

Subject:	Capital Resources and Capital Investment Programme 2014/15		
Date of Meeting:	5 March 2014 27 February 2014 – Budget Council 13 February 2014 – Policy & Resources Committee		
Report of:	Executive Director of Finance & Resources		
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Ward(s) affected:	All		

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 2014/15 to enable the committee to propose a Capital Investment Programme for 2014/15 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 £80.0m investment in council services next year.
- 1.2 In December 2013, the Government confirmed a number of capital allocations within the Local Government Capital Finance Settlement for 2014/15 and further announcements were issued during January 2014. Some indicative allocations for the following years to 2016/17 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 2014/15 and the Housing Revenue Account Budget 2014/15 reports elsewhere on the agenda.

2. RECOMMENDATIONS:

To recommend to Council the following: –

- 2.1 The Capital Investment Programme for 2014/15 in Appendix 1.
- 2.2 Note the estimated capital resources in future years as detailed in Appendix 1.
- 2.3 To allocate £0.25m resources in 2014/15 for the Strategic Investment Fund for the purposes set out in paragraph 3.15.

- 2.4 To allocate £2.0m for the ICT fund.
- 2.5 To allocate £1.0m for the Asset Management Fund.
- 2.6 The proposed use of council borrowing as set out in paragraph 3.31 and appendix 3.

3. CONTEXT/ BACKGROUND INFORMATION

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 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 2013/14 and for 2014/15 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 include Kings House, Patcham Place, Preston Road, Hove Park Depot and other vacant corporate properties.
- 3.2 The council has been successful in attracting new grants and working with partners to generate other resources to enable a programme of just under £80.0m to be proposed. Additional grants have been awarded from the Government of £0.652m over 2013/14 and 2014/15 for pupil places at West Hove infants, £0.518m for infant free school meal capital investment, £0.325m for highways maintenance funding caused by severe weather events and Homes and Community Association (HCA) empty homes grant allocation of £0.815m in 2014/15. All of this funding has been included in the 2014/15 capital programme.
- 3.3 The agreed policy of the council is to set a fully funded Capital Investment Programme for 2014/15 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

- 3.4 A proposed Capital Investment Programme for 2014/15 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 2013/14 capital programme detailed in the TBM9 report elsewhere on the agenda is incorporated into the 2014/15 programme and will be finalised when the capital accounts are closed in May 2014. The re-profiling is funded from resources carried forward from earlier years.

- 3.5 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.
- 3.6 The 2014/15 capital programme includes additional investment in the following areas:-
- £11.3m will be spent on new investment in primary schools.
 - £34.0m in housing stock.
 - £7.8m in new transport and street lighting related schemes.
- 3.7 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 and the major works needed to the seafront structures/ infrastructure.

Major Capital Investment Areas

- 3.8 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 2020/21 for secondary school places in Brighton and Hove plus 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 and from 2015/16 to 2016/17 these allocations are in excess of £12.0m pa. compared with previous years allocations of £3.9m pa. The future allocations are based upon revised calculations of costs and need to cope with pupils moving from primary to secondary schools.
- 3.9 As part of the council's commitment to tackle inequality the HRA Capital Programme 2014-2017 includes investment in building new affordable homes, the improvement in the quality of existing council homes by continuing to maintain the Brighton & Hove Standard (Decent Homes Standard which was achieved at 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 photovoltaic (PV) installations.
- 3.10 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 2014/15 at

£7.479m but no other indicative announcements for future years have been made. A detailed report will be presented to Policy and Resources Committee in due course.

- 3.11 Workstyles Phase 3 was approved at Policy and 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 workplace and deliver essential investment in the council's property and ICT infrastructure as well as providing ongoing revenue budget savings.
- 3.12 The Capital Investment Programme excludes potential capital pressures for investment in seafront highways infrastructure and seafront colonnade works which could require between £70m to £100m investment over a number of years. The LTP will make a contribution towards 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.
- 3.13 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) and the Coast to Capital Local Enterprise Partnership whereby most of the capital investment is undertaken and accounted for by the private sector. Recent bids include a £1.0m stage one bid from the HLF for the development phase of the Royal Pavilion Estates Regeneration. If the feasibility study is successful a stage two bid will be made to HLF timetabled for 2015 and will be between £12.0m to £15.0m. Should the stage two bid be successful the project will require match funding from a number of partners for the estimated £38.0m cost including up to £2.0m from the council. No funding has been identified at this time and options could include the use of capital receipts or borrowing. The i360 Project is currently being reviewed and will be reported back to this Committee in due course and may include a combination of funding from the Coast To Capital LEP, council borrowing and third party investors subject to a detailed business plan. A list of further major projects under construction or yet to commence is shown in appendix 2.

Corporate Funds

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

TABLE 4: Corporate Funds	2014/15 £ million	2015/16 £ million	2016/17 £ million
Strategic Investment Fund (SIF)	0.250	0.250	0.250
Asset Management Fund (AMF)	1.000	1.000	1.000
ICT Fund	2.000	2.000	0.500

Strategic Investment Fund

- 3.15 It is proposed to allocate £0.250m to the Strategic Investment Fund (SIF) in 2014/15. 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. This allocation together with the 2013/14 carry forward funding will provide £0.687m resources to support the delivery of major projects.

ICT Fund

- 3.16 It is proposed to allocate £2.0m 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 2015/16 to support urgent investment in the council's core infrastructure, security and assurance strategy and follows allocations of £1.0m capital and £1.0m revenue support in 2013/14. Further information is provided within the ICT Strategy & Resourcing Update report elsewhere on this agenda.

Asset Management Fund

- 3.17 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 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

- 3.18 A fully financed Capital Investment Programme is proposed for 2014/15 assuming that existing approved capital projects spend in-line with their budget and certain unearmarked net usable receipts of just under £5.0m in total are achieved next year. Table 1 below shows how the programme will be financed in 2014/15. The position for the years 2015/16 and 2016/17 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.

TABLE 1: Capital Resources	2014/15 £ million
Capital Grants:	
- Capital grant announcements in previous years and profiled for spend in 2014/15	7.902

- New capital grants	19.895
Total Government Support	27.797
Capital Receipts	8.291
Capital Reserves	1.974
Specific Reserves	1.476
External Contributions	0.075
Direct Revenue Funding – Housing Revenue Account	24.593
Direct Revenue Funding – Service Departments	1.947
Council Borrowing	9.805
Temporary funding for Workstyles Phase 3 & education	4.017
Total Capital Resources	79.975

Capital Grants

- 3.19 The Government distributes capital grants towards the financing of certain capital expenditure. In 2014/15, it is anticipated that the council will receive new capital grants of £19.9m as summarised in table 2 below, and £7.9m from grants already announced where the spending of these grants is now profiled in 2014/15.
- 3.20 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.
- 3.21 The new capital grants are in three main areas.
- Education Basic Need funding of £3.960m is included for new pupil places
 - Education funding of £2.863m for investment in the maintenance of educational buildings and children’s centres in the city.
 - Transport funding of £7.479m to include the transport related schemes and highways maintenance

TABLE 2: New Grants announced for 2014/15	£ million
Education Basic Need	3.960
Education Capital Maintenance	2.863
Targeted Basic Need	0.652
Schools Devolved Capital	0.528
Infants Free School Meals	0.518

Transport and Maintenance (LTP)	7.479
Highways Maintenance	0.325
Department of Health Grant	0.674
Disabled Facilities Grant	0.751
HCA Empty Homes Grant	0.815
Housing Energy Efficiency Grants	0.130
Decent Homes Grant	1.200
Total	19.895

- 3.22 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.
- 3.23 The proposed new LTP programme for 2014/15 of £7.479m represents an increase of 17.8% over 2013/14 which was allocated at £6.349m. The grant will be fully allocated to the service for 2014/15 and will be prioritised to invest in street lighting as well as maintain roads and pavements alongside other sustainable transport initiatives. A separate report will be presented to Policy and Resources in due course.

Capital Receipts

- 3.24 The funding of the 2014/15 capital programme is dependent upon the achievement of £5.0m net capital receipts during the year. This includes £2.4m of receipts associated with the disposal of surplus buildings identified under the Workstyles project and these receipts are required for investment into this project. A further £2.6m of receipts are projected for 2014/15 in connection with the other disposals. Progress will be closely monitored throughout the year for all receipts and reported through the regular TBM reports. Beyond 2014/15 the generation of certain large capital receipts from Patcham Court Farm and Kings House (Workstyles Phase 3) are included in the forecasts. Failure to achieve some of these receipts will require the capital allocations for future years to be reviewed.
- 3.25 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 and Hove City Council is set at an assumed level of £0.428 million per annum. Any surplus above £0.428m will be set aside to reinvest in replacement homes.
- 3.26 The Council housing capital programme assumes a further £2.6m receipts in 2014/15 from the planned leasing of further tranches of properties to the 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 has secured additional investment to bring council housing up to decent homes standard and to maintain this 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

- 3.27 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

- 3.28 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 Brighton Centre regeneration project and funding of the Workstyles Phase 3 to support project resources.

External Contributions

- 3.29 The council will receive new external contributions totalling £0.075m in 2014/15 associated with Section 106 funding to support the household waste project.

Direct Revenue Funding

- 3.30 The General Fund and Housing Revenue Account budget reports elsewhere on the agenda include direct revenue funding of £26.540m. A summary of the allocations by service is shown in the table below.

TABLE 3: Direct Revenue Funding	£ million
Property & Design – planned maintenance	0.789
Structural maintenance for schools	0.900
Adults Assessments – adaptations	0.150
Housing adaptations	0.068
Children’s Services – Enhancements	0.040
Total General Fund Services	1.947
Housing Revenue Account	24.593
Grand Total	26.540

Council Borrowing under the Prudential Code

- 3.31 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 2014/15 it is proposed that the Council will undertake borrowing of £9.805m to finance capital expenditure plans as detailed appendix 3.

Temporary Funding

- 3.32 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 and education funding for primary and secondary schools. The costs associated with short term funding has been built into the Workstyles business plan to cover capital investment until capital receipts are realised. Funding for Basic Need education capital grant has been announced for 2015/16 and temporary funding will be used to enable work to commence on schools in 2014/15.

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 27 February 2014. 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 24th 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: 04/02/2014

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: 03/02/14

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 or through capital grants to the private sector. 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 council housing stock, sustainable transport initiatives, and decent homes 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 9 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 2014/15 to 2016/17
2. Other Capital Investment
3. Council Capital Borrowing 2014/15

Documents in Members' Rooms

1. None

Background Documents

1. Letter from the Department for Transport dated 30 December 2013.
2. Letter from the Department of Health relating to the Local Authority Personal Social Services Capital Grant Allocations dated 19 December 2012.
3. Notification from the Department for Communities and Local Government relating to Disabled Facilities Grant dated 3 January 2014.
4. Notifications from the Department for Education dated 18 December 2013 and 24 January 2014.
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.