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| Subject: | Capital Resources and Capital Investment Programme 2012/13 | | |
| Date of Meeting: | 9 February 2012 | | |
| Report of: | Director of Finance & Resources | | |
| Contact Officer: Name: | Mark Ireland | Tel: 29-1240 | |
| | James Hengeveld | 29-1242 | |
| | E-mail: | mark.ireland@brighton-hove.gov.uk | |
| Key Decision: Yes | Forward Plan No. CAB21065 | | |
| Wards Affected: All | | | |

1. SUMMARY AND POLICY CONTEXT

- 1.1 The purpose of the report is to inform Cabinet of the level of available capital resources in 2012/13 to enable Cabinet to propose a Capital Investment Programme for 2012/13 to Budget Council. The capital programme is set in the context of the Medium Term Financial Strategy principles approved by Cabinet and Full Council alongside the Corporate Plan in October 2011 Cabinet. The proposed programme results in £96.9m investment in council services next year.
- 1.2 In December 2011, the Government confirmed the capital allocations within the Local Government Capital Finance Settlement for 2012/13 and announced some indicative allocations for the following two years to 2014/15. All future 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 2012/13 and the Housing Revenue Account Budget 2012/13 reports elsewhere on the agenda.

2. RECOMMENDATIONS:

- 2.1 To recommend to Council the following:-
 - The Capital Investment Programme for 2012/13 in Appendix 1
 - Note the estimated capital resources in future years as detailed in Appendix 1.
 - To allocate £0.25m resources in 2012/13 for the Strategic Investment Fund for the purposes set out in paragraph 3.25.
 - To allocate £0.5m for the ICT fund.
 - To allocate £1.0m for the Asset Management Fund.
 - The proposed use of council borrowing as set out in table 5.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS

Context

- 3.1 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 been falling in recent years not helped by uncertainty in housing market, government consultation over changes to the system and a reduction in the availability of mortgages. In 2011/12 the gross receipts are estimated to be £1.1m, about the same as the previous year compared with levels of £5m to £9m per annum between 2004/05 and 2007/08. Over the last 4 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 new sites have been identified and approved for disposal which will support the delivery of new investment in schemes such as the Workstyles Phase 2 project. Sites include Patcham Place, 251-253 Preston Road offices and other vacant corporate properties.
- 3.2 In the short term the council has been successful in attracting new grants and working with partners to generate other resources to enable a programme of over £96.9m to be proposed. Higher than anticipated grants for Education Basic Need of £0.4m were received for investment in new pupil places as well as additional Basic Need grant of £1.479m being received in 2011/12 for inclusion within the 2012/13 programme. In addition successful Heritage Lottery grant funding was awarded for investment in 'the Level' scheme amounting to £2.237m over the life of the project. Additional grants have been awarded from the Government in 2011/12 of £0.48m transport grant and £0.09m Disabled Facilities Grant which have been included in the 2011/12 capital programme.
- 3.3 The agreed policy of the council is to set a fully funded Capital Investment Programme for 2012/13 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 sales such as Patcham Court Farm will need to be achieved. A priority for investment should the council be successful in achieving its planned level of receipts will be Stanmer Barn.

Capital Resources

- 3.4 A fully financed Capital Investment Programme is proposed for 2012/13 assuming that existing approved capital projects spend in-line with their budget and certain usable receipts (excluding receipts associated with Brighton & Hove Seaside Community Homes) of just under £5.0m in total are achieved next year. Table 1 below shows how the programme will be financed in 2012/13. The position for the years 2013/14 and 2014/15 is less clear until future Government allocations are confirmed, however, it is expected that capital grant funding will remain at similar levels to those announced in 2012/13. 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 and grants awarded for specific schemes such as Academy funding.

| TABLE 1: Capital Resources | 2012/13 £ million |
|--|------------------------------|
| Capital Grants: | |
| - Capital grant announcements in previous years and profiled for spend in 2012/13 | 17.0 |
| - New capital grants | 15.0 |
| Total Government Support | 32.0 |
| Capital Receipts | 5.6 |
| Capital Receipts HRA | 5.1 |
| Capital Receipts - Forecast initial tranches from the housing Local Delivery Vehicle (Brighton & Hove Seaside Community Homes) | 4.0 |
| Capital Reserves | 4.0 |
| Specific Reserves | 5.2 |
| External Contributions | 1.6 |
| Direct Revenue Funding – Housing Revenue Account | 17.7 |
| Direct Revenue Funding – Service Departments | 1.8 |
| Council Borrowing | 19.9 |
| Total Capital Resources | 96.9 |

Capital Grants

- 3.5 The Government distributes capital grants towards the financing of certain capital expenditure. In 2012/13, it is anticipated that the council will receive new capital grants of £15.0m as summarised in table 2 below, and £17.0m from grants already announced where the spending of these grants is now profiled in 2012/13.
- 3.6 It is possible that other capital grants may be received during the year and these will be reported through Targeted Budget Management (TBM) monitoring reports to Cabinet. Announcements on Disabled Facilities Grants not yet been made and the amounts shown in this report are assumed to be in line with previous years' allocations.
- 3.7 The new capital grants are in three main areas:
- Education Basic Need funding of £3.2m is included for new pupil places.
 - Education funding of £3.2m for investment in the maintenance of educational buildings and children's centres in the city.
 - Transport funding of £6.6m to include the transport related schemes and highways maintenance.

| TABLE 2: New Grants announced for 2012/13 | £ million |
|--|------------------|
| Education Basic Need | 3.211 |
| Education Capital Maintenance | 3.231 |
| Schools Devolved Capital | 0.525 |
| Transport and Maintenance (LTP) | 6.576 |
| Department of Health Grant | 0.636 |
| Disabled Facilities Grant * | 0.700 |
| Housing Energy Efficiency Grants | 0.080 |
| Total | 14.959 |

Note: * Estimate as announcement is still awaited

- 3.8 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. All capital grants will be allocated in full to the relevant service.
- 3.9 In years prior to 2011/12 the Local Transport Plan (LTP) had been funded through a mix of capital grant and approval to borrow. Because the council had been at the grant floor it has been unable to afford the financing costs associated with the full transport borrowing approvals resulting in a much lower LTP programme in recent years (£3.0m original budget in 2010/11 reduced further to £1.8m by the in-year grant reductions and £3.350m in 2011/12).
- 3.10 The proposed new LTP programme for 2012/13 of £6.576m represents an increase of 96% over 2011/12 which was allocated at £3.350m following the decision to topslice the grant to maintain corporate funds at planned levels. The allocation for 2012/13 will be prioritised to invest in street lighting as well as maintain roads and pavements alongside other sustainable transport initiatives.

Capital Receipts

- 3.11 The funding of the 2012/13 capital programme is dependent upon the achievement of £4.972m net capital receipts during the year. This includes £1.675m of receipts associated with the disposal of surplus buildings identified under the Workstyles Phase 2 project and these receipts are earmarked for investment directly into this project and accommodation strategies. A further £2.7m of receipts are projected for 2013/14 in connection with the Workstyles Phase 2 project. Progress will be closely monitored throughout the year for all receipts and reported through the regular TBM reports. Beyond 2012/13 the generation of certain large capital receipts from Patcham Court Farm and Amex House are included in the forecasts. Failure to achieve some of these receipts will require the capital allocations for future years to be reviewed. The sale of the Council’s civic car number (CD1) plate estimated at £0.12m will provide funding for voluntary and community organisations within the city.
- 3.12 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 first £0.25m of this income is to be used to

finance support for major regeneration and housing projects through the Strategic Investment Fund (SIF) with the remainder set aside for investment in regeneration. At present 75% of the capital receipts from the sale of council homes under the Right to Buy is paid to the Government and local authorities retain the remaining 25%. However, the Government have recently announced consultation proposals ('Reinvigorating the Right to Buy and one for one replacement') to increase the level of discounts available to tenants from 1 April 2012 and therefore increase the number of sales. The proposals also intend that net capital receipts from sales (after administration costs, repayment of housing debt and currently forecast receipts for councils and central government) should be used to replace additional homes sold as a result of the higher discount levels. The outcome of the consultation will be known late February/early March.

- 3.13 The Council housing capital programme assumes a further £13.386m receipts in 2012/13 from the tranches of leasing properties to the Brighton & Hove Seaside Community Homes. This funding will be used for investment only 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

- 3.14 The council has not identified any additional capital reserves, the level of reserves relates purely to unspent resources carried forward from previous years and has already been 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

- 3.15 Specific reserves will be used to support schemes directly related to the purpose of the reserve or to support corporate priorities. The Access Fund and Transformation Fund will provide £1.852m to support the Workstyles Phase 2 project. A potential contribution from the Brighton Centre Reserve may be required to support any cashflow shortfall in the delivery of the corporate funds during 2012/13, however, a year end review of the capital programme reprofiles and slippage may mean that any potential temporary contribution will not be required. The reserve will be fully reimbursed in 2013/14 when projected capital receipts are realised. The estimated residual balance within the Building Schools for the Future reserve of £0.1m will also provide funding toward the corporate funds in 2012/13. Other specific reserves relate to transport, education funding and funding of the replacement cremators at Woodvale to assist with the new mercury abatement legislation.

External Contributions

- 3.16 The council will receive new external contributions totalling £1.626m in 2012/13. A total project contribution from the Heritage Lottery Fund of £2.237m toward investment in the 'The Level' Masterplan will provide a contribution of circa £0.9m in 2012/13. Additional funding through S.106 contributions for capital investment in

parks, gardens and recreational area improvements including the proposed new skate park and investment in education are also included.

Direct Revenue Funding

- 3.17 Proposals in the budget reports elsewhere on the agenda show the council will finance capital expenditure in 2012/13 from the General Fund and Housing Revenue Account of £19.459m. A summary of the allocations by service is shown in the table below.

| TABLE 3: Direct Revenue Funding | £ million |
|--|------------------|
| Resources – planned maintenance | 0.500 |
| Structural maintenance for schools | 0.920 |
| The Level & skate park | 0.153 |
| Car park improvements | 0.250 |
| Total General Fund Services | 1.823 |
| Housing Revenue Account | 17.636 |
| Grand Total | 19.459 |

Council Borrowing under the Prudential Code

- 3.18 Council borrowing under the Prudential Code can be undertaken only when it can be demonstrated that it is affordable particularly where the investment leads to greater efficiency in future service provision and generates revenue savings or reductions in budgeted spend. Details of borrowing for 2012/13 are included in paragraphs 3.29 to 3.40.

Capital Investment Programme

- 3.19 A proposed Capital Investment Programme for 2012/13 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 2011/12 capital programme detailed in the TBM9 report elsewhere on the agenda is incorporated into the 2012/13 programme and will be finalised when the capital accounts are closed in May 2012. The re-profiling is funded from resources carried forward from earlier years.
- 3.20 The financial implications of individual projects are included in the detailed reports that are submitted by services for each project to allow the Executive 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.
- 3.21 The 2012/13 capital programme includes additional investment in the following areas:-
- £8.9m will be spent on vital new investment in schools with £12.5m already reported to be invested on Portslade Community Academy.
 - £25.9m in housing stock.
 - £6.6m in new transport and street lighting related schemes.

- £10.1 to help deliver regeneration schemes including a £2.6m contribution towards a £19m new historical records centre (the Keep) in a joint scheme with East Sussex County Council and Sussex University, £5.7m investment in the Workstyles Phase Two scheme, £1.3m for the Level and skate park and £0.5m to support the Woodingdean library development.
- 3.22 The council has committed to achieve the Decent Homes Standard by the end of 2013. Works to improve homes include ensuring internal elements such as kitchens, bathrooms and rewiring, as well as external elements such as doors and windows, all meet the benchmark. Additionally, basic health and wellbeing requirements are assessed and the required safety levels met as well as a commitment to improve energy efficiency across the housing stock. Additional funding has been identified within 2012/13 to support investment in private sector renewals. Details of the investment beyond 2013/14 in items that are very important for residents' comfort and security are set out in the HRA capital programme report elsewhere on this agenda and the funding for private sector renewals is detailed in paragraph 3.31.
- 3.23 The council has also developed ways of providing major capital investment in the city by working in partnership with the private sector and public bodies (i.e. Heritage Lottery etc) whereby most of the capital investment is undertaken and accounted for by the private sector. A list of major projects is shown in appendix 2.

Corporate Funds

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

| TABLE 4: Corporate Funds | 2012/13 £ million | 2013/14 £ million | 2014/15 £ million |
|---------------------------------|------------------------------|------------------------------|------------------------------|
| Strategic Investment Fund (SIF) | 0.250 | 0.250 | 0.250 |
| Asset Management Fund (AMF) | 1.000 | 1.000 | 1.000 |
| ICT Fund | 0.500 | 0.500 | 0.500 |

Strategic Investment Fund

- 3.25 It is proposed to allocate £0.250m to the Strategic Investment Fund (SIF) in 2012/13. 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 £0.250m is allocated to support major projects for 2012/13 which together with the 2011/12 carry forward funding will provide £0.859m resources to support the delivery of major projects.

ICT Fund

- 3.26 It is proposed to allocate £0.5m resources to the Information and Communication Technology (ICT) Fund to finance the cost of improvements in ICT. The allocation of the ICT fund is currently being finalised and will be subject to a further report to Cabinet.

Asset Management Fund

- 3.27 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. The AMF will make a contribution of £0.7m towards the Workstyles Phase 2 strategy which was detailed in a report to Cabinet on 8 December 2011. 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 Cabinet.

Council Borrowing under the Prudential Code

- 3.28 For 2012/13 it is proposed that the council will undertake borrowing to finance capital expenditure plans as detailed below.

| TABLE 5: Council Borrowing in 2012/13 | £ million |
|--|------------------|
| Housing Revenue Account - 11/12 reprofiled schemes | 7.079 |
| Print and Sign Unit relocation | 0.206 |
| HR system replacements | 0.223 |
| Private Sector Renewal | 1.500 |
| Replacement programme vehicles & plant | 2.201 |
| Social Care buildings | 0.500 |
| Historical Records Centre – The Keep | 2.550 |
| Woodingdean Library | 0.500 |
| Solar PV Panels | 0.250 |
| Woodvale cremators | 0.778 |
| <i>Spend to save schemes:</i> | |
| Street Lighting | 0.300 |
| Ex leased car parks - improvements | 3.703 |
| Workstyles Phase Two | 0.150 |
| Total for Capital Programme | 19.940 |

- 3.29 As part of the HRA business plan borrowing will be used to support the delivery of Decent Homes and funding of £5.244m was reprofiled from 2011/12 for investment in window replacement, lift refurbishment, domestic rewiring, decorations and boiler replacement at various sites. A sum of £0.135m was reprofiled in 2011/12 in connection with funding for HRA ICT. A total sum of £1.7m is also profiled for the design and build contract for Ainsworth House. The financing costs have been identified to be met from the HRA capital financing revenue budget.
- 3.30 The relocation of the Print and Sign Unit from its current location at Hollingdean Depot due to health and safety concerns and the delivery of the HR system are both reprofiled and detailed in the TBM9 report.

- 3.31 Private Sector Renewals Grants have previously been met through the Brighton & Hove and East Sussex Together (BEST) partnership with funding provided by the Regional Housing Board. This funding has now come to an end and £1.5m has been included with 2012/13 to allow investment in improving private housing quality within the city to continue. Options for future years funding are currently being considered including the potential route through the Green Deal initiative. The financing costs of borrowing have been included in the revenue budget
- 3.32 The provision of £2.2m is for replacement of vehicles during the year. This includes replacement refuse collection street cleansing 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.
- 3.33 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.
- 3.34 The new Historical Records Centre (the Keep) is being developed in partnership with East Sussex County Council and Sussex University and will house archival and historical public records. The city council contribution of up to £5.615m towards the development and construction costs commenced in 2011/12 with £2.55m of that planned spend in 2012/13. The financing costs of borrowing have been included in the revenue budget.
- 3.35 The development of a new library and GP surgery at Woodingdean in partnership with the Primary Care Trust requires a contribution of £0.5m from the council toward the development and fit out including supporting ICT for the new library (as detailed to Cabinet on 10 November 2011). The financing costs associated with the contribution have been identified in the revenue budget.
- 3.36 The report to Cabinet on 19 January 2012 detailed the delay in the installation of solar PV panels for council administration buildings and school sites due largely to the Government's announcement to review feed-in-tariff income. Three large administration buildings including Hove Town Hall, Bartholomew House and the Learning Development Centre will have solar panels installed during planned programmed works. The remaining non school sites and school sites will be subject to independent reviews and business cases with PV panels being installed should the business cases prove viable. The financing costs associated with each scheme will be met from a combination of energy savings and income generation through the feed-in-tariffs scheme.
- 3.37 The purchase of new plant and equipment that addresses mercury abatement and replaces cremators is estimated to be in the region of £1.2m and will be funded from a combination of reserves and borrowing financed through an existing income levy. Further detail is included in a separate report to this Cabinet meeting.
- 3.38 Replacement of 650 street lighting lanterns and a number of full column changes across the city. The investment will provide energy saving benefits to support the financing costs.
- 3.39 The report to Cabinet on 22nd September 2011 detailed the requirement of investment in city infrastructure and the car park improvements phase 2. Borrowing of £4.0m was approved alongside £0.298m from the Invest to Save Car Park

Refurbishment reserve to support the management and improvements to car parks transferred to the council. The financing costs will be met by improved revenue streams at the car parks.

- 3.40 The Workstyles Phase Two scheme will use £0.15m borrowing underspend from the phase one accommodation strategy. This funding will reduce the risk associated with the need to dispose of assets identified within the phase two scheme. The financing costs have been funded from the savings associated with the vacation of Priory House.

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 26 January 2012

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: 31 January 2012

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. 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 private sector renewal, 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.

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 7 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 23 February 2011. 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 20 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 2012/13 to 2014/15
2. Other Capital Investment

Documents in Members' Rooms

1. None.

Background Documents

1. Notification from the Department for Education and Skills dated 13 December 2011.
2. Notification from the Department for Transport dated 13 December 2011.
3. Letter from the Department of Health relating to the Local Authority Personal Social Services Capital Grant Allocations dated 13 December 2011.
4. Reinvigorating the Right to Buy and one for one replacement issued by CLG December 2011
5. Various files held within the Strategic Finance and Integrated Financial Management & Planning units. Budget and accounting files are held within Integrated Financial Management & Planning.