

## Capital Strategy 2019/20 to 2023/24

### 1. Background

- 1.1. CIPFA's Prudential Code for Capital Finance in Local Authorities and MHCLG's Investment Guidance were both revised in 2017/18, requiring all local authorities to prepare an additional report, a capital strategy report, which should demonstrate that the authority:
  - takes capital expenditure and investment decisions in line with service objectives;
  - takes account of stewardship, value for money, prudence and affordability;
  - sets out the long term context in which capital expenditure and investment decisions are made;
  - gives due consideration to both risk and reward and the impact on the achievement of priority outcomes.
- 1.2. The aim of the Capital Strategy is to ensure that all members on the full Council understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.
- 1.3. This Capital Strategy is reported separately from the Treasury Management Strategy Statement; this ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an assets.
- 1.4. CIPFA have updated the definition of investments within the Treasury Management Code to now include "non-treasury", or commercial investments. These non-treasury investments are held primarily for financial returns, such as investment property portfolios. This strategy covers any non-treasury investments that the organisation holds or is planning to invest in. Treasury (or "financial") investments and associated risks are covered under the council's Annual Investment Strategy, which forms part of Appendix 3 to this report.
- 1.5. Under the Prudential Code and Treasury Management Code, the council is required to set parameters around the council's borrowing and treasury activity, including an authorised borrowing limit for each year which cannot be breached. These parameters are set out in the prudential indicators within Annex D, Appendix 3 to this report. These indicators ensure that any borrowing undertaken is prudent, affordable and sustainable.
- 1.6. Additionally, when funding capital expenditure through borrowing, the council is required to set aside a sum from revenue each year to repay the debt, known as the Minimum Revenue Provision (MRP). The policy for making the annual MRP should be prepared in line with the MRP guidance published by MHCLG. The council's MRP policy for 2019/20 is consistent with the guidance and included in Appendix 3 (section 3) for approval.

### 2. Governance & Risk Frameworks

- 2.1. The council's Financial Regulations set out the framework of control, responsibility and accountability for the proper administration of the council's financial affairs. Under the Financial Regulations, the Executive Director of Finance & Resources is responsible for ensuring a capital programme is prepared and considered by Policy, Resources & Growth Committee (PRG) and approved by full Council annually.

- 2.2. Further to this, the council's Standard Financial Procedures define the key controls around the management of the council's financial affairs, including the capital programme. The key controls for the capital programme are:
- Specific approval by Full Council for the programme of capital expenditure, in conjunction with the annual revenue budget process, outlining the phasing of expenditure and the sources of funding;
  - A scheme and estimate, including options appraisal, project plan, progress targets and associated revenue expenditure are prepared for each capital project;
  - No capital scheme to proceed unless necessary approvals have been obtained;
  - Proposals for improvements and alterations to buildings must be approved by the appropriate Chief Officer in consultation with the Assistant Director, Property & Design;
  - Major rolling programmes of capital expenditure will require a detailed report to be submitted to Policy, Resources & Growth Committee covering all the schemes within each programme of works. This will include, but not be limited to, the programmes for the housing stock, Education, Asset Management Fund, Corporate Planned Maintenance, ICT Investment Funds, Strategic Investment Funds and the Local Transport Plan. These may be reported separately or as part of a Targeted Budget Management report;
  - The development and implementation of an Asset Management Plan;
  - A nominated, accountable budget holder for each scheme and/or component of the programme;
  - Monitoring of progress on capital schemes and comparison with approved budget and remedial action taken to address overspends, reporting monthly to Chief Officers and at least quarterly to the Policy, Resources & Growth Committee;
  - Compliance with the Council's Corporate Procurement Strategy and Contract Standing Orders.
- 2.3. From June 2016 a Corporate Risk and Assurance Framework (CRAF) has provided a structured approach to help Members and senior managers discharge their responsibility for the management of key risks with potential to affect achievement of the council's priorities and expected outcomes. The CRAF requires the council to be active and have arrangements in place through its senior officers for robust arrangements for managing its business. Specifically the CRAF is designed to:
- help the council avoid costly mistakes, better protect our reputation and contribute to keeping the council safe;
  - set out for stakeholders, including members, how the council complies with best practice (the International Standard for Corporate Governance) and, as such, the CRAF forms an appendix within the council's statutory Annual Governance Statement.
- 2.6 **Management of Risk**
- 2.4. The council provides a number of critical services and its core purpose is to meet its statutory duties for the benefit of the citizens of Brighton & Hove. The council's key priority is to protect the delivery of these services. Therefore the council needs to take a measured approach to balancing the risks of any capital investment

decisions with the resources available for delivering key services against the benefits accruing from the investment.

2.5. The CRAF is managed by:

- (i) assigning accountability to key officers to enable review and challenge processes and assurances;
- (ii) using a “three lines of defence” model to map out how we gain assurance over our activities, processes and risks. An example is given below on using the three lines of defence to structure and categorise assurances for procurement.

An organisation might identify procurement and contract management as a key risk. The assurance map would then set out the sources of assurance that enable senior management and members to satisfy themselves that this risk is being managed. Under the three lines of defence, these assurances are categorised as follows:

**First line:** controls and processes followed by service managers who own and manage risks. In this case, these would be the controls and processes followed by contract managers who are responsible for procuring contracts and for contract management.

**Second line:** controls and processes operated by managers responsible for overseeing risks. These typically monitor the first line of defence operated by managers and in this case might include risk management and procurement compliance functions.

**Third line:** functions providing independent assurance. This is a key role for Internal Audit and is sometimes considered to include external inspectorates.

- (iii) monitoring and tracking delivery of the assurances throughout the year to help strengthen the risk management and control environment through the Risk Reporting Timetable (RRT). The RRT schedules reviews of risk at Directorate Management Teams, who prepare reports that are progressed and escalated and which ultimately results in quarterly update reports being presented to Audit & Standards Committee regarding changes to the Strategic Risk Register. The Committee also focus on up to four Strategic Risks where Risk Owners (officer members of the ELT) attend to answer Members’ questions on whether the right type of assurance activity is being targeted at the right area or risks and whether this is efficient.

2.6. Risks specific to the delivery of the capital programme and Capital Strategy are managed by a range of processes and groups:

- Financial risks (e.g. overspending , slippage and re-profiling) are managed through the council’s Targeted Budget Management (TBM) process which is reported at least quarterly to PR&G committee.
- The progress of major infrastructure projects is monitored through the officer led Strategic Investment Board and the member led Strategic Delivery Board.
- Any significant changes to the direction or financial or legal risks of any major scheme are reported back to PR&G committee.

### 3. Capital Strategy

3.1. Capital resources are available to the council for investment in assets. They play an important role in helping to achieve the council's Corporate Plan priorities. This section sets out the strategy and plans for capital expenditure. The council's Capital Strategy outlines the process for the prioritisation and evaluation of capital investment projects. A summary of these priorities is detailed as follows and aims to:

- seek to protect as far as possible capital grant funding for education, housing transport and the public realm investment;
- pool all remaining non ring-fenced capital resources and allocate these to priority areas for investment;
- allocate approximately £0.250m per annum to 'major projects' investment through a Strategic Investment Fund. These projects support the economy through regeneration of key sites;
- allocate £0.500m per annum towards the Information Technology & Digital Fund to address the funding of central network support and improvements to the IT&D infrastructure identified in the IT&D Investment Strategy;
- allocate £1.000m per annum to the Asset Management Fund to support essential property improvements;
- allocate £1.000m per annum through borrowing to support investment in planned maintenance in Operational and Social Care buildings;
- generate capital receipts from the disposal of surplus or under-performing assets and to deploy the proceeds from the sale of capital assets:
  - for reinvestment in the capital investment programme, or;
  - for modernisation of council services including using the government's capitalisation direction that allows revenue costs to be capitalised and funded from capital receipts where this generates efficiencies, or;
  - for repayment of debt or for investment, for example, to offset any loss of rental income in the revenue budget, or;
  - for reinvestment from under-performing assets back into more commercially viable assets as part of the rationalisation of the commercial property portfolio.
- divide the net receipts from 'right to buy' sales of council housing between funding for corporate strategic priorities delivering regeneration, including affordable housing opportunities, and investment directly in housing. The Right to Buy Regulations mean the maximum that the council can currently retain for corporate investment will be £0.500m per annum;
- use unsupported borrowing for:
  - service improvements where a business case has been developed and approved, and can demonstrate that the investment will provide value for money and that the additional financing costs are reflected in the revenue budget;
  - purchase of vehicle and plant where an options appraisal demonstrates borrowing provides the best value for money and the financing costs are reflected in the revenue budget;
  - corporate priorities agreed at Policy Resources & Growth Committee where the financial impact of any decision is treated as a commitment in future years' budgets and is affordable;

- to restructure the funding of the approved capital programme when this provides a more efficient use of capital and revenue resources.
  - explore all funding options including partnerships and one-off bidding processes. The council can bid for capital investment through funding streams such as the Heritage Lottery Fund, Arts Council and the Coast to Capital LEP. Other Government initiatives that may be considered include the Future High Street Fund, Highways Maintenance Challenge Fund and the Housing Infrastructure Fund. The council can use its land to facilitate private sector or partnership based investments.
- 3.2. The financial resources used to fund the 2019/20 capital expenditure programme of £163.650m are included at Annex A and the 5 year capital projections are incorporated in the Budget Book at Appendix 1.

### ***Housing Revenue Account (HRA)***

- 3.3. The HRA Capital Strategy focuses on meeting Corporate Plan and Housing Strategy priorities. The 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. Two of the main priorities for the HRA are improving housing supply and investing in homes and neighbourhoods to provide safe and good quality housing.
- 3.4. In October 2018, the Minister for Housing, Communities & Local Government issued a determination – The Limits on Indebtedness (Revocation) Determination 2018. This came into force on 29 October 2018 and removes the restrictions on borrowing for the HRA. The removal of the ‘debt cap’ will enable the potential for substantial growth in the number of homes that can be built or purchased within the HRA and continued investment in the existing housing stock. However, the HRA remains subject to the Prudential Framework and as such all new HRA borrowing decisions will need to be affordable, prudent and sustainable and therefore will be subject to business cases and viability tests.
- 3.5. Since 2012 the HRA has operated on ‘self-financing’ principles and the capital programme is funded from a variety of HRA sources including revenue surpluses (rental incomes), borrowing, capital receipts, reserves and other grants. These resources are part of the HRA ring-fenced account to be spent on council owned stock. Further detail on the priorities and proposed investments can be found in the Housing Revenue Account Budget and Capital Investment Programme 2019/20 and Medium Term Financial Strategy report.

## **4. Capital Investment Plans 2019/20 to 2023/24**

- 4.1. All capital expenditure plans are approved in accordance with the council’s Standard Financial Procedures by full Council with detailed proposals and any changes approved by PR&G committee through regular Targeted Budget Management (TBM) reports.
- 4.2. The capital investment plans for 2019/20 to 2023/24 are included within the Budget Book at Appendix 1 and a summary of the investment plans is provided in section 5 of the main report.

## **5. Approach to Commercial Investments**

- 5.1. The council’s primary non-treasury (or commercial) investments relate to its commercial property portfolio, details of which are covered in Section 6. The council

will explore other opportunities to increase revenue to support core council services, or enable developments that support the delivery of council priorities.

- 5.2. The council uses its property assets, both operational and investment, to enable a number of major infrastructure projects to deliver key assets for the city such as Jubilee Library, the King Alfred Leisure Centre and the Waterfront project to replace the Brighton Centre; or to support regeneration and in turn increase council tax and business rates receipts such as Circus St, Preston Barracks and New England House.
- 5.3. In addition, the council is able to provide third party loans and financial guarantees in order to enable external projects which support the council's priorities and objectives. The current portfolio and risks of these types of arrangements are outlined in sections 7 and 8.
- 5.4. All commercial investment opportunities are subject to a due diligence process, including business case appraisal, risk assessment and sensitivity analysis and assessment of legality including state aid compliance.
- 5.5. All proposals are approved by PR&G Committee and the delivery of major schemes are overseen by both the member-led Strategic Delivery Board and the officer-led Strategic Investment Board.
- 5.6. The council's approach to fees and charges includes a commercial view where there is a competitive market and encourages managers to explore new income streams to enable the council to become more self-sufficient.

### **6. Investment Property Portfolio**

- 6.1. The council has a portfolio of commercial property assets valued at £279.9m generating an annual income of £11.3m which is therefore an important income source supporting council services. The council maintains a Corporate Property Strategy and Asset Management Plan which links the council's property holdings to its corporate priorities and strategic goals. The key aims outlined in these documents are to maximise income whilst supporting improved service delivery. Its corporate property objectives include "*to optimise the value received from non-operational urban and agricultural commercial portfolios*". One of the strategies to achieve this objective is the re-balance of the urban portfolio through a programme of disposals for under-performing assets and investment in primary assets generating a healthy income to support service delivery.
- 6.2. The council's urban commercial portfolio has performed well in recent years, with low levels of voids, arrears and bad debt. However, the strong performance of the portfolio belies the inherent risks within it, which include:
  - An unbalanced portfolio with an over-reliance on one market sector;
  - An over-reliance on retail, which is experiencing significant change and a downturn in performance due to external factors;
  - A high level of tertiary properties with low covenant tenants who are at higher risk of failure;
  - An older and aging portfolio with high levels of obsolescence and repair requirements as well as investment needs to meet statutory compliance;
  - A high level of secondary and tertiary properties with limited prospect of rental growth.

- 6.3. There would be an inevitable increase in voids and bad debt, low income growth and even a potential decline in income in some areas as well as an increased capital investment requirement from the council if the portfolio were not rebalanced. Such an outcome is perhaps exemplified by 23 Meeting House Lane, a secondary retail property that was ‘over-rented’: the tenant defaulted and vacated closing the business and leaving the council with a vacant property, rent arrears, significant structural repair liabilities and no possibility of recovering a dilapidation settlement. The capital investment required to the property would require a letting to be granted with a 5 year rent free period and therefore PR&G committee approved disposal with the significant structural defects completed in advance of disposal to ensure success, with the costs deducted from the future capital receipt.
- 6.4. The table below shows the current composition of the commercial property portfolio according to both property value and income. The table demonstrates that the retail sector (including Primary, Secondary, Tertiary and Neighbourhood Shops) comprises of over 46% of the income stream from commercial property.

Portfolio		Income £'000	Income as a % of total income	Property Value £'000	Value as % of total Value	Average Yield of portfolio
Agricultural	All	820	7.52%	52,528	26.01%	1.56%
Seafront	Commercial property & concessions	1,757	16.10%	21,930	10.86%	9.04%
	Beach chalets	87	0.80%			
	Beach huts	138	1.26%			
Commercial property managed by GVA	Prime Shops	2,635	24.15%	42,793	21.19%	6.16%
	Secondary Shops	1,552	14.23%	24,896	12.33%	6.24%
	Tertiary Shops	624	5.72%	7,531	3.73%	8.29%
	Neighbourhood Shops	268	2.45%	3,933	1.95%	6.81%
	Offices	757	6.93%	12,471	6.17%	6.07%
	Industrial	730	6.69%	13,822	6.84%	5.28%
	Leisure	321	2.94%	9,350	4.63%	3.43%
	Miscellaneous	188	1.73%	2,583	1.28%	7.29%
	Mixed Use (St James Mansions)	44	0.40%	943	0.47%	4.63%
	Residential	18	0.16%	563	0.28%	3.12%
	New England House	942	8.63%	8,253	4.09%	11.41%
	Car Parking/Garages	31	0.28%	392	0.19%	7.81%
<b>Total</b>		<b>10,912</b>	<b>100%</b>	<b>201,988</b>	<b>100%</b>	<b>5.40%</b>

*Note – the table excludes a number of sites managed “in-house” such as community centres, car parks and legacy sites belonging to the council. The total value of the “in-house” part of the portfolio is £77.9m, providing £0.4m of rental income.*

- 6.5. The council's Corporate Property Strategy and Asset Management Plan is being reviewed and redrafted for presentation to Members for consideration and ratification. In addition it is proposed an Investment Strategy be presented to Members recommending the adoption of a more detailed strategy and a framework within which the non-operational urban commercial portfolio can be rebalanced. The

rebalancing of the portfolio will ensure a more secure income stream, improved prospects for rental growth and reduced risk of capital expenditure by the council.

- 6.6. In advance of the adoption of an Investment Strategy, opportunities for asset purchases and disposals which seek to compliment the portfolio and mitigate risk are identified on a case-by-case basis. The council holds contracts with GVA to manage its urban portfolio and Savills to manage its agricultural portfolio. A key provision within these contracts is for the providers to work with the in-house property team to identify appropriate assets for ad-hoc purchase and disposal.
- 6.7. Any opportunities explored that result in an expected asset disposal or purchase are presented and approved by Policy, Resources & Growth Committee in accordance with the council's Scheme of Delegation, and executed in accordance with the council's Financial Regulations.

### **7. Loans to External Bodies**

- 7.1. The council has the ability to provide capital loans to external bodies and organisations for the purpose of supporting activities undertaken that are aligned to the council's Local Plan and/or service objectives. For example, a loan may be given to support a project which generates economic growth in Brighton and Hove.

#### ***Governance***

- 7.2. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 direct that a loan to an external organisation to fund any expenditure that would be treated as capital expenditure if it were incurred by the local authority must be treated as capital. As a result, all loans to external parties are subject to the governance requirements of all capital expenditure incurred by the council, as described in section 2.
- 7.3. Any loan to external organisations must be compliant with rules regarding the provision of State Aid. Advice from legal and finance officers is sought in each instance to ensure loans are state aid compliant.

#### ***Decision making & procedure***

- 7.4. Loans to external organisations are undertaken on a case-by-case basis and are subject to a thorough due diligence process to ensure:
  - the business plan receives adequate scrutiny by both finance and service officers in order to evaluate the level of risk;
  - the loan is state aid compliant;
  - the recipient of the loan can afford the repayments.
- 7.5. As all external loans are classed as capital expenditure, PR&G committee is ultimately responsible for agreeing the loan as part of the capital programme and will receive a report outlining the relative risks, benefits and financial and legal implications in each instance.
- 7.6. The council has an obligation to review all outstanding loans to external bodies as under accounting requirements. The council needs to review the risk of non-repayment of all outstanding debt, and make a provision for impairment where there is a probability that part or all of a loan will be irrecoverable.
- 7.7. No overall parameters have been set on total loan value provided to external bodies, and are assessed and agreed on a case-by-case basis.

**Current portfolio**

- 7.8. The council has the following loans to external bodies outstanding as at 31 December 2018:

Organisation	Loan Value at 31 Dec 2018	Purpose of loan & link to council priorities / service objectives	Meeting at which loan approved
The i360 Company	£37,044,651	To build the i360 observation tower, unlocking economic regeneration on the seafront and increasing business rate income.	(1) Special Policy & Resources Committee, 6 March 2014. (2) Special PR&G Committee, 28 June 2018. (3) PR&G Committee, 6 December 2018.
East Sussex Credit Union	£250,000	To increase the reserves base for the organisation to increase affordable lending to local people and businesses, and to increase the provision of crisis loans to Brighton and Hove residents.	PR&G Committee, 21 January 2016.
Saltdean Lido	£220,000	To support the bid for Heritage Lottery Funding for the renovation of the Saltdean Lido (a listed asset owned by the council).	PR&G Committee, 30 November 2017.

- 7.9. The loan to the i360 company represents substantial risk as reported to PR&G committee in December 2018. The current performance of the i360 is insufficient to make full loan repayments in accordance with the agreement. The committee agreed to defer part of the payments whilst officers work with the i360 to develop a sustainable medium term business plan that ensures the council will be able to recover its loan. This is likely to include a debt restructuring proposal. Officers will be reporting progress back to PR&G committee in June 2019.
- 7.10. The Saltdean Lido CIC has successfully secured a bid for Heritage Lottery Fund (HLF) grant for the restoration of the building. The terms of the HLF funding requires Saltdean Lido to secure match funding for the grant to be agreed and released. Failure to secure match funding may result in the loan from the council being irrecoverable.
- 7.11. In addition to those loans listed in the table at paragraph 7.8, a loan to the Brighton & Hove Estates Conservation Trust of £160,000 is proposed subject to approval by PR&G committee within the TBM month 9 report. This loan is for refurbishment of properties at Stanmer Park to ensure future rental income is sustainable.

**8. Financial and other Guarantees**

- 8.1. The council has provided guarantees against the underlying performance of the following arrangements:

- **Brighton & Hove Seaside Community Homes (BHSC)**

The council has provided a rent guarantee to underwrite the rental income where Local Housing Allowances do not keep pace with inflation. The amount provided to 31 March 2018 under this rent guarantee was £1.4m. The contract stipulates that the rent guarantee will be returned to the council when BHSCH achieves a level of surpluses as defined by the contract and business plan. £0.5m has been received to reduce this debtor down during 2018/19.

- ***Royal Pavilion Estate redevelopment phase 1***

Grant funding bids for the scheme included a target for fundraising to match-fund any grant received. To allow the scheme to progress, the council has underwritten the fundraising target which has allowed the release of grant. The total fundraising target was originally £5.5m. The latest projection of fundraising is £3.0m. At its meeting in December 2018, PR&G committee agreed to earmark £3.0m to cover both this risk and cost over-runs on the project. The council may have to set further funds aside should the revised fundraising target not be met.

### 9. Other schemes

The primary objectives of the following schemes is not for financial return purposes, but to support meeting the council's strategic priorities for the city. However, each project is expected to create net revenue income for the council and have therefore been included for completeness.

The King Alfred development project has not been included as the council's investment is to secure a replacement leisure centre, owned by the council. This is part of the council's core services.

#### ***Housing Joint Venture***

- 9.1. The council has entered into a living wage joint venture with Hyde Housing Association for the delivery of 1000 affordable homes for the city. The business plan and legal arrangements were agreed by PR&G committee at its meeting of 12 October 2017, and included a projected investment by the council of £59.7m net of receipts from shared ownership sales.
- 9.2. Each tranche of development under the joint venture is required to undergo a due diligence procedure which includes an individual viability test provided by suitably qualified consultants, and scrutiny by an independent project monitor who reports to the joint venture board on the financial robustness and deliverability of each proposal.
- 9.3. The risks inherent within this joint venture are cost overruns, rent levels below expectations and the value and number of shared ownership homes being lower than expected. These risks are all considered within the due diligence process.

#### ***New England House refurbishment & redevelopment***

- 9.4. The council has ambitious plans to increase the amount of business space and refurbish New England House, an asset wholly owned by the council within the commercial property portfolio. The primary purpose of the project is to protect and grow business space in the city centre.
- 9.5. The project has secured grant funding of £4.9m and is anticipating funding through the sale of an adjacent site. These resources will need to be supplemented to cover

the full cost of development and it is anticipated that increased rental income will support this. The proposal is currently under development, and a business plan will be presented to PR&G committee in due course. This report will include the risks and benefits of the project.

### ***Brighton Waterfront project***

- 9.6. The council is in partnership with Aberdeen Standard Investments (ASI) to deliver a replacement Brighton Centre arena on the black rock site and regeneration and expansion of the Churchill Square shopping centre. The high level business plan relies on increased revenue from business rates and lease payments from a venue operator to cover the financing costs of the capital investment in the new arena.
- 9.7. The legal agreement with ASI is due to be signed imminently; every stage of the development of the project includes due diligence to ensure the project is viable for both parties.

## **10. Proportionality & Summary of Risk Exposure**

- 10.1. Often, commercial/non-treasury investments are entered into on a case-by-case basis approved individually. The Capital Strategy provides an opportunity to demonstrate the totality and proportionality of the council's non-financial investments in one place. The table below shows the annual elements that represent financial risk from current non-financial investments as a proportion of the General Fund's net revenue budget.

<b>Commercial/Non-Treasury Investments</b>	<b>£m</b>	<b>% of General Fund</b>
PWLB repayment amount relating to the i360	£1.844m	0.91%
Income from commercial properties	£11.304m	5.55%
<b>Total financial risk</b>	<b>£13.148m</b>	<b>6.46%</b>
<b><i>Net Revenue Budget</i></b>	<b><i>£203.583m</i></b>	<b><i>100%</i></b>

- 10.2. The council's underlying need to borrow is portrayed by its Capital Financing Requirement (CFR). The CFR increases each year by capital expenditure that is not funded by new or existing resources (i.e. results in borrowing). The CFR reduces each year by the MRP set aside to repay borrowing as described in paragraph 1.6.
- 10.3. Any commercial investments funded by borrowing will increase the council's CFR. The table below demonstrates the proportion of the General Fund CFR (excluding PFI liabilities) outstanding at 31 March 18 (and forecast to be outstanding at 31 March 2019) that relates to commercial investments. That is, this represents the outstanding debt relating to the council's commercial activity where MRP has not yet been applied.

	<b>As at 31/03/18</b>	<b>Forecast to 31/03/19</b>
General Assets CFR	80%	78%
i360	20%	19%
Phoenix House	0%	2%
B&H Estate Conservation trust	0%	0%
<b>Total General Fund CFR</b>	<b>100%</b>	<b>100%</b>

**11. Knowledge & Skills**

- 11.1. The council's Section 151 Officer has delegated responsibility for the council's treasury and capital activities. This requires the post holder to be a qualified accountant. The Section 151 Officer is a CIPFA qualified accountant who follows an ongoing programme of continuous professional development (CPD).
- 11.2. The council's treasury & capital strategies are produced and maintained by a team of officers who are professionally qualified accountants and who have extensive local authority experience. The council has a contract with Link Asset Services for the provision of specialist advice regarding its treasury investment and borrowing activity and for technical advice. Officers involved in treasury management ensure their knowledge is updated through Continuous Professional Development (CPD).
- 11.3. All of the council's commercial projects have project teams made up of officers from relevant professional disciplines from across the council. These project teams access external specialist advice regarding commercial projects where required.
- 11.4. The council's investment property portfolios are managed by Savills (agricultural) and GVA (Commercial), two of the UK's leading property companies. They administer their contracts for Estates Management Services through the provision of a dedicated team of chartered surveyors who have extensive property knowledge and expertise as well as experience of acting for local authority clients. Each local team is supported by a range of "head office" specialist services within their own organisation, including market experts, planning consultants, H&S/FM services, accountancy, agency and so on, ensuring the council has access to a wide range of services to meet all of our property requirements.
- 11.5. Training is available for members who are responsible for decision making and scrutiny of treasury decisions to ensure their skills and knowledge are kept up to date for their involvement in this area.

**12. S151 Officer Assurance Statement**

- 12.1. This Capital Strategy is compiled in line with the requirements of the 2018 CIPFA Prudential Code and the 2018 Treasury Management Code.
- 12.2. The Section 151 Officer - in this council the Executive Director of Finance & Resources – has reviewed the strategy against best practice advice from CIPFA and expert advisers and considers the strategy to be prudential, sustainable and affordable within the risk framework of the council and has ensured that it is fully integrated with the council's Medium Term Financial Strategy, Treasury Management Strategy Statement and Capital Strategy.

**List of Annexes:**

Annex A – Capital Resources 2019/20

Annex B - List of current non-treasury investments

Annex C - List of planned non-treasury investments

## Capital Resources 2019/20

A fully financed Capital Investment Programme is proposed for 2019/20 assuming that existing approved capital projects spend in-line with approved budgets and certain net usable receipts of £4.3m in total are achieved. Table 1 below shows how the programme can be financed in 2019/20. The position for the years 2020/21 onward is less certain until future Government allocations are confirmed. All Government support is 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>2019/20 £ million</b>
Capital Grants:	
- Capital grant announcements in previous years and profiled for spend in 2019/20	49.230
- New capital grants	12.349
<b>Total Government Support</b>	<b>61.579</b>
Capital Receipts Reserve	18.889
Capital Reserves	2.912
Specific Reserves	2.237
External Contributions	2.776
Direct Revenue Funding – Housing Revenue Account	25.104
Direct Revenue Funding – Service Departments	0.778
Council Borrowing	49.375
<b>Total Capital Resources</b>	<b>163.650</b>

## Capital Grants

The Government distributes capital grants towards the financing of certain capital expenditure. In 2019/20, it is anticipated that the council will receive new capital grants of £12.349m as summarised in table 2 below, and £49.230m from grants already announced where the spending of these grants is now profiled in 2019/20.

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 & Growth Committee as and when they are announced.

The new capital grants are in two main areas.

- Education funding of £5.000m (estimated to be announced) for investment in the maintenance of educational buildings and Children's Centres in the city.
- Transport funding of £5.169m to include transport related schemes and highways maintenance.

<b>TABLE 2: New Grants announced for 2019/20</b>	<b>£ million</b>
Education Basic Need	Nil
Education Capital Maintenance*	5.000
Schools Devolved Capital*	0.500
Highways Maintenance Block Allocation (LTP)	2.110
Integrated Transport Block Allocation (LTP)	3.059
Better Care Funding*	1.500
Energy Grants for HRA	0.180
<b>Total</b>	<b>12.349</b>

\* Funding to be confirmed by government

### Capital Receipts

The funding of the capital investment programme assumes estimated net capital receipts of £4.3m in 2019/20. This includes receipts associated with the disposal of surplus buildings for reinvestment into the Stanmer Regeneration Project and from various leases and overages. These receipts are planned for investment in future years' capital programmes. Progress will be closely monitored throughout the year for all receipts and reported through the regular TBM budget monitoring reports. Failure to achieve some of these receipts will require the capital allocations for future years to be reviewed.

The net receipts from 'right to buy' sales are split between funding for strategic funds delivering regeneration including affordable housing opportunities, and investment directly in housing. The forecast receipts for the council's General Fund are set at an assumed level of £0.500m per annum. Any surplus above £0.500m will be set aside to reinvest in replacement homes.

### Capital Reserves

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

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 in accordance with the housing agreement. A contribution from the New England House (NEH) Redevelopment Reserve will also support bringing forward the NEH Redevelopment project. The Water Management Reserve will support a flood prevention project within the city. There will also be contributions from specific reserves held for the Madeira Terrace crowdfunding project and Royal Pavilion Estate project.

## External Contributions

The council will receive new external contributions totalling £2.776m in 2019/20 associated with donations, partner and private contributions for the Royal Pavilion Estate and Stanmer Park redevelopment.

## Direct Revenue Funding

The General Fund and Housing Revenue Account budget proposals include direct revenue funding of £25.882m. A summary of the allocations by service is shown in the table below.

<b>TABLE 3: Direct Revenue Funding 2019/20</b>	<b>£ million</b>
Structural maintenance for schools	0.623
Property Services planned maintenance	0.120
Transport Services street lighting	0.035
<b>Total General Fund Services</b>	<b>0.778</b>
Housing Revenue Account	25.104
<b>Grand Total</b>	<b>25.882</b>

## Council Borrowing under the Prudential Code

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 2019/20 it is proposed that the council will undertake borrowing of £43.539m to finance capital expenditure plans as detailed in table 4.

<b>TABLE 4: Council Borrowing in 2019/20</b>	<b>£ million</b>
Housing Revenue Account – 2019/20 new borrowing	8.239
Housing Revenue Account – 2018/19 reprofiled schemes	9.900
Housing Joint Venture	10.847
Replacement programme vehicles & plant	1.000
Street lighting invest to save scheme	2.915
Social Care buildings maintenance	0.500
Planned maintenance for corporate buildings	0.615
Investment to Phoenix House	0.319
Solar panels for corporate buildings	0.565
Royal Pavilion Estate Regeneration	3.704
West Street Shelter Hall	1.000
Stanmer Park traditional agricultural buildings	1.400
IT&D Investment in Windows 10 Network, equipment replacement, Wi-fi and associated infrastructure	3.111

Borrowing to release capital receipts for investment in modernising service	2.960
Saltdean Lido underwriting of fundraising	1.600
Library at Saltdean Lido	0.700
<b>Total for Capital Programme</b>	<b>49.375</b>

The borrowings in the above table are briefly described below:

- As part of the HRA business plan, borrowing will be used to support the delivery of new council housing and estate regeneration and funding of £9.900m was profiled from 2018/19 for investment in new build, conversions and repairs at various sites with a further £8.239m planned in 2019/20. The financing costs have been identified to be met from the HRA capital financing revenue budget.
- The Joint Venture Housing Delivery proposal is for the council to contribute borrowing of up to £60m alongside investment from Hyde Housing for the delivery of 1,000 affordable homes. The estimated profile of borrowing in 2019/20 is £10.847m with no net cost to the council and all costs being met through the Joint Venture business plan.
- A provision of £1.000m is for replacement of vehicles during the year. This includes replacement refuse collection and street cleansing vehicles for Cityclean and the potential replacement of miscellaneous waste and parks vehicles during the year if this proves to be the most cost-effective route for procurement. These assets may be currently provided through operational leases and paid for through the relevant service revenue budget.
- The Street Lighting invest-to-save proposal was presented to Policy, Resources & Growth Committee on 8 December 2016 and plans to use borrowing to implement the application of new energy efficient LED lighting technologies as well as the application of the latest British and European Road Lighting Standards and control systems. This will generate energy and carbon reduction savings. Net revenue savings from the street lighting and electricity budget will contribute to the cost of borrowing.
- 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.
- Borrowing to support the Planned Maintenance Budget has been introduced to support the ongoing maintenance pressures for corporate and civic buildings. The revenue costs for the borrowing have been addressed within the Medium Term Financial Strategy.
- Investment to Phoenix House – the purchase price of Phoenix House was renegotiated downwards following a detailed survey of the building in recognition of investment requirements. The reduction of £0.319m has been earmarked to cover the investment requirements.
- Investment in solar panels for corporate buildings – there are a range of opportunities for solar panel installations that will generate revenue savings for the council. The individual schemes will be based on business cases and approved via in-year TBM reports.

- A variation to the Royal Pavilion Estate regeneration project was reported to Policy, Resources & Growth Committee in December 2018. This included council borrowing to be financed from the corporate capital financing budget and Brighton Dome & Festival Limited. The project also receives funding from capital receipts, the Arts Council, Heritage Lottery Fund, Local Enterprise Partnership and external contributions.
- The variation to the West Street Shelter Hall scheme was reported to Policy, Resources & Growth Committee in February 2018. A borrowing allocation of £2.0m is required to meet the additional costs associated with the project with £1.0m required in 2019/20. The annual repayments will be met from rental income from the commercial premises being created within the development.
- The redevelopment of the traditional agricultural buildings at Stanmer Park is proposed to be funded from a combination of capital receipts and borrowing with income generated from rentals set aside to meet borrowing costs.
- IT&D Investment in upgrading to Windows 10 and associated equipment replacement, Wi-Fi installation and network upgrades is required as the current Windows 7 platform will not be supported beyond December 2019. The financing costs of this investment are reflected in the Medium Term Financial Strategy.
- Borrowing to release capital receipts for investment in modernising services – revenue costs can be capitalised and funded through capital receipts where the costs are delivering efficiencies and potential future year savings. This is through the government approved capitalisation direction. A number of schemes in the capital programme which were funded by capital receipts will now be funded from borrowing to release those capital receipts for modernising services. These include the investment in the Asset Management Fund, funding for the Hove Station footbridge and Citywide street investment. The financing costs of this investment are reflected in the Medium Term Financial Strategy.
- Saltdean Lido underwriting of fundraising – the report to Policy Resources & Growth Committee on the 14 February 2019 recommends underwriting £1.600m fundraising to allow the Heritage Lottery Grant conditions to be satisfied and the scheme to progress. The £1.600m will be fully funded in the capital programme as a prudential measure. The financing costs of this investment are reflected in the Medium Term Financial Strategy.
- The contribution to the replacement library at Saltdean Lido was approved at Policy Resources & Growth Committee in February 2017. The financing costs of this investment are reflected in the Medium Term Financial Strategy.

## ANNEX B

**List of current non-treasury Investments**

This list is reviewed on an on-going basis by finance officers to ensure risks are monitored and updates are escalated through the Strategic Delivery Board and Strategic Investment Board where required:

<b>Investment Type</b>	<b>Scheme Name</b>	<b>Value</b>
Investment Property Portfolio	Urban & Agriculture Property Portfolios	£279.897m
Loan to external body	i360 Company	£37.045m
Loan to external body	Saltdean Lido	£0.220m
Loan to external body	East Sussex Credit Union	£0.250m
Financial Guarantee	Brighton & Hove Seaside Community Homes	£0.900m*
Financial Guarantee	Royal Pavilion Estate fundraising	£2.500m**
Housing Property Joint Venture	Brighton & Hove	£59.700m**

\* Estimated value of debtor at 31 March 2019

\*\* Estimated value of total expected investment

**List of planned non-treasury Investments**

This list is reviewed on an on-going basis by finance officers to ensure risks are monitored and updates are escalated through the Strategic Delivery Board and Strategic Investment Board where required:

<b>Investment Type</b>	<b>Scheme Name</b>	<b>Value</b>
Loan to external body	Brighton & Hove Estate Conservation Trust	£0.160m
Investment in commercial property portfolio	New England House refurbishment	£24.500m
Investment in replacement Brighton Centre	Waterfront Project	£132.700m

