COUNCIL	Agenda Item 55(c)
25 February 2010	Brighton & Hove City Council

Subject:		**Capital Resources and Capital Investment Programme 2010/11**	
Date of Meeting:		**25 February 2010** 11 February 2010 - Cabinet	
Report of:		**Director of Finance & Resources**	
Contact Officer:	**Name:**	**Mark Ireland**	**Tel: 29-1240**
		James Hengeveld	**Tel: 29-1242**
	E-mail:	**mark.ireland@brighton-hove.gov.uk** **james.hengeveld@brighton-hove.gov.uk**	
Key Decision:	**Yes**	**Forward Plan No: CAB13928**	
Wards Affected:	**All**		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT

1.1 The purpose of the report is to inform Cabinet of the level of available capital resources in 2010/11 to enable Cabinet to propose a Capital Investment Programme for 2010/11 to Budget Council. The capital programme is set in the context of the Medium Term Financial Strategy approved by this Cabinet. The proposed programme results in £102m investment in council services next year.

1.2 In December 2009, the government confirmed the allocations within the Local Government Capital Finance Settlement for 2010/11. This sets out the level of borrowing the government is prepared to support through revenue grant for the financial year and the level of government capital grants. Cabinet are reminded that all decisions about the 2010/11 budget should be taken in the light of a high level of uncertainty regarding resource levels for 2011/12 and beyond largely due to the general election due later this year.

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 and the Housing Revenue Account Budget 2010/11 reports.

2. RECOMMENDATIONS:

2.1 That Cabinet recommends Council to:

(a) Agree the Capital Investment Programme for 2010/11 and note the estimated resources in future years as detailed in appendix 1.
(b) Allocate £0.6m resources in 2010/11 for the Strategic Investment Fund and agree the allocation of Strategic Investment Fund resources as set out in paragraph 3.23.
(c) Allocate £0.435m for the ICT fund.
(d) Allocate £1.0m for the Asset Management Fund.

(e) Agree the potential use of unsupported borrowing as set out in table 6.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS

Context

3.1 The capital programme is funded through a combination of government grants, supported and unsupported borrowing, capital receipts and reserves, external contributions and revenue contributions. During 2008/09 and 2009/10 the level of capital receipts that the council received fell dramatically as a result of the economic downturn and a decline in the property market. The level of sales of council homes through 'right to buy' has been severely affected by the fall in house prices and a reduction in the availability of mortgages. During 2009/10 the gross receipts are estimated be £0.7m compared with levels of around £7.0m prior to 2008/09 for 'right to buy' sales alone. The trend of lower capital receipts is expected to continue in the medium term and will limit the resources that are available for capital investment. Despite these issues the council has been successful in attracting new grants and working with partners to generate other resources to enable a programme of over £100m to be proposed.

3.2 The agreed policy of the council is to set a fully funded Capital Investment Programme for 2010/11. The expectation of lower capital receipts for the foreseeable future has been factored into the capital programme forecasts for 2011/12 and 2012/13 through a combination of reallocation of resources and a review of the capital strategy.

Capital Resources

3.3 A fully financed Capital Investment Programme is proposed for 2010/11 assuming that existing approved capital projects spend in-line with their budget. Table 1 below shows how the programme will be financed in 2010/11. The position for 2011/12 and 2012/13 is less clear because this falls into the next government spending round, however, it is expected there will be significantly reduced allocations for government grants and supported borrowing allocations and estimates of these reductions have been included in appendix 1 of this report for information only.

Table 1: Capital Resources	**2010/11 £'000**
Supported Borrowing	7,375
Capital Grants	59,133
Total Government Support	**66,508**
Capital Receipts	1,568
Capital Reserves	2,575
External Contributions	954
Direct Revenue Funding – Major Repairs Allowance	9,352
Direct Revenue Funding – Housing Revenue Account	3,543
Direct Revenue Funding – Service Departments	1,970
Unsupported Borrowing	15,154
Total Capital Resources	**101,624**

Supported Borrowing

3.4 In December 2009 government departments announced details of their assessment of local authorities' relative need to incur capital expenditure. A total of £7.375m Supported Borrowing was allocated across the service areas of Education, Transport, Housing and Personal Social Services for 2010/11. A summary of these allocations and the split across directorates is shown in table 2 below:

Table 2: Brighton & Hove City Council Allocations for 2010/11	**Government Allocation £'000**	**Proposed Service Allocation £'000**
HRA Regional Housing Board	1,230	1,230
Transport & Road Maintenance (LTP)	4,848	1,368
Education	1,253	1,253
Children's Social Services	44	44
Corporate Investment Funds		3,480
Total Capital Resources	**7,375**	**7,375**

3.5 The supported borrowing should result in additional formula grant for the council to help fund the additional financing costs. However, the council is at the grant floor and therefore receives no additional revenue support for this borrowing. Revenue costs to fund the Capital Investment Programme are included within the General Fund and Housing Revenue Account Budgets.

Capital Grants

3.6 In addition to supported borrowing, the government distributes capital grants towards the financing of certain capital expenditure. In 2010/11, the council anticipates that it will receive new capital grants of £54m and a summary of these grants is shown in the table 3 below.

3.7 It is possible that other capital grants may be received during the year and these will be reported through Targeted Budget Management Monitoring to Cabinet. Housing grants for 2009/10 were decided by the Regional Housing Board in March of last year and a similar arrangement is expected for this year.

3.8 The council has so far received an increase of £28m in capital grants for 2010/11. The increases capital grants are in five main areas:

- Funding for the Falmer Academy where it is estimated that £16.1m will be drawn down during 2010/11.
- An increase of £2.4m is included for the Primary Capital Programme involving investment in new and refurbished primary schools.
- An increase of £4.0m for investment in education for 14-19 years and special needs.
- A new allocation of £5.7m Basic Need Safety Valve in 2010/11 towards education for new pupil places and in particular the proposed expansion of three primary schools.

- An allocation for Co-location grant of £5.1m is awarded toward the Whitehawk Co-location project.

Table 3: Grants announced for 2010/11	**£'000**
Falmer Academy	16,070
Schools Devolved Capital	2,885
Primary Capital Programme	5,453
New pupil places at primary schools	5,700
Targeted Capital Fund	6,000
Education Modernisation Grant	2,088
Surestart Early Years	1,062
Children's Centres	540
Extended Schools	183
Education Technology Grant	662
Education capital grant for kitchens	140
Youth Capital Fund	122
Whitehawk Co-location project	5,060
BEST Private Housing Renewable Programme	3,469
Disabled Facilities Grant	660
Transport and Maintenance	1,739
Falmer Infrastructure Grant	1,040
Waste Infrastructure	164
Playbuilder - playareas	598
Adult Social Care	364
Total	**53,999**

Capital Receipts

3.9 Funding of the Capital Programme is dependent on the achievement of certain capital receipts over the 3-year period. The ability of the council to sustain current levels of capital investment funds beyond 2010/11 will depend on the generation of new capital receipts.

3.10 As agreed at Budget Council last year the net receipts from 'right to buy' sales will be split between funding for corporate strategic projects delivering regeneration and affordable housing opportunities and investment in housing. The first £0.5m of this income is to be used to finance support for major projects with the remainder set aside for investment in housing.

Capital Reserves

3.11 The council has not identified any additional capital reserves, the level of reserves relates purely to unspent resources from previous years. The council monitors these resources over a rolling three-year period, by continually updating projections and comparing these against the level of commitments within the approved Capital Investment Programme. The allocation of these resources is through the Corporate Capital Funds. Further details of these allocations are contained within the body of the report.

External Contributions

3.12 The council will receive new external contributions totalling £0.545m in 2010/11. This relates to a scheme specific European Union grant to deliver transport projects (City Vitality Sustainability) which is up to £2.2m of investment over a four-year period. A sum of £0.933m is available for spending in 2010/11 including £0.388m reprofiled from 2009/10. The balance of £0.021m relates to S.106 contributions for minor road improvements.

Direct Revenue Funding

3.13 Proposals in the budget reports elsewhere on the agenda show the council will finance capital expenditure in 2010/11 from the General Fund and Housing Revenue Account of £14.865m. A summary of the allocations by service is shown in table 4 below.

Table 4: Direct Revenue Funding	**£'000**
Finance & Resources – planned maintenance	1,050
Children and Young Peoples Trust – structural maintenance for schools	920
Total General Fund Services	**1,970**
Housing Revenue Account	3,543
Major Repairs Allowance	9,352
Grand Total	**14,865**

Unsupported Borrowing under the Prudential Code

3.14 Unsupported borrowing under the Prudential Code is undertaken where revenue savings or reductions in budgeted spend can be demonstrated. Details of borrowing for 2010/11 are included in paragraphs 3.27 to 3.38.

Capital Investment Programme

3.15 A proposed Capital Investment Programme for 2010/11 together with the impact in future years, by project, is shown at appendix 1 to this report. Capital reprofiling arising from the 2009/10 capital programme will be incorporated into the 2010/11 programme when the capital accounts are closed in May 2010 and will be funded from existing resources carried forward.

3.16 New International Financial Reporting Standards recently introduced for local authorities require certain existing capital expenditure to be classified as revenue expenditure. This will have no material effect on the level of resources available and is a matter of accounting treatment only. Therefore, certain items included in the capital programme may be switched to the revenue budget when the new reporting standards are applied.

3.17 Appendix 1 reflects the capital spend forecasts based on Targeted Budget Management month 9 for 2009/10.The financial implications of individual projects are included in the detailed reports that are submitted by service directorates for

each project to allow the Executive to give their full consideration to the capital and revenue costs prior to their approval.

3.18 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.

3.19 The 2010/11 capital programme includes additional investment in the following areas:

- £44m will be spent on vital investment in schools including £16m on Falmer Academy where up to £28.5m will be spent in total between 2009/10 to 2012/13.
- Over £25m in housing stock.
- £8m in transport schemes.
- £3.5m to improve housing conditions for vulnerable people in private housing. This is a result of a successful bid by the Brighton & Hove and East Sussex Together partnership to the Regional Housing board. The focus will be on raising private sector housing conditions to decent home standards, improving energy efficiency to combat fuel poverty and reducing carbon emissions.

3.20 The council has committed to achieve the Decent Homes Standard by the end of 2013. The current level of decency for the city is 59.7% at the end of October 2009 representing an increase of 15.6% since April 2007. The three year programme aims to achieve a target increase to over 75% decency by March 2011 and over 90% by March 2013.

3.21 The council has also developed ways of providing capital investment in the city without having to use all of its own capital resources. It has achieved this by working in partnership with the private sector and public bodies (i.e. Lottery, Sports Council etc) whereby the capital investment is undertaken and accounted for by the private sector. A list of major projects is shown in appendix 2.

Corporate Funds

3.22 Revised projections for future capital receipts should enable sufficient resources to cover allocations to corporate funds as detailed below:

Table 5: Corporate Funds	**2010/11 £'000**	**2011/12 £'000**	**2012/13 £'000**
Strategic Investment Fund (SIF)	600	600	600
Asset Management Fund (AMF)	1,000	1,000	1,000
ICT Fund	435	500	500

Strategic Investment Fund

3.23 It is proposed to allocate £0.6m to the Strategic Investment Fund in 2010/11. 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. It is proposed that £0.26m be allocated to support major projects for 2010/11. It is also proposed to allocate £0.25m to the Brighton Centre

redevelopment reserve in addition to the planned contribution of £0.5m from capital reserves. Funding has been set aside to meet the purchase of a street cleaning vehicle specifically for the removal of chewing gum. This is estimated to cost £0.090m.

ICT Fund

3.24 It is proposed to allocate £0.435m resources to the Information and Communication Technology (ICT) Fund to finance the cost of improvements in ICT. The ICT Fund would have been £0.5m but a sum of £0.065m was reprofiled into earlier years to enable the purchase of an Enterprise Licence Agreement - the early purchase of this licence allowed for a significant discount.

3.25 The allocation of the ICT fund is currently being finalised and will be subject to a further report to Cabinet.

Asset Management Fund

3.26 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, DDA responsibilities and general improvements. Bids to the fund are currently being finalised and proposals for allocations of resources to schemes will be subject to a further report to Cabinet. The AMF will make a significant contribution towards the accommodation strategy for investment in Bartholomew House within both 2010/11 and 2011/12 this was detailed in a report to Cabinet on 14 January 2010.

Unsupported Borrowing under the Prudential Code

3.27 For 2010/11 it is proposed that the council will undertake unsupported borrowing to finance capital expenditure plans as detailed below.

Table 6: Unsupported Borrowing	**Borrowing Required £'000**
Social Care buildings	500
Historical Records Centre – The Keep	500
Accommodation Strategy	291
Hollingdean Depot	326
New Coroners Court	100
Human Resources System	240
Ex leased car parks - improvements	769
Lanes car park - access	588
Controlled Parking Schemes	340
Housing Revenue Account Capital Programme	9,000
Replacement of vehicles & plant	2,500
Total for Capital Programme	**15,154**

3.28 As a result of condition surveys on Social Care operational buildings an annual programme of planned works has been incorporated into the capital programme to ensure the buildings meet current standards and are fit for purpose.

3.29 The new Historical Records Centre (the Keep) is being developed in partnership with East Sussex County Council and will house archival and historical public records. Development and construction costs of £0.5m are anticipated in 2010/11. The financing costs of borrowing have been included in the revenue budget.

3.30 The Accommodation Strategy will be funded as part of a 'spend to save' scheme through a combination of unsupported borrowing, corporate funds and revenue budgets. The financing costs will be met from savings generated from the operational costs of the vacated Priory House. This was detailed in a report to Cabinet on 14 January 2010.

3.31 Hollingdean Depot is the operation base for Cityclean and requires considerable investment over a three-year period to maintain both operational and health and safety requirements. A combination of funding from corporate funds and unsupported borrowing is proposed to meet the investment required which will be reported to Cabinet in due course.

3.32 A new Coroners Court is required by statute and will be located adjacent to the existing Coroners office to provide inquests, private interviews, storage, an accessible toilet and a suitable entrance for wheelchair users. The financing costs will be met from existing revenue budgets.

3.33 The Human Resources System is financed from a combination of revenue budgets, corporate funds and borrowing. The financing costs for borrowing will be met from repayments from the revenue budget resulting from savings on the project. This was detailed in a report to Cabinet on 15 January 2009.

3.34 Unsupported borrowing was approved to support the management and improvements to car parks transferring to the council. This was detailed in a report to Policy and Resources on 29 November 2007. £0.095m was forecast for 2010/11 with the remaining balance being slippage from 2009/10.

3.35 The Lanes car park will require funding to support the reconfiguration of the pedestrian access and lift renovation in order to create a safer environment, meet modern standards, the council's regulatory obligations and policy commitments. Financing costs are to be met from improved income streams at the car park. This was detailed in a report to Cabinet on 14 January 2010.

3.36 Unsupported borrowing was approved to support the controlled parking schemes. This was detailed in a report to Cabinet on 17 September 2009. The balance of unsupported borrowing in this financial year is reprofiled from 2009/10.

3.37 As part of the HRA business plan unsupported borrowing will be used to support the Housing Revenue Account Capital programme over the 3 years 2010-13. The financing costs will be met from the Major Repairs Allowance and the HRA capital financing revenue budget. Details are included within the Housing Revenue Account Capital Programme report considered at Housing Management

Consultative Committee on the 8 Feb 2010 and elsewhere on the agenda of this meeting.

3.38 The remaining £2.5m is a provision for the purchase of vehicles during the year. This includes 7 replacement gritters and 7 replacement refuse collection vehicles for Cityclean, potential replacement of miscellaneous waste and parks vehicles during the year and parking equipment if this proves to be the most cost-effective way of procurement. These assets are currently provided through operational leases and paid for through the relevant service revenue budget.

4. CONSULTATION

4.1 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.

5. FINANCIAL & OTHER IMPLICATIONS

Financial Implications:

5.1 The financial implications are included within the body of the report.

Finance Officer consulted: *Rob Allen* *Date: 27/01/10*

Legal Implications:

5.2 Under regulation 4(1)(b) of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000, formulating a plan or strategy for the control of the Council's borrowing, investments or capital expenditure is the responsibility of the Cabinet. The adoption of the plan or strategy is the responsibility of Full Council.

5.3 With regard to borrowing, credit arrangements, capital receipts and investment, the Council must comply with Part 1, Chapter 1 of the Local Government Act 2003 and regulations made thereunder.

Lawyer consulted: *Oliver Dixon* *Date: 01/02/10*

Equalities Implications:

5.4 The equality implications of individual schemes included within the Capital Investment Programme are reported to Members when the detailed report is submitted to the Executive 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 or through capital grants to the private sector. The Asset Management Fund will address access improvements to council services and buildings.

Sustainability Implications:

5.5 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 Executive for final approval.

Crime & Disorder Implications:

5.6 The prevention of crime and disorder implications of individual schemes included within the Capital Investment Programme are reported separately to the Executive when the detailed report is submitted for approval.

Risk & Opportunity Management Implications:

5.7 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.

Corporate/Citywide Implications:

5.8 The report is relevant to the whole City.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

6.1 The budget process allows all parties to put forward viable alternative capital investment proposals to Budget Council on 25 February. Budget Council has the opportunity to debate both the proposals put forward by Cabinet 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 22 February.

7. REASONS FOR REPORT RECOMMENDATIONS

7.1 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.

SUPPORTING DOCUMENTATION

Appendices:

1. Capital Investment Programme 2010/11
2. Other capital investment

Documents in Members' Rooms

None.

Background Documents

1. Letter from the Department for Education and Skills dated 10 October 2007.
2. Letter from the Government Office for the South East for Transport dated 27 November 2007.
3. Letter from the Government Office for the South East relating to housing allocations dated 15 January 2008.
4. Letter from the Department of Health relating to the Local Authority Personal Social Services Capital Programme dated 10 December 2007.
5. Various files held within the Strategic Finance unit. Budget and accounting files are held within Financial Services.