose to the TDA to enable the TDA's acquisition of Cockington Car Park.	Chief Executive – February 2012		
Edginswell Station	The Council successfully submitted a bid to the Local Transport Board for the creation of Edginswell station. The Government subsequently confirmed its funding to the Local Transport Board to support this scheme. As reported to Council in December 2016, the costs of this scheme are now higher and an additional bid to Government has been submitted to meet these.	Council – 4 September 2014	4,511	2,300
Integrated Transport Schemes	Grant allocations from the Department for Transport for 2015/2016-2020/2021. The allocations are linked to the value of the planned maintenance backlog on the road network. The Council agreed to allocate these resources in line with Government intentions.	Council – 26 February 2015	n/a	1,063
Roads Structural Maintenance			n/a	1,827
Torquay Gateway Road Improvements	The Council successfully submitted a bid to the Local Transport Board for improvements at Torquay Gateway. The Government subsequently confirmed its funding to the Local Transport Board to support this scheme with the Council approving a contribution to the scheme.	Council – 27 September 2014	3,875	2,325
Western Corridor Improvements	The Council successfully submitted a bid to the Local Transport Board for improvements to the Western Corridor. The Government subsequently confirmed its funding to the Local Transport Board to support this scheme with the Council approving a contribution to the scheme.	Council – 27 September 2014	7,452	3,380
<b>Sub-total</b>				<b>44,750</b>



### Targeted Action 3: Promoting healthy lifestyles across Torbay

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

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

Scheme Name	Description	Latest Approval	Estimated Scheme Cost £000	2017/2018 Budget £000
Babbacombe Beach Road	Approval was given to assist with the developer's costs of improving Babbacombe Beach Road.	Mayor – 20 May 2008	70	70
CCTV System Replacement	Replacement of the Torbay-wide CCTV system.	Council – 25 February 2016	350	350
Flood Defence Schemes	This budget represents resources to provide match funding for Environment Agency funded schemes but is not yet earmarked for specific schemes.	Council – 27 September 2012	n/a	55
Hollicombe Cliff Rocks Armour	A successful bid was made for grant aid from the Environment Agency to secure the sea defences and railway line at Hollicombe.	Council – 27 October 2016	1,544	614
Princess Pier – Structural Repairs	Structural repairs to the superstructure alongside potential substructure repairs expected to be funded by the Environment Agency.	Council – 1 February 2012	1,744	1,740
Torquay Town Dock Pontoon Replacements	Essential pontoon replacement works to the Town Dock, Torquay to be funded from Harbours Reserve.	Harbours Committee – December 2016	220	195
<b>Sub-total</b>				<b>3,024</b>

### Targeted Action 5: Protecting and supporting vulnerable adults

Scheme Name	Description	Latest Approval	Estimated Scheme Cost £000	2017/2018 Budget £000
Affordable Housing	This is the capital resource set aside for affordable housing awaiting allocation to specific schemes. This is mainly funded from Right to Buy receipts, Section 106 contributions and housing grants. The Council agreed that these resources should be ringfenced for affordable housing.	Council – October 2016	1,934	934
Hayes Road, Paignton	This represents the final payment for the approved scheme which has been completed.	Council – October 2010	500	250
Empty Homes Scheme	An “invest to save” scheme to bring empty homes back into use to be funded from New Homes Bonus grant.	Council – 8 December 2011	500	456
Private Sector Renewal	Residual of pre 2010 Housing Grant which is currently unallocated.	n/a	n/a	113
<b>Sub-total</b>				<b>1,753</b>

**All targeted actions: Corporate Support**

<b>Scheme Name</b>	<b>Description</b>	<b>Approved</b>	<b>Estimated Scheme Cost £000</b>	<b>2017/2018 Budget £000</b>
Corporate IT Developments	A budget to fund essential IT replacement over four years.	Council – 25 February 2016	1,000	250
Council Fleet Vehicles	A budget to fund replacement of Council fleet vehicles.	Council – March 2012	n/a	141
Essential Capital Repair Works	A budget to fund essential capital repair works over four years. The Executive Head – Business Services is authorised to make allocations from this fund to specific schemes.	Council – 25 February 2016	3,000	1,625
General Capital Contingency	This is capital provision which is set aside to cover urgent, unavoidable additional capital costs where alternative funding is unavailable. This is approximately 0.5% of the current four year capital plan. It should be noted that all capital projects should have contingencies within the individual project costs.	n/a	631	631
<b>Sub-total</b>				<b>2,647</b>

APPENDIX 1 - CAPITAL PLAN - EXPENDITURE AND FUNDING FOR 2017/18 - (@ QUARTER 3 2016/17)

	Latest Est Scheme Cost	est spend in Prev Years (active schemes only)	2017/18 BUDGET	FUNDING FOR 2017/18								Future Years	
				Pru Borr	Grants	S106	Contribs	Reserves	Revenue	Cap Recs	2017/18 Total	2018/19 Budget	2019/20 Budget
<i>PB/PB</i> - Approved Prudential Borrowing schemes	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Protecting children and giving them the best start in life</b>													
Capital Repairs and Maintenance 2016/17		298	150		150						150		
Early Years - Ellacombe Academy Nursery	721	250	471		341		130				471		
Early Years - White Rock Primary Nursery	313	250	63		35		28				63		
Education Review Projects			200						200		200		
Secondary School places (Torquay Academy)	2,057	715	1,216		1,216						1,216	200	
Torbay School Relocation	3,300	300	2,000		2,000						2,000	1,000	
	<b>6,391</b>	<b>1,813</b>	<b>4,100</b>	<b>0</b>	<b>3,742</b>	<b>0</b>	<b>158</b>	<b>0</b>	<b>0</b>	<b>200</b>	<b>4,100</b>	<b>1,200</b>	<b>0</b>
<b>Working towards a more prosperous Torbay</b>													
<i>PB</i> Claylands Redevelopment	10,000	20	8,500	6,500	2,000						8,500	1,480	
<i>PB</i> Employment Space - Torbay Business Park site acq/build	6,684	0	6,644	6,644							6,644		
<i>PB</i> Investment Fund	50,000	21,410	10,000	10,000							10,000	15,000	3,590
<i>PB</i> NGP - Torbay Innovation Centre Ph 3 (EPIC)	6,600	95	6,505	2,000	4,316	39			150		6,505		
Old Toll House, Torquay	150	19	131							131			
<i>PB</i> South Devon Highway - Council contribution	20,224	17,317	1,500	1,500	0						1,500	1,000	407
<i>PB</i> TEDC Capital Loans/Grant	2,530	1,954	575	575							575		
Transport - Edginswell Station	4,511	511	2,300		2,300						2,300	1,600	100
Transport - Integrated Transport Schemes			1,063		1,063						1,063	1,063	1,063
Transport - Roads Structural Maintenance			1,827		1,827						1,827	1,174	1,174
Transport - Torquay Gateway Road Improvements	3,875	1,549	2,325		1,940		385				2,325		
Transport - Western Corridor improvements	7,652	4,271	3,380		3,380						3,380		
	<b>112,226</b>	<b>47,146</b>	<b>44,750</b>	<b>27,219</b>	<b>16,826</b>	<b>39</b>	<b>0</b>	<b>385</b>	<b>150</b>	<b>131</b>	<b>44,750</b>	<b>21,317</b>	<b>6,334</b>
<b>Ensuring Torbay remains an attractive and safe place to live and visit</b>													
<i>PB</i> Babbacombe Beach Road	70		70					70			70		
<i>PB</i> CCTV equipment	350		350	350							350		
Flood Defence schemes (with Env Agency) - unallocated	689	631	55							55			
Hollicombe Cliffs Rock Armour	1,544	930	614		350		164			100	614		
Princess Pier - Structural repair (with Env Agency)	1,744	4	1,740		1,461					279	1,740		
Torbay Harbour - Town Dock pontoons replacements	220	25	195					195			195		
	<b>4,617</b>	<b>1,590</b>	<b>3,024</b>	<b>350</b>	<b>1,811</b>	<b>0</b>	<b>164</b>	<b>265</b>	<b>0</b>	<b>434</b>	<b>3,024</b>	<b>0</b>	<b>0</b>
<b>Protecting and supporting vulnerable adults</b>													
Affordable Housing (to be alloc to schemes)	1,934		934		248	203				483	934	1,000	
Affordable Housing - Community Housing Fund	643		0		0						0		
Sanctuary HA - Hayes Road Pgn	500	250	250			250					250		
Empty Homes Scheme	500	39	456					256		200	456		
Private Sector Renewal			113		48					65	113		
	<b>3,577</b>	<b>289</b>	<b>1,753</b>	<b>0</b>	<b>296</b>	<b>453</b>	<b>0</b>	<b>256</b>	<b>0</b>	<b>748</b>	<b>1,753</b>	<b>1,000</b>	<b>0</b>
<b>Corporate Support</b>													
<i>PB</i> Corporate IT Developments	1,000	250	250	250							250	250	250
<i>PB</i> Council Fleet Vehicles			141	141							141		
<i>PB</i> Essential Capital repair works (Corp assets and Infrastructure)	3,000	375	1,625	1,625							1,625	500	500
<i>PB</i> General Capital Contingency	631	0	631	(79)				867	79	(236)	631		
	<b>4,631</b>	<b>625</b>	<b>2,647</b>	<b>1,937</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>867</b>	<b>79</b>	<b>(236)</b>	<b>2,647</b>	<b>750</b>	<b>750</b>
<b>TOTALS</b>	<b>131,442</b>	<b>51,463</b>	<b>56,274</b>	<b>29,506</b>	<b>22,675</b>	<b>492</b>	<b>322</b>	<b>1,773</b>	<b>229</b>	<b>1,277</b>	<b>56,274</b>	<b>24,267</b>	<b>7,084</b>
<b>CAPITAL PLAN - FUNDING 2017/18 - (@ QUARTER 3 2016/17 )</b>													
Prudential Borrowing			29,506	29,506							29,506		
Grants			22,675		22,675						22,675		
Contributions			814			492	322				814		
Reserves			1,773					1,773			1,773		
Revenue			229						229		229		
Capital Receipts			1,277							1,277	1,277		
<b>Total</b>			<b>56,274</b>	<b>29,506</b>	<b>22,675</b>	<b>492</b>	<b>322</b>	<b>1,773</b>	<b>229</b>	<b>1,277</b>	<b>56,274</b>		

NOTE:

- PB* Prudential Borrowing - financed from income stream
- PB* Prudential Borrowing - impact on revenue budget (ie. no income stream)

25,719

3,787

→ Total recharge to service revenue accounts =  
(for whole of Pru Borrowing on project)

Annual Ek	Total Ek
1,544	39,376

**APPENDIX 2 - SCORED CAPITAL RESERVE LIST - JANUARY 2017**

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Capital Scheme	Ref.,	Status	Main Funding	Cost to Council £m	Question													Weighted Score /81	Overall Ranking
					1. Statutory Status:	2. Corporate Plan Priorities	3. Mayoral Promises	4. Equality, Diversity & Deprivation	5. Condition, H&S, and Strategic Importance of Asset	6. Outcomes, Added Value, Cross-service benefit	7. Risk of NOT doing, such as service failure	8. Risk of Doing (Can project be delivered?)	9. Quality of Business plan	10. Potential to generate future investment return	11. Ongoing revenue costs over life	12. Specific External resources to support scheme	13. Deprivation Critical Factor		
				Weighting (Multiplier)	3	2	1	1	1	1	2	2	2	5	2	4	5		Top 20
Town Centres Master plans – Torquay	1	Reserve		tbc	0	3	2	1	3	2	0	1	2	2	0	1	1	39	1
Town Centres Master plans – Paignton	2	Reserve		tbc	0	3	2	1	3	2	0	1	2	2	0	1	1	39	1
Early Years - Nursery Places - 25% match funding	3	Reserve		0.300	2	2	2	2	2	1	1	2	1	0	0	2	1	38	3
Torre Abbey Mansion Phase Three - match funding	4	Reserve		0.200	1	2	0	1	3	1	1	2	2	1	0	2	0	35	4
Backlog Transport Infrastructure R&M	5	Reserve		11.000	3	2	3	0	3	2	3	3	1	0	0	0	0	35	4
Transport - Structural Roads Programme - see note below	6	Plan	Grant	3.645	3	1	1	0	3	3	3	3	2	0	0	0	0	34	6
Paignton Town Centre – Local Transport Board	8	Reserve		1.700	1	3	2	1	2	2	1	2	1	0	0	1	1	33	7
Brixham Town Centre - Ex Tesco site (Brixham Masterplan)	9	Reserve		tbc	0	3	2	2	3	2	0	1	1	2	0	1	0	33	7
Torquay Town Centre Access Torquay	10	Int Trspt		0.165	2	3	2	1	2	3	1	2	1	0	0	0	1	33	7
EA Scheme - Paignton Flood Alleviation	11	Reserve		0.066	1	2	2	0	3	2	2	2	1	0	0	2	0	32	10
EA Scheme - River Fleet Flood Alleviation	12	Reserve		0.050	1	2	2	0	3	2	2	2	1	0	0	2	0	32	10
EA Scheme - Brixham Flood Alleviation	13	Reserve		0.060	1	2	2	0	3	2	2	2	1	0	0	2	0	32	10
EA Scheme - Broadsands Sea Wall	14	Reserve		0.080	1	2	2	0	3	2	2	2	1	0	0	2	0	32	10
EA Scheme - Broadsands Watercourse	15	Reserve		0.300	1	2	2	0	3	2	2	2	1	0	0	2	0	32	10
EA Scheme - Coastal Defences	16	Reserve		0.105	1	2	2	0	3	2	2	2	1	0	0	2	0	32	10
EA Scheme - Cockington	17	Reserve		0.105	1	2	2	0	3	2	2	2	1	0	0	2	0	32	10
EA Scheme - Collaton St Mary	18	Reserve		0.050	1	2	2	0	3	2	2	2	1	0	0	2	0	32	10
EA Scheme - Hollicombe	19	Reserve		0.100	1	2	2	0	3	2	2	2	1	0	0	2	0	32	10
EA Scheme - Monksbridge	20	Reserve		0.050	1	2	2	0	3	2	2	2	1	0	0	2	0	32	10
EA Scheme - Occombe Valley	21	Reserve		0.030	1	2	2	0	3	2	2	2	1	0	0	2	0	32	10
Backlog Property Assets R&M	22	Reserve		22.000	1	2	0	1	3	3	3	2	1	1	0	0	0	31	21
Oxen Cove - Possible development	23	Reserve		tbc	0	2	2	2	2	1	0	1	1	2	1	1	0	31	21
Flood Prevention - provision to support EA schemes	24	Plan	Receipts	0.055	1	2	2	0	3	1	2	2	1	0	0	2	0	31	21
Housing Budget - unallocated	25	Plan	RTB/S106	1.934	1	2	1	3	1	1	0	2	0	1	0	1	1	31	21
Learning Disability relocation	26	Reserve		tbc	2	2	1	2	2	1	2	2	1	0	0	0	1	31	21
Torquay Gateway Torquay	27	Int Trspt		0.495	2	3	2	1	2	3	1	2	1	0	0	0	0	28	26
Paignton Town Centre Improvements Paignton	28	Int Trspt		0.170	2	3	2	1	2	3	1	2	1	0	0	0	0	28	26
Princess & Haldon Piers structural repair	29	Reserve		4.600	2	1	0	0	3	2	3	2	2	0	0	0	0	27	28
Monksbridge Road – Local Transport Board Bid	30	Reserve		0.300	1	2	2	0	1	2	1	1	1	0	0	1	0	27	28
Empty Homes Scheme (to drive new homes bonus grant)	31	Plan	Revenue	0.461	1	1	1	3	3	1	1	1	0	1	0	0	1	27	28
Private Sector Housing Renewal	32	Plan	Grant	0.113	1	1	1	2	2	1	0	3	0	1	0	0	1	27	28
Edginswell Station Torquay	33	Int Trspt		0.178	1	3	3	1	2	3	1	2	1	0	0	0	0	26	32
Affordable Housing - Hatchcombe scheme	34	Reserve		0.880	1	1	0	2	0	1	0	2	0	1	0	1	1	26	32
Affordable Housing - via Housing Company	35	Reserve		tbc	1	1	0	2	0	1	0	2	0	1	0	1	1	26	32
Western Corridor Paignton	36	Int Trspt		0.220	2	2	2	1	2	3	1	2	1	0	0	0	0	26	32
Torquay Harbourside, Option 1 (Public Realm)	37	Reserve		0.350	0	1	3	2	3	2	0	3	1	1	0	0	0	25	36
Old Toll House Redevelopment	38	Plan	Receipts	0.150	0	1	2	0	3	1	1	3	1	1	1	0	0	25	36
Edginswell Master plan	39	Reserve		tbc	0	2	2	2	1	1	0	1	1	2	0	0	0	24	38
Brixham Transport Hub – Local Transport Board	40	Reserve		0.150	1	1	1	0	2	2	1	1	1	0	0	2	0	24	38
PARIS replacement - social care system	41	Reserve		0.250	2	2	1	2	0	2	2	2	0	0	0	0	0	23	40
Princess Pier - Structural Repairs	42	Plan	Grant	1.744	0	1	2	0	3	2	3	2	2	0	0	0	0	23	40
Fleet Street Resurfacing Torquay	43	Int Trspt		0.800	2	1	1	1	2	3	1	2	1	0	0	0	0	23	40
GPO Roundabout Torquay	44	Int Trspt		0.400	2	1	1	1	2	3	1	2	1	0	0	0	0	23	40
Torquay Seafront Torquay	45	Int Trspt		0.120	2	1	1	1	2	3	1	2	1	0	0	0	0	23	40
A385 Totnes Road – Local Transport Board	46	Reserve		0.400	1	1	1	0	3	2	1	2	1	0	0	1	0	23	40
TOR2 Asset buyback at end of contract	47	Reserve		tbc	3	1	0	0	2	2	3	3	0	0	-2	0	0	23	40

Road Safety Bay Wide	48	Int Trspt	0.125	2	1	1	1	2	3	1	2	1	0	0	0	0	23	40
Pedestrian Improvements Bay Wide	49	Int Trspt	0.125	2	1	1	1	2	3	1	2	1	0	0	0	0	23	40
Fleet Street Crossings Torquay	50	Int Trspt	0.125	2	1	1	1	2	3	1	2	1	0	0	0	0	23	40
Preston Bus Lane & Crossing Paignton	51	Int Trspt	0.178	2	1	1	1	2	3	1	2	1	0	0	0	0	23	40
Monksbridge Road Widening Brixham	52	Int Trspt	tbc	2	1	1	1	2	3	1	2	1	0	0	0	0	23	40
Multi Storey Car Parks R&M Backlog	53	Reserve	3.200	0	1	0	0	3	2	2	2	1	1	0	0	0	22	52
Torquay Harbourside, Option 2 (Extend Torquay Harbour)	54	Reserve	4.000	0	1	3	1	1	1	0	1	0	2	1	0	0	22	52
Torquay Harbourside, Option 3 (New Torquay Harbour)	55	Reserve	7.000	0	1	3	1	1	1	0	1	0	2	1	0	0	22	52
Fish Processing Plant – Regeneration	56	Reserve	2.300	0	2	1	1	1	1	0	1	1	2	0	0	0	22	52
Rowcroft Ramp Torquay	57	Int Trspt	0.060	2	1	1	1	2	2	1	2	1	0	0	0	0	22	52
Ring Road Cycle & Pedestrian Improvements Paignton	58	Int Trspt	0.250	2	1	1	1	2	2	1	2	1	0	0	0	0	22	52
Babbacombe Road Cycle Lane & Safety Torquay	59	Int Trspt	0.150	2	1	1	1	2	2	1	2	1	0	0	0	0	22	52



**Meeting:** Council **Date:** 2 February 2017

**Wards Affected:** All

**Report Title:** Review of Reserves 2017/2018

**Is the decision a key decision?** Yes

**When does the decision need to be implemented?** Immediately

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## 1. Purpose

1.1 The Council holds a number of reserves as part of its approach to maintaining a sound financial position, protecting the Council to some degree from volatility in the risk in its budget going forward. The requirement for financial reserves is linked to legislation such as the Local Government Act 1992 which requires Councils to “have regard” to the level of reserves needed to meet future expenditure when calculating a budget. Part of sound financial management is to assess the adequacy of these reserves and release those reserves no longer required.

## 2. Proposed Decision

2.1 That the transfer of £2.750m identified from a number of individual earmarked reserves (as detailed in paragraph A2.19) to the following reserves be approved:

- a) £2.0m to the Comprehensive Spending Review to fund the predicted 2016/17 Council overspend primarily as a result of budget pressures in children’s and adults social care.
- b) £0.750m to the General Fund Reserve to be used as a contingency to support the Council’s financial risks in future years.

2.2 That, given the significant financial pressures facing the Council in future years, the allocation of additional funds, as required, to the Comprehensive Spending Review Reserve in each budget process from 2018/2019 onwards to increase, and then maintain, an ongoing minimum balance in the reserve of £2m be agreed.

## 3 Reasons for Decision

3.1 A Review of Reserves is a key part of the Council’s budget setting process. Consideration of reserve levels is linked to legislation for budget setting contained in

both the Local Government Acts of 1992 (section 31A & 42A) and 2003 (section 25) and linked to section 114 of the Local Government Finance Act 1988.

- 3.2 The Council is facing significant financial pressures in 2016/17 from both Adults and Children's social care with the current predicted overspend on those services of £1.8m and £1.6m respectively. These overspends are partly offset by savings in other services resulting in a predicted overspend (as at quarter three) in 2016/17 of approx £2.2m. This overspend will need to be funded.
- 3.3 Due to the significant financial risks facing the Council in 2017/18 and future years it is essential that the Council's reserves provide a sufficient contingency to meet this increasing risk and to ensure a robust budget. It is recommended that as a result of the level of current and previous year budget variations it is proposed to replenish the balance to a minimum of £2m by 2019/20 and this will be included in future financial planning. This approach to maintain a balance of £2m in the CSR has been supported by CIPFA during their Financial Resilience inspection. This is in addition to the general fund balance.
- 3.4 The Council is undertaking a number of new activities that have a level of risk associated with them, such as the Investment Fund and potential Housing Company where the council is investing/proposing to invest a significant amount of borrowing to support. There is a risk that the projects will not deliver the income required to cover the "fixed" costs of the borrowing. These risks will be mitigated by business cases and due diligence.
- 3.5 It is clear that the Council has lower levels of general fund reserves than other Council's. As a result of this low level, combined with increasing financial risks facing the council, it is recommended that the general fund reserve is increased by £0.750m to a level that is equal to 5% of the Council's estimated 2017/18 net budget.
- 3.6 Members are again reminded of the advice previously given by the Chief Finance Officer, that reserves should not be used for supporting ongoing recurring expenditure. Use in that way is not financially sustainable as reserves can only be spent once.



## Supporting information

### A1. Introduction

A1.1 A Review of Reserves is part of the Council's annual budget process.

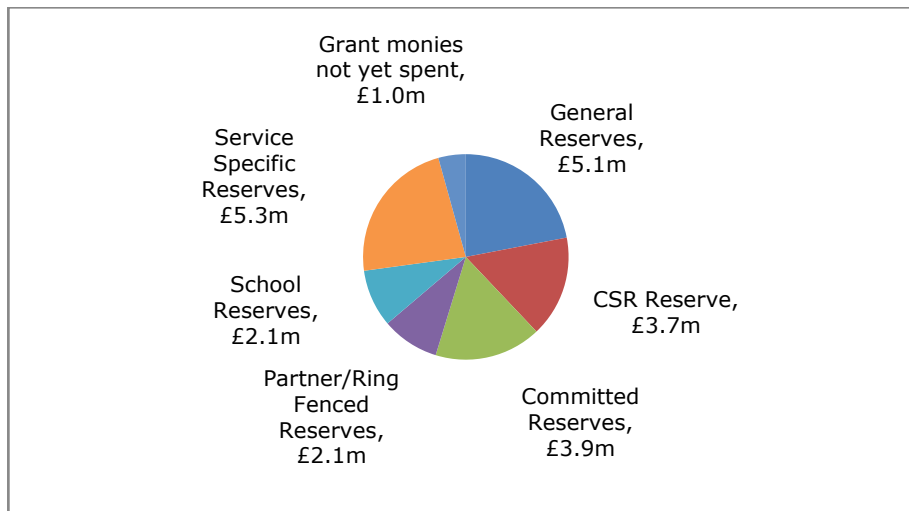
### A2 Review of Reserves 2017/18

#### A2.1 Overview

A2.2 As at 31/03/2016 Torbay Council's reserves were as follows:-

	31/3/15 actual	Change in year	31/3/16 actual	31/3/17 estimate
	£m	£m	£m	£m
General Fund Reserve	4.4	0	4.4	5.1
<b>Sub Total - General Reserves</b>	<b>4.4</b>	<b>0</b>	<b>4.4</b>	<b>5.1</b>
Comprehensive Spending Review Reserve	3.1	0.6	3.7	3.7
Committed Reserves	6.1	(0.3)	5.8	3.9
Grant monies not yet spent	2.7	(0.7)	2.0	1.0
Partner/Ring Fenced Reserves	3.7	(0.6)	3.1	2.1
School Reserves	2.9	(0.5)	2.4	2.1
Children's Services 5 Year Strategy Res.	3.4	(2.3)	1.1	0
Other Service Specific Reserves	9.0	(1.8)	7.2	5.3
<b>Sub Total – Earmarked Reserves</b>	<b>30.9</b>	<b>(5.6)</b>	<b>25.3</b>	<b>18.1</b>
<b>Total Reserves</b>	<b>35.3</b>	<b>(5.6)</b>	<b>29.7</b>	<b>23.2</b>

A2.3 From the table above, the estimated balances (in £m) as at 31/3/17 after the recommended allocation of £2.750 (para A2.19) is as follows:



A2.4 A list of the Council's Reserves as at 31/03/2016 is attached in Appendix 1.

A2.5 This report is, for another year, highly influenced by the significant financial risks facing the Council both from current financial pressures within Children's social care (safeguarding and wellbeing) and Adults Social care both from the ICO's significant financial deficit and the uncertainty over the future of the contractual arrangements for adult social care arising from ICO's recent twelve month notice period given on the Risk Share Agreement from January 2018, and the substantial budget reductions predicted for future years. There is a risk that, without mitigation, in future years the Council will not have enough identified reserves to support any one off expenditure required to meet any in year budget shortfalls, costs for restructuring due to budget reductions, any changes to the approved Children's Services Cost Reduction Plan and any delays in implementing savings.

A2.6 The Council has had unprecedented financial challenges from reduced funding levels over the past few years and is facing a further £14m reduction in its Revenue Support Grant from 2016/17 (£20m) to 2019/20 (£6m), in addition to any future expenditure pressures such as inflation and increase in demand.

A2.7 With the significant uncertainty facing the Council from the DCLG's funding review, NNDR 100% rates retention consultations and the higher levels of volatility in NNDR income compared to Council Tax it is clear that Councils need to mitigate and plan for variations in income as well as expenditure.

A2.8 To be able to meet future year budgets and reduce the reliance on the use of reducing reserves it is essential the Council progresses and achieves both its transformation programme including the required changes in childrens services and its efficiency plans.

A2.9 To achieve the reserves required mitigating the impact on the 2016/17 financial position and the concerns on the ability of adults and childrens social care to meet the required cost reductions in the short term has required the significant reduction in certain earmarked reserves, in particular the insurance reserve. This has an impact on services in their ability to progress future projects and with insurance the lower reserve level increases the risk associated with meeting future, as yet unknown, risks.

A2.10 The Chief Finance Officer is reluctantly proposing these reductions as the Council has to fund the existing overspend in adults and childrens in 2016/17 and the likely ongoing delay in achieving significant cost improvements in these services.

### Adults Social Care

A2.11 As noted above the ICO has given 12 month notice to withdraw from the risk share agreement with the Council and CCG for the provision of Adult Social Care. At this stage it is unclear what the Council contractual and therefore financial commitments will be from January 2018. All partners are working together to resolve this issue.

A2.12 In addition the ICO is forecasting an increasing financial deficit. For 2016/17 their deficit is likely to be in excess of £20m. Their predicted deficit for 2017/18 (before any mitigation and cost reductions) combined with changes in the NHS England "control targets" is significantly in excess of the 2016/17 deficit. Under the current Risk Share Agreement the Council is exposed to 9% of any deficit.

### Children's Social Care

A2.13 The Children's Services recovery plan, in the light of the 2015/16 outturn and in year 2016/17 current financial position, was revisited by the new Director of Children's Services. It is clear that the expected improvements from the October 2014 plan have not yet been realised with a significant subsequent impact on the overall Council financial position. The Director of Children's Services has reviewed key aspects of the service and is currently implement service changes which will lead to reductions in expenditure.

A2.14 The proposed budget for 2017/18 is being increased to reflect the current year financial position for childrens services with the aim of setting a robust budget for that service.

A2.15 The new Children's Services Financial Plan is to be presented to the Council in February 2017. Any financial reductions will be a consequence of the service improvements that will be introduced. The financial impact on both the council budget and council reserves will be incorporated into future versions of this report and the medium term resource plan. At this stage it is considered unlikely that Children's Services will be able to make any repayments in the next few years (that were identified per the October 2014 plan). The Council's budget proposals for 2017/18 therefore assume that the previously planned for reduction of £1.1m will not be achieved in 2017/18.

A2.16 As background for Members, in October 2014 the Council approved a five year cost reduction plan for Children's Services which required the use of £3.4m of reserves to fund Children's services budget pressures in 2015/16 and 2016/17. Such a use of reserves was to allow the service to introduce and embed service changes which was forecast to result in savings compared to the current level of spend, consequently enabling Children's services to repay the reserves used to fund the £3.4m. The Plan identified that £0.2m would be repaid in 2017/18 and £3.2m repaid in 2018/19.

A2.17 As part of the 2014/15 Review of Reserves the Council approved "the transfer of £1.5m from the PFI Sinking Fund to Children's Services on an "invest to save" basis. Children's Services to repay the reserve in future years". Members are reminded that if the reserve is not repaid then it will be necessary for Children's

Services to fund the future costs of the PFI school contract. The service will have to budget for and identify funding for these increased costs.

A2.18 In 2016/17 Council noted, that in the short term, Children's Services are unlikely to be able to repay £3.4m in the short term to earmarked reserves, as identified in the Children's Services Recovery Plan (October 2014 ). In addition Council approved that the future repayment of the earmarked reserves of £3.4m as per the Children's Services Recovery Plan (October 2014 version) and the £1.5m repayment to the PFI reserve is included in any (potential) future year Annual Strategic Agreements with the Integrated Care Organisation (ICO) and in the ICO business plan for the proposed Children's Services transfer to the ICO.

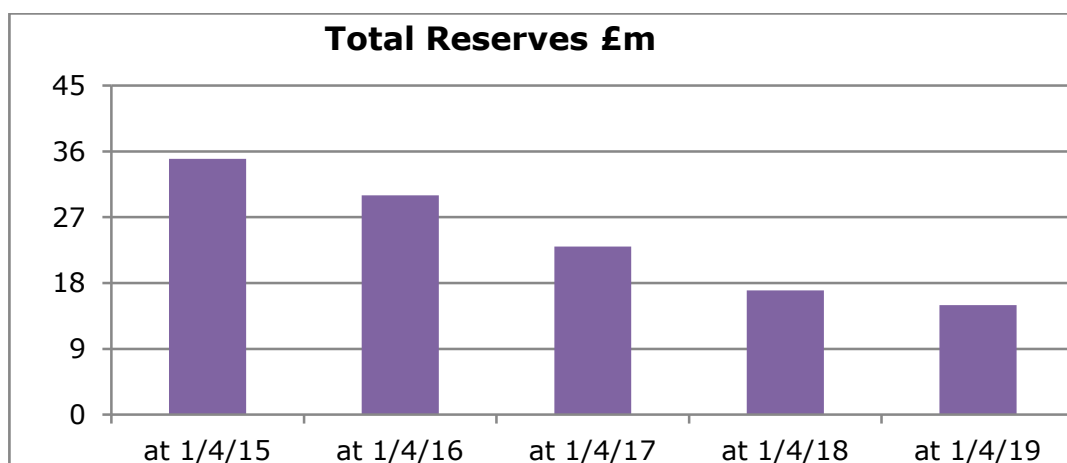
#### Reallocations of Reserves

A2.19 The reserves identified to as being options for reallocation from their current purpose shown in the table below. The risk and potential implication of reducing these reserves is summarised below:

<b>Reserve</b>	<b>Reduction £000's</b>	<b>Reduction on estimated bal as at 31/3/17 %</b>	<b>Implications</b>
Insurance	1,250		Reduce reserve to a minimum level. This is a significant reduction in the level of this reserve and will need to be closely reviewed on an annual basis.
Regeneration	201	25	This is a 25% reduction in the regeneration reserves earmarked for projects led by the EDC. The reserve dates back to 2011 and the majority of this reserve does not have commitments.
Education Early Retirement	121	100	The service will have to budget for and identify funding for any costs in the future.
Carry Forwards	289	66	Balance on fund not required.
Employment Issues	50	67	Funds earmarked for a potential repayment to HMRC no longer required
Grants carry forward	81	8	Balance on fund not required.
Harbours	272	40	Reduce reserve by 40%. The service will have to budget for and identify funding for any future projects in excess of the remaining balance.

Invest for Income	400	100	Reserve set up in 2016/17 to progress projects. However with 2017/18 budget proposal to fund £0.5m for transformation on an ongoing basis this reserve can be released
Pension	80	100	Balance on fund not required.
Waste	16	7	
<b>Total Identified</b>	<b>2,760</b>		
<b>Allocation:</b>			
<b>2016/17 overspend</b>	<b>(2,010)</b>		To fund predicted 2016/17 overspend
<b>General Fund Reserve</b>	<b>(750)</b>		To provide contingency for future year financial risks
<b>Total Allocated</b>	<b>(2,750)</b>		

A2.20 Each reserve has been assessed for its estimated balance as at 31<sup>st</sup> March 2017 and for the estimated additions or withdrawals from the reserve during 2017/18 and future years. This is included in the table at Appendix 1. This table is shown after the recommendations arising from this report,



A2.21 The table, (based on this review of reserves), shows that the level of reserves is expected to decrease by £7m during 2016/17 to £23m. The actual balance at year end will depend on spend during the year and any year end service carry forwards from unspent revenue funds and/or unspent grant allocations.

### A3.0 Guidance on the Management of Reserves

A3.1 The CIPFA guidance on Reserves and Balances (LAAP bulletin 99 issued July 2014) advises that “Chief Finance Officers should take account of the strategic, operational and financial risks facing the authority. The assessment of risks should include external risks, such as flooding, as well as internal risks, such as the ability to deliver planned efficiency savings”.

- A3.2 The CIFPA guidance lists a number of assumptions to be considered when forming a budget, which although these directly link to the setting of a budget, the level of risk and uncertainty of these assumptions are be relevant in determining an appropriate level of reserves. Assumptions to consider include inflation, demand led pressures, delivery of planned savings and risks from new partnerships or ways of working.
- A3.3 In undertaking a detailed annual review of reserves that is presented to both Overview and Scrutiny Board and Council, Torbay Council is largely complying with most of the recommendations in the Audit Commission report “Striking a Balance”.
- A3.4 It is important to differentiate between general and uncommitted reserves and reserves held for a specific purpose. It is only the general and uncommitted reserves that could be used to support “short term costs”. As shown in the table above, the Council’s uncommitted reserves were the Comprehensive Spending Review reserve (£3.7m) and the Council’s general fund balance (£4.4m) which is discussed later. The Council does not have a large value of unallocated reserves compared to its overall budget or compared to the value of budget reductions required over the next few years or compared to the value of the 2015/16 and 2016/17 in year budget variances in social care.
- A3.5 The Chief Finance Officer is reluctant to use any reserve funds, which can only be spent once, to support ongoing expenditure as this is not financially sustainable, as it only delays the impact of the required budget reductions.
- A3.6 This position taken by the Chief Finance Officer is similar to CIPFA guidance which says “Councils should be particularly wary about using one off reserves to deal with shortfalls in current funding. Where such action is to be taken, this should be made explicit, and an explanation given as how such expenditure will be funded in the medium to long term”.

#### A4 Earmarked Reserves

A4.1 The proposed changes to earmarked reserves are outlined in paragraph A2.19 above. The following paragraphs make specific comments on a number of reserves. A summary of each reserve and their purpose is included as Appendix Two. Further information on all Council Reserves is available that shows details about each reserve, including the reason/purpose of the reserve, how and when the reserve can be used and the process for retention of each reserve to ensure continuing relevance and adequacy.

#### A4.2 Comprehensive Spending Review Reserve – balance £3.7m 31/3/15 (£3.7m 31/3/17)

A4.3 The Comprehensive Spending Review Reserve was originally established in 2010/11. The purpose of this reserve was identified as follows:

- short term support for the (revenue) budget while services adjust spending to new levels
- financing of any costs in relation to reducing services and therefore staff numbers
- to support any initial costs of changing service delivery that will result in future savings

Any use of this reserve for invest to save schemes must be supported by a robust business case and agreed by the Chief Finance Officer.

- A4.4 After the proposed allocations of £2.0m from other earmarked reserves to this reserve the balance on the CSR reserve will be sufficient to provide a contingency to provide cover for the risk of any 2016/17 (current estimate £2.2m overspend) and any exit costs such as redundancy costs estimated to be £0.5m per annum.
- A4.5 The CSR includes a balance for the results of the judicial review appeal on care home fees. When the actual impact, if any, of this appeal (now due to be held in June 2017) is known then this will be included in the 2017/18 budget monitoring.
- A4.6 The potential for further transfers from earmarked reserves is becoming increasingly limited therefore, to help ensure a robust budget can be set and the reserve is at a level to mitigate in year variations at similar levels to recent years, a sum to increase the balance to £2m per annum will be added to this reserve in each year as part of the budget proposals from 2018/19 onwards and will be included in future financial planning.
- A4.7 Committed Reserves – balance £7.8m 31/3/16 (£4.9m 31/3/17)
- A4.8 These reserves arise as a result of differences in timing between the reserve being established and the expenditure being incurred and are therefore, in effect, committed reserves. Some of these are short term, such as service carry forwards, unspent revenue grants and the collection fund, where the expenditure should be incurred within 12 months. Other reserves are spreading costs over a number of years, such as the PFI sinking fund that equalises the costs of the annual unitary charge over the 25 years of the contract.
- A4.9 Partner/Ring Fenced Reserves – balance £5.5m 31/3/16 (£4.2m 31/3/17)
- A4.10 These reserves are outside the Council's direct control, in that the reserves are linked to funds held (or are managed by) by partner organisations, schools or ring fenced Council services such public health. The harbour reserves have been included in this category as the service has operates as if it were ring fenced.
- A4.11 The balance of £2.4m held by schools as at 31<sup>st</sup> March 2016 under delegated funds will change based on expenditure in schools and are likely to continue to reduce as more Council schools become academies. As a result a reduction in the balances held by schools has been shown in Appendix 1.
- A4.12 There are proposed reductions in both the TDA and harbour reserves as both these reserves are not fully committed.
- A4.12 Specific Issue Reserves - balance £8.1m 31/3/16 (£5.3m 31/3/17)

These are reserves set aside for specific expenditure purposes.

A4.13 Insurance Reserve

The balance as at March 2016 for both the insurance reserve, before the addition of any current year surplus due to timing of claims, was approximately £4.2 million. The Council's insurance team in consultation with the Chief Finance Officer reviews the earmarked amounts on an annual basis and takes advice from an insurance actuary to ensure the adequacy of the reserves. The last actuarial review was a mini review as at March 2016.

The last mini review has indicated that there is a surplus on the fund based on the assessment of liabilities including claims incurred but not reported (IBNR). As a result linked to the significant financial issues the Council is facing on both childrens and adult social care it is estimated that £1.25m could be released from this reserve.

This significantly increases the risk of the reserve being inadequate in the longer term from both changes in premiums and the number and value of claims. The Council currently has a very strong low risk profile based on its claims history however this could be adversely affected if the Council incurs a number of higher cost claims. Given the potential long lead in time for certain insurance claims, such as those relating to social care and certain types of industrial diseases, any shortfall in this reserve may not be realised for a number of years. This reserve will require careful monitoring of the impact of future liabilities on a regular basis.

#### A4.14 Potential Liabilities

The Council has provided a number of guarantees for pension liabilities to services now outsourced, such as TOR2, ERTC and the TDA, however it is unlikely that these guarantees will result in a cash payment from the Council. In the exceptional case of the pension liability being realised it is likely the liability will be transferred to the Council's own pension liability which will be reflected in future employer contribution rates.

### A5 Review of Provisions and other Potential Liabilities

A5.1 In addition to earmarked and general reserves the Council also holds provisions for a number of issues where the Council has a clear liability which is likely to result in a payment but the amount and timing of the potential payment is uncertain.

A5.2 As at 31/03/2016 Torbay Council's provisions were as follows:-

<b>31/3/15</b>		<b>31/3/16</b>	<b>Change</b>
£m		£m	£m
0.3	Insurance Provision	<b>0.4</b>	0.1
1.2	NNDR Appeals	<b>2.1</b>	0.9
0.1	Restructure/Budget Reductions	<b>0</b>	(0.1)
0.3	Other Provisions	<b>0.2</b>	(0.1)
<b>1.9</b>	<b>Total Provisions</b>	<b>2.7</b>	<b>0.8</b>

A5.3 The provisions above were based on the latest information as to the value of the potential liability, as such no changes in the value of these are proposed. It is expected that the majority of these provisions will be used within 2016/17 except insurance where the "time lag" on claims being notified and settled is often over one year. Other provisions tend to be linked to specific issues.

A5.4 The provision for NNDR appeals as at 31<sup>st</sup> March 2016 is a result of the introduction of the NNDR Business Rates Retention Scheme and forms part of the Collection Fund. The Council gains or loses a 49% share of any movements in NNDR income.



This includes the ongoing impact and repayment from any successful NNDR appeals made. The calculation of this provision from April 2017 will be impacted by any assessment of NNDR appeals arising from the 2017 national NNDR revaluation. A provision for this will be included in the Council's NNDR estimates for 2017/18.

#### **A6.1 Collection Fund**

The Collection Fund Adjustment Account (formally Collection Fund Reserve) is slightly different from all other reserves and includes both Council Tax and NNDR. For Council Tax, legislation requires any balance (surplus or deficit) to be applied at the next Council Tax setting to the three major precepting authorities (Torbay, Devon & Cornwall Police Authority and Devon and Somerset Fire Authority). (Note Brixham Town Council as a minor precepting body does not bear any share of surplus or deficit).

For NNDR, as a result of the introduction of the new Local Government funding arrangements from April 2013, the Council bears a 49% share of the risk and reward of changes in the level of National Non Domestic Rate income. Changes from the Council's initial National Non Domestic Rate income estimate arising from changes in yield and collection will now also result in a Collection Fund surplus or deficit. The Council's share of any surplus or deficit will impact on the forthcoming year. The Council holds a NNDR equalisation reserve to help smooth the volatility of income which will become more important on the expected move to a 100% NNDR retention scheme in future years.

Estimates of future year surpluses will be included in the 2017/18 Budget Setting process and reflected in the Medium Term Resource Plan.

#### **A7 General Fund Reserve - Risk Assessment and Sensitivity/Scenario Appraisal**

- A7.1 The Council's General Fund Reserves of £4.4 million represents 4.0% of the Council's net 2016/17 budget. This level of "unallocated financial reserves" is lower than average compared to other unitary Councils. (see para A9.1).
- A7.2 The CIPFA guidance on reserves does not recommend a minimum level of reserves. It states that "Local Authorities should make their own judgments on such matters taking into account all the relevant local circumstances which will vary between Authorities". CIPFA also state that "a well managed authority with a prudent approach to budgeting should be able to operate with a relatively low level of reserves".
- A7.3 A risk assessment of all 2016/17 budgets suggest that the maximum overspend in any year, if all services were subject to adverse pressures and where there isn't any specific service related earmarked reserve, would be £9.2 million or 9% of 2016/17 net revenue budget. An estimate should be added to reflect any, as yet unknown, in year budget pressures, potential Bellwin scheme claims (emergency planning) and to reflect the financial risks inherent in any significant new partnerships, outsourcing or capital developments, say £1.0 million. This would result in a required General Fund reserve of £10.2 million or 10% of net budget. The current level of General Fund Reserve will cover just over 40% of this sum.
- A7.4 This risk assessment overall is similar to the previous year as the higher value areas of volatility that were identified as a high risk last year have continued to

cause pressures on the Council's revenue budget still exist. In addition the challenges of achieving the ongoing significant budget reductions from central government create a major risk of budget variations.

- A7.5 A continuing key consideration within this risk assessment is the level of the risk of budget variances passed to partners or other suppliers via service delivery contracts. A key partner for the Council is the Integrated Care Organisation from October 2015. The Council has a 9% risk share of the total financial performance of the ICO (Torbay and South Devon Foundation Trust) which is a budget of approx £400m. There is an increasing risk to the Council linked to the ICO's deteriorating financial position. As noted above the ICO has given 12 month notice to withdraw from the risk share agreement with the Council and CCG for the provision of Adult Social Care. At this stage it is unclear what the Council contractual and therefore financial commitments will be from January 2018. All partners are working together to resolve this issue. As a result if the ICO in year performance and the achievability of their cost improvement plans this is assessed at a higher risk than in previous year.
- A7.6 A prudent risk based approach to budget setting and reserve levels will have mitigated some risks of an overspend, although it should be noted that in areas of high risk such as, Children's Social Care, have already declared significant budget pressures over the past few years. It is vital that there is a robust performance and financial plan for this service to cover future years to reduce the levels of (financial) risk around this service.
- A7.7 However it is unlikely that all budgets will be adversely affected in the same year or that there will be no underspending arising from savings or additional income. Therefore the General Fund Reserve should be equal to 50% of the total assessed risk in any financial year (which equals to 4.8% of estimated 2017/18 net revenue budget). This for 2017/18 will result in a required general fund reserve balance of £5.1 million. At this stage the current general fund balance of £4.4 million is 4.2% of 2017/18 net revenue budget or £0.7m below the assessed target.
- A7.8 Following consideration of the above, in the opinion of the Chief Finance Officer, the current level of general fund reserve should be increased by £0.750m to be close to 5% of net revenue budget.
- A7.9 The 2017/18 budget to be presented in February 2017 to Members will also include an assurance statement from the Chief Finance Officer about the adequacy of the proposed financial reserves, in accordance with the requirements of section 25 of the Local Government Act 2003.

## A8 **Capital Investment Plan**

- A8.1 It is assumed that in the circumstances of a significant overspend within the Council's capital programme this will be covered by alterations to the timing of the Council's capital investment plan; use of the capital contingency or from additional borrowing within the Council's approved Prudential Indicators. Any additional borrowing costs would have to be met from the Council's revenue budget.
- A8.2 The Council's capital plan has a contingency of £0.6 million – this is approximately 1% of the current four year capital plan. It should be noted that all capital projects should have contingencies within the individual project costs.

## A9 Comparison with Other Councils

A9.1 CIPFA during their recent Financial Resilience review (November 21016) of Torbay provide the following information to compare Torbay with its nearest neighbours statistical group. This show that Torbay's general Fund reserve is significantly below the level of similar Councils.

A9.2 General Fund Reserve as a % of Current Net Revenue Expenditure

<b>Torbay</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
General Fund Reserve	£4.0m	£4.4m	£4.4m	£4.4m
Net Revenue Expenditure	£124m	£126m	£122m	£120m
Reserve/Net Spend %	3.2%	3.5%	3.6%	3.7%
Average (nearest neighbours)	11.2%	12.0%	11.7%	11.3%
General & Earmarked Reserves	£37m	£34m	£38m	£35m
Average	£59m	£63m	£70m	£71m

## A10 Chief Finance Officer Statement

A10.1 The Council is continuing to face unprecedented financial challenges. At this stage I can only state that I can be satisfied that the Council's General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council's Financial Plans for 2017/18 to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment, if the following actions are undertaken:

- a) The CSR has a balance of £2.0m to fund 2016/17 projected overspend
- b) The General Fund reserve has a minimum balance equal to 5% of net budget
- c) That by 2019/20 a minimum ongoing balance of £2m is budgeted for in the CSR reserve
- d) That Children's Social Care achieve their improvement plans
- e) That Adult Social Care (via the ICO) develop and achieve a realistic cost reduction plan and the future contractual arrangements for adult social care from January 2018 are developed at pace
- f) That a balanced budget can be set for 2017/18
- g) That the Council delivers its transformation programme at pace

## A11 Governance of Reserves.

A11.1 Appendix 1 shows the projected balances of the reserves at the end of the current financial year and future years. These balances are based upon planned levels of spending. In the event of any unplanned expenditure occurring in the financial year current Standing Orders and Financial Regulations will apply.

A11.2 The Reserves will continue to be reported as part of the Council's Statement of Accounts and subject to a formal annual review and challenge as part of the budget process by both members and senior officers. Councillors should consider the Council's General Fund Reserve as part of the annual budget setting process. Any quarterly reporting of issues relevant to earmarked reserves will be on an exception basis.

A11.3 Schools reserves are part of the delegated schools funding and these reserves remain at the discretion of the Head Teachers and Governing Bodies.

## **A12 Risk assessment of preferred option**

### **A12.1 Outline of significant key risks**

A12.2 It is important that the issues raised in this report are considered by Members and appropriate action is taken, where necessary, to ensure that the Council has adequate reserves in the short and medium term. Failure to consider the issues raised within this report and take appropriate action could result in the Council having insufficient reserves that could adversely impact on the revenue budget and the longer term financial viability of the Council.

A12.3 The major risks facing the Council at present are the extremely challenging budget reductions as part of the Government's Comprehensive Spending Review and ongoing financial pressures from both Children's social care and adults social care.

A12.4 The significant proposed reduction in the insurance reserve is a concern should the Council's risk profile for insurance change.

## **Appendices**

Appendix 1	Review of Reserves 2017/18
Appendix 2	Summary of Council Reserves



**Meeting:** Council

**Date:** 2 February 2017

**Wards Affected:** All Wards in Torbay

**Report Title:** Treasury Management Strategy 2017/18 (incorporating the Annual Investment Strategy 2017/18 and the Minimum Revenue Provision Policy 2017/18)

**Is the decision a key decision?** Yes

**Executive Lead Contact Details:** Mayor Gordon Oliver, 01803 207001, [mayor@torbay.gov.uk](mailto:mayor@torbay.gov.uk)

**Supporting Officer Contact Details:** Pete Truman, Principal Accountant, 01803 207302, [pete.truman@torbay.gov.uk](mailto:pete.truman@torbay.gov.uk)

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## 1. Proposal and Introduction

- 1.1 The Treasury Management Strategy appended to this report aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2017/18 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.
- 1.2 Audit Committee reviewed the draft document at its meeting on 18 January 2017 and the Strategy has been updated to take account of the Committee's views.

## 2. Reason for Proposal

- 2.1 The Treasury Management Strategy is considered under a requirement of the CIPFA Code of Practice on Treasury Management which was adopted by the Council on 25 March 2010.
- 2.2 The approval of an Annual Investment Strategy by Council is a requirement of the Guidance on Local Government Investments issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. This Strategy sets out the Council's policies for managing its investments under the priorities of security first, liquidity second and then returns.
- 2.3 In addition, the Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

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

### **3. Recommendations**

- 3.1 That the Treasury Management Strategy for 2017/18 (incorporating the Annual Investment Strategy and Minimum Revenue Provision Policy) and including the Prudential and Treasury Indicators for the coming financial year as set out in Appendix 1 to the submitted report be approved.

### **4. Treasury Management Strategy**

- 4.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.
- 4.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 4.3 Currently the Council's approved capital plan has a borrowing requirement of approx £80 million which will have a significant impact on the Treasury management function in the short and medium term. In addition the timing of this borrowing is currently very uncertain which makes planning difficult.

### **5. Prudential and Treasury Indicators**

- 5.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. The proposed indicators for 2017/2018 are set out in Appendix 1 to the Treasury Management Strategy.

### **6. Minimum Revenue Provision (MRP) policy statement**

- 6.1 The Council is required to set aside an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision (MRP)). The policy was updated in the mid year review report presented to Council in September 2016.
- 6.2 MRP calculations exclude the impact of capital schemes approved but not commenced.
- 6.3 The MRP policy for 2017/18 incorporates the option of not applying an MRP where there is a clear decision or realistic expectation that an asset purchased as an investment property will be sold in the future. The capital receipts from that sale will

be set aside to enable repayment of the borrowing associated with the asset. These assets will be reviewed each year to assess any reduction in value. If any reduction in value has occurred then an MRP will be charged to recover the loss in the medium term, such as over five years.

- 6.4 The recommended MRP Policy for 2017/18 is set out at Appendix 2 to the Treasury Management Strategy.



February 2017

# Treasury Management Strategy 2017/18

incorporating the Annual Investment  
Strategy and the Minimum Revenue  
Provision Policy



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# 1 Introduction

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The Council defines its treasury management activities as:

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

The Strategy for 2017/18 covers two main areas:

- Treasury management issues
  - the current treasury position;
  - treasury indicators which limit the treasury risk and activities of the Council;
  - prospects for interest rates;
  - the borrowing strategy;
  - the Annual Investment Strategy;
  - policy on use of external service providers;
  - reporting arrangements and management evaluation
  - other matters
  
- Capital issues
  - the capital plans and the prudential indicators;
  - the minimum revenue provision (MRP) policy.

## 2 Core funds and expected investment balances

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

The table below includes the impact of the approved capital plan (as at quarter three 2016/17) but makes no assumption at this stage on the timing or level of borrowing required. However the forecast shows that by the end of 2019/20 the Council will need to borrow in excess of £56 million, (assuming £10m of core funds are used to support capital expenditure).

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Reserves	29.7	23.3	16.7	15.5	15.9
Capital Funding	4.0	5.0	5.0	5.0	5.0
Provisions	3.0	2.0	2.0	2.0	2.0
Other	2.3	0.0	0.0	0.0	0.0
<b>Total "core" funds</b>	<b>39.0</b>	<b>30.3</b>	<b>23.7</b>	<b>22.5</b>	<b>22.9</b>
Working capital*	7.4	0	0	0	0
Total (under)/over borrowing	7.2	(17.1)	(47.5)	(64.1)	(65.7)
<b>Expected investments</b>	<b>53.6</b>	<b>13.2</b>	<b>(23.8)</b>	<b>(41.6)</b>	<b>(42.8)</b>

\* Working capital balances shown are estimated year end; these may be higher midyear and assume advance to TOR2 is reoccurring.

Memorandum:	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
- (Under)/Over borrowing					
- Investment Fund	0	(21.4)	(31.4)	(46.4)	(50.0)
- Other	7.2	4.3	(16.1)	(17.7)	(15.7)
<b>Total</b>	<b>7.2</b>	<b>(17.1)</b>	<b>(47.5)</b>	<b>(64.1)</b>	<b>(65.7)</b>

### 3 Prospects for Interest Rates

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

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the Bank of England Monetary Policy Committee (MPC) meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

An economic commentary provided by Capita Asset Services is provided at Appendix 3 for information.

## 4 Borrowing

### 4.1 The current borrowing position

The Council's treasury portfolio position at 31 March 2016, with forward projections (excluding new borrowing requirements) is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement (CFR)), highlighting any over or under borrowing.

£m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
<b>External Debt</b>					
Debt at 1 April	138.1	138.1	138.1	134.1	132.1
Expected change in Debt	-	-	(4.0)	(2.0)	0.0
Other long-term liabilities – School PFI	7.9	7.4	6.8	6.2	5.6
Other long-term liabilities – EFW PFI	12.3	12.2	12.1	11.9	11.7
Actual gross debt at 31 March	<b>158.3</b>	<b>157.7</b>	<b>153.0</b>	<b>150.2</b>	<b>149.4</b>
The Capital Financing Requirement	<b>151.1</b>	<b>174.8</b>	<b>200.5</b>	<b>214.3</b>	<b>215.1</b>
(Under) / over borrowing	<b>7.2</b>	<b>(17.1)</b>	<b>(47.5)</b>	<b>(64.1)</b>	<b>(65.7)</b>

### 4.2 The Borrowing Strategy

The Council's Capital Investment Plan at quarter 3 is detailed within the Prudential Indicators at Appendix 1. This plan and the impact on core cash, outlined in section 2 indicate the need to borrow £66 million of new funds over next four years to ensure that gross debt is in line with CFR. If the profile of capital spend changes, the in year treasury strategy will be updated and borrowing decisions expedited by the Chief Finance Officer under delegated powers.

The strategy for 2016/17 anticipated new borrowing of up to £15million to finance capital expenditure in year. Interest rates for borrowing levels have since, post "Brexit" referendum, risen sharply and are forecast to increase slowly later in 2017.

It is proposed to use existing cash resources to initially fund planned capital expenditure in order to delay the additional cost to the General Fund until income streams are realised. Under this strategy new borrowing is not anticipated, based on the 2016/17 quarter 3 position, until 2017/18 when over £15 million could be needed to maintain sufficient cash resource.

There are however, likely to be changes to the timing of new borrowing linked to the impact of Investment Fund purchases on cash flow and liquidity resources available.

Consideration will be given to taking up to 50% of the medium term borrowing on an Equal Instalment of Principal (EIP) basis to support the policy of no MRP on Investment Fund acquisitions where the future sale of that asset is planned.

The budget for payment of interest on debt for 2017/18, assuming new borrowing provision detailed above, is based on an overall borrowing rate of 4.30% (4.34% in 2016/17).

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

In the event of a significant rise in the outlook for interest rates, the Chief Finance Officer will vary the strategy outlined above and take a proportion of the borrowing requirement earlier. The Council will not borrow more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

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

Council approved in September 2016 to investigate the option of a council owned housing company with a potential capital investment or loan by the Council up to £60 million based on the outline business case. The impact of a proposed Housing Company on the borrowing requirement will be evaluated separately as and when any future approval for such a company is set by Council and financing details are clearer.

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

# 5 Annual Investment Strategy

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## 5.1 Investment policy

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

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

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

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

## 5.2 Investment strategy

Investment rates are forecast to remain at low levels during 2017/18.

Expected core cash levels are likely to decrease significantly over the period as internal resources are used to initially fund income generating capital schemes.

Based on strategic cash flow forecasts £15million of the Council's investments can be regarded as core cash and be invested over a longer periods in higher risk/return instruments such as a Property Fund. Previous investment decisions have locked out £12 million of these funds beyond 2017/18 to gain higher returns (average 1.07%).

A decision was taken in December 2016 to pay £10million of short term cash to TOR2 in advance of 12 months contracted fees, to earn a significant discount.

Remaining cash will be required in year and as such investments are expected to be limited to short 3 or 6 month durations and instant access instruments to maintain sufficient liquidity. The expected return on these investments is unlikely to exceed 0.3%

The agreement with the external fund manager is due to be terminated by mutual agreement before the end of 2016/17. The Council will retain direct access to the enhanced money market fund provided by Aberdeen Asset Management which is forecast to return 0.70% - 0.90% during 2017/18.

Consideration will continue to be given to placing an element of the council's investments into a Property Fund if forecast rates are advantageous, in particular compared to costs of borrowing and, importantly, if the timing of the expenditure in the capital plan funded from borrowing permits. The current and proposed Investment Strategy has an approved limit in property funds of £10 million. Officers will continue to monitor performance and associated risks and any such investment will be made by the Chief Finance Officer under existing authority.

Officers will continue to expand the Council's exposure to peer to peer lending up to the approved limit. An analysis of the current performance of the Funding Circle holding is produced in the following table.

<b>Funding Circle (peer to peer lending) to December 2016</b>		
<b>Total Investment</b>	<b>£225,000</b>	
No. of loan parts	1103	
Bad debts written off*	£2,445.46	
Bad debts as a proportion of principal invested	1.09%	
Expected bad debt rate of portfolio	1.73%	
	<u>2016/17</u>	<u>Whole Life</u>
Interest earned	£12,125.63	£14,491.43
Average principal	£143,800	£176,400
Gross yield	8.46%	8.38%
<b>Return net of fees and bad debts</b>	<b>6.30%</b>	<b>6.28%</b>
<u>Risk Analysis</u>		
Proportion of secured/unsecured loans		
- Secured	55%	
- Unsecured	45%	
Proportion of loans by credit rating		
- A+	71%	
- A	21%	
- B	6%	
- Downgraded	2%	

\* This is the current level of defaults and is subject to being reduced by guarantees and recoveries pursued by Funding Circle.

The overall investment performance will be benchmarked against the 7-Day LIBID market rate and is budgeted at 0.79%

The limits per counterparty are for the principal value only, therefore at a point in time any interest due would be in addition the limit; however as with fund manager and peer to peer lending, interest is repaid on a regular basis.

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



## 6 Treasury Management Consultants

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

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

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

## 7 Reporting Arrangements and Management Evaluation

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Members will receive the following reports for 2017/18 as standard in line with the requirements of the Code of Practice:

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

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

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

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

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

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

## 8 Other Matters

### 8.1 Loans to organisations

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

Organisation	Current Value of loan	Full Term of Loan	Rate
Torbay Economic Development Company*	£575,000	25 years	Linked to Council borrowing Rate
Torbay Economic Development Company	£1,480,298	25 years	Linked to Council borrowing Rate
Academy Schools	£130,000	3 to 7 years	Linked to Council borrowing Rate
Babbacombe Cliff Railway	£10,000	10 years	Linked to Council Borrowing Rate
Housing Loans	£1,000	No new loans issued. Term linked to individual mortgages	Linked to market mortgage rates
Sports Clubs	£33,000	10 - 20 years	Linked to Council Borrowing Rate
Suttons Seeds Ltd **	£1,500,000**	3 years	Market rate
Torbay Coast & Country side Trust	£895,000	45 years	Linked to Bank Base Rate

\*Not fully drawn down as at 31<sup>st</sup> December 2016

\*\*Original advance repaid and no further drawdowns on the facility to date (expires 2017)

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

### 8.2 Advancing cash

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

### 8.3 Investing cash for Local Payment Scheme (LPS) Schools

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

### 8.4 Soft Loans

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

### 13.5 Anti-Money Laundering

The Council will comply with all relevant regulations.

# Appendix 1

## Prudential & Treasury Management Indicators 2017/18 – 2019/20

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

### Capital Expenditure

The Council's Capital Plan monitoring report for quarter 3 was presented to Council in February 2017 and summarised below for approval are the required prudential indicators for capital expenditure:

Capital expenditure £m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
<b>Total</b>	<b>23</b>	<b>42</b>	<b>56</b>	<b>24</b>	<b>7</b>

It should be noted that the timing of capital expenditure financed from borrowing is currently very uncertain which makes planning difficult. There is significant uncertainty over the timing of the expenditure on the £50m Investment Fund and a number of regeneration related projects that have not yet started such as Claylands (£7m), Electronics and Photonics Innovation Centre (EPIC) (£2m) and White Rock (£7m)

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

Financing of capital expenditure £m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital receipts	2.6	0.5	1.3	0.8	0.0
Capital grants	10.6	13.8	22.7	5.7	2.3
Capital reserves	0.6	0.2	1.8	0.0	0.0
Capital Contributions	0.2	0.1	0.8	0.0	0.0
Revenue	0.9	0.2	0.2	0.0	0.1
<b>Borrowing need for the year</b>	<b>7.7</b>	<b>27.4</b>	<b>29.5</b>	<b>17.7</b>	<b>4.7</b>

### The Council's borrowing need (the Capital Financing Requirement)

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

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

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

borrow for these schemes. The Council currently has £20m of such schemes, mostly PFI schemes, within the CFR.

The Council is asked to approve the CFR projections below:

£m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
<b>Capital Financing Requirement</b>				
<b>Total CFR</b>	<b>151.1</b>	<b>174.8</b>	<b>200.5</b>	<b>214.3</b>
<b>Movement in CFR</b>	<b>23.7</b>	<b>25.7</b>	<b>13.8</b>	<b>0.8</b>

<b>Movement in CFR represented by</b>				
Net financing need for the year (above)	27.4	29.5	17.7	4.7
Less MRP, VRP and other financing movements	(3.7)	(3.8)	(3.9)	(3.9)
<b>Movement in CFR</b>	<b>23.7</b>	<b>25.7</b>	<b>13.8</b>	<b>0.8</b>

### Affordability prudential indicators

The overall capital and control of borrowing prudential indicators are set out above, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

#### Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue budget (which is expected to reduce over the next few years).

	2016/17 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
%				
Ratio	8	9	9	9

The estimates of financing costs include current level of borrowing and maturities but no assumption in relation to any new borrowing required.

#### Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in the capital plan budget 2017/18 compared to the Council's existing approved commitments and current plans.

## Incremental impact of capital investment decisions on the Band D Council Tax

	%	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
<b>Council Tax Band D</b>	-	0	0	0

## Limits on Borrowing and Long-Term Liabilities

### The Operational Boundary

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

Operational boundary	£m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing		148	171	208	224
Long term liabilities		40	20	20	20
Total		188	191	228	248

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

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised limit	£m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Borrowing		167	235	285	305
Other long term liabilities		40	20	20	20
Total		207	255	305	325

## Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

### Upper limits on variable interest rate exposure.

This identifies a maximum limit for variable interest rates based upon the debt position net of investments

### Upper limits on fixed interest rate exposure.

This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

### Maturity structure of borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits

<b>Interest rate Exposures</b>				
	<b>2016/17 Upper %</b>	<b>2017/18 Upper %</b>	<b>2018/19 Upper %</b>	<b>2019/20 Upper %</b>
<b>Limits on fixed interest rates:</b>				
• Debt	100	100	100	100
• Investments	80	80	80	80
<b>Limits on variable interest rates:</b>				
• Debt	30	30	30	30
• Investments	75	75	75	75

<b>Maturity Structure of fixed interest rate borrowing 2017/18</b>			
	<b>Lower</b>	<b>Upper</b>	<b>Projected 31/03/2017</b>
Up to 10 years	5%	50%	13%
10 to 20 years	5%	50%	21%
20 to 30 years	10%	60%	26%
30 to 40 years	10%	50%	25%
Over 40 years	0%	50%	15%

### **Investment Treasury Indicator and Limit**

Total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

<b>Maximum principal sums invested for over 364 days</b>			
<b>£m</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Principal sums invested > 364 days	35	30	25

## Appendix 2

### Policy on Minimum Revenue Provision for 2017/18

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

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

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

*“the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.”*

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

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

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

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

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

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



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

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

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

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

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

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

<b>Asset Type</b>	<b>Asset Life</b>
Freehold Land (specified in DCLG statutory guidance)	50 years
Buildings	40 years
Investment Properties	40 years
Software	10 years
Vehicles & Equipment	7 years
Highway Network	40 years
Structural Enhancements	25 years
Infrastructure	40 years

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

## Appendix 3

### Economic Commentary (Capita Treasury Services – December 2016)

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The Monetary Policy Committee (MPC) cut the Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August.

Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects (i.e. by raising Bank Rate, which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table in section 3 of the report, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

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

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, **downside risks to current forecasts** for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
  - Italian constitutional referendum 4.12.16 resulted in a 'No' vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.
  - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
  - Dutch general election 15.3.17;
  - French presidential election April/May 2017;
  - French National Assembly election June 2017;
  - German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

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

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

## Appendix 4

### Creditworthiness Policy

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

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

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

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

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

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

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

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

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

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

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

## Appendix 5

### Approved Investment Instruments: Specified and Non-Specified

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

#### Specified Investments

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

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

#### Non-Specified Investments

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

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

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



**Meeting:** Council

**Date:** 2 February 2017

**Wards Affected:** All

**Report Title:** Corporate Asset Management Plan

**Is the decision a key decision?** Yes

**When does the decision need to be implemented?** Immediately

**Executive Lead Contact Details:** Mayor Gordon Oliver, Executive Lead for Finance, 01803 207001, [mayor@torbay.gov.uk](mailto:mayor@torbay.gov.uk)

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## 1. Proposal and Introduction

- 1.1 The Council's Corporate Asset Management Plan is the policy framework document which sets out the strategies that the Council will use to rationalise the number of assets that it has, replace them where appropriate and improve the quality of the remaining assets.
- 1.2 The current Asset Management Plan covers the four year period until 2019. It is a requirement of the Constitution that it is reviewed annually. This review has involved ensuring that it focuses on the strategic elements of asset management. It also includes for the Council's performance against the Plan to be reviewed by the Mayor at the Policy Development and Decision Group ahead of him publishing each year's consultation draft of the document.
- 1.3 The need to refocus our efforts away from a Corporate Asset Management Plan and for the Council to have an approved Asset Management Strategy has been identified as part of the Transformation Programme in order to ensure that the Council can make the best use of its assets in a strategic way. Work will continue on the development of this new Strategy over the coming year and it is expected that, when this is presented to Council, the Asset Management Strategy will supersede the Corporate Asset Management Plan.

## 2. Reason for Proposal

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



### **3. Recommendation(s) / Proposed Decision**

- 3.1 That the Corporate Asset Management Plan 2015-2019 (2017/2018 Revision) set out in Appendix 1 to the submitted report be approved.

### **Appendices**

Appendix 1: Corporate Asset Management Plan 2015-2019 (2017/2018 Revision)



2017/2018 Revision

# Corporate Asset Management Plan

2015 – 2019

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# 1 Foreword

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

*“The principle aim of an Asset Management Plan should be to ensure that the opportunity cost of financial resources tied up in land and buildings is minimised, and that capital and revenue expenditure on the portfolio is directed efficiently and effectively to provide value for money.”*

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

.....  
Gordon Oliver  
Elected Mayor of Torbay

.....  
Steve Parrock  
Chief Executive, Torbay Council

## 2 Executive Summary

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

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

The overarching objectives of the CAMP are to:

- Identify and explain the importance of effective Asset Management
- Identify and explain the best practice processes that need to be followed in order to deliver effective Corporate Asset Management with regard to best practice:
  - Audit Commission recommendations in their national publication "Room for Improvement"
  - The Governments Operational Efficiency Programme (Asset Management and Sales & Property)
  - RICS Public Sector (CLG) Asset Management Guidelines
  - RICS Local Authority Asset Management Best Practice Guidelines
- Identify the specific issues that currently affect Torbay Council's land and building assets and the ability of those assets to deliver the current Corporate Plan objectives
- Identify strategies to address and resolve systemic backlog maintenance to reduce Category D and Priority 1 (Health and Safety) maintenance items by 2018
- Integrate the objectives of the Local Plan, Council approved Masterplans and the Torbay Economic Strategy with the Council's regeneration property objectives
- Link previously separate policies relating to Strategic Asset Management, Energy Efficiency, Carbon Reduction and the centrally funded Corporate Repairs and Maintenance programme
- Establish a Property Strategy Action Plan summarising the required actions arising from those recommendations
- To incorporate the Heritage Strategy and in particular the Action Plan

The Plan is set out in six sections briefly summarised as follows.

Plan Context	Sets the CAMP within context of delivering the Council's vision and priorities
Asset Management Practice, Objectives and Principles	Defines the good practice aims, objectives and principles for the Council's use of assets
Organisation	Outlines the processes adopted by the Council
Consultation	Describes the processes adopted to ensure corporate asset management planning is correctly aligned to Community priorities
Performance Monitoring	Describes the processes for monitoring and reporting progress to the Council and Community
Challenges & Opportunities	Identifies the challenges and opportunities for Torbay Council's assets

### 3 Plan Context

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

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

- Torbay Council's Corporate Plan 2015-2019
- Torbay Economic Strategy 2013-2018
- Torbay Local Plan 2012-2030
- Torbay Heritage Strategy
- Torbay's Housing Strategy 2015-2020
- Tor Bay Harbour – Port Masterplan
- Geopark Management Plan
- Torbay Biodiversity and Geodiversity Action Plan

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

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

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

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

The management of assets that for part of the highways network assets is not held within this Plan. In 2017/2018, the Council will have to comply with specific accounting regulations that apply to the highways network.

# 4 Asset Management Practice, Objectives and Principles

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## 4.1 Best Practice in Asset Management

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

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

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

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

## 4.2 Regeneration Objectives

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

## 4.3 Heritage

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

## 4.4 Asset Management Principles

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

### To manage assets strategically:

- To provide effective property solutions for service delivery using assets in a way that promotes not constrains service delivery
- Establish Service Asset Management Plans, where appropriate, which address the property needs of the service
- Where possible utilise surplus land for Housing purposes, whereby a higher than planning policy level of affordable housing could be delivered in a range of formats to preserve as far as is possible the land value
- Provide a clear Corporate process for the Council to prioritise and endorse specific plans and initiatives

- Ensure appropriate technical resources are available to support the development and implementation of Council endorsed initiatives
- Ensure buildings are suitable, accessible and fit for the purpose they are used
- Be guided by the Port Masterplan as it acts as a framework document to set the scene for the future of the port and to ensure sustainable development

#### **To continuously maintain and improve assets:**

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

#### **To release value and minimise cost:**

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

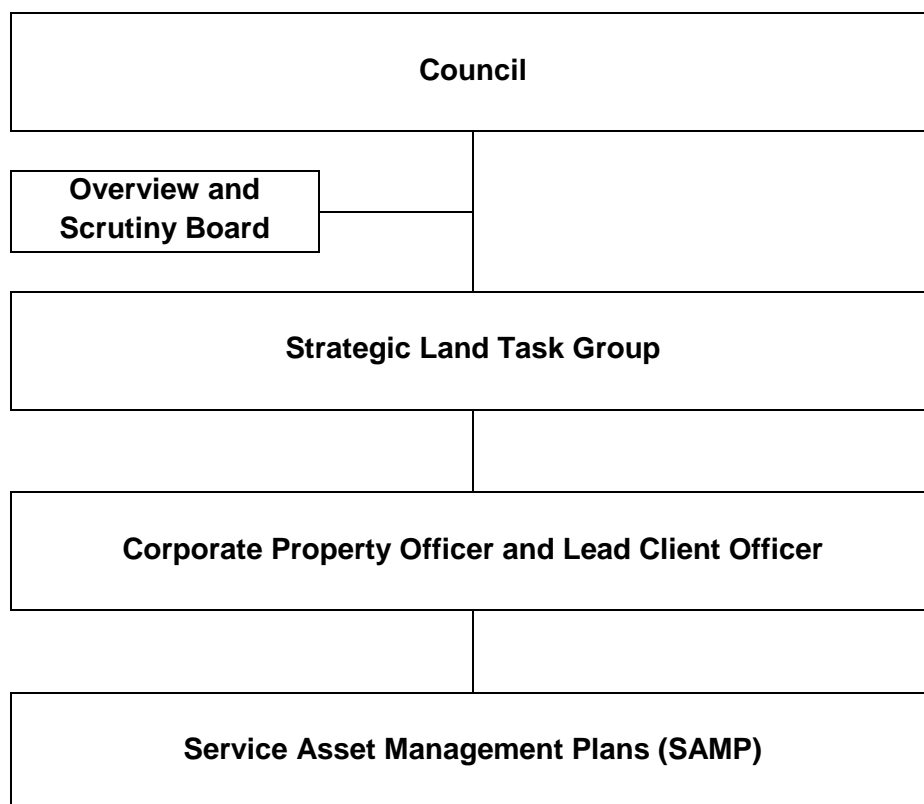
#### **To provide accurate data for informed decision-making**

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



## 5 Organisation

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



### 5.1 Service Asset Management Plans (SAMP)

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

### 5.2 Corporate Property Officer (CPO) and Lead Client Officer

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

### 5.3 Strategic Land Task Group (SLTG)

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

## 5.4 Capital Strategy and Plan

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

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

The Capital Strategy should be referred to for further detail.

# 6 Consultation

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## 6.1 Consultation with the Community

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

## 6.2 Consultation with Stakeholders and Services

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

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

## 7 Performance Monitoring

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### 7.1 Corporate Asset Management Monitoring

The overall progress and performance of the Corporate Asset Management Plan aims and objectives are reviewed annually by the Mayor at the Policy Development and Decision Group in order to determine whether amendments to the Corporate Asset Management Plan should be recommended to the Council.

### 7.2 Key Asset Management Performance Indicators

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

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

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

## 8 Challenges and Opportunities

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

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

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

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

### 8.1 Regeneration and Housing

#### Where we are now

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

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

#### Where we need to be

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

## Issues

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

## Action Plan

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

## Risks

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

## Benefits

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

## 8.2 Suitability of Assets

### Where we are now

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

### Where we need to be

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

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

### Issues

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

### Action Plan

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

### Risk

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

## Benefits

The proposed strategy will deliver:

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

## 8.3 Asset Rationalisation Project (ORP)

### Where we are now

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

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

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

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

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

### Where we need to be

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



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

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

### Issues

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

### Action Plan

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

### Risks

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

### Benefits

The proposed strategy will deliver:

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

## 8.4 Economic Development of Council Assets

### Where we are now

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

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

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

### Where we need to be

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

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

### Issues

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

## Action Plan

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

## Risks

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

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

## Benefits

The proposed strategy will deliver:

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

## 8.5 Repair and Maintenance

### Where we are now

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

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

## Where we need to be

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

- Year on year reduction in backlog repairs that will ultimately remedy the backlog
- A reduction in Category D /Priority 1 repairs by 2018
- Through appropriate and supported software, retain comprehensive and accurate data defining the current condition of all assets and data management to track all works
- Integration of schools maintenance programme
- A move to life cycle costing and the development of a long term planned maintenance programme
- In some instances there is no prospect of sufficient funding being made available to repair an asset. Solutions need to be developed linking to regeneration or asset rationalisation or private sector investment need to be considered, including the use of Prudential borrowing

## Issues

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

## Action Plan

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

## Risk

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

## Benefits

The proposed strategy will deliver:

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

## 8.6 Asbestos/Water Hygiene

### Where we are now

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

### Where we need to be

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

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

### Issues

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

### Action Plan

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

### Risk

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

### Benefits

The proposed strategy will deliver:

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

## 8.7 Energy Management

### Where we are now

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

### Where we need to be

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

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

### Action Plan

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

### Risk

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

### Benefits

The strategy will deliver:

- Reduced energy consumption
- Lower emissions
- Reduced costs

## 8.8 Office Rationalisation

### Where we are now

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

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

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

### Where we need to be

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

## Action Plan

Action	Target Date	Responsibility	Current Status
Vacate Pearl Assurance House	31 <sup>st</sup> March 2014	ORP Board	Completed
Vacate ground, 1 <sup>st</sup> and 3 <sup>rd</sup> floor of Commerce House	31 <sup>st</sup> August 2014	ORP Board	Completed
Refurbishment of 87 Abbey Road for Safeguarding & CIS teams	January 2014	ORP Board	Completed
Aspen Way - accommodation options	n/a	ORP Board	Completed
Review office accommodation including leasing of space at Tor Hill House	Feb 2017	ORP Board	Ongoing

### Risk

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

### Benefits

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

## 8.9 Data Management

### Where we are now

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

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

### Where we need to be

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

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

## Issues

- 2017/2018 Highway Network Assets to be accounted for

## Action Plan

Action	Target Date	Responsibility	Current Status
Complete Training manual and establish training programme	Ongoing	Asset Registrar	Achieved and training is ongoing as required
Continue to update and maintain the asset data	Ongoing	Asset Registrar	Ongoing
Continue to update the linkage between MapInfo & TOAD	Ongoing	Asset Registrar	Ongoing
Inclusion of Highway Network Assets valuation data on RAM	2016/17	Asset Registrar	In Progress
Publish asset data as per the Local Government Transparency Code 2014	February 2015	Head of Asset Management / Asset Registrar	Completed and ongoing on an annual basis
Procure a new asset database solution	March 2017	Head of Asset Management / Asset Registrar / Lead Client Officer	November 2016 – Tender Stage
Identify and deliver a suitable service charge capability	September 2017	Estates Manager	In progress

## Risks

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

## Benefits

The proposed strategy will deliver:

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

## 8.10 Community and Shared Use, including Sports Clubs

### Where we are now

Torbay Council operates in partnership with many other organisations in delivering services to Torbay. The need for providing integrated services to the community results in shared use providing many advantages. Shared use also enhances the opportunity to use diverse assets in more suitable ways. The



need and desire to use assets in a shared way will increase and provide opportunities for resolving other asset issues.

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

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

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

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

### Where we need to be / Issues

Torbay Council needs to develop and implement strategies that deliver:

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

### Action Plan

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

## Risks

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

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

## Benefits

The proposed strategy will deliver:

- Enhanced opportunities to identify and deliver shared use facilities
- Development of initiatives in line with Corporate Objectives
- Support local charities and organisations to effectively develop initiatives through the Community Development Trust (CDT)
- The potential transfer of assets to the VCS / CDT and other community organisations such as a potential Sports Trust or a potential Youth Trust could see a reduction in the maintenance backlog

## 8.11 Tenanted Non Residential Properties

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

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

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

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

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

## Where we need to be

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

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

## Issues

- To review the performance of the TNRP it is useful to consider 3 fundamental questions:
  - Why are TNRP assets held?
  - How well are they performing in meeting the purposes for which they are held?

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

## Risks

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

## Action Plan

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

## Risk

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

## Benefits

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

## 8.12 Into The Future

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

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

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

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

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

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## Background

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

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

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

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

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

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

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

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

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

## TNRP Strategy and Review Action Plan

### 1. Role of the TNRP Portfolio to the Authority

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

### 2. Leadership and Accountability

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

- Developing and promoting a strategy for the TNRP;

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

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

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

### 3. Brief Description of the Portfolio

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

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

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

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

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

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

### 4. Strategy Aim

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

### 5. Strategic Objectives

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

## 6. Management Policy

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

### Financial

The portfolio will be managed to:-

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

### Socio-economic to support corporate objectives

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

## 7. Property Asset Categories and General Management Policies

### Investment Assets

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

### Assets Held for Socio-Economic Reasons

#### Leases held on a peppercorn rent

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

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

#### Leases let on market rent but tenants receive a grant

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

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

### **Commercial leases granted for service delivery**

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

### **Leases granted at a peppercorn rent for service delivery under a contract**

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

### **Leases – Public Utilities and Other land and property**

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

### **Properties let to Registered Social Landlord (RSL) under business tenancies**

A number of properties are let to a RSL whilst they are being held for another purpose e.g. highway scheme. The presumption is to retain whilst needed for the scheme but review periodically with the service department.

### **Community Asset Transfer Leases**

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

### **Licences**

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

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

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

## **8. Condition Surveys**

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

## **9. Disposal Policy**

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



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

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

## 10. Acquisitions Policy

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

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

## 11. Other Policies

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

## 12. Benefits

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

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

## Review Action Plan

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

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

### STAGE 1 – Identify quick wins

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

### STAGE 2 – Analyse why properties are held

Identify pure 'investment' and 'socio-economic' properties that also support the wider corporate objectives assets.

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

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

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

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

#### Measure the performance of all assets on the basis of the 'internal rate of return' (IRR).

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

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

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

#### Set annual targets based on the previous year's performance.

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

#### Subject those assets identified for disposal to further tests as follows:-

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

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

### Future disposals programme

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

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

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

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

### STAGE 3

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

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

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

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

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

# Appendix 2 – Community Asset Transfer Policy

(Update December 2015)

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## Introduction

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

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

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

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

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

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

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

## Strategic Context

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

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

**Targeted actions:**

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

**Principles:**

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

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

### Rationalisation of Assets

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

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

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

### Key Policy Criteria

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

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

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

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

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

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

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

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

### Process for Assessing Proposals

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

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

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

**Stage One:**

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

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

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

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

**Stage Two:**

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

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

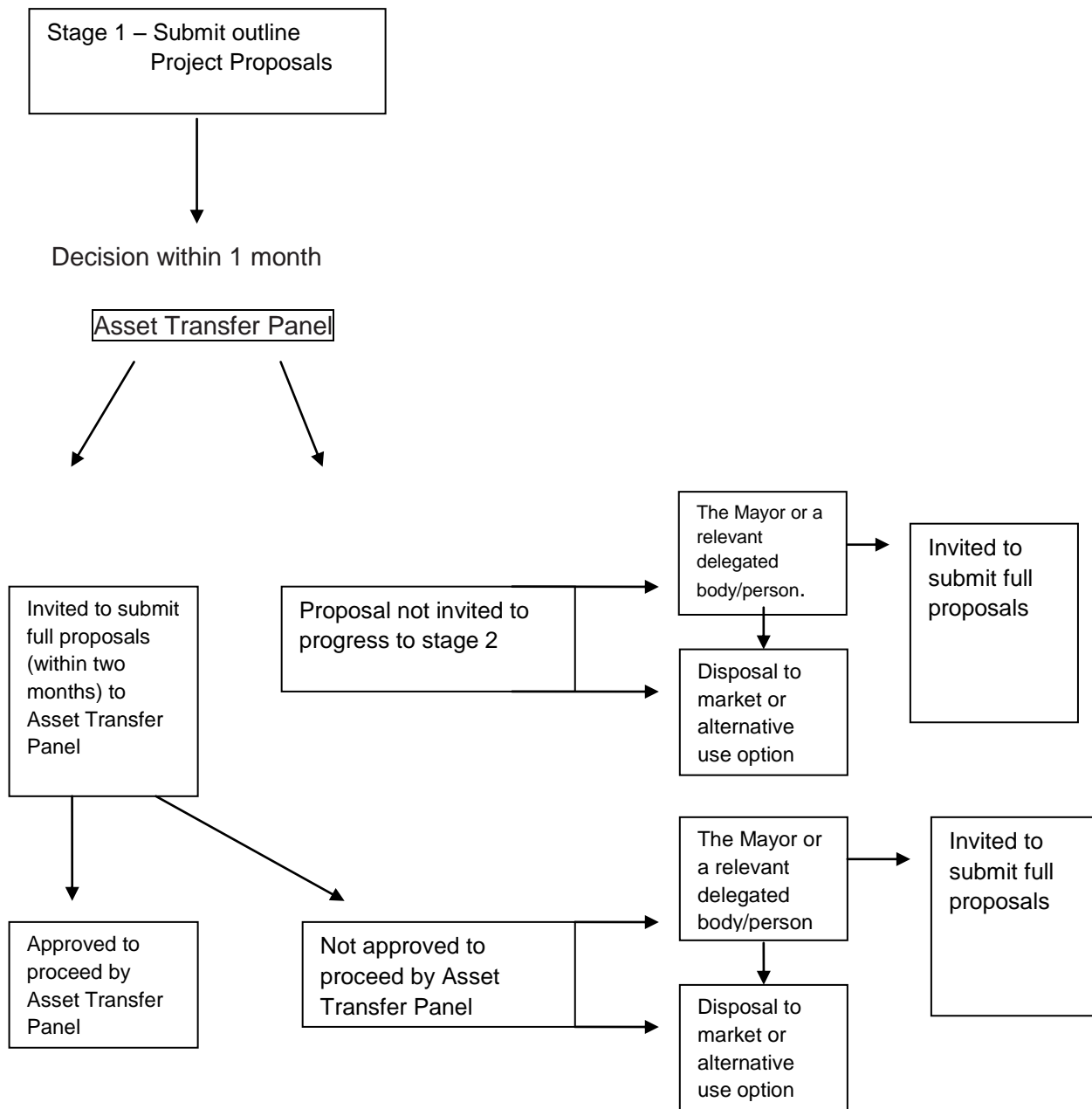
	these are paid or voluntary, whether these are experienced, and/or what training plans are in place.
	Identifying whether the project would create new jobs, housing or learning opportunities, and how these linked to the Corporate Plan and other relevant strategies.
	An indicative 5 year capital and revenue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

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

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

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





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

### Evaluation of benefits

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

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

(July 2016)

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## Introduction

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

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

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

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

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

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

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

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

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

1. Do the activities or services provided by the tenant organisation contribute to the Council's Corporate Plan?  
(The Council will not normally offer grant support to tenant organisations whose activities do not support one or more of the 'Targeted Actions' within the Corporate Plan)
2. Is the tenant organisation affiliated or a member of a national body ?  
(The Council will not normally offer grant support to tenant organisations that are not affiliated or are a member of a national body/voluntary organisation. This is to ensure that the tenant organisation has proper oversight and governance at a national level, such that it can follow best practice in such matters as safeguarding, financial probity and equality)

3. How many residents of Torbay benefit from the services provided by the organisation ?
4. What is the level of benefit received by those users of the organisation ?
5. How well does the organisation promote social inclusion ?
6. Would the Council need to provide the services if they were not provided by the organisation ?
7. How much other funding will the organisation be able to access if the Council provides a grant ?
8. What mechanisms are in place for working in partnership with other organisations?
9. How much effort is made towards self-help, especially in the form of local fundraising and grant applications ?
10. How far is the organisation able to become self-supporting over the period of the grant?

# Appendix 4 – Granting of Sports Leases – An overarching strategy

(July 2016)

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## Introduction

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

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

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

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

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

## Key Terms

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

**Full Market Rent payable** - In February 2016 the Council’s Corporate Asset Management Plan 2015 ~ 2019, latest revision, was agreed and adopted by the Council. The revision inserted the following statement, “*Due to the financial challenges facing the Authority and the possible future reductions in Revenue Support Grants, unless there is specific approval at Full Council to the contrary, the Council*

*will always seek to maximise the full market receipt for their assets whether by way of freehold disposal or leasehold interest”.*

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

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

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

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

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

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

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

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

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

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

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

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

### **Protocol for dealing with outstanding Sports Leases**

1. Write to all sports clubs where negotiations are ongoing informing them of the new overarching strategy that will be applied on all new sports leases granted.
2. Propose new terms of occupation that adhere to the new strategy.
3. Consider any new requests against the criteria of this strategy and forward them to the Executive Head of Business Services and Assistant Director – Community & Customer Services for a steer about whether the request is agreed 'in principle'.
4. Consult with Ward Councillors and the relevant community partnership about the proposed Sports Lease.
5. Take a report to Council for their consideration with the views of the Ward Councillors and the community partnership being incorporated into the report.

6. The following are the principal terms to be considered for all future Sports Lease and any variation must be agreed with the Executive Head of Business Services in consultation with the Assistant Director – Community & Customer Services :-
- i) The sports club pays a full market rent for the premises. (See definition of 'Full Market Rent' under Key Terms set out above)
  - ii) The sports club is responsible for the insurance and maintenance of the land and buildings with the club taking the facilities in their existing state.
  - iii) Where there is no existing lease (within the provisions of the Landlord & Tenant Act 1954) in place, the lease is to be excluded from the security provisions of the Landlord & Tenant Act 1954.
  - iv) The sports club to adhere to the agreed sports development plan (if required by the Council).
  - v) The sports club pays the Council's reasonable legal and surveyor costs associated with the granting of the lease and, if applicable, the surrender of the existing lease.
7. The granting of any lease of open space is deemed to be a disposal of open public space and therefore the proposed granting of the lease will need to be advertised in accordance with the Local Government Act 1972.



**Meeting:** Council

**Date:** 2 February 2017

**Wards Affected:** All

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

**Is the decision a key decision?** Yes

**When does the decision need to be implemented?** Immediately

**Executive Lead Contact Details:** Mayor Gordon Oliver, Executive Lead for Finance, 01803 207001, [mayor@torbay.gov.uk](mailto:mayor@torbay.gov.uk)

**Supporting Officer Contact Details:** Martin Phillips, Head of Finance, 01803 207285, [martin.phillips@torbay.gov.uk](mailto:martin.phillips@torbay.gov.uk)

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## 1. Proposal and Introduction

- 1.1 The Corporate Capital Strategy is the policy framework document that sets out the principles to be used to guide the allocation of capital investment across all the Council's services and informs decisions on capital spending priorities within the Council's 4-year Capital Plan.
- 1.2 The Strategy links with both the Treasury Management Strategy and the Corporate Asset Management Plan.
- 1.3 The Department for Communities and Local Government (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. This now provides Councils the flexibility to use capital receipts for "the revenue costs of service reform". The Corporate Capital Plan now incorporates the Capital Receipts Strategy which will enable the Council to use this flexibility as appropriate with any recommended use being brought to Council for consideration as an amendment to the Council's capital plan.

## 2. Reason for Proposal

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

## 3. Recommendation(s) / Proposed Decision

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

*forward thinking, people orientated, adaptable - always with integrity.*



## **Appendices**

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



February 2017

# Corporate Capital Strategy (including the Capital Receipts Strategy)

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# 1 Introduction

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

Capital investment is technically described as **“Expenditure on the acquisition, creation, or enhancement of ‘non-current assets’”**. This is items of land, property and plant which have a useful life of more than one year. A fuller definition is attached at Appendix 1. 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 current use Balance Sheet value of approx. £335 million. In addition the Council has an interest in assets held by Diocese and Foundation schools and assets of companies the Council has a financial interest in such as the Torbay Economic Development Company (TDA).

The changes in valuation for Highway Network Assets from a historic cost basis to a depreciated replacement cost basis is expected to increase the value of the Council's asset base by over £1.4 billion as at 31st March 2018.

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

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

## **The Capital Strategy sets out the guiding principles on the following elements:**

- Approach to Borrowing
- Grant Allocation
- Capital Receipts
- Capital Receipts Strategy
- Revenue and Reserves
- Prioritisation and Approval
- Alternative Funding and Delivery Options
- Investment Opportunities (including capital loans)

In considering the principles, the Council needs a balance between guidance and prescription to allow a flexible approach to be taken, but which is 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

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### 2.1 Approach to Borrowing

The Council is able to borrow money on the money market or from the Public Works Loans Board to fund capital schemes or, on a short term basis, use its own internal resources (i.e. cash flow). However for all schemes initially funded from borrowing, the Council will have to fund the repayment and interest costs as there is no longer any central government “supported borrowing” allocations and related revenue support.

The Council is only able to borrow for “unsupported borrowing” (also known as Prudential Borrowing) 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.

The Council’s 2017/18 Treasury Management Strategy recognises the need to take up to £66m of borrowing to support a number of capital projects. Council approvals for expenditure funded from prudential borrowing such as £50m for an Investment Fund will significantly impact on treasury management strategies. Based on current economic forecasts a borrowing cost of 3% - 3.5% should be assumed for new borrowing in 2017/18.

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). It is essential that any new proposals for a self funding or invest to save scheme supported by borrowing has a robust business case that is presented to senior members and officers prior to approval by Council.

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. This is one of the scoring criteria now adopted by the Council when assessing competing capital projects.

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 Torbay. In these circumstances, the cost of such borrowing falls on the Council’s revenue account, with the 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 Grants

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 is typically un-ring fenced and without conditions, however this funding is now at levels significantly lower 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 awarding government body should

be taken into account in determining allocations, in particular if future funding allocations could be impacted.

Any un-ring fenced capital grants received, even if these are allocated with service intentions of the awarding government body, will be required to be approved by Council. Consequently once capital grants have been allocated to a specific service by Council, individual schemes within that allocation will be agreed in accordance with the Council's Constitution and Financial Regulations.

The Disabled Facilities Grant (now including the Social Care capital grant) is now included in the Health and Social Care "Better Care Fund", although outside the s75 pooled budget agreement with the Clinical Commissioning Group.

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 where requirements for match-funding and future revenue consequences have been considered and approved. All schemes are to be agreed by the Chief Executive in consultation with the Mayor/Executive Lead for Finance and the Head of Finance prior to submission and/or contractual commitment.

## 2.3 Capital Receipts and Capital Contributions

The Council receives capital receipts and capital contributions from:

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

### Asset disposals

The current policy is to pool all receipts from the sale of all assets sold to support the Capital Plan in line with funding the Council's priorities with a capital receipts target set out in the Capital Plan. 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). An asset disposal will be deemed to occur when the Council transfers the freehold or a long lease (usually over 40 years)

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

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

### Asset disposals at nil consideration or below market value

In considering asset disposals, the Council also needs 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 housing function, although this policy could be changed by Council to provide additional resources for projects in other service areas.

### **Section 106 contributions and Community Infrastructure Levy (CIL)**

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

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

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

### **Repayment of loans for a capital purpose**

Where the Council provides a loan for a capital purpose this will be approved 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 outstanding loan.

## **2.4 Capital Receipts Strategy**

The Department for Communities and Local Government (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. This now provides councils the flexibility to use capital receipts for “the revenue costs of service reform”. This flexibility is subject to a Strategy for the use of capital receipts being approved by Council. By approving this document Council will be approving this flexibility to be used as deemed appropriate by the Head of Finance with any use reported to Council as an amendment to the Council’s Capital Plan.

Potential uses for capital receipts (subject to the capital receipts being received and Council approval of changes to capital plan) would be to support any implementation costs for the Council's transformation programme. A number of transformation schemes were identified in the Council's Efficiency Plan approved by Council in September 2016.

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":

[www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/507170/Flexible\\_use\\_of\\_capital\\_receipts\\_\\_updated\\_.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/507170/Flexible_use_of_capital_receipts__updated_.pdf)

## 2.5 Revenue and Reserves

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

## 2.6 Prioritisation and Approval

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

The Council has approved a 'scoring matrix' to help inform its priority schemes and this can be used to evaluate competing projects on the Council's Capital Reserve List or new bids for capital funding as and when capital resources become available.

Scores are assigned to various capital projects using the matrix and are appended to the Capital Plan presented to Council in February each year. The scores are subjective in nature but provide a useful basis for comparing competing schemes.

The projects on the scored list include some schemes which are already part of the approved Capital Plan but which have not yet commenced, alongside schemes from the Capital Reserve List. There are also illustrative schemes from the Integrated Transport Block to indicate the types of projects included in this block funding. It should be noted that some projects are more fully 'worked up' than others and consequently the information available varies considerably and some assumptions have been necessary.

The scoring from the matrix is presented for information which can be used as a guide to informing future allocations of Council funding. In addition the Council is able, subject to any funding restrictions, to reverse previous allocations of funding to schemes that have not progressed and reallocate to other projects. The capital matrix again can help inform that process.

The capital matrix is an aid to evaluate priorities between often very disparate schemes; however allocation of funding to capital is ultimately a Council decision at the time funding becomes available.

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

1. If a specific scheme is requested to be approved/funded there will be a requirement for a detailed business plan or project outline. Business plans are to be submitted to the Chief Executive for review in consultation with the Mayor/Executive Lead for Finance and Head of



Finance. Decisions on whether to progress specific schemes will be made in accordance with the Council's Constitution and Financial Regulations.

2. Proposals for invest to save or self financing schemes, (usually financed from prudential borrowing), will also require a detailed business case to be submitted to the Chief Executive for review in consultation with the Mayor/Executive Lead for Finance and Head of Finance. If the scheme is supported it will be recommended to Council for approval, in accordance with the Constitution and Financial Regulations.
3. The Capital Plan will be updated and any recommendations for schemes to be approved by Council included in the next quarterly Capital Plan Update Report.
4. 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.
5. Where there is a proposal to transfer capital resources from a previously approved scheme to a new scheme and there is a change of "policy", the new scheme will be approved by Council.

## **2.7 Alternative Funding and Delivery Opportunities**

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

The Council can use its assets to support schemes or aim to maximise funding from any source possible, such as European or Local Enterprise Partnership funding.

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

## **2.8 Investment Opportunities (including capital loans)**

Linked to its approach to borrowing and its Treasury Management Strategy the Council will consider, if the opportunities arise, the purchase of land and property as an investment – to both generate an ongoing income stream and to realise an increased capital value in the future. This could include the purchase of land or property or the purchase of "shares" in a property fund. Depending on the capital funding proposed the appropriate approvals will be requested including approval within the Treasury Management Strategy.

Loans for a capital purpose can also be approved 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 Council at its meeting in September 2016 approved an increase in a capital investment fund from £10m to £50m to seek investment opportunities.

# Appendix 1 – Definition of Capital Expenditure

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Capital investment is simply described as:

*Expenditure on the acquisition, creation or enhancement of  
“non-current assets”*

*(non-current assets are items of land and property which have a useful  
life of more than 1 year)*

This definition of capital expenditure that the Council has to comply with for the classification and, therefore, the funding of capital expenditure 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 1 April 2010) is under International Financial Reporting Standards (IFRS) rules. The relevant standard is IAS16 which has the following definition of capital expenditure:

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

“Directly attributable” means that, for examples, if building a school, it is the costs linked to the actual construction of the building, not temporary accommodation, moving people around etc.

Subsequent Capital Expenditure on an asset is defined as:

“Expenses that make it probable that future economic benefits will flow to the authority and whose cost can be measured reliably” subject to “if the expenditure is to replace a component, the old component must be written out of the balance sheet”.

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

# Appendix 2 – Capital Scoring Matrix

## Capital Projects Assessment Criteria

Possible Weightings

### 1 Statutory Status: includes support of a statutory Service requirement

3 points	Meets a specific immediate or forthcoming statutory requirement	factor = x	3
2 points	Meets an underlying statutory duty	Max score	9
1 point	Meets a discretionary requirement		
0 points	no indication of status		

### 2 Corporate Plan Priorities

3 points	Specifically identified in Corporate Plan	factor = x	2
2 points	Identified as a key Project/Activity in the Corporate Plan or directly supports a number of specific outcomes	Max score	6
1 point	Generally supports specific Actions or outcomes		
0 points	Will not deliver any identified outcomes		

### 3 Mayoral Promises (per Manifesto)

3 points	Identified as a specific Action or directly supports a number of specific outcomes	factor = x	1
2 points	Generally supports specific Actions or outcomes	Max score	3
1 point	Broadly related to achieving outcomes		
0 points	Will not deliver any identified outcomes		

### 4 Equality , Diversity & Deprivation Issues

3 points	Will achieve improvement in 3 issues	factor = x	1
2 points	Will achieve improvement in at least 1 issue	Max score	3
1 point	Possibility of improvement in at least 1 issue		
0 points	No demonstrated improvement in any issues		

### 5 Condition, Health and Safety risk and Strategic Importance of Asset Issues

3 points	Expenditure on asset will reduce impact of 3 issues	factor = x	1
2 points	Expenditure on asset will reduce impact of at least 1 issue	Max score	3
1 point	Expenditure will have a possibility of reduced impact in at least 1 issue		
0 points	No demonstrated impact on any issues		

**6 Outcomes, Added Value, Cross-service benefit**

3 points	Good - Large number of beneficiaries / target groups (>25,000)	factor = x	<b>1</b>
2 points	Satisfactory - Significant number of beneficiaries / target groups (10,000-25,000)	Max score	<b>3</b>
1 point	Fair - Reasonable number of beneficiaries / target groups (1,000-10,000)		
0 points	Poor - Few beneficiaries / target groups (<1,000)		

**7 Risk to Community of NOT doing (i.e. identified in Risk Register)**

3 points	High Risk (9-16)	factor = x	<b>2</b>
2 points	Medium Risk (5-8)	Max score	<b>6</b>
1 point	Low Risk (1-4)		
0 points	no Risk identified		

**8 Risk of Doing (Can project be delivered?) - achievability, timescale, resources required**

3 points	Low Risk (1-4)	factor = x	<b>2</b>
2 points	Medium Risk (5-8)	Max score	<b>6</b>
1 point	High Risk (9-16) with Mitigation		
0 points	High Risk (9-16) with no Mitigation		

**9 Quality of Business Plan**

3 points	Option proposed demonstrates a strong case based on full assessment of the options	factor = x	<b>2</b>
2 points	Reasonable case with some assessment of the options	Max score	<b>6</b>
1 point	Basic case presented		
0 points	Weak case with no comparison of options		

**10 Potential to generate future investment return**

3 points	Considerable additional net revenue income stream meets both £100k pa and > 25% of project cost)	factor = x	<b>5</b>
2 points	Moderate additional net revenue income stream (meets both £50k - £100k pa and 10-25% of project cost)	Max score	<b>15</b>
1 point	Small additional net revenue income stream (meets both <£50k pa and < 10% of project cost)		
0 points	No potential net revenue income		

**11 Ongoing revenue costs over the life of the asset**

2 points	Revenue saving or income exceeds borrowing and running costs	factor = x	<b>2</b>
1 points	Revenue saving or income exceeds running costs	Max score	<b>4</b>
0 points	Additional costs can be met solely from within existing resources		
-2 points	Additional on going resources required over existing budgets		

**12 Specific External resources to support scheme (including Regional funding)**

3 points	Specific (ring fenced) funding requires no additional Council funds	factor = x	<b>4</b>
2 points	Specific (ring fenced) funding and requires Council funds of both 10% match funding or up to £250k	Max score	<b>12</b>
1 point	Specific (ring fenced) funding and requires Council funds of both 50% match funding or between £250-500k		
0 points	Specific (ring fenced) funding but requires Council funds of both 75% match funding or > £500k		

**13 Deprivation Critical Factor**

1 points	Project is able to reduce the level of deprivation within Bay	factor = x	<b>5</b>
0 points	Project does not impact or has minimal impact on reducing the level of deprivation within Bay	Max score	<b>5</b>

<b>Max score</b>	<b>81</b>
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