



Meeting: Overview & Scrutiny Board

Date: 15th June 2016

Wards Affected: All

Report Title: Capital Plan Update - (Outturn 2015/16) – subject to audit

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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 final Capital Monitoring report for 2015/16 under the Council's budget monitoring procedures. It provides high-level information on capital expenditure and income for the year (subject to Audit), compared with the latest budget position as at quarter three reported in February 2016.
- 1.2 The Council's capital expenditure in 2015/16 was £22.6m with £2.6m of funding re profiled to be spent in future financial years.

2 Proposed Decision

It is proposed that the following recommendations will be made to the Council at its meeting on 21 July 2016:

- 2.1 That the outturn position for the Council's Capital expenditure and income for 2015/16 be noted.
- 2.2 That the action taken by the Chief Finance Officer, under the Officer Scheme of Delegation, to carry forward the unspent budgets for expenditure or work in progress (together with their funding) from 2015/16 to 2016/17 be noted.
- 2.3 That the funding of the capital investment plan for 2015/16 as outlined in paragraph 7.1 be noted.

The Overview and Scrutiny Board is asked to report directly to Council on any recommendations it may have following its review of the outturn position.

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.

4 Summary

- 4.1 Members of the Overview and Scrutiny Board and Council have received regular budget monitoring reports on the Council's Capital Investment Plan throughout the year. This report is the monitoring report for the fourth quarter 2015/16 which is also the financial year end. Variations reported are those arising in this quarter and any other changes reported will be reflected in the 2016/17 Quarter One Capital Plan update to OSB and Council in September 2016.
- 4.2 Outturn expenditure for the year was £22.6 million compared with the budgeted spend in the last monitoring position of £28.6 million. In percentage terms, spend was 79% (89% 14/15) of the latest forecast, including £3.1m less expenditure than estimated on South Devon Highway being the main factor.

5 Supporting Information

- 5.1 The original capital budget for 2015/16 reported to Council in February 2015 was £29.8 million. That was subsequently revised during 2015/16 for re profiling of expenditure from 2014/15, new schemes and re profiling expenditure to future years. All changes with reasons have been included in previous monitoring reports. Actual spend during 2015/16 was £22.6m, which is detailed in Appendix 1.
- 5.2 Capital budgets of £6.4m will be carried forward to 2016/17 to enable schemes not completed or progressed in 2015/16 to be continued in the current year along with the funding sources for the scheme.
- 5.3 The Council set its Prudential Indicators for 2015/16 and monitoring arrangements for “affordable borrowing” in February 2015. The detailed Outturn Indicators are presented as part of the Treasury Management Outturn Report to be presented to Council in July.
- 5.4 The expenditure predictions as at January 2016 were presented as part of the Capital Investment Plan Update to Council in February 2016. That Report noted anticipated expenditure of £28.6 million in 2015/16. This has since been revised to a budgeted total of £28.9m with £0.3m of schools schemes re profiled to 2015/16 from future years.
- 5.5 Appendix 1 provides a schedule of the outturn for spending and funding in 2015/16.

Column (1) shows the revised budget for the year.
 Column (2) shows the actual payments during the year.
 Column (3) shows the variance between outturn and revised budget.
 Column (4) shows the net budget to be carried forward to 2016/17.

- 5.6 In order to meet the timetable for the statutory closure of accounts it is inevitable that assumptions are made with regard to the final outturn figures which will be part of the audit of the Council’s accounts. Any material changes will be reported to a future meeting.

6 **Expenditure Outturn & Performance**

- 6.1 The actual service expenditure in 2015/16 was £22.6 million. The outturn for individual projects is provided in Appendix 1. A summary at service level is in the table below –

	Latest Budget	Outturn	Spent	Variation
	£m	£m	%	£m
Adult Services	0.5	0	0	(0.5)
Childrens Services	5.7	5.1	90	(0.6)
Community & Customer Services	19.0	14.5	76	(4.5)
Corporate & Business Services.	3.7	3.0	81	(0.7)
TOTALS	28.9	22.6	78	(6.3)

- 6.2 In overall terms there was net variation in the Plan spend of £6.3 million, which is 22% of the revised budget. A summary of the significant re profiling and reasons is included below.
- 6.3 The re profiling of budget within the net £6.4 m of variations identified in Appendix 1 to be carried forward to 2015/16 is summarised by scheme (in excess of £0.250m) in the table below:

Scheme	Re Profiling	Reason
	£m	
Affordable Housing – Hayes Road scheme	(0.3)	Project funding not required in 15/16

Secondary School Places	(0.4)	Some expenditure delayed for school holidays
Disabled Facilities Grants Reserve	(0.4)	Previous unused allocation not yet reallocated
South Devon Highway	(3.1)	Torbay share of contribution to scheme delayed
Transport - Torquay Gateway	0.3	Elements of Scheme progressed more quickly
Transport – Western Corridor	(0.3)	Some delay from public utilities requirements
Oldway Estate	(0.4)	Drawdown of lease not actioned in 15/16

- 6.4 The Capital Investment Plan spans 4 financial years and includes development projects where spending is expected to run for a number of years. It is normal that annual budgets need to be re-phased between years as schemes develop through feasibility, design and construction stages. On occasion consultation with end-users, affordability of design and negotiation with external funders can significantly delay anticipated start dates.
- 6.5 During the year, budgets were regularly re-scheduled between the four years of the plan and the reasons were reported to Council.
- 6.6 On a number of schemes, even though works had not been undertaken by the year end a number of contractual commitments have been entered into, to progress the scheme.
- 6.7 Where project costs have exceeded budget, and funds could not be brought forward from future year's budgets, services were asked to identify additional sources of funding. No scheme has been carried forward to 2016/17 which will be a call on (new) funding allocated in for future years.
- 6.8 The Chief Finance Officer is authorised under the Officer Scheme of Delegation to approve re-phasing of expenditure between years provided the impact does not exceed the overall level of the approved programme and the available funding resources. Under this delegation, net budget of £6.4 million has been carried forward into 2016/17 to fund commitments on works in progress and to enable approved schemes to be completed. Conversely budgets for 2016/17 have been reduced on those projects which have spent in advance (within the overall capital budget for the project). A revised Capital Investment Plan, incorporating the budgets carried forward and any schemes that are now significantly changed will be presented with the first Capital Investment Plan update in 2016/17.
- 6.9 In addition to the re profiling of expenditure to future years the corresponding budgets for the funding of these schemes are also carried forward. Where funding has been received but not applied, this funding is reflected on the Council's balance sheet as usable reserves.

Individual Project Monitoring - Main Variations & Management Action

- 6.10 Appendix 1 shows the expenditure in 2015/16 on each individual project. A number of projects have been completed during the year and are now delivering improved services to users. A summary of schemes in the year is outlined below.
- 6.11 **Adult Services**
- 6.12 During 2015/16 there was no expenditure on Adult Social Care and Housing Strategy services. This resulted from a combination of factors whereby available budgets were not required usually because schemes did not progress as anticipated.
- 6.13 In 2015/16 the Council received £0.461m Adult Social Care Grant which forms part of the Better Care Fund. However since there was little demand for the capital resources from Adults Social Care the capital grant was swapped within the Council's Capital Plan to provide revenue resources to support the revenue demands of Adult Social Care whilst the capital grant was used to support capital demands in other service areas.

6.14 For 2016/17 there is no Government allocation for Adult Social Care capital grant, however the Council's Better Care Fund Capital allocation remains at a level similar to 2015/16 as the Disabled Facilities Grant allocation has increased to compensate (also see para 6.20 below).

6.15 **Childrens Services**

6.16 During 2015/16 a total of £5.1m of resources allocated to Childrens Services was spent mostly on school enhancement primarily for additional pupil places (basic need) including £2.4m at Whiterock Primary school, £0.6m on capital repairs particularly at Furzeham Primary school and £0.5m on an expansion programme at Ellacombe Primary.

6.17 Children's Services also acquired the former Brookfield House Flats site which will be used to provide improved access to the Torbay School site and provide an additional multi-use games area. There was some related expenditure during the year on potential relocation sites and some rephasing of budgets between years and reallocations between schemes.

6.18 **Community and Customer Services**

6.19 During 2015/16 a total of £14.5m of resources allocated to Community and Customer Services were spent on a range of projects. These included £8.6m contribution to South Devon Highway, £4.6m on other transport related schemes and £0.9m on Disabled Facilities Grants.

6.20 In April 2015 the Council received its 2015/16 allocation of Disabled Facilities Grant (DFG) of £1.020m which although paid direct to the Council by the Department of Communities and Local Government has been "passport" to the Council from the Better Care Fund. Although an un-ringfenced grant the Council approved this allocation for Disabled Facilities Grants in 2015/16.

6.21 Following the successful opening of the South Devon Highway, a number of related Transport schemes to improve the infrastructure and access within the Bay, supported by the Local Enterprise Partnership incurred significant expenditure in 2015/16. These will continue over the next couple of years to ensure the benefits of improved transport links to the area are maximised.

6.22 **Corporate and Business Services**

6.23 During 2015/16 a total of £3.0m of resources allocated to Corporate and Business Services was spent on the Office Rationalisation Project (£0.2m in year), improvements to Beach Hut provision at various locations (£0.4m in year) and various coastal and flood protection projects (£0.6m). The Council also provided a financial loan (for a capital purpose) and a capital grant to TDA to enable regeneration and employment projects (£1.3m). Work also commenced to replace Princess Pier decking (£0.2m).

6.24 **Contingency**

The Council approved a capital contingency of £0.6 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 approximately 0.8% of the total Capital Investment Plan.

7. **Receipts & Funding**

7.1 Resources used in the year to fund the actual spending, compared to the anticipated use of resources, are as follows –

	Revised Budget	Outturn	Variation
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	£m	£m	£m
Unsupported (Prudential) Borrowing	12.9	7.8	(5.1)
Grants	13.7	10.6	(3.1)
Other Contributions	0.4	0.2	(0.2)
Revenue & Reserves	1.0	1.4	0.4
Capital Receipts	0.9	2.6	1.7
Total Funding	28.9	22.6	(6.3)

Grants

- 7.2 Capital Grants continue to be the major funding stream 47% (64% in 14/15) for the Council to progress its investment plans. An element of these grants result from “bids” to other public sector bodies. With ongoing reductions on public sector expenditure, this funding stream is significantly reducing for future capital projects. The Council used £10.6m in 2015/16 (£13.0 m in 2014/15) to support its capital expenditure. As at 31 March 2016 the value of grants received but not yet applied was £4.0 million (down from £5.0.m in 2014/15 and £10.2m 2013/14). This sum is reflected in the Council’s balance sheet.
- 7.3 In April 2016 the Council received its 2016/17 capital allocation of the Better Care Fund. Within this the 2016/17 DFG allocation is £1.524m, which is higher than last year’s allocation (£1.020m) but now includes the value of Adult Social Care capital grant.
- 7.4 Since the last Capital Plan Monitoring report, Department of Education issued the following allocations for schools.
- | | |
|----------------------------------|---------|
| 2016/17 Devolved Formula Capital | £0.091m |
| 2016/17 Condition Funding | £0.448m |
- 7.5 The Devolved Formula Capital grant is ring fenced for schools and will be included in the next Capital Investment Plan Update. The £0.448m 2016/17 Condition funding will need to be allocated by Council. This is an un-ringfenced grant.
- 7.6 The 2016/17 Basic Need allocation has previously been notified and is already allocated to Childrens Services for their ongoing school expansion programmes.
- 7.7 The Department for Transport has recently confirmed that Torbay will receive an additional £0.082m from its Highways Maintenance Incentive Fund following a successful submission from the Council, along with £0.071m from its Pothole Action Fund 2016/17 to address deteriorating road surfaces. These grants will need to be allocated by the Council.
- 7.8 The Council has also secured £1.279m from the Environment Agency to deal with cliff erosion at Hollicombe which threatens the nearby railway line. This scheme will be added to the Capital Plan in the next monitoring report. The £1.5 million scheme requires additional funds from the Council and other partners (e.g. Network Rail / SW Water).
- 7.9 Linked to the approved capital matrix, options for the use of these grants, if un ring fenced, will be presented to Council for approval during 2016/17.

Borrowing & Long Term Liabilities.

- 7.10 Borrowing was kept within Affordable Borrowing limits and the effect on the Revenue budget was within budget (see Prudential Indicators in Treasury Management Outturn 2015/16 Report).
- 7.11 In 2015/16, unsupported (Prudential) borrowing of £7.8 million was utilised to fund (or part fund) expenditure on the following major projects:
- South Devon Highway
 - Office Rationalisation
 - Beach Huts
 - Torbay Development Agency Loan
 - Street Lighting

- 7.12 If no additional capital contributions to the South Devon Highway are received then the level of prudential borrowing required will remain at up to £20m. This cost will impact on the Council's revenue budget in 2016/17 following the opening of the road. The repayment of £20m over 25 years will be an annual cost to the service of £1.3 million.
- 7.13 Repayment of the prudential borrowing by services varies between projects and reflects the anticipated use of the asset or a suitably shorter period over which the service feels is appropriate, however prudential borrowing is never taken over a period which is greater than the anticipated life of the asset.
- 7.14 The Council sets aside an amount in its revenue budget (known as minimum revenue provision) for the repayment of the borrowing on its maturity including a sum for the value of the debt inherited from Devon County Council in 1998. In 2015/16 it set aside £4.3m in respect of capital expenditure by the Council and in relation to the PFI scheme for The Spires and Homelands Schools and the new PFI Energy From Waste facility in Plymouth. This ensures that in the long term all borrowing and long term liabilities will be repaid.
- 7.15 In relation to the PFI Energy From Waste facility in Plymouth. In 2015/16 the Council has reflected its 17% share of the value of the asset, £33m, on its balance sheet offset by recognition of liabilities to that value. The liabilities comprise a £12m liability for the Council to fund its share of the financing of the asset and a £21m liability for the deferred income due from third party sales at the facility that will be used over the life of the contract to finance the asset.
- 7.16 Borrowing is related to the funding of non current (fixed) assets. The costs of these assets tend to be spread over the long term which is line with the long term use of these assets. The value of Council long term assets as at 31/3/16 was over £350 million. It should be noted that as schools convert to Academy status the value of the asset is removed from the Council's balance sheet however the Council remains liable for any borrowing or long term liabilities in relation to these schools up to the date of transfer. In 2015/16 the value of schools that converted to Academy status removed from the Council's balance sheet was over £14 million. More schools are expected to convert during 2016/17.

Capital Receipts –

- 7.17 Capital receipts in the year were £0.6 million. Receipts included the following:
- £0.4m Right to Buy Housing “clawback”
 - £0.2m Land sales including sites at Teignmouth Road, Glebeland Way, and Waterside Road

In the year £2.7m of capital receipts were applied to fund capital expenditure. The Capital Receipts reserve had a balance of £1.4m at year end.

- 7.18 The approved Plan relies upon the generation of a total of £3.0 million capital receipts from asset sales of which £1.4m was held at 31 March 2016, leaving a target of £1.6m still to be achieved over the life of the plan. This target is expected to be achieved provided that -
- approved disposals currently “in the pipeline” are completed,
 - the Council continues with its disposal policy for surplus and underused assets and,
 - no more new (or amended) schemes are brought forward that rely on the use of capital receipts for funding.
- 7.19 In accordance with the Council's approved capital strategy, the £0.4m of “right to buy” receipts received in 2015/16 will be allocated to housing schemes.

Capital Contributions – S106 & Community Infrastructure Levy

- 7.20 Following changes to Government guidelines on the collection and use of Section 106 (Planning Gain) contributions, there has been a marked decline in this source of funding for capital projects. Furthermore, the South Devon Highway business case estimated external contributions including S106 payments of £2.1m to help fund the scheme (only £0.1m received to date and now a small, limited number of contributions can be applied).

- 7.21 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.
- 7.22 Income from Section106 capital contributions in 2015/16 was less than £0.02m, some of which are for specific schemes.
- 7.23 Following the adoption of the Local Plan in 2015/16, Council recently approved a Community Infrastructure Levy (CIL) scheme which it is hoped will generate further capital contributions to support infrastructure projects, in particular the funding shortfall on South Devon Highway. It should be noted that 15% of the proceeds of CIL are to be used in the area of the development. This percentage rises to 25% in areas where 'Neighbourhood Plans' have been adopted.