

<b>Subject:</b>	<b>Capital Resources and Capital Investment Programme 2015/16</b>		
<b>Date of Meeting:</b>	<b>12 February 2015</b>		
<b>Report of:</b>	<b>Interim Executive Director Finance &amp; Resources</b>		
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<b>Ward(s) affected:</b>	<b>All</b>		

Note: The special circumstances for non-compliance with Access to Information Procedure Rule 5 and Section 100B(4) of the Local Government Act 1972 are that information on the 2014/15 financial position was still being finalised and officers were awaiting critical information about the final Local Government Grant Settlement for 2015/16 from the Department for Communities and Local Government (CLG).

## **FOR GENERAL RELEASE**

### **1. PURPOSE OF REPORT AND POLICY CONTEXT:**

- 1.1 The purpose of the report is to inform Policy & Resources Committee of the level of available capital resources in 2015/16 to enable the committee to propose a Capital Investment Programme for 2015/16 to Budget Council. The capital programme is set in the context of the Medium Term Financial Strategy included alongside the General Fund Revenue Budget report elsewhere on this agenda. The proposed programme results in £120.6m investment in council services next year.
- 1.2 In December 2013 and December 2014, the Government confirmed a number of capital allocations within the Local Government Capital Finance Settlement for 2015/16. Some indicative allocations for the following years 2016/17 to 2020/21 were also announced. All such support from the Government now comes in the form of capital grants.
- 1.3 This report includes the use of revenue contributions and general reserves to support capital investment and should be read in conjunction with the General Fund Revenue Budget and Council Tax 2015/16 and the Housing Revenue Account Budget 2015/16 reports elsewhere on the agenda.

### **2. RECOMMENDATIONS:**

That the Policy & Resources Committee recommends to Council the following: –

- 2.1 The draft Capital Investment Strategy 2015 to 2025 as shown in Appendix 4.
- 2.2 The Capital Investment Programme for 2015/16 in Appendix 1.

- 2.3 Note the estimated capital resources in future years as detailed in Appendix 1.
- 2.4 To allocate £0.25m resources in 2015/16 for the Strategic Investment Fund for the purposes set out in paragraph 3.19.
- 2.5 To allocate £2.0m for the ICT fund.
- 2.6 To allocate £1.0m for the Asset Management Fund.
- 2.7 The proposed use of council borrowing as set out in paragraph 3.34 and Appendix 3.

### **3. CONTEXT/ BACKGROUND INFORMATION**

#### **Context**

- 3.1 The council needs to consider capital investment decisions in the context of modernising council services and generating new income streams to help meet the considerable financial challenges ahead. A draft Capital Investment Strategy 2015 to 2025 is attached at Appendix 4 to this report, which sets out the provisional investment needs over the next 10 years setting a framework for the planning, prioritisation, management and funding of the council's capital expenditure. The Strategy represents an essential element within the council's overall Corporate Planning Framework. Alongside the Strategy, officers and advisers have been developing a new flexible capital model which also measures the potential outcomes of the major investment schemes and programmes as well as demonstrating links to the priorities in the draft Corporate Plan. This model will be finalised over the coming year.
- 3.2 The capital programme is funded through a combination of government grants, borrowing, capital receipts and reserves, external contributions and revenue contributions. The level of sales of council homes through 'right to buy' has tended to fall in recent years, not helped by uncertainty in the housing market; government consultation over changes to the system and a reduction in the availability of mortgages. However during 2014/15 through to 2015/16 the number of council house sales are estimated to rise to similar levels to those experienced 5 years ago and this level is expected to be maintained for the next three years. Over the last 5 years the level of other capital receipts received by the council has fallen dramatically as a result of the economic downturn and a decline in the property market. However a number of sites have been identified and approved for disposal which will support the delivery of new investment in schemes such as the Workstyles Phase 3 project. Sites recently sold include Patcham Place, Hove Park Depot and other vacant corporate properties and projected disposals include Kings House and Patcham Court Farm.
- 3.3 The council has been successful in attracting new grants and working with partners to generate other resources to enable a programme of just over £120.6m to be proposed. Successful grants have been awarded for New England House Growth Hub through the City Deal of £4.9m during 2014. Successful grants have been awarded from the Heritage Lottery Grants (HLF) and Arts Council England to support the Royal Pavilion Estates Regeneration

project plus funding from the HLF and the Big Lottery Fund to support the Stanmer Estate Restoration Project.

- 3.4 The agreed policy of the council is to set a fully funded Capital Investment Programme dependent upon the achievement of certain capital receipts. Forecast levels of capital receipts for the next few years are sufficient to cover proposed allocations in the capital strategy, however, receipts from the sales of properties mentioned above will need to be achieved.

### **Capital Investment Programme**

- 3.5 A proposed Capital Investment Programme for 2015/16 together with the impact in future years, by project, is shown at Appendix 1 to this report. The latest capital re-profiling arising from the 2014/15 capital programme detailed in the Targeted Budget Management (TBM) month 9 report elsewhere on the agenda is incorporated into the 2015/16 programme and will be finalised when the capital accounts are closed in May 2015. The re-profiling is funded from resources carried forward from earlier years.
- 3.6 The financial implications of individual projects are included in the detailed reports that are submitted by services for each project to allow the relevant committees to give their full consideration to the capital and revenue costs prior to their approval. Full provision for the revenue implications arising from the proposed Capital Investment Programme has been made in the General Fund and Housing Revenue Account revenue budgets.
- 3.7 The 2015/16 capital programme includes additional investment in the following areas:-
- £15.0m will be spent on investment in schools.
  - £47.3m in the housing stock.
  - £10.6m in new transport related schemes.
- 3.8 As well as significant capital investment in the short term the council is facing some major longer term capital investment challenges including the delivery of additional secondary school places, the major works needed to the seafront structures / infrastructure and investment in street lighting infrastructure. The 10-year Capital Investment Programme in Appendix 1 and the Capital Investment Strategy in Appendix 4 details further some of those challenges for which funding is not yet identified.

### **Major Capital Investment Areas**

- 3.9 The council is facing demands for new pupil places in particular parts of the city, and previously the government's allocation of Education Basic Need funding was not keeping up with these demands. It is estimated that up to £60.0m investment will be needed by 2020 for secondary school places in Brighton and Hove including a potential new secondary school within the city. The current government policy indicates that extra capital resources for Free Schools and Academies would not be provided where these are being developed to meet

Basic Need. The government announced three year allocations up to 2016/17 for new pupil Basic Need of £12.039m for 2015/16 and £12.641m for 2016/17. Previous years allocations were around £3.9m pa. The future allocations are based upon revised calculations of costs and the need to cope with pupils moving from primary to secondary schools. No further indicative announcements have been made beyond 2016/17.

- 3.10 The Housing Revenue Account (HRA) Capital Programme 2015-2018 investment proposals, also being presented to this Committee, aim to create a long-term sustainable asset base, which best meets the needs of residents and the City as a whole. The HRA capital strategy focuses on meeting Corporate Plan priorities through building new homes and improving the quality and sustainability of the existing housing stock. The HRA capital strategy aims to ensure that every pound invested reaches beyond the housing service and contributes to regeneration, tackling inequality, creating training and employment opportunities, and improving sustainability.
- 3.11 The council secures capital funding for transport schemes through the government's Local Transport Plan (LTP) process. The LTP consists of a long-term strategy and a short term delivery plan that identifies the principles that help deliver the council's strategic transport objectives and the city's Sustainable Community Strategy. Funding for the LTP has been announced for the next 3 years for 2015/16 to 2017/18 at £5.682m, £ 5.463m and £5.391m respectively. Indicative allocations have been announced for the three years 2018/19 to 2020/21 for £5.169m p.a., the announced allocations are lower than previous years of £7.479m in 2014/15 and £6.349m in 2013/14. Funding for the Highways Maintenance grant which forms an element of the government transport funding has been reduced nationally and diverted toward a new Local Highways Maintenance Challenge Fund. Local authorities will be able to bid from this fund for major maintenance projects that are sometimes difficult to fund through the normal needs element allocations they receive. A detailed Local Transport Plan report will be presented to Policy and Resources Committee in March whilst the LTP4 Delivery Plan report will also be presented in due course.
- 3.12 Workstyles Phase 3 was approved at a Special Policy & Resources Committee on 12 September 2013 and includes £16.0m of investment within the Capital Investment Programme to be delivered by 2016/17. The project will enable the modernisation of the council's workplaces and deliver essential investment in the council's property and ICT infrastructure as well as providing ongoing revenue budget savings. The Hove Town Hall south end option approved at Committee on 10 July 2014 includes investment of £2.638m to be funded through borrowing and generating rental income streams to support the revenue budget. The investment will provide commercial space and office space for public, voluntary and community sectors such as the Brighton & Hove Clinical Commissioning Group and the Citizens Advice Bureau.
- 3.13 The Capital Investment Programme includes potential capital pressures for investment in seafront highways infrastructure and seafront colonnade works which could require in the region of £100m investment over a number of years. This was detailed in the Response to Seafront Infrastructure Scrutiny Panel Recommendations report to Policy & Resources Committee on 22 January 2015. The LTP may make contributions toward this investment requirement.

Other funding sources are being considered, for example the potential for additional income to be generated from the financing of the i360 development that could be set aside for this purpose.

- 3.14 Major investment will be required toward street lighting infrastructure of up to £26m and this was detailed in a report on the investment options to Policy & Resources on 22 January 2015. Options include formalising an 'invest to save' city-wide street lighting feasibility assessment with potentially the Green Investment Bank or other potential investors.
- 3.15 The council has developed ways of providing major capital investment in the city by working in partnership with the private sector and public bodies for example the Heritage Lottery Fund (HLF), Arts Council England (ACE) and the Coast to Capital Local Enterprise Partnership (C2C LEP) whereby most of the capital investment is undertaken and accounted for by the private sector.
- 3.16 Recent bids include ACE Stage 2 and HLF Round 1 funding totalling £10.8m towards the £19.1m Phased 1 capital works for the Royal Pavilion Estates Regeneration project. Work will continue to secure funding for Phase 1 through external fundraising and match funding from the Council and Brighton Dome & Festival Ltd. Further bids to HLF will be prepared and submitted for subsequent phases of the works which will amount to £41.6m of investment for all phases.
- 3.17 Additional funding has been secured as part of the Greater Brighton City Deal for £4.9m to invest up to £24.5m to develop New England House into a Growth Hub. Work will continue to seek a private sector partner to enter into a joint venture to deliver and operate the growth hub. A development grant from HLF and Big Lottery Fund has also been secured to develop detailed plans to support the Stanmer Estate Restoration Project bid. The HLF and Big Lottery Fund have confirmed that £4m funding has been earmarked for the project. A second HLF application to restore Home Farm was not successful at stage 1 and options for this element of the project are currently being reconsidered. The i360 Project has commenced and was agreed at a Special Policy & Resources Committee in March 2014. The project uses a combination of Council borrowing, C2C LEP funding and private equity investment and will provide a new net income stream to the Council. A list of further major projects under construction or yet to commence is shown in Appendix 2.

### **Corporate Funds**

- 3.18 Revised projections for future capital receipts should enable sufficient resources to cover allocations to corporate funds as detailed below.

<b>TABLE 1: Corporate Funds</b>	<b>2015/16 £ million</b>	<b>2016/17 £ million</b>	<b>2017/18 to 2024/25 £ million pa</b>
Strategic Investment Fund (SIF)	0.250	0.250	0.250
Asset Management Fund (AMF)	1.000	1.000	1.000
ICT Fund	2.000	0.500	0.500

### ***Strategic Investment Fund***

- 3.19 It is proposed to allocate £0.250m to the Strategic Investment Fund (SIF) in 2015/16. The council has ongoing commitments to major projects that require financial support to enable their progression. The financial support takes the form of legal fees and specialist advisors for finance, design, architectural, transport, engineering and other external specialists. A sum of £0.060m is required from the 2015/16 SIF allocation to support the Royal Pavilion Estate capital project and in particular to progress the fundraising work required to fund the scheme. The remaining £0.190m SIF allocation will be reported to further Policy and Resources Committees in due course.

### ***ICT Fund***

- 3.20 It is proposed to allocate £2.0m resources to the Information and Communication Technology (ICT) Fund to finance the cost of improvements in ICT and in particular to support urgent investment in the council's core infrastructure, security and assurance strategy. This investment follows allocations of £1.0m capital and £1.0m revenue support in 2013/14 and £2.0m investment in 2014/15. A detailed report will follow to this Committee in due course.

### ***Asset Management Fund***

- 3.21 It is proposed to allocate £1.0m resources per annum to the Asset Management Fund (AMF). The AMF includes expenditure on a range of properties covering, fire safety, health & safety, Equalities Act 2010 responsibilities and general improvements. The AMF will make a contribution of £0.7m towards the Workstyles Phase 3 strategy which was detailed in a report to Special Policy & Resources Committee on 12 September 2013. Bids to the remaining balance of the fund are currently being finalised and proposals for allocations of resources to schemes will be subject to a further report to this Committee.

### **Capital Resources**

- 3.22 A fully financed Capital Investment Programme is proposed for 2015/16 assuming that existing approved capital projects spend in-line with their budget and certain net usable receipts of just under £10.7m in total are achieved next year. Table 2 below shows how the programme will be financed in 2015/16. The position for the years 2016/17 onwards is less clear until future Government allocations are confirmed. All Government support is now allocated through capital grants and all grants are unringfenced with the exception of Devolved Schools Capital Grant which must be allocated to schools.

<b>TABLE 2: Capital Resources</b>	<b>2015/16 £ million</b>
Capital Grants:	
- Capital grant announcements in previous years and profiled for spend in 2015/16	2.963
- New capital grants	25.630
<b>Total Government Support</b>	<b>28.593</b>
Capital Receipts Reserve	11.518
Capital Reserves	4.715
Specific Reserves	1.352
External Contributions	4.591
Direct Revenue Funding – Housing Revenue Account	22.837
Direct Revenue Funding – Service Departments	1.432
Council Borrowing	38.975
Temporary funding for Workstyles Phase 3	6.625
<b>Total Capital Resources</b>	<b>120.638</b>

### Capital Grants

- 3.23 The Government distributes capital grants towards the financing of certain capital expenditure. In 2015/16, it is anticipated that the council will receive new capital grants of £25.630m as summarised in table 3 below, and £2.963m from grants already announced where the spending of these grants is now profiled in 2015/16.
- 3.24 It is possible that other capital grants may be received during the year and these will be reported through TBM monitoring reports to Policy & Resources Committee as and when they are announced.
- 3.25 The new capital grants are in three main areas:
- Education Basic Need funding of £12.039m is included for new pupil places;
  - Education funding of £2.577m (estimated) for investment in the maintenance of educational buildings and children’s centres in the city;
  - Transport funding of £5.682m to include the transport related schemes and highways maintenance.

<b>TABLE 3: New Grants announced for 2015/16</b>	<b>£ million</b>
Education Basic Need	12.039
Education Capital Maintenance*	2.577
Schools Devolved Capital*	0.500
Transport and Maintenance (LTP)	5.682
Highways Maintenance Challenge Fund*	1.737
Better Care Funding	1.595
HCA Empty Homes Grant	1.200
Housing Energy Efficiency Grants	0.300
<b>Total</b>	<b>25.630</b>

\* Estimated figure to be confirmed

- 3.26 The grant funding is provided to the council as a “Single Capital Pot” and with the exception of Schools Devolved Capital can be reprioritised as the council sees fit. It is proposed that all capital grants will be allocated in full to the relevant service.
- 3.27 The proposed new Local Transport Plan (LTP) programme for 2015/16 of £5.682m represents a decrease of 24% over 2014/15 which was allocated at £7.479m. The LTP is made up of Integrated Transport funding and Highways Maintenance funding from the government. The allocations for Highways Maintenance have nationally been reduced with funding allocated to a separate Local Highways Maintenance Challenge Fund and authorities are able to bid to this fund for major maintenance projects. The LTP grant will be fully allocated to the service for 2015/16, less a repayment of £1.420m to reserves for forward funding to the LTP 2014/15 programme. The funding will be prioritised to invest in street lighting as well as maintain roads and pavements alongside other sustainable transport initiatives such as Valley Gardens. A separate detailed report will be presented to Policy & Resources in March 2015.

### **Capital Receipts**

- 3.28 The funding of the 2015/16 capital programme is dependent upon the achievement of £10.7m net capital receipts for investment into the General Fund capital programme during the year. This includes receipts associated with the disposal of surplus buildings identified under the Workstyles project which are required for investment into this project and receipts ringfenced for reinvestment into the Stanmer regeneration project. Progress will be closely monitored throughout the year for all receipts and reported through the regular TBM reports. Beyond 2015/16, the generation of the large capital receipt from Kings House (Workstyles Phase 3) is included in the forecast. Failure to achieve some



of these receipts will require the capital allocations for future years to be reviewed.

- 3.29 The net receipts from 'right to buy' sales are split between funding for corporate strategic projects delivering regeneration including affordable housing opportunities, and investment directly in housing. The forecast receipts for Brighton & Hove City Council is set at an assumed level of £0.475m per annum. Any surplus above £0.475m will be set aside to invest in replacement homes.
- 3.30 The council housing capital programme assumes a further £3.2m receipts in 2015/16 from the planned leasing of further tranches of properties to Brighton & Hove Seaside Community Homes. This funding will be used for investment in council owned houses within the Housing Revenue Account. It is the means by which the council is securing additional investment to bring council housing up to decent homes standard through leveraging in private finance. The level of capital receipts will be monitored throughout the year and the level of capital expenditure adjusted through the regular TBM reports as necessary to reflect the resources actually available.

### **Capital Reserves**

- 3.31 The level of reserves relates purely to unspent resources carried forward from previous years which are already earmarked for specific schemes. The council monitors these resources over a rolling period by continually updating projections and comparing these against the level of commitments within the approved Capital Investment Programme.

### **Specific Reserves**

- 3.32 Specific reserves will be used to support schemes directly related to the purpose of the reserve or to support corporate priorities. Specific reserves relate to the Brighton Centre Redevelopment reserve to support the Waterfront regeneration project considered by this Committee in December 2014, the King Alfred redevelopment, funding of the Workstyles Phase 3 to support project resources and the refurbishment and extension of New England House.

### **External Contributions**

- 3.33 The council will receive new external contributions totalling £4.591m in 2015/16 associated with transport initiatives for North Street (Royal Bank Scotland contribution) and Valley Gardens (Local Growth Fund).

### **Direct Revenue Funding**

- 3.34 The General Fund and Housing Revenue Account budget reports elsewhere on the agenda include direct revenue funding of £24.269m. A summary of the allocations by service is shown in the table below.

<b>TABLE 4: Direct Revenue Funding</b>	<b>£ million</b>
Property & Design – planned maintenance	0.500
Structural maintenance for schools	0.900
Assistant Chief Executive – Grants Voluntary Sector	0.007
Multi Agency Bonds – Corporate Services	0.025
<b>Total General Fund Services</b>	<b>1.432</b>
Housing Revenue Account	22.837
<b>Grand Total</b>	<b>24.269</b>

### **Council Borrowing under the Prudential Code**

- 3.35 Council borrowing under the Prudential Code can be undertaken only when it can be demonstrated that it is affordable, for example, where the investment leads to greater efficiency in future service provision and generates revenue savings or reductions in budgeted spend. For 2015/16 it is proposed that the council will undertake borrowing of £38.975m to finance capital expenditure plans as detailed Appendix 3.

### **Temporary Funding**

- 3.36 Temporary funding through either borrowing or the use of reserves will be required to finance the cash flows associated with the Workstyles Phase 3 project. The costs associated with short term funding have been built into the Workstyles business plan to cover capital investment until capital receipts are realised.

## **4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 4.1 The budget process allows all parties to put forward viable alternative capital investment proposals to Budget Council on 26 February 2015. Budget Council has the opportunity to debate both the proposals put forward by Committee at the same time as any viable alternative proposals. All budget amendments must have been “signed off” by finance officers no later than 12.00 noon on Monday 23 February.

## **5. COMMUNITY ENGAGEMENT AND CONSULTATION**

- 5.1 The level of consultation undertaken on individual schemes will be reported to Members when the detailed report is submitted to the Executive for approval. The overall programme and appropriate levels of capital investment are subject to the same consultation processes as the revenue budget, which are described in the revenue budget report elsewhere on the agenda.

## **6. CONCLUSION**

- 6.1 The council is under a statutory duty to set its council tax and budget before 11 March each year. The recommendations to Budget Council contained within this report together with the recommendations in the revenue budget report, will enable the council to meet its statutory duty.

## **7. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

- 7.1 These are contained within the main body of the report.

*Finance Officer Consulted: Rob Allen*

*Date: 04/02/2015*

### Legal Implications:

- 7.2 Policy & Resources Committee has delegated power to formulate the council's capital investment programme, and to recommend its adoption by full Council as part of the overall budget setting process.

*Lawyer Consulted: Oliver Dixon*

*Date: 05/02/15*

### Equalities Implications:

- 7.3 The equality implications of individual schemes included within the Capital Investment Programme are reported to Members when the detailed report is submitted to the relevant committees for final approval along with any appropriate Equality Impact Assessments. The programme includes resources to finance adaptations to the homes of disabled people and capital projects that are designed to improve living conditions of all sections of the community, through direct investment by the council. The Asset Management Fund will address access improvements to council services and buildings.

### Sustainability Implications

- 7.4 The environmental implications of individual schemes included within the Capital Investment Programme are separately reported to Members when the detailed report is submitted to the relevant committee for final approval. All projects are required to give due consideration to sustainability issues including energy conservation and the procurement of materials from managed and sustainable sources. The investment in sustainable transport initiatives and in street lighting will have a positive impact on the council's One Planet Living programme and on carbon reduction targets for the council and city as a whole.

### Any Other Significant Implications:

### Risk and Opportunity Management Implications:

- 7.5 The risk implications of individual schemes included within the Capital Investment Programme are reported to Members when the detailed report is submitted for approval. The Risk Matrix in Appendix 6 of the Revenue Budget report elsewhere on the agenda highlights some of the general risks to the Capital Investment Programme.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Capital Investment Programme 2015/16 to 2024/25
2. Other Capital Investment
3. Council Capital Borrowing 2015/16
4. Draft Capital Investment Strategy 2015-2025

### **Documents in Members' Rooms**

1. None

### **Background Documents**

1. Letter from the Department for Transport dated 11 December 2014.
2. Notifications from the Department for Education dated 18 December 2013 and 24 January 2014
3. Various files held within the Integrated Financial Management & Planning units. Budget and accounting files are held within Integrated Financial Management & Planning.