

## Council

28<sup>th</sup> February 2013

## Agenda Item 92

Brighton & Hove City Council

<b>Subject:</b>	<b>Capital Resources and Capital Investment Programme 2013/14</b>		
<b>Date of Meeting:</b>	<b>14 February 2013</b>		
<b>Report of:</b>	<b>Director of Finance</b>		
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<b>Wards Affected:</b>	<b>All</b>		

### FOR GENERAL RELEASE

#### 1. SUMMARY AND POLICY CONTEXT

- 1.1 The purpose of the report is to inform Committee of the level of available capital resources in 2013/14 to enable Committee to propose a Capital Investment Programme for 2013/14 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 £83.6m investment in council services next year.
- 1.2 In December 2012, the Government confirmed some capital allocations within the Local Government Capital Finance Settlement for 2013/14 whilst confirmation of key Education and Disabled Facilities Grant allocations are due in late February. Some indicative allocations for the following year 2014/15 were also announced. All 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 2013/14 and the Housing Revenue Account Budget 2013/14 reports elsewhere on the agenda.

#### 2. RECOMMENDATIONS:

- 2.1 That Policy & Resources Committee recommend to Council the following:-
  - The Capital Investment Programme for 2013/14 in appendix 1.
  - Note the estimated capital resources in future years as detailed in appendix 1.
  - To allocate £0.250m resources in 2013/14 for the Strategic Investment Fund for the purposes set out in paragraph 3.25.
  - To allocate £1.000m for the ICT fund.
  - To allocate £1.000m for the Asset Management Fund.
  - The proposed use of council borrowing as set out in paragraph 3.17 and appendix 3.

### **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 2012/13 the gross receipts are estimated to be £1.3m, about the same as the previous year compared with levels of £5.0m to £9.0m per annum between 2004/05 and 2007/08. 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 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 approximately £83.6m to be proposed. 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 of £0.422m in 2012/13 for secure early education places for two year olds from lower income families and £0.594m for highways maintenance funding in 2013/14 caused by severe weather events, both of which have been included in the 2013/14 capital programme.
- 3.3 The agreed policy of the council is to set a fully funded Capital Investment Programme for 2013/14 dependent upon the achievement of certain capital receipts. Forecast levels of capital receipts for the next few years are insufficient to cover proposed allocations in the capital strategy and funding has been identified within the revenue budget of £1.355m to supplement the shortfall. This is detailed in the revenue report to this Committee.

#### **Capital Resources**

- 3.4 A fully financed Capital Investment Programme is proposed for 2013/14 assuming that existing approved capital projects spend in-line with their budget and certain unearmarked net usable receipts of just under £2.2m in total are achieved next year. Table 1 below shows how the programme will be financed in 2013/14. The position for the years 2014/15 and 2015/16 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 1: Capital Resources</b>	<b>2013/14 £ million</b>
Capital Grants:	
- Capital grant announcements in previous years and profiled for spend in 2013/14	9.833
- New capital grants	16.096
<b>Total Government Support</b>	<b>25.929</b>
Capital Receipts	3.197
Capital Receipts - Forecast initial tranches from the housing Local Delivery Vehicle (Brighton & Hove Seaside Community Homes)	1.392
Capital Reserves	3.106
Specific Reserves	1.040
Contribution from General Reserves	1.355
External Contributions	2.116
Direct Revenue Funding – Housing Revenue Account	20.778
Direct Revenue Funding – General Fund	1.786
Council Borrowing	22.863
<b>Total Capital Resources</b>	<b>83.562</b>

### ***Capital Grants***

- 3.5 The Government distributes capital grants towards the financing of certain capital expenditure. In 2013/14, it is anticipated that the council will receive new capital grants of £16.1m as summarised in table 2 below, and £9.8m from grants already announced where the spending of these grants is now profiled in 2013/14.
- 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 Policy & Resources Committee as and when they are announced. Announcements of Education Basic Need, Education Capital Maintenance and Disabled Facilities Grants have not yet been made and the amounts shown in this report are estimated subject to confirmation of funding due later in February 2013. If amounts received exceed the estimates then these will be set aside to contribute to the identified resourcing gap in the subsequent two years. If amounts received are lower than the estimates then the council may need to use the risk provision set aside in the General Fund Budget to ensure urgent work can be undertaken. Due to the uncertainty over the Education Capital settlement in particular the spend requirements for 2013/14 have been carefully reviewed and profiled and are considered to be the minimum that is required to fulfil the council's responsibilities.

3.7 The new capital grants are in three main areas:

- Education Basic Need funding of £2.9m (estimated) is included for new pupil places.
- Education funding of £2.9m (estimated) for investment in the maintenance of educational buildings and children’s centres in the city.
- Transport funding of £6.3m to include transport related schemes and highways maintenance.

<b>TABLE 2: New Grants announced for 2013/14</b>	<b>£ million</b>
Education Basic Need *	2.900
Education Capital Maintenance *	2.908
Schools Devolved Capital	0.500
Transport and Maintenance (LTP)	6.349
Department of Health Grant	0.660
Highways Maintenance	0.594
Disabled Facilities Grant *	0.700
Housing Energy Efficiency Grants	0.080
Decent Homes Grant	1.000
Empty Homes Grant	0.405
<b>Total</b>	<b>16.096</b>

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 The proposed new LTP programme for 2013/14 of £6.349m represents a decrease of 3.5% over 2012/13 which was allocated at £6.576m. The grant will be fully allocated to the service for 2013/14 and will be prioritised to invest in street lighting as well as maintaining roads and pavements alongside other sustainable transport initiatives.

### ***Capital Receipts***

3.10 The funding of the 2013/14 capital programme is dependent upon the achievement of £2.2m net capital receipts during the year. This includes £0.6m of receipts associated with the disposal of surplus buildings identified under the Workstyles Phase 2 project and these receipts are required for investment into this project. A further £2.2m of receipts are projected for 2014/15 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 2013/14 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.

- 3.11 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. On 2 April 2012 the government introduced changes to the Right to Buy proposals, which included an increase in the level of discounts available to council tenants and the ability to use net additional receipts for replacement homes arising from the increase in the number of sales. The forecast receipts due to councils were set at an assumed level as part of the HRA self financing settlement and for Brighton & Hove this amount is approximately £0.362 million per annum which is earmarked to fund corporate strategic projects delivering regeneration including affordable housing. Any surplus above £0.362m will be set aside for replacement homes.
- 3.12 The Council housing capital programme assumes a further £5.1m receipts in 2013/14 from the planned leasing of further tranches of properties to the Brighton & Hove Seaside Community Homes. This funding will only 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***

- 3.13 The level of reserves relates purely to unspent resources carried forward from previous years and has already been earmarked for specific schemes. In addition the revenue budget report contains proposals to set aside £1.355m one off resources to provide a balanced capital programme for 2013/14 which will address the much needed investment in Hollingdean depot and the ICT strategy. The council monitors 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***

- 3.14 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 adult social care to support the Craven Vale development, the Brighton Centre Redevelopment reserve to support the Brighton Centre regeneration project and funding of the replacement cremators at Woodvale to meet with the new mercury abatement legislation.

### ***External Contributions***

- 3.15 The council will receive external contributions totalling £2.116m in 2013/14. 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 £1.056m in 2013/14. Additional funding through S.106 contributions, an Environmental Trust

bid and Sports England has also provided contributions totalling £0.720m for the Level project including the skatepark and the playground with £0.330m used in 2013/14. The i360 Project has secured a £3m loan from the Coast to Capital Local Enterprise partnership (LEP) with £0.731m profiled in 2013/14 and the remainder in 2014/15.

### ***Direct Revenue Funding***

- 3.16 Proposals in the budget reports elsewhere on the agenda show the council will finance capital expenditure in 2013/14 from the General Fund and Housing Revenue Account of £22.564m. A summary of the allocations by service is shown in the table below.

<b>TABLE 3: Direct Revenue Funding</b>	<b>£ million</b>
Resources – planned maintenance	0.745
Structural maintenance for schools	0.920
The Level & skate park	0.121
<b>Total General Fund Services</b>	<b>1.786</b>
Housing Revenue Account	20.778
<b>Grand Total</b>	<b>22.564</b>

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

- 3.17 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. For 2013/14 it is proposed that the Council will undertake borrowing of £22.863m to finance capital expenditure plans as detailed in appendix 3.

### **Capital Investment Programme**

- 3.18 A proposed Capital Investment Programme for 2013/14 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 2012/13 capital programme detailed in the TBM9 report elsewhere on the agenda is incorporated into the 2013/14 programme and will be finalised when the capital accounts are closed in May 2013. The re-profiling is fully funded from resources carried forward from this year.
- 3.19 The financial implications of individual projects are included in the detailed reports that are submitted by services for each project to allow relevant committees to give their full consideration of 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.

3.20 The 2013/14 capital programme includes additional investment in the following areas:-

- £10.0m will be spent on vital new investment in primary schools.
- £27.0m in housing stock.
- £6.9m in new transport and street lighting related schemes.
- £12.6m to help deliver regeneration schemes such as the £38.0m i360 Project, the £19.0m new historical records centre (the Keep), the Level including the playground and skate park, the Craven Vale adult care development, improvements to the Withdean Sports Complex and running track and the Woodingdean library development.

3.21 Like many authorities the council is facing demands for new pupil places in particular parts of the city and the government's allocation of Education Basic Need funding is not keeping up with these demands. 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 as effectively this would imply double funding. However there may be the possibility of attracting some additional capital where this supports increased diversity of provision. In order to ensure that the council can bridge the education funding gap from 2014/15 onwards it will need to explore options to attract additional resources in this way.

3.22 As part of the councils commitment to tackle inequality the HRA Capital Programme 2013-2016 includes investment in building new affordable homes, continuing the improvement in the quality of existing council homes by achieving the Brighton & Hove Standard (Decent Homes Standard) by the end of 2013 and increased investment in adaptations to enable council tenants to live independently in their homes. The HRA Capital Programme, reported elsewhere on this agenda, also includes improving the sustainability and energy efficiency of the housing stock such as insulation improvements, cladding projects and solar thermal and photo-voltaic (PV) installations.

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 and Local Enterprise Partnership 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.

<b>TABLE 4: Corporate Funds</b>	<b>2013/14 £ million</b>	<b>2014/15 £ million</b>	<b>2015/16 £ million</b>
Strategic Investment Fund (SIF)	0.250	0.250	0.250
Asset Management Fund (AMF)	1.000	1.000	1.000
ICT Fund	1.000	2.000	2.000

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

- 3.25 It is proposed to allocate £0.250m to the Strategic Investment Fund (SIF) in 2013/14. 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 2013/14 which together with the 2012/13 carry forward funding will provide £0.882m resources to support the delivery of major projects.

### ***ICT Fund***

- 3.26 It is proposed to allocate £1.0m resources to the Information and Communication Technology (ICT) Fund to finance the cost of improvements in ICT. Additional allocations of £2.0m pa are proposed in 2014/15 and 2015/16 to support urgent investment in the council's core infrastructure, security and assurance strategy. In addition £1.0m is included from the revenue budget. This reflects the correct accounting split between the required £6.0m investment identified as urgent over the next 3 years. This will be subject to a further report to Policy & Resources.

### ***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, Equalities Act 2010 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.

## **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 4 February 2013*

### ***Legal Implications:***

- 5.2 The council's budget and policy framework procedure rules require the Policy & Resources Committee to agree each year a programme for establishing the budget



framework for the following year. The Committee agreed the budget process for 2013/14 on 12 July 2012.

- 5.3 The Committee has delegated power to formulate budget proposals for adoption by the council, and this provides authority for the recommendations at paragraph 2.1 above.

*Lawyer consulted: Oliver Dixon*

*Date: 5 February 2013*

***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 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 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 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 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 relevant committees 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 8 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 28 February 2013. 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 25<sup>th</sup> 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 2013/14 to 2015/16
2. Other Capital Investment
3. Council Capital Borrowing 2013/14

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

1. None.

### **Background Documents**

1. Notification from the Department for Transport dated January 2013.
2. Letter from the Department of Health relating to the Local Authority Personal Social Services Capital Grant Allocations dated 19 December 2012.
3. Reinvigorating the Right to Buy and one for one replacement issued by CLG 2 April 2012.
4. Various files held within the Strategic Finance and Integrated Financial Management & Planning units. Budget and accounting files are held within Integrated Financial Management & Planning.