



Report No: **xxx/2012** Public Agenda Item: **Yes**

Title: **Capital Investment Plan 2012/13 to 2015/16 – Draft for Scrutiny**

Wards Affected: **All Wards in Torbay**

To: **Council** On: **1st February 2012**

Key Decision: **Yes**

Change to Budget: **Yes** Change to Policy Framework: **No**

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

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

**2. Recommendation(s) for decision**

That Council (on 1<sup>st</sup> February 2012) approves:

**2.1 the Capital Investment Plan for 2012/13 – 2015/16 (Appendix 1)**

**2.2 the initial four year allocation of funding to schemes/services for planning purposes to support the Capital Investment Plan 2012/13 to 2015/16 (paragraph A3.1).**

**2.3 the delegation of the approval of specific capital schemes in 2.2 above to the Chief Executive in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer.**

**3. Key points and reasons for recommendations**

3.1 The Council needs to review and roll forward its 4-year Capital Investment Plan to enable forward planning of both the current capital plan and any additional projects for which new funding can be identified. This review needs to consider the demand for new investment, evidenced by the Capital Projects Reserve List and other known issues, compared with predictions of any new

resources that may become available in the next 4 years.

- 3.2 It should be noted that the Capital Investment Plan is a rolling four year plan that is updated every quarter for new resources and/or changes to projects and their funding/timing.

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

**Paul Looby  
Chief Finance Officer**

## Supporting information

### A1. Introduction and history

- A1.1 The Capital Investment Plan for 2012/13 – 2015/16 is attached at Appendix 1. This is the Capital Investment Plan as reported for quarter two 2011/12 adjusted for any proposed changes in funding and schemes. (Note: the Plan will be updated prior to approval by Council in February 2012 for any funding announcements by central government).
- A1.2 The Plan (including the current financial year and only including government funding where announced) totals £71 million of which £32 million is expected to be spent in 2011/12 and the remaining £39 million is planned to be spent in the 4 years 2012/13 to 2015/16. The Council has not been notified of all allocations of funding for future years and some are indicative only. When funding is confirmed or updated these will be incorporated into the Plan.
- A1.3 The Capital Investment Plan is heavily influenced by the reduced levels of funding for Councils as part of the 2010 Comprehensive Spending Review for both capital and revenue expenditure. Where possible the impact of capital expenditure on the revenue budget, such as from schemes funded from prudential borrowing, will be kept to a minimum.
- A1.4 The Council remains fully committed to the South Devon Link Road as a high priority scheme for the Torbay area. As previously approved the Council will use resources such as revenue funding and community infrastructure levy (CIL) to fund the Council's £18m contribution to this important scheme.

### A2 Estimate of Capital Funding

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

| Estimate - Nov 11       | 2012/13<br>£m | 2013/14<br>£m | 2014/15<br>£m | 2015/16<br>£m | Total<br>£m |
|-------------------------|---------------|---------------|---------------|---------------|-------------|
| <b>Capital Grant</b>    |               |               |               |               |             |
| - Allocated/Provisional | 2.7           | 2.1           | 2.4           | 0             | <b>7.2</b>  |
| - Estimate              | 4.0           | 4.4           | 4.4           | 6.6           | <b>19.4</b> |
| <b>Capital Receipts</b> |               |               |               |               |             |
| - Estimate              | 0             | 1.0           | 1.0           | 1.0           | <b>3.0</b>  |
| <b>Contributions</b>    |               |               |               |               |             |
| - S106 Estimate         | 0.5           | 0.5           | 0.5           | 0.5           | <b>2.0</b>  |
| - CIL Estimate          | 0             | 0.5           | 0.5           | 0.5           | <b>1.5</b>  |
|                         |               |               |               |               |             |
| <b>Total</b>            | <b>7.2</b>    | <b>8.5</b>    | <b>8.8</b>    | <b>8.6</b>    | <b>33.1</b> |

- A2.2 No supported borrowing allocations are expected from central government over the Comprehensive Spending Review period. This table excludes any additional grants that may be awarded by central government or other bodies

on a “bid” basis and any prudential borrowing schemes approved by the Council.

- A2.3 From the table above, for planning purposes, £33m can be used as the total new capital funding available for the next four years to be allocated to schemes, with the caveat that very little has been announced or received. (Where the government has previously made an announcement of future year allocations this is already included in the 2011/12 Capital Investment Plan). A prudent estimate has been made for both capital receipts and Community Infrastructure Levy.
- A2.4 Funding will only be added to the Capital Investment Plan when, on balance, the funding is likely to be received. Funding will be recorded in the Capital Investment Plan as an unallocated source of funding until approval for the scheme to commence is given. If the estimated funding in the table above is realised then the total Plan for current and future four years could reach £97 million.
- A2.5 In line with the proposed Capital Strategy “the Council allocates capital grant to projects in line with agreed priorities. Service intentions of the identified government body awarding the grant may be taken into account in determining allocations”.

### **A3 Initial Four Year Allocation of Funding to Schemes**

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

| <b>Scheme</b>  | <b>£m</b>   |
|--|-------------|
| Employment Schemes – such as Riviera Centre investment   | 2.0         |
| Torre Abbey – Council maximum funding pending English Heritage Grant and other income. *                     | 2.0         |
| Victoria Pier Structural Repairs – Council match funding to a bid for to the Environment Agency *            | 1.4         |
| Grants for both Disabled Facilities and Childrens Adaptations  | 3.4         |
| Affordable Housing (linked to S106 funding)  | 2.0         |
| Provision for Infrastructure Works – allocation to be prioritised by service                                 | 2.0         |
| Potential Capitalisation of redundancy costs for budget reductions in 2013/14 & 2014/15                      | 1.0         |
| Improving Leisure Facilities – such as Torbay Leisure Centre investment                                      | 1.2         |
| Schools – Devolved Formula Grant (ring fenced)   | 1.1         |
| Schools – Basic Need (including school places) and capital repairs – allocation to be prioritised by service | 10.0        |
| Transport – Structural Repairs and Integrated Transport – allocation to be prioritised by service            | 6.0         |
| Adult Social Care – allocation to be prioritised by service  | 1.0         |
| <b>Total Schemes</b>   | <b>33.1</b> |

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

A3.3 In addition to the schemes in the table above the Capital Investment Plan will schemes in the current Plan such as schemes funded from prior year allocations and prudential borrowing schemes such as the South Devon Link Road and Princess Promenade.

A3.4 These schemes in the table above have been prioritised based on a number of factors. These include:

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

A3.5 Detail of schemes on the Council capital reserve list can be found in the appendix to the Capital Strategy available on the Council's intranet.

[http://insight/capital\\_strategy\\_2011\\_v1.0.doc](http://insight/capital_strategy_2011_v1.0.doc)

A3.6 Although indicative allocations have been made the schemes will only proceed once approved by the process described in paragraph A6 below.

A3.7 The approval of a four year allocation of funding enables flexibility in the timing of schemes where, as an example, more schemes could be approved in the initial years where the Council can support the temporary cash flow impact.

#### **A4 Current Capital Investment Plan**

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

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

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

The Office Rationalisation Project is now a £9.5 million project using prudential borrowing. This requires annual accommodation savings of approximately £0.665 million per annum to be realised to fund the borrowing costs of the revised project.

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

#### **A5 Comparison of Council Allocation to Estimated Central Government (un ring fenced) Grant Allocations**

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

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

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

| Service | Torbay | Potential | Variance |
|---------|--------|-----------|----------|
|---------|--------|-----------|----------|

|  | Initial Allocation | Government Allocation |              |
|--|--------------------|-----------------------|--------------|
|  | £m                 | £m                    | £m           |
| Childrens – schools & social care                | 11.0               | 13.6 *                | (2.6)        |
| Transport  | 6.0                | 9.0                   | (3.0)        |
| Disabled Facility Grants & Childrens adaptations | 3.4                | 3.4                   | 0            |
| Adult Social Care                                | 1.0                | 1.6                   | (0.6)        |
| <b>Total</b>                                     | <b>21.4</b>        | <b>27.6</b>           | <b>(6.2)</b> |

\* Future capital grants from the Department of Education could be diverted directly to Academy schools which could reduce the Council's grant funding in future years.

- A5.3 The table shows that £6.2m is proposed to be allocated from unring-fenced grants to other Council priorities which are primarily linked to infrastructure or asset repairs or employment related schemes. Although the DCLG have clearly stated that these grants are unringfenced it is unclear how the individual central government department will react to Councils prioritising on a local level. If the South Devon Link Road is included then the Council's total transport spend increases by £18 million.
- A5.4 However, as stated in paragraph A3.2 above, depending on actual scheme detailed proposals and additional resources the total capital funding allocated to services over the four years of the Plan could be greater than the current prudent estimates made.
- A5.5 If these grants are not used to support other Council priorities, these other schemes, if approved, will have to use prudential borrowing which will be funded from future year revenue budgets which will put additional pressure on the Council's limited revenue resources over the next three years.

## **A6 Capital Scheme Approval Process**

- 6.1 Linked to the changes to the Capital Strategy the Council is proposing to fundamentally change the management of its capital plan for 2012/13 onwards.
- 6.2 The key stages in the revised process are as follows:
- a) Officers and Members identify and submit capital schemes, on an ongoing basis, to the Chief Executive in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer for inclusion in the capital reserve list in a specified format (an outline business case). If the initial business case is supported the scheme will be included on the Capital Reserve list for potential inclusion in the Capital Plan. The current reserve list in the Capital Strategy will be refreshed in line with the new process by March 2012.
  - b) Estimate of capital funding available for four years is made

- c) Capital schemes are prioritised in line with Capital Strategy and corporate priorities
- d) Council allocates un ring fenced capital grant funding to schemes in line with its priorities. Service intentions of the identified government body awarding the grant will be considered in determining allocations.
- e) Initial four year allocations of funding to schemes/services for planning purposes approved by Council as part of annual Capital Budget.
- f) Council delegates the approval of specific capital schemes within the approved capital plan in (e) above to the Chief Executive in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer.
- g) If a scheme is to progress further and be approved/funded there will be a requirement for a detailed business plan. This will apply to both new schemes and schemes identified for funding within the initial four year allocation of funding. Detailed business plan to be submitted to the Chief Executive in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer:
- If scheme is to be funded from initial four year (approved) allocations the scheme will be approved by Chief Executive in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer and progressed when funding confirmed or,
- if new funding, in addition to the approved four year allocation in (e) above, is to be used and if scheme is supported by Chief Executive in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer it will be recommended to Council for approval.
- h) Proposals for invest to save or self financing schemes, (usually financed from prudential borrowing), will also require a detailed business case to be submitted to the Chief Executive in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer. If scheme is supported it will be recommended to Council for approval
- i) The capital plan will be updated and any recommendations for schemes to be approved by Council included in the next quarterly Capital Monitoring Report.
- j) Previous Council approvals for capital schemes to be funded from prudential borrowing will be considered for funding from future capital funding to avoid ongoing increased revenue costs.
- k) Other schemes that do not require financial support but include the use of Council assets as a Council contribution to a scheme will also be subject to the capital scheme approval process.



## **A7 Invest to Save Schemes/Self Funding Schemes**

- A7.1 These are schemes that, although initially funded from prudential borrowing, will generate revenue savings or additional income to fund the revenue costs of the prudential borrowing. The current Plan includes a number of these types of schemes that have been previously approved by Council such as the Office Rationalisation Project.
- A7.2 These schemes will be subject to the approval process described in A5 above and if supported by the Chief Executive in consultation with the Mayor, Executive Lead for Finance and Chief Finance Officer will be recommended to Council for approval in the next quarterly Capital Monitoring report.
- A7.3 There are a number of schemes that have been identified that may be brought forward in the future to be included in the capital scheme approval process.

| <b>Scheme</b>                                     | <b>Value<br/>£m</b> | <b>Annual<br/>Repay't<br/>£m</b> | <b>Total<br/>Repay't<br/>£m</b> | <b>Repay't<br/>years</b> | <b>Revenue<br/>savings/income</b> |
|---|---------------------|----------------------------------|---------------------------------|--------------------------|-----------------------------------|
| Innovation centre – RGF match funding             | 3.5                 | £0.235                           | 5.9                             | 25                       | Rental Income                     |
| Revenue Optimisation Project – Beach Huts *       | 1.0                 | £0.125                           | 1.3                             | 10                       | Charges Income                    |
| Productivity Improvement Project – Council Design | 3.0                 | £0.370                           | 3.8                             | 10                       | Staff Savings                     |

\* note – Report due to be presented to Council December 2011.

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

## **A8 Allocations to be Prioritised by Services**

- A8.1 The initial four year allocation sets provisional four year totals for infrastructure works, transport, children's and adult social care. All these service areas have submitted schemes on the capital reserve list (within the Capital Strategy) in excess of the funding available. The services will have to consider the schemes that they wish to fund and consider the prioritisation of these schemes including the consideration that the specification proposed for each scheme is reduced.
- A8.2 Service proposals will then be submitted for approval as paragraph A5 above.

## **A9 Capital Receipts**

- A9.1 The disposal of surplus and under-used assets to generate capital resources is critical to the development of the Capital Plan Budget.
- A9.2 The current Capital Plan requires £3.4 million capital receipts from asset disposal. To date (November 2011) the Council has generated £0.7m of this

total leaving a balance of £2.7m to be funded. The expected receipts from the sale of assets linked to specific projects, such as Old Paignton Library and the Tesco Development in Brixham will be supplemented by any receipts arising from the Asset Rationalisation Plan.

A9.3 The Economic Development Company estimate that the current target will be met by the end of 2012/13.

A9.4 The estimate of future funding (A2.1 above) has an additional capital receipt target of £1m per annum from 2013/14 onwards. There is still the possibility of significant receipts in the future from sites such as Churston Golf Club land and the disposal of land on Preston Down Road. The Council will continue to review the continuing economic climate and the impact it is having on land and building values.

A9.5 Disposal of sites at low or nil value competes with achieving the disposal target required to fund other priorities and any new schemes. There are a number of circumstances where the Council could dispose of assets at nil or below market value. In each case the opportunity cost of a disposal at nil value will be subject to the Capital Scheme approval process:

Areas where this could arise are:

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

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

## A10 Other Funding

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

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

A10.3 **Community Infrastructure Levy (CIL)** - The Council is expected to introduce a CIL charging structure and the required Regulation 123 list during 2012. The Regulation 123 list is the list of infrastructure capital schemes that developers' contributions will be used to part fund. The prioritised allocation of the levy to Council schemes will be important as this funding replaces the S106 funding

that was used to support a range of schemes including transport and schools. This list will be closely linked to the Council's capital reserve list. A prudent income of £0.5m per annum has been included in the capital funding table above. It is anticipated that there will be a strong link from the CIL to local communities.

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

**A10.5 NNDR reforms** – a potential funding source for capital projects resulting from the proposed changes to NNDR from 2013. Precise details are still unclear.

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

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

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

## **A11 Links to other Documents**

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

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

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

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

d) Asset Management Plan 2011/12.

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

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

## **A12 Alternative Service Delivery**

**A12.1** The Council has been establishing alternative service delivery models or new

delivery vehicles that will generate investment and capital projects in Torbay without the requirement for cash support from the Council, although the Council contribution would be in the way of enabling the project and the transfer/strategic lease of assets.

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

### **A13 Contingency**

A13.1 The Capital Investment Plan of £71million has an overall contingency of £1.1 million equal to approximately 1.5% of the plan to meet cost overruns or shortfalls in funding.

### **A14 Treasury Management Strategy**

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

### **A15 Affordability of Capital Plan and Prudential Indicators**

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

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

### **A16. Risk assessment of preferred option**

#### **A16.1 Outline of significant key risks**

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

| Risk   | Impact  | Mitigation   |
|--|---|--|
| Impact of economic conditions on capital receipts and developer contributions.                                   | Contributions and capital receipts could be lower                                     | Use of professional advice of valuations<br><br>Use of future "profit share" on developments                   |
| Reaction of central government departments to the Council's proposed use of local freedoms in allocating grants. | Future capital grants could be lower from individual departments or adverse publicity | Intentions of government departments part of the prioritisation process<br><br>DCLG comments on local freedoms |
| Reduction in capital allocations   | Limit spend to just "basic need" on schools and                                       | All capital works to be prioritised and supported by   |

|   |  |  |
|---|--|--|
|   | transport.   | detailed business case to target resources   |
| Reduction in Council capital expenditure  | Less fee income for Council staff working on capital projects<br><br>Less income for suppliers including TOR2. | Staff allocated to other schemes   |
| Uncertainty over future year government allocations for supported borrowing and capital grants. | Funding shortfall if schemes approved prior to funding   | Funds only added to capital investment plan when confirmed or indicative announcements made. |
| The effect on service provision of not undertaking high priority projects                       | Access to key assets will be limited in the future because of public safety concerns.                          | £2m for prioritised infrastructure works included in investment plan                         |
| The robustness of business plans.   | Costs and/or income understated  | Detailed business case submitted to Chief Executive  |

## **A17. Other Options**

A17.1 As the majority of capital funding from central government from 2011/12 is now unringfenced the Council has greater ability to allocate funding to its own local priorities.

## **A18. Summary of resource implications**

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

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

A19.1 There is no immediate impact at this stage. The development of individual projects addresses these issues.

## **A20. Consultation and Customer Focus**

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

## **Appendices**

Appendix 1 Draft Capital Plan Budget 2012/13 – 2015/16

Appendix 2 Draft Prudential Indicators 2012/13

**Documents available in members' rooms**

None

**Background Papers:**

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

Summary Capital Strategy

Capital Strategy 2011

Asset Management Plan

Medium Term Resource Plan