

**Meeting:** Overview and Scrutiny Board **Date:** 14 September 2016

**Wards Affected:** All

**Report Title:** Capital Plan Update – 2016/17 Quarter 1

**Is the decision a key decision?** No

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

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## **1. Proposal and Introduction**

- 1.1 The Capital Plan budget totals £81.7 million for the 4 year programme, with £33.3 million currently scheduled to be spent in 2016/17, including £4.6m on the South Devon Highway and £4.6m on Claylands Regeneration, but still requires £1.6 million from capital receipts and capital contributions over the life of the Capital Plan.
- 1.2 The Council's Capital Plan is updated on a quarterly basis which includes any new funding announcements and allocations. It provides high-level information on capital expenditure and funding for the year compared with the last Plan update as reported to Council in February 2016.

## **2. Reason for Proposal**

- 2.1 Quarterly reporting to both the Overview and Scrutiny Board and to Council is part of the Council's financial management.
- 2.2 There are a number of Council schemes where Council approval is required for the allocation of funds to a scheme or service including the approval of any prudential borrowing.

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

It is proposed that this report be presented to the meeting of the Council on 22 September 2016 with the following recommendation:

- 3.1 Council note the latest position for the Council's Capital expenditure and funding for 2016/17.

3.2 That the allocation of the following grants to services be approved:

Dept for Education: 2016/17 Condition Funding £0.448m to Childrens Services.

Dept for Transport: 2016/17 Highways Maintenance Incentive Fund £0.082m to Highways Services

Dept for Transport 2016/17 Pothole Action Fund £0.071m to Highways Services

**The Overview and Scrutiny Board is asked to report directly to Council on any recommendations it may have following its consideration of this report.**

#### **4 Supporting Information and Impact Assessment**

4.1 Members of the Overview and Scrutiny Board and Council receive regular budget monitoring reports on the Council's Capital Plan throughout the year. The Council's four year Capital Plan is updated each quarter through the year. This report is the monitoring report for the first quarter 2016/17 and includes variations arising in this quarter to the end June 2016.

4.2 The overall funding position of the 4-year Capital Plan Budget of £81.7 million, covering the period 2016/17 – 2019/20, is primarily fully funded but still relies upon the generation of £3 million of Capital income from capital receipts and capital contributions over the life of the Capital Plan.

4.3 Of this £3m funding requirement, Capital Receipts of £1.4 million have been received by the end of June 2016, leaving a balance of £1.6 million still to be realised from both capital receipts and capital contributions. It is only after this target has been reached that any capital receipts should be applied to new schemes.

4.4 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.

4.5 The movements in the estimate of expenditure in 2016/17 on the Capital Plan between the last monitoring report at February 2016 of £41.4m and the current approved budget for 2016/17 of £33.3m are shown below. Please note the format of this table shows schemes ordered by their service Directorate, as is Appendix 1.

<b>Scheme</b>	<b>Variation in 2016/17</b>	<b>Change £m</b>	<b>Reason</b>
<b>Estimate as at Q3 2015/16</b>		<b>41.4</b>	Capital Plan Update – 2015/16 Quarter 3 (Report 25 Feb 2016)
<b>Budget changes since last report (Q3 2015/16)</b>			
Paignton Academy - Secondary Places	Rephased budget	0.3	Transfer budget from New Pgn Primary to provide

			required secondary places
		<b>41.7</b>	
Scheme budgets brought forward from 2015/16 and year end adjustments.	Re profiled to 2016/17	6.4	For details see 2015/16 Capital Outturn report (Council 21 July 2016)
		<b>48.1</b>	
<b>Adult Services</b>			
Affordable Housing	Increase budget	0.2	Budget increased by Right To Buy receipts 2015/16
		<b>0.2</b>	
<b>Childrens Services</b>			
Devolved Formula Capital	New Govt grant allocation	0.1	2015/16 ringfenced grant allocation
New Paignton Primary School	Part budget transferred to separate scheme	(0.5)	Part budget required for relocation of existing school
Torbay School Relocation	Budget transfer from New Pgn Primary	0.5	
Torquay Secondary School places	Rephased part of budget	(1.5)	Scheme rescheduled and delayed pending review of resources
		<b>(1.4)</b>	
<b>Community and Customer Services</b>			
Clennon Valley Sport Improvement	New scheme	0.1	Drainage work mainly funded from Reserve
Transport – Integrated Transport projects	Additional budget	0.1	S106 funding to fund works
		<b>0.2</b>	
<b>Corporate and Business Services</b>			
Claylands Redevelopment	Budget rephased	(5.4)	Expenditure profile reviewed
Essential Capital Repairs	Part budget moved to 2017/18	(1.0)	Use of budget being determined
Flood Defence/Cliff works	Move part budget to 16/17	(0.1) (0.1)	Part to Hollicombe Cliffs scheme and rest moved to 2017/18
Hollicombe Cliffs Rock Armour	New scheme	0.9	Work to protect coastal defences and railway line
Investment Fund	Rephase budget	(4.0)	Profile reviewed
General Contingency	Budget to 2017/18	(0.6)	Not expected to be required in 2016/17
TEDC Capital Loan	Part to 2017/18	(0.6)	Part of Loan drawdown delayed.
Torbay Innovation Centre Phase 3 (EPIC)	Rephase budget	(2.9)	Review of expected work programme
		<b>(13.8)</b>	
<b>Estimate – Quarter One 2016/17</b>		<b>33.3</b>	

#### 4.6 Expenditure

- 4.7 The Capital Plan Budget has been updated for any further revision to both projects and timing, resulting in the latest revision attached to Annex 1. The Plan now totals £81.7 million over the 4 year period of which £33 million relates to 2016/17 and £36 million relates to 2017/18.
- 4.8 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.
- 4.9 Expenditure to the end of this first quarter was £1 million with a further £1.4 million of commitments on the Council's finance system. The expenditure of £1 million is only 3% of the latest budget for 2016/17. This compares with £1 million (or 5% of outturn) for the first quarter last year.
- 4.10 The Chief Finance Officer has challenged service managers on a number of spending profiles and it is expected further re profiling will occur on a number of schemes.

	<b>2011/12</b> <b>£m (%)</b>	<b>2012/13</b> <b>£m (%)</b>	<b>2013/14</b> <b>£m (%)</b>	<b>2014/15</b> <b>£m (%)</b>	<b>2015/16</b> <b>£m (%)</b>	<b>2016/17</b> <b>£m (%)</b>
Quarter One	3 (14%)	2 (11%)	4 (23%)	2 (10%)	1 (4%)	1 (3%)
Quarter Two	7 (32%)	4 (21%)	4 (23%)	4 (20%)	4 (17%)	
Quarter Three	5 (22%)	5 (26%)	3 (18%)	4 (20%)	8 (35%)	
Quarter Four	7 (32%)	8 (42%)	6 (35%)	10 (50%)	10 (44%)	
<b>Total In Year</b>	<b>22</b>	<b>19</b>	<b>17</b>	<b>20</b>	<b>23</b>	<b>33</b>

#### 4.11 **Updates to Capital Plan**

#### 4.12 **Joint Commissioning Team**

- 4.13 Affordable Housing – in line with the Council's approved Capital Strategy, the budget to support affordable housing schemes has been increased by £0.153 m to reflect the 2015/16 Right to Buy Clawback receipt received from Sanctuary Housing Association under the terms of the original transfer agreement relating to the transfer of the Council's housing stock to (then) Riviera Housing. A further £0.2m of the 2015/16 clawback receipt has been used to fund the Empty Homes scheme.
- 4.14 The affordable housing budget now totals £1.9m and at present this is uncommitted.
- 4.15 Integrated Care Organisation (ICO). Council, at its July 2016 meeting, approved the Annual Strategic Agreement 2016/17 for the ICO. Part of the agreed funding package will be provided from capital resources as detailed in paragraphs 4.37 and 4.38 below. Whilst this decision falls outside the period of this monitoring report it is noted here for convenience.

4.16 Childrens Services:

4.17 There are a number of variations to budgets on various schemes as detailed below.

4.18 School Basic Need projects: In February 2015 Council approved a report from Childrens Services outlining proposals to provide additional school places based on assumed levels of future funding. At that time it was assumed that the 2018/19 Basic Need allocation would be £2m, however the Council has recently been informed that its Basic Need grant allocation for 2018/19 is zero. As a result of this drop in funding some of the proposed schemes have been delayed and/or suspended whilst a review of the projects and resources is undertaken. In additional funding options for these projects will be explored.

4.19 New Paignton Primary School – In July 2016 Council approved a report on the proposals for a new Paignton Primary School located on the Torbay School site. Part of the budget initially provided for this project included funds for the potential relocation of Torbay School. Following approval of the report the budget for relocation costs (£3m) has now been transferred to a separate scheme in the Capital Plan for the required relocation of Torbay School to My Place Parkfield (subject to consultation).

A number of multi Academy trusts are submitting bids to open the proposed new primary school. If one of these bids is taken forward the new primary school will then be funded by the Education Funding Agency with no cost to the authority.

4.20 Secondary School places - This project is currently on hold following reduced Government Basic Need funding (see para. 4.18).

4.21 The Devolved Formula Capital grant allocation for 2016/17 of £0.091m is a ring fenced grant and has been added to the Capital Plan.

4.22 **Joint Operations Team**

4.23 Community and Customer Services

4.24 Clennon Valley Sport Improvement – works estimated to cost £0.07m are required to improve the drainage of sports pitches at Clennon Valley. This will be funded from Reserves and revenue funds.

4.25 Transport – Edginswell Station. The Council is still awaiting details of the Government's New Stations Fund which, it is hoped, may provide some additional funding towards this scheme which currently has grant support from the Local Enterprise Partnership, however this grant allocation is insufficient to build the station.

4.26 Transport Structural Maintenance – The Government have announced additional grant allocations from their Incentive Fund (£0.082m) and Pothole Action Fund (£0.071m) for 2016/17. If agreed by Members these amounts will be added to the Highways Structural Maintenance budget to improve the condition of roads in Torbay.

- 4.27 In the Q3 2015/16 Monitoring report part of the Highways Structural Maintenance grant allocation was identified as 'at risk' since it was subject to Government assessment of the authority's efficiency performance. It now appears that this element of grant (the "Incentive Fund") takes the form of an additional payment where appropriate so the initial reduction made in Qtr 3 2015/16 has now been reinstated. The potential additional Incentive Fund allocations in future years will still be determined by Government assessment of performance.
- 4.28 Transport Integrated Transport Schemes – budget increased by £0.072m to reflect works required by, and funded from, Section 106 (Planning) agreements.
- 4.29 Transport – Western Corridor and Tweenaway Cross. There are increasing demands on these budgets both from ongoing construction costs and related compensation claims. These cannot easily be delivered within existing budgets and commitments so officers are considering options, but additional resources are required.
- 4.30 Disabled Facilities Grants (DFG) – The Council meeting in July 2016 approved £0.524m of the 2016/17 DFG allocation funding to support the ICO 2016/17 funding shortfall, leaving £1.0m to fund DFGs in the current year. The figures are not yet reflected in the Capital Plan at 30 June since the decision was taken after this date, but is noted here for reference.
- 4.31 In addition, the previously unused balance of DFG funding which was set aside last year for potential reallocation is also to be used to part fund the ICO shortfall in funding for 2016/17, as proposed and approved in Annual Strategic Agreement 2016/17 report to Council July 2016. Again this change is not yet reflected in the Capital Plan figures for Quarter 1 2016/17.
- 4.32 Corporate & Business Services
- 4.33 Claylands Redevelopment – the budget has been rephased in the light of revised expenditure plans, with £5.4m budget moved to future years.
- 4.34 Innovation Centre Phase 3 - Electronics & Photonics Innovation Centre – the likely expenditure profile for this project has been reviewed and consequently £2.9 m of the budget has been moved to reflect this. Potential ERDF funding of £1.5 million is still to be confirmed for this project, and could now be in doubt, but does not yet form part of the scheme budget.
- 4.35 Employment Site (Graphics Control) – In its July 2016 meeting Council approved this £6.7 million Prudential borrowing scheme to enable a business to relocate to Torbay. This decision is noted here for information however since the scheme was not part of the Capital Plan at 30 June (Q1) it is not included in figures shown.
- 4.36 Essential Capital Repairs – this budget is provided to enable urgent works to Council assets including Infrastructure. At present its use is being carefully considered but it is unlikely that all the current budget (£1.5m) will be required so £1m has been moved to 2017/18.
- 4.37 Flood Defence schemes – the Capital Plan currently includes a provision of £0.155m to support future Environment Agency schemes. The majority of this

funding is now needed to part fund Hollicombe Cliff works, which has recently received an Environment Agency grant allocation. The Torbay Council match funding requirement will leave little of this provision available for other Cliff / flood defence schemes.

- 4.38 Hollicombe Cliffs Rock Armour – Following a successful bid for grant aid from the Environment Agency for this scheme, work will begin to secure the sea defences and the railway line at Hollicombe. Torbay’s contribution to the scheme will come from the existing resources within Capital Plan (see para.4.42 above) with additional contributions expected from SW Water and/or Network Rail.
- 4.39 Haldon/Princess Piers Structural repair – some work is continuing on the structures of these piers and on completion of this work a further survey will be made to identify remaining works required and time scale.
- 4.40 Investment Fund – £4m of the 2016/17 budget has been rephased to 2017/18 following a review of likely expenditure.
- 4.41 Oldway Mansion – in August 2016 the developer and the Council agreed to terminate the development agreement. As a result the capital plan will be updated to reflect this position. The development agreement premium, in addition to the deposit, was paid in full to the Council by OML to be used for the benefit of the Mansion.
- 4.42 TEDC Capital Loan – the remaining loan facility given to support TEDC to enable development of specific schemes is not likely to be drawn down in this year so part of the budget has been moved to next financial year.
- 4.43 General Contingency - The Council has 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 but represents less than 1% of the total Capital Plan budget. Currently it is not anticipated that the contingency will be required in this financial year.

## 5 Receipts & Funding

- 5.1 The funding identified for the latest Capital 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 Plan is shown in the Table below:

	2016/17	2017/18	2018/19	2019/20	Total @ Q1 16/17
	A	B	C	D	E
Funding	£m	£m	£m	£m	£m
Unsupported Borrowing	11	18	2	1	32
Grants	17	17	7	2	43
Contributions	1	0	0	0	1
Reserves	0	1	0	0	1
Revenue	1	0	0	0	1
Capital Receipts	3	0	0	0	3
<b>Total</b>	<b>33</b>	<b>36</b>	<b>9</b>	<b>3</b>	<b>81</b>

## 5.2 Grants

- 5.3 Capital Grants continue to be the major funding stream (over 60% in last 3 years) for the Council to progress its investment plans. An element of these grants result from “bid” processes from other public sector bodies. The Council used £11 million of grants in 2015/16 and is currently estimating to use £17m of grants in 2016/17.
- 5.4 As reported in the last Capital Plan update (Outturn 2015/16) reported to Council in July 2016, the Council has been notified of the following capital grant allocations:

### Department for Education –

2016/17 Devolved Formula Capital	£0.091m
2016/17 Condition Funding	£0.448m

The Devolved Formula Capital grant is ring fenced for schools and has been added to the Capital Plan.

The £0.448m 2016/17 Condition funding will need to be allocated by Council as this is an un-ringfenced grant.

The 2016/17 Basic Need allocation has previously been notified and is already allocated to Childrens Services for their ongoing school expansion programmes.

### Department for Transport –

2016/17 Highways Maintenance Incentive Fund £0.082m, following a successful efficiency and performance submission from the Council,

2016/17 Pothole Action Fund £0.071m to address deteriorating road surfaces. These un-ring fenced grants will need to be allocated by the Council.

### Department of Health –

2016/17 Disabled Facilities Grants allocation £1.524m, This is higher than last year’s allocation (£1.020m) but now includes the value of Adult Social Care capital grant.(2015/16 = £0.461m). In July 2016, Council agreed to split this allocation between Disabled Facilities Grants (£1m) and the ICO funding (£0.524m).

### Environment Agency –

The Council has also secured £1.279m grant to deal with cliff erosion at Hollicombe which threatens the nearby railway line. This scheme has been added to the Capital Plan. The £1.5 million scheme requires additional funds from the Council and other partners (e.g. Network Rail / SW Water).

## 5.5 Capital Receipts

- 5.6 The approved Plan relies upon the generation of a total of £3.0 million capital receipts from asset sales by the end of 2018/19 of which £1.4m has now been



received by the end of June 2016, leaving a target of £1.6m to be achieved. This target is expected to be achieved provided that -

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

5.7 Assets proposed for disposal are reported to Council for approval, with the last full report at Council in October 2014. The Mayor at Council in February 2016, approved the disposal of Lincombe Court. The disposal is expected to be completed in September and will be reported in the next capital monitoring report.

### **5.8 Capital Contributions – S106 & Community Infrastructure Levy**

5.9 The Council’s Capital Strategy states that capital contributions are applied to support schemes already approved as part of Capital Plan and are not allocated to new schemes unless the agreement with the developer is specific to a particular scheme outside the Capital plan.

5.10 Income from Section106 capital contributions so far in 2016/17 only amount to £0.115 million.

5.11 Following the adoption of the Local Plan in late 2015, Council has now also approved a Community Infrastructure Levy (CIL) scheme which will provide funds for infrastructure improvements linked to and in the vicinity of proposed developments. The main capital project identified for CIL receipts is South Devon Highway.

### **5.12 Borrowing and Prudential Indicators**

5.13 There was no borrowing taken or repaid during the quarter.

5.14 The Council’s capital expenditure has an overall positive impact on the Council’s Balance Sheet. Expenditure in the Capital Plan on the Council’s own assets will increase the value attached to the Council’s fixed assets. As at 31 March 2016 the Council’s “Non Current Assets” were valued at £335 million.