

25 February 2016

Brighton & Hove City Council

Subject:	Capital Resources and Capital Investment Programme 2016/17		
Date of Meeting:	25 February 2016 11 February 2016 – Policy & Resources Committee		
Report of:	Acting Director Finance & Resources		
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Ward(s) affected:	All		

FOR GENERAL RELEASE

Note: The special circumstances for non-compliance with Access to Information Procedure Rule 5 and Section 100B(4) of the Local Government Act 1972 are that officers were awaiting critical information about the final Local Government Grant Settlement for 2016/17 from the Department for Communities and Local Government (CLG). This final information was not released by 4 February 2015 and therefore amendments to the budget as a result of any changes to the local government finance settlement will now be included in the Supplementary Budget Report to Budget Council.

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 2016/17 to enable the committee to propose a Capital Investment Programme for 2016/17 to Budget Council. The capital programme is set in the context of the Medium Term Financial Strategy. The proposed programme results in £142.4m of investment in council services next year.
- 1.2 In December 2014 and February 2015, the Government confirmed a number of capital allocations within the Local Government Capital Finance Settlement for 2016/17 and there have been no changes announced to these allocations. Some indicative allocations for the following years 2017/18 to 2020/21 were also announced. All capital allocations from the Government now come in the form of capital grants.
- 1.3 This report includes the appropriate 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 2016/17 and the Housing Revenue Account Budget 2016/17 reports elsewhere on the agenda.

2. RECOMMENDATIONS:

To recommend to Council the following: –

- 2.1 The Capital Investment Programme for 2016/17 in appendix 1.
- 2.2 To note the estimated capital resources in future years as detailed in appendix 1.
- 2.3 To allocate £0.25m resources in 2016/17 for the Strategic Investment Fund for the purposes set out in paragraph 3.18.
- 2.4 To note the £2.0m for the ICT fund for investment into the Customer First in a Digital Age strategy.
- 2.5 To allocate £1.0m for the Asset Management Fund.
- 2.6 The proposed use of council borrowing as set out in paragraph 3.36 and appendix 3.

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 The capital programme is funded through a combination of government grants, borrowing, capital receipts and reserves, external contributions and revenue contributions. Over the last 3 years the level of other capital receipts received by the council has risen as a result of an upturn in the property market and a concerted effort to review the surplus and non core assets within the council including those associated with the Workstyles phases under the council's modernisation programme. A number of sites have been identified and approved for disposal which will support the delivery of new investment such as the Workstyles Phase 3 project. Sites recently sold include 76-80 Buckingham Road, Eastbrook Farm, Patcham Place, Hove Park Depot and other vacant corporate properties. Projected disposals include Kings House, 251-253 Preston Road and Patcham Court Farm. During 2013/14 through to 2015/16 the number of council house sales has risen and are estimated to continue at similar levels for the next 3 years.
- 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 over £142.4m to be proposed. Grants have been awarded from the Heritage Lottery Grants (HLF) and Arts England Council to support the Royal Pavilion Estates Regeneration project plus funding from the HLF to support the Stanmer Estate Restoration Project and the Volks Railway. Successful bids were made during 2015/16 to the Highways Infrastructure Fund for much needed investment at the Shelter Hall. A number of bids have been made throughout the region as part of the Greater Brighton City Region and funding has been agreed through the Local Growth Fund to support investment directly within the city including funding for Valley Gardens phase 1, 2 and 3, Bike Share, Intelligent Transport System, Preston Barracks Central Research Laboratory and the Circus Street Development.
- 3.3 The agreed policy of the council is to set a fully funded Capital Investment Programme for 2016/17 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 assuming receipts from the sales of properties mentioned in paragraph 3.1 are achieved.

Capital Investment Programme

- 3.4 A proposed Capital Investment Programme for 2016/17 together with the impact in future years, by project, is shown at appendix 1 to this report. The latest capital budget re-profiling arising from the 2015/16 capital programme detailed in the Targeted Budget Management (TBM) 9 report elsewhere on the agenda is incorporated into the 2016/17 programme and will be finalised when the capital accounts are closed in May 2016. 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 2016/17 capital programme includes additional investment in the following areas:-
- £18.986m will be spent on new investment in schools.
 - £43.047m new investment in housing stock.
 - £12.507m in new and approved transport related schemes.
- 3.7 The capital programme will support the delivery of the 4 year service and financial plans and in 2016/17 £1.738m has been set aside to support the investment requirements set out in the General Fund Revenue Budget and Council Tax report elsewhere on this agenda. In addition, £2.0m of the £6.0m allocated to the Customer First in a Digital Age programme is also included.
- 3.8 The capital programme also includes allocations for investment in Public Conveniences over the next 4 years and additional funding to supplement the Planned Maintenance Budget for investment in the Prince Regent in 2016/17 and civic buildings in 2017/18.
- 3.9 As well as significant capital investment in the short term, the council is facing some major longer term capital investment challenges including the delivery of additional secondary school places, the major works needed to the seafront structures / infrastructure, pressure in identifying affordable housing across the city and investment in street lighting infrastructure. The 10-year Capital Investment Programme in Appendix 1 details further some of those challenges for which funding is not yet identified.

Major Capital Investment Areas

- 3.10 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. 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 3 year allocations up to 2017/18 for new pupil Basic Need of £12.039m for 2015/16, £12.641m for 2016/17 and £11.445m for 2017/18. Previous years' allocations were around £3.9m pa. The future allocations are based upon revised calculations of costs and the need to cope with pupils moving through from primary to secondary schools. No further indicative announcements have been made beyond 2017/18. A detailed Education Capital Resources and Capital Investment Programme report will be presented to Policy & Resources in March 2016.
- 3.11 The Housing Revenue Account (HRA) Capital Programme 2016/17-2019/20, also being presented to this Committee, includes investment proposals that aim to create a long-term sustainable asset base that best meets the needs of residents and the City as a whole. The HRA capital strategy focuses on meeting Corporate Plan priorities through building new homes and improving the quality and sustainability of the existing housing stock. The HRA capital strategy aims to ensure that every pound invested reaches beyond the housing service and contributes to regeneration, tackling inequality, creating training and employment opportunities and improving sustainability.
- 3.12 The council secures capital funding for transport schemes through the government's Local Transport Plan (LTP) process. The LTP consists of a long-term strategy and a short term delivery plan that identifies the principles that help deliver the council's strategic transport objectives and the city's Sustainable Community Strategy. Funding for the LTP has been announced for the next 2 years for 2016/17 and 2017/18 at £5.463m and £5.391m respectively. Further indicative allocations have been announced for the 3 years 2018/19 to 2020/21 for £5.169m pa; the announced allocations are lower than previous years of £5.682m in 2015/16 and £7.479m in 2014/15.
- 3.13 Funding for the Highways Maintenance grant which forms an element of the government transport funding has been reduced nationally and diverted toward a new Local Highways Maintenance Challenge Fund. Local authorities will be able to bid from this fund for major maintenance projects that are sometimes difficult to fund through the normal needs element allocations they receive. The Council has already been successful in obtaining £8.915m of funding from the Local Highways Maintenance fund for the West Street Shelter Hall structure. A detailed Local Transport Plan report will be presented to Policy and Resources Committee in March whilst the LTP4 Delivery Plan report will also be presented in due course.
- 3.14 Workstyles Phase 3 was approved at a Special Policy & Resources Committee on 12 September 2013 and includes £16.0m of investment within the Capital Investment Programme to be delivered by 2016/17. The project will enable the modernisation of the council's workplace and deliver essential investment in the council's property and ICT infrastructure as well as providing ongoing revenue

budget savings. The Hove Town Hall south end option approved at Committee on 10 July 2014 includes investment £2.638m to be funded through borrowing and generating rental income streams to support the revenue budget. The investment will provide commercial space and office space for public, voluntary and community sectors such as the Brighton & Hove Clinical Commissioning Group and the Citizens Advice Bureau.

- 3.15 The Capital Investment Programme includes potential capital pressures for investment in seafront highways infrastructure and seafront colonnade works which could require in the region of £100m investment over a number of years. This was detailed in the Response to Seafront Infrastructure Scrutiny Panel Recommendations report to Policy & Resources on 22 January 2015. The LTP may make contributions toward this investment requirement and the successful bid relating to the West Street Shelter Hall incorporating LTP resources addresses an element of this pressure. Other funding sources are being considered including the additional income generated from the financing of the i360 development. To date this source has been allocated to fund landscaping works around the i360 site.
- 3.16 The council has developed ways of providing major capital investment in the city by working in partnership with the private sector and public bodies for example the Heritage Lottery Fund (HLF), Arts Council England (ACE) and the Coast to Capital Local Enterprise Partnership (C2C LEP) whereby most of the capital investment is undertaken and accounted for by the private sector. Recent bids include ACE Stage 2 and Heritage Lottery Fund (HLF) Round 1 funding totalling £10.1m towards the £18.5m Phased 1 capital works for the Royal Pavilion Estates Regeneration project. Work will continue to secure funding for Phase 1 through external fundraising and match funding from the Council and Brighton Dome & Festival Ltd. Further bids to HLF will be prepared and submitted for subsequent phases of the works which will amount to circa £40m of investment for all phases.
- 3.17 Funding has also been secured as part of the Greater Brighton City Deal to develop New England House into a Growth Hub. Grant of £4.9m has been awarded to the Council toward funding the development. A development grant from the HLF of £4.0m Parks for People grant has also been identified to develop detailed plans to support the Stanmer Estate Restoration Project bid. An updated report on the funding options is included elsewhere on this committee agenda. The i360 Project has commenced and was agreed at a Special Policy & Resources Committee in March 2014. The project uses a combination of Council borrowing, C2C LEP funding and private equity investment and will provide a new net income stream to the Council. A list of further major projects under construction or yet to commence is shown in Appendix 2.

Corporate Funds

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

TABLE 1: Corporate Funds	2016/17 £ million	2017/18 £ million	2018/19 £ million	2019/20 to 2025/26 £ million pa
Strategic Investment Fund (SIF)	0.250	0.250	0.250	0.250
Asset Management Fund (AMF)	1.000	1.000	1.000	1.000
Customer First in a Digital Age (CDFA) / ICT Fund	2.000	2.000	2.000	0.500

Strategic Investment Fund

- 3.19 It is proposed to allocate £0.250m to the Strategic Investment Fund (SIF) in 2016/17. 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. Use of this fund will be reported at a later date to Policy & Resources Committee.

ICT Fund – Customer First in a Digital Age

- 3.20 This committee approved the Customer First in a Digital Age programme on the 15th October 2015 which included the allocation of £2.0m per annum over the next 3 years to support the programme. The CDFA will enable the delivery of council wide revenue savings, improve customers experience and citizen's trust, help manage demand for services and develop new capabilities to make the Council fit for the future.

Asset Management Fund

- 3.21 It is proposed to allocate £1.0m resources per annum to the Asset Management Fund (AMF). The AMF includes expenditure on a range of properties covering, fire safety, health & safety, Equalities Act 2010 responsibilities and general improvements. The AMF will make a final contribution of £0.7m towards the Workstyles Phase 3 strategy in 2016/17 which was detailed in a report to Special Policy & Resources Committee on 12 September 2013. Bids to the remaining balance of the fund are currently being finalised and proposals for allocations of resources to schemes will be subject to a further report to this Committee.

Supporting the 4 year service and financial plans

- 3.22 The General Fund Revenue Budget and Council Tax report elsewhere on this agenda identifies significant investment requirements to support achievement of over £60m savings identified in the 4 year service and financial plans, and, as mentioned in paragraph 3.7, capital resources are identified in supporting this investment in 2016/17. The capital investment programme includes allocations in 2017/18 to 2019/20 to fund all remaining investment requirements from capital receipts subject to the capital receipts being realised as planned . These investment requirements will be reviewed and confirmed each year to ensure the levels are appropriate

- 3.23 In the Provisional Settlement, the Government outlined flexibility for the use of capital receipts enabling councils to use asset sales to help pay for upfront revenue investment in service transformation where this supports revenue savings. The planned use of capital receipts in 2016/17 to support transformation does not however require use of this flexibility as it can be applied to capital expenditure. In order to use this flexibility in future years, an 'Efficiency Strategy' will need to be approved by Council in advance of the financial year although full details on the process for this flexibility have yet to be confirmed by the government.

Capital Resources

- 3.24 A fully financed Capital Investment Programme is proposed for 2016/17 assuming that existing approved capital projects spend in-line with their budget and certain net usable receipts of just under £11.6m in total are achieved next year. Table 2 below shows how the programme will be financed in 2016/17. The position for the years 2017/18 onwards is less clear until future Government allocations are confirmed. All Government support is now allocated through capital grants and all grants are unringfenced with the exception of Devolved Schools Capital Grant which must be allocated to schools.

TABLE 2: Capital Resources	2016/17 £ million
Capital Grants:	
- Capital grant announcements in previous years and profiled for spend in 2016/17	13.194
- New capital grants	42.823
Total Government Support	56.017
Capital Receipts Reserve	14.812
Capital Reserves	1.425
Specific Reserves	1.293
External Contributions	7.789
Direct Revenue Funding – Housing Revenue Account	23.655
Direct Revenue Funding – Service Departments	1.573
Council Borrowing	35.856
Total Capital Resources	142.420

Capital Grants

- 3.25 The Government distributes capital grants towards the financing of certain capital expenditure. In 2016/17, it is anticipated that the council will receive new capital grants of £42.823m as summarised in table 3 below, and £13.194m from grants already announced where the spending of these grants is now profiled in 2016/17.

3.26 It is possible that other capital grants may be received during the year and these will be reported through TBM budget monitoring reports to Policy & Resources Committee as and when they are announced.

3.27 The new capital grants are in three main areas.

- Education Basic Need funding of £12.641m is included for new pupil places;
- Education funding of £4.909m for investment in the maintenance of educational buildings and children’s centres in the city;
- Transport funding of £5.463m to include the transport related schemes and highways maintenance.

TABLE 3: New Grants announced for 2016/17	£ million
Education Basic Need	12.641
Education Capital Maintenance	4.909
Schools Devolved Capital	0.536
Transport and Maintenance (LTP)	5.463
Highways Maintenance Fund – Shelter Hall	3.507
Local Growth Fund – Transport schemes & Preston Barracks Central Research Laboratory	6.027
Better Care Funding	1.595
Arts Council – Royal Pavilion	3.050
Heritage Lottery Fund – Royal Pavilion & Volks Railway	3.216
Clean Bus Transport	0.499
HCA Empty Homes Grant	1.380
Total	42.823

3.28 The grant funding is provided to the council as a “Single Capital Pot” and, with the exception of Schools Devolved Capital, can be reprioritised as the council sees fit. It is proposed that all capital grants will be allocated in full to the relevant service.

3.29 The proposed new Local Transport Plan (LTP) programme for 2016/17 of £5.463m represents a decrease of 4% over 2015/16 which was allocated at £5.682m. The LTP is made up of Integrated Transport funding and Highways Maintenance funding from the government. The allocations for Highways Maintenance were reduced nationally from 2015/16 with funding allocated to a separate Local Highways Maintenance Challenge Fund and authorities able to bid to this fund for major maintenance projects. The LTP grant will be fully allocated to the service for 2016/17, less a repayment of £1.189m to reserves for forward funding to the LTP 2015/16 programme. The funding will be prioritised to

invest in street lighting as well as maintain roads and pavements alongside other sustainable transport initiatives such as match funding toward Valley Gardens, West Street Shelter hall and Local Growth Fund projects. A separate detailed report will be presented to Policy & Resources in March.

Capital Receipts

- 3.30 The funding of the 2016/17 capital programme is dependent upon the achievement of £11.6m capital receipts for investment into the General Fund during the year. This includes receipts associated with the disposal of surplus buildings identified under the Workstyles project which are required for investment into this project and receipts ringfenced for reinvestment into the Stanmer regeneration project. Progress will be closely monitored throughout the year for all receipts and reported through the regular TBM reports. Beyond 2016/17 the generation of the large capital receipt from Kings House (Workstyles Phase 3) is included in the forecast. In future years receipts associated with the Brighton Waterfront and Preston Barracks will be required to be ringfenced back into the Waterfront scheme and corporate regeneration projects. Failure to achieve some of these receipts will require the capital allocations for future years to be reviewed.
- 3.31 The net receipts from 'right to buy' sales are split between funding for corporate strategic projects delivering regeneration including affordable housing opportunities, and investment directly in housing. The forecast receipts for Brighton & Hove City Council are set at an assumed level of £0.495m per annum. Any surplus above £0.495m will be set aside to reinvest in replacement homes.

Capital Reserves

- 3.32 The level of reserves relates purely to unspent resources carried forward from previous years which have 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

- 3.33 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 refurbishment and maintenance of properties managed by the Brighton and Hove Seaside Community Homes with the costs being met as per the housing agreement. A contribution from the Waste PFI is also being used to support the household waste scheme.

External Contributions

- 3.34 The council will receive new external contributions totalling £7.789m in 2016/17 associated with section 106 contributions and private developers contributions.

Direct Revenue Funding

- 3.35 The General Fund and Housing Revenue Account budget reports elsewhere on the agenda include direct revenue funding of £25.228m. A summary of the allocations by service is shown in the table below.

TABLE 4: Direct Revenue Funding	£ million
Property & Design – planned maintenance	0.638
Structural maintenance for schools	0.900
Stanmer park restoration Project	0.035
Total General Fund Services	1.573
Housing Revenue Account	23.655
Grand Total	25.228

Council Borrowing under the Prudential Code

- 3.36 Council borrowing under the Prudential Code can be undertaken only when it can be demonstrated that it is affordable, for example where the investment leads to greater efficiency in future service provision and generates revenue savings or reductions in budgeted spend. For 2016/17 it is proposed that the Council will undertake borrowing of £35.856m to finance capital expenditure plans as detailed appendix 3.

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 25 February 2016. 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 Thursday 18 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 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: 02/02/2016

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: Elizabeth Culbert

Date: 03/02/2016

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 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.

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 5 of the General Fund Revenue Budget and Council Tax report elsewhere on the agenda highlights some of the general risks to the Capital Investment Programme.

SUPPORTING DOCUMENTATION

Appendices:

1. Capital Investment Programme 2016/17 to 2025/26
2. Other Capital Investment
3. Council Capital Borrowing 2016/17

Documents in Members' Rooms

1. None

Background Documents

1. Letter from the Department for Transport dated 11 December 2014.
2. Notifications from the Department for Education dated 9 February 2015.
3. Various files, budgets and accounting files held within the Corporate Finances & Resources Team, Financial Services.