



**Meeting:** Council

**Date:** 25th September 2014

**Wards Affected:** All

**Report Title:** Capital Investment Plan Update - 2014/15 Quarter 1

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## **1 Purpose**

- 1.1 The Council's capital investment plan with its investment in new and existing assets is a key part of delivering the Council's outcomes. This is the first Capital Monitoring report for 2014/15 under the Authority's agreed budget monitoring procedures. It provides high-level information on capital expenditure and funding for the year compared with the latest budget position as reported to Council in February 2014.

## **2 Proposed Decision**

- 2.1 Council note the latest position for the Council's Capital expenditure and funding for 2014/15.
- 2.2 Council approve that £6.1 million of capital resources to be allocated to schools for basic need (pupil places) for the period up to 2017/18, subject to each individual scheme being approved by the Operational Director in consultation with the Mayor.
- 2.3 Council approve £0.630 million of capital resources to be allocated to schools for repair and maintenance in 2014/15.
- 2.4 Council approve £0.1 million of capital resources to be allocated to schools for the free school meals initiative.
- 2.5 Council approve £0.350 million of capital resources, previously allocated to the empty homes scheme to be reallocated to improvement works at Torquay Harbour side.
- 2.6 Council approve £0.1 million capital grant to support Torbay Coast & Countryside Trust's Green Heart Project to be funded from capital receipts.
- 2.7 Council approve £0.150 million of capital resources to fund improvements works at the Old Toll House in Torquay to be funded from capital receipts.
- 2.8 Council approve £0.237 million of capital resources to fund additional beach huts at Broadsands. This is to be initially funded from prudential borrowing which will be repaid from future beach hut income.
- 2.9 Council approve the allocation of £0.660 million from the SDLR reserve to support the Council's contribution to support the Torquay Gateway transport scheme (£0.385m) and Torquay Centre Access transport scheme (£0.275m). The reserve to be repaid, as resources permit, from future year transport capital resources.

### **3 Reasons for Decision**

- 3.1 Quarterly reporting to both the Overview and Scrutiny Board and to Council is part of the Council's financial management process. This report was considered by the board on 4<sup>th</sup> September 2014.
- 3.2 The Capital Investment Plan forms part of the Council's financial management process.
- 3.3 The allocation of unringfenced capital grants, the use of prudential borrowing and the use of capital receipts are Council decisions.

### **4 Summary**

- 4.1 Members of the Overview and Scrutiny Board and Council receive regular budget monitoring reports on the Council's Capital Investment Plan throughout the year. The Council's four year Capital Investment Plan is updated each quarter through the year. This report is the monitoring report for the first quarter 2014/15 and includes variations arising in this quarter and in the last quarter of 2013/14.
- 4.2 The overall funding position of the 4-year Capital Investment Plan Budget of £69.7 million, covering the period 2014/15 – 2017/18, is in balance but still relies upon the generation of a further £4.1 million of Capital income from capital receipts and capital contributions over the life of the Capital Investment Plan.
- 4.3 Of this £4.1m, £3.6 million was required from capital receipts before the end of the current Plan period. Of this sum £1.5 million has been received by the end of July, leaving a balance of £2.1 million still to be realised. It is only after this target has been reached that any capital receipts should be applied to new schemes.
- 4.4 The Plan also requires a total of £0.5m from capital contributions including community infrastructure levy. In addition £2.1m is due to be generated from S106 contributions to part fund the South Devon Link Road.
- 4.5 As the target income for capital receipts and capital contributions are required to meet existing Council commitments, it is important that any capital income raised is allocated to existing commitments and not used to support additional expenditure on new schemes.

### **5 Supporting Information**

- 5.1 The original capital budget approved by Council in February 2014 was £26.4 million. That has been subsequently revised for re profiling of expenditure from 2013/14, new schemes and re profiling expenditure to future years. All changes with reasons have either been included in previous monitoring reports, or are detailed in this report. The Capital Investment Plan Update report – outturn 13/14 was presented to Council in July 2014 and provided information on a number of schemes which, for completeness, are included in the table of budget movements.
- 5.2 Capital budgets of £5.1m have been carried forward to 2014/15 to enable schemes not completed or progressed in 2013/14 to be continued in the current year along with the funding sources for the scheme. It should also be noted that re profiling budgets often result from valid project management reasons such as scheme re engineering, further consultations and clarification with users or detailed tendering.
- 5.3 Of the total £69.7 million of the 4 year programme, £35.6 million is currently scheduled to be spent in 2014/15, including £9.5m on the South Devon Link Road. It is expected that during 2014/15 expenditure will be re profiled to future years.

## 6 Movements in 2014/15 Estimated expenditure

6.1 The movements in the estimate of expenditure in 2014/15 on the Capital Investment Plan between the estimate at February 2014 of £26.4m and the current approved budget for 2014/15 of £35.5m, split by the categories of funding, are as follows:

Scheme	Variation in 2014/15	Change £m	Reason
<b>Estimate as at Q3 2013/14</b>		<b>26.4</b>	Capital Investment Plan Update - 2013/14 Quarter 3 (Report 27 Feb 2014)
<b>Budget changes since Q3 2013/14</b>			
Devolved Formula Capital	Additional ring fenced Grant for schools	0.1	
Office Rationalisation Project	Reduced budget requirement, (Dilapidations)	(0.5)	
<b>Sub Total</b>		<b>26.0</b>	
Schemes brought forward from 2013/14 to 2014/15	Re profile from 2013/14	5.1	See 2013/14 Capital Outturn Report (Council 17 <sup>th</sup> July 2014) updated
		<b>31.1</b>	
<b>“Old” Funding Regime”</b>			
NGP Innovation Centre Phase 3	Reprofile 14/15 budget	(0.2)	Review of likely expenditure
		<b>(0.2)</b>	
<b>“New” Funding Regime</b>			
Affordable Housing	Increase budget	0.3	Additional resources from RTB Clawback receipts 2013/14
Capital Repairs and Maintenance 2014/15	New budget allocation	0.6	Allocation of DfE grant primarily for works at Furzeham Primary
Combe Pafford	New budget allocation	0.1	Council contribution to funding
Ellacombe Primary expansion	New budget allocation	0.1	Part resource allocation to expansion scheme
Mayfield expansion	Budget reallocated to Roselands	(0.1)	Saving used to support Roselands scheme
Roselands expansion	Increase 14/15 budget	0.2	Increased costs
St Margaret Clitherow	Increase 14/15 budget	0.1	Increase in cost of project
Torre CoE Primary School	Budget reallocated to St Margaret Clitherow and Roselands	(0.2) (0.1)	Saving on scheme transferred to support other projects
Whiterock Primary School expansion	Budget Provision for 2014/15	(0.3)	Rephasing part of initial phase of expansion
TCCT grant	New budget allocation	0.1	Funding to Green Heart Project
Old Toll House, Torquay	New budget allocation	0.2	Improvements works on the property
		<b>1.0</b>	
<b>“New” Ring fenced funding</b>			
Key Stage 1 Free School Meals	New DfE funding	0.1	Resources allocated to Education Services
Environment Agency - Winter 2013/14 Storm Damage	Part of Government funding package for severe storms	0.4	Funds provided for specific storm damaged sites
Payroll Project	New scheme	0.4	IT development of Payroll Software

		<b>0.9</b>	
<b>Prudential Borrowing</b>			
Beach Chalets Broadsands	New budget for 14/15	0.2	Provision of additional new beach chalets
Empty Homes Scheme	Rephase and reallocate budget	0.1	Budget rephased and allocated to Torquay Harbourside scheme
South Devon Link Road	Re profile to 2014/15	2.6	Latest profile of expenditure for this major scheme
TOR2 grant – Refuse transfer vehicles	New budget for 14/15	0.4	Approved allocation to minimise costs
		<b>3.3</b>	
<b>General Capital Contingency</b>			
General Contingency	Re profile to later years	(0.5)	Review of likely requirements
		<b>(0.5)</b>	
<b>Estimate – Quarter One 2014/15</b>		<b>35.6</b>	

## 7 Expenditure

- 7.1 The Council approved the original 4-year Capital Investment Plan Budget for the period 2012/13 – 2015/16 in February 2012. This plan has been subsequently updated for any further revision to both projects and timing, resulting in the latest revision attached to Annex 1. The Plan now totals £69.7 million over the 4 year period of which £35.6 million relates to 2014/15 and £13.4 million relates to 2015/16
- 7.2 The purpose of this report and the Monitoring statement attached is to highlight any existing or potential issues which may affect the delivery of the major projects included in the Plan and to consider any potential effect on corporate resources.
- 7.3 Expenditure to the end of this first quarter was £2.3 million with a further £11.3 million of commitments on the Council's finance system. The expenditure of £2.3 million is only 6% of the latest budget for 2014/15. This compares with £4 million (or 23% of outturn) for the first quarter last year. It is recognised that for a number of schemes, notably the £10m South Devon Link Road, the Council will not incur significant expenditure until later in the year.

	<b>2009/10 £m (%)</b>	<b>2010/11 £m (%)</b>	<b>2011/12 £m (%)</b>	<b>2012/13 £m (%)</b>	<b>2013/14 £m (%)</b>	<b>2014/15 £m (%)</b>
Quarter One	8 (16%)	10 (23%)	3 (14%)	2 (11%)	4 (23%)	<b>2 (6%)</b>
Quarter Two	11 (22%)	13 (30%)	7 (32%)	4 (21%)	4 (23%)	-
Quarter Three	13 (27%)	9 (21%)	5 (22%)	5 (26%)	3 (18%)	-
Quarter Four	17 (35%)	11 (26%)	7 (32%)	8 (42%)	6 (35%)	-
<b>Total In Year</b>	<b>49</b>	<b>43</b>	<b>22</b>	<b>19</b>	<b>17</b>	<b>36</b>

## **Main Variations & Management Action**

### 8 "New Funding Regime"

- 8.1 An estimate of funds was identified in the Capital Investment Plan (February 2012) for the four years of the Plan, which was provisionally allocated to a number of "priority" areas.
- 8.2 The Capital Investment Plan as at 2014/15 Quarter One shows the approved schemes to the extent that funding has been received or confirmed. Where the value of the approved schemes exceeds the known funding, temporary prudential borrowing has been used pending the future receipt of funds, at which point the funding will be swapped. However if funding is not realised, such as lower than anticipated grant funding, then the Capital Investment Plan will have to be reduced accordingly or alternative sources of funding allocated such as prudential borrowing.
- 8.3 Scheme Updates:

- 8.4 School Basic Need: It is proposed that Council approve that £6.1 million of additional capital resources are allocated to schools for basic need (pupil places) for the period up to 2017/18, subject to each individual scheme being approved by the Operational Director in consultation with the Mayor. Schools under consideration for investment to meet the demand for pupil numbers include: White Rock (£2.5m), Ellacombe (£0.5m), St Margarets (£2.0m), Roselands (£1.0m) and Combe Pafford (£0.1m).

The £6.1 million of funding is linked to the Department of Education basic need allocations for 2015/16 (£1.7m additional funds only) and 2016/17 (£2.9m) that were reported to Council in February 2014 and an estimate of £1.4m funding for 2017/18. If the £1.4m funding for 2017/18 is not confirmed then alternative resources will need to be identified. As these grants are unringfenced and there is an estimate for 2017/18 funding, a Council decision is required to allocate these funds.

- 8.5 Combe Pafford Council contribution: The agreed £0.1 million contribution (as above) represents match funding which it is anticipated will enable the school to bid for further funding from Education Funding Agency to provide improvements which would help the school's accommodation shortfall.
- 8.6 Ellacombe Academy: The budget allocation of £0.05 m in 2014/15 reflects initial expenditure of a total £0.5 million scheme (as above) to provide additional accommodation for increased pupil numbers which are to be provided over the next three years.
- 8.7 Mayfield expansion was completed in August 2013 but, because the original contractor went in to administration, the final costs have only recently been established. There is a saving of £0.1m on the scheme which is now required to cover an anticipated increase in cost for the current Roselands Expansion project.
- 8.8 Torre Academy - achieved practical completion on 7<sup>th</sup> July 2014. The project was delivered on time and within budget. The project team have realised savings of £0.250m on this scheme. This saving is to be reallocated to cover an anticipated increase in cost for St Margaret Clitherow and Roselands Expansion.
- 8.9 Project expenditure profiles on the current schemes at Cockington and Whiterock Schools have also been reviewed and indicate that budgets should be rephased with around £0.3 m moving to 2015/16.
- 8.10 Schools Capital Repairs and Maintenance: The Government have provided an 'un-ringfenced' grant allocation of £0.630 million and following a bid from Childrens Services, it is proposed that these resources should be allocated in line with the central government intentions. The majority will be used to fund much needed improvement works at Furzeham Primary.
- 8.11 Grant to TCCT £0.1m – It is recommended that Council approve partnership funding for Torbay Coast and Countryside Trust's bid to Heritage Lottery Fund to enhance the assets around the Cockington Estate (Green Heart Project), to be funded from capital receipts.
- 8.12 Old Toll House, Torquay - Council approve £0.150 million of capital resources, to be funded from capital receipts, for improvements works at the Old Toll House in Torquay to enable the property to be used in the future possibly generating a future rental stream.
- 8.13 Affordable Housing: The Council has received £0.260 m from Right to Buy Clawback receipts for 2013/14 under its Housing Stock transfer agreement with Riviera Housing Trust (now part of Sanctuary Housing Association). The approved Capital Strategy has previously agreed that these receipts should be allocated to provide resources for Affordable Housing schemes.

## 9 "Old Funding Regime"

This section relates to the schemes in the Capital Investment Plan that were allocated to services from capital funding that originated in 2011/12 and earlier financial years.

## 9.1 Children's Services:

Barton Primary School Rebuild/Refurb – achieved practical completion on 17<sup>th</sup> April 2014. The project was delivered on time and within budget.

Childrens Centres: £0.1 m of unallocated resources from this budget have now been used to provide resources to enable refurbishment work at the former Hillside Family Centre which will be used by Torbay School.

Some small unused budgets from schemes have now been consolidated in the Education Review budget.

9.2 New Growth Points: The plans for a proposed scheme for Innovation Centre Phase 3 are still progressing but it is now considered that £0.1 m of the budget will be used this financial year with the remainder not required until 2015/16.

9.3 Torbay Enterprise Project. This project is now likely to be finalised this year with sites and schemes identified to provide facilities to assist people in to work and independent living.

## 10 “New” Ring fenced funding

10.1 Payroll Project – a new IT development scheme has been included in the Capital Investment Plan for the provision of a new Payroll system (£0.370m). It is expected that the system will be procured in the current financial year and is funded from already earmarked reserves and the Council's revenue contingency.

10.2 Children's – Key Stage 1 Free School meals. - New Government funding to enable schools to provide free school meals for children in Key Stage 1. Whilst this is not a ring fenced grant it is proposed to use these resources for the indicated purpose. It is recommended that Council approve £0.1 million of capital resources be allocated to schools for the free schools meals initiative.

10.3 Environment Agency: Winter 2013/14 Storm Damage. Following the severe weather conditions experienced from December 2013 to February 2014, officers successfully negotiated a claim for £0.4 million from the Environment Agency to contribute to the cost of repairs to sea defences at various sites, including Livermead Sea Wall, Meadfoot Sea Wall, Brixham (Victoria) Breakwater, Hollicombe and Goodrington North. This funding is additional to the Council's potential Bellwin Scheme claim, which will reimburse the Council for some of its urgent revenue costs following the storms.

10.4 Local Transport Board: The Heart of the South West Local Enterprise Partnership (LEP) as a Local Transport Board is to be awarded funds from 2015 to prioritise and allocate on a regional basis to major transport schemes. The Council has successfully submitted bids to this Board for transport works in relation to Western Corridor, Edginswell Station, Torquay Gateway and Torquay Town Centre access. The Government has recently confirmed its funding to the LTB and provided these schemes progress through the LTB allocation process they will receive funding over the next few years. As two of these schemes require a level of (new) match funding from the Council it is recommended that Council approve the allocation of £0.660 million from the SDLR reserve to support the Council's contribution to support the Torquay Gateway transport scheme (£0.385 m) and Torquay Centre Access transport scheme (£0.275m). The reserve will be repaid, as resources permit, from future year transport capital resources.

The summary of the schemes are as follows:

Scheme	Total Cost £m	Local Transport Board (LEP) £m	Local Growth Fund £m	Council Contribution £m
Western Corridor	8.1	7.3	0	0.8
Edginswell Train Station	4.0	3.4	0.6	0
Torquay Gateway	3.8	0	3.4	0.4
Torquay Town Centre	0.7	0	0.4	0.3

## 11 Schemes funded from Prudential Borrowing

- 11.1 South Devon Link Road: The latest estimates indicate that £9.5m of Torbay's funding contribution to this project will be required this financial year. The project is still on schedule for completion in December 2015.
- 11.2 Beach Chalets – A second phase of 25 chalets at Broadsands Beach is proposed to further improve facilities and increase chalet numbers to improve visitor services to the area. The scheme will cost £0.237 million from prudential borrowing the costs of which will be funded from chalet rentals. The scheme is expected to be completed in 2014/15 and is expected to generate over £40,000 per annum of income with a forecast surplus after additional running costs and repayment of prudential borrowing over 20 years of over £10,000 per annum.
- 11.3 Paignton Cyclopark – The cycle track was successfully opened earlier this year. The challenging ground conditions of the site have considerably increased the costs of the velodrome element of the scheme and have prevented its progress at this time. The total budget and timing will be adjusted in the future to reflect any decisions on the project.
- 11.4 Fleet vehicles: The purchase of a vehicle (£0.030m) for use at Brixham Harbour has been approved from the available budget resources. The borrowing costs will be funded by Marine Services.
- 11.5 TOR 2 –Refuse Transfer Vehicles: A grant of nearly £0.4m to TOR2 to purchase specialist vehicles to transfer waste to the new Energy from Waste plant in Plymouth, has been approved. This will be funded by prudential borrowing but produces savings on the procurement of the vehicles and thereby reduces costs to the Council.
- 11.6 Torquay Harbourside Public Realm £0.350m – It is proposed that funding be identified to enable improvements to the public realm areas around Torquay Harbourside. It is recommended that Council approve £0.350 million of capital resources, previously allocated to the empty homes scheme, to be reallocated to improvement works at Torquay Harbour side.

## 12 Contingency

- 12.1 The Council approved a capital contingency of £1.1 million. This contingency is still in place to provide for unforeseen emergencies or shortfall in projected income over the 4-year Plan period and represents 1.6% of the total Capital Investment Plan budget. Currently it is not anticipated that the contingency will be required this financial year so the contingency has been moved to future years.

## 13 Receipts & Funding

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

	2014/ 15	2015/16	2016/17	2017/18	Total @ Q1 14/15
	A	B	C	D	E
Funding	£m	£m	£m	£m	£m
Supported Borrowing	1	0	0	0	1
Unsupported Borrowing	16	5	3	4	28
Grants	16	6	11	3	36
Contributions	0	0	0	0	0
Reserves	0	1	0	0	1
Revenue	1	0	0	0	1
Capital Receipts	2	1	0	0	3
<b>Total</b>	<b>36</b>	<b>13</b>	<b>14</b>	<b>7</b>	<b>70</b>

## Notes to Table:

Column E –reflects the Capital Investment Plan as at Quarter One 2014/15 and shows the approved schemes to the extent that funding has been received or confirmed. Where the value of the approved schemes exceeds the known funding, temporary prudential borrowing has been used pending the future receipt of funds, at which point the funding will be swapped.

### Grants

13.2 Capital Grants continue to be the major funding stream (over 60% in 12/13 and 13/14) for the Council to progress its investment plans. An element of these grants result from “bid” processes from other public sector bodies. The Council used £10.6 million of grants in 2013/14 and is currently estimating to use £16m of grants in 2014/15.

13.3 Since the last Capital update (Outturn 2013/14) to Council in July 2014 the Council has been notified of grants for 2014/15 as follows:

Key Stage 1 free school meals	£0.122 m
Environment Agency – 13/14 Storm damage	£0.408 m

Further, new Government allocations of grant for future years have been confirmed as follows:

Department for Transport – Integrated Transport Block 15/16 = £1.063m (same amount also confirmed for 2016/17 & 2017/18)

The Council has been notified of a grant of £0.295m from the Department of Transport Small Ports Funds to help support the costs of storm damage. This will be included in the next revision of the capital plan when officers have considered the links between, and the conditions on, the various storm related funding the Council has applied for.

### Capital Receipts –

13.4 The approved Plan as at 1 April 2014 relies upon the generation of a total of £3.4 million capital receipts from asset sales by the end of 2016/17 of which £1.5m has now been received by the end of July leaving a target of £1.9m to be achieved. As a result of the proposed allocation of £0.250m of capital receipts to fund two new schemes (TCCT Green Heart and Old Toll House, Torquay) the capital receipts target has increased by that value to £2.1m. This target is expected to be achieved provided that -

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

13.5 There is an ongoing risk over the value of receipts. Assets approved for disposal are reported to Council for approval, with the latest report at Council in May 2014.

### Capital Contributions – S106 & Community Infrastructure Levy

13.6 The general target for securing capital contributions to fund the 4-year Capital Investment Plan, following review of the Budget in February 2013 was £0.5 million (required by March 2016). In addition the South Devon Link Road business case estimated external contributions including s106 payments of £2.1m to help fund the scheme (£0.080m, received to date).

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

13.8 Income from s106’s capital contributions so far in 2014/15 is only around £0.040 million.

## 14 Borrowing and Prudential Indicators



- 14.1 The Council set its Prudential Indicators and monitoring arrangements for affordable borrowing in February 2014. The Authorised Limit for External Debt including long term liabilities (the maximum borrowing the Council can legally undertake) and the Operational Boundary (the day-to-day limit for cash management purpose) are monitored on a daily basis by the Executive Head of Finance and reported to Members quarterly.

The limits are as follows

- **Authorised Limit** £231 million
- **Operational Boundary** £161 million

External Debt, and long term liabilities, such as the PFI liability, as at end of June 2014 was £146.8 million. The current level of debt is within the Operational Boundary and the Authorised Limit set for the year. No management action has been required during the quarter.

- 14.2 The only anticipated change to the level of Council's liabilities in 2014/15 is the PFI scheme for the Energy From Waste facility plant in Plymouth. If this scheme is judged to be an asset to be recognised on the Council's balance sheet then a corresponding liability will also need to be recognised.

- 14.3 The Council's capital expenditure has an overall positive impact on the Council's Balance Sheet. Expenditure in the Capital Investment Plan on the Council's own assets will increase the value attached to the Council's fixed assets. As at 31 March 2014 the Council's "Non Current Assets" were valued at £265 million.

## **15 Possibilities and Options**

- 15.1 Council could consider reducing the Capital Investment Plan to reflect any potential reduction in capital receipts or other capital resources.

## **16 Consultation**

- 16.1 Where appropriate individual capital schemes have public consultation and negotiation with stakeholders.

## **17 Risks**

- 17.1 That capital receipts, other capital contributions such as S106 and Community Infrastructure Levy and future year grant allocations will be not be received to support the plan.
- 17.2 The contingency is approximately 1.6% of total planned expenditure on a total programme of £69 million. There could be inflationary cost pressures on the programme thus increasing expenditure.

## **Appendix**

1. Annex 1 Capital Investment Plan Budget 2014/15 – 2017/18 (as at July 2014)