

## Capital Strategy 2021/22 to 2025/26

### 1. Background

- 1.1. CIPFA's Prudential Code for Capital Finance in Local Authorities and MHCLG's Investment Guidance were both revised in 2017, 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 which ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercial investments usually driven by expenditure on 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 General Fund budget 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 C to this Appendix. 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 2021/22 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 Chief Finance Officer is responsible for ensuring a capital programme is prepared and considered by Policy & Resources Committee 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 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 (PMB), Information Technology & Digital (IT&D) Fund, 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 Committee;
  - Compliance with the council's Corporate Procurement Strategy and Contract Standing Orders.
- 2.3. Since 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 proactive 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 its 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.

### **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 the City. 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 council's Risk Management Process 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 it gains assurance over its activities, processes and risks. This is reported as the Corporate Risk Assurance Framework (CRAF) appendix with the Annual Governance Statement 2021/22. 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 in reviews of risk at Directorate Management Teams, who prepare reports that are progressed and escalated and which ultimately result in quarterly update reports being presented to the Executive Leadership Team (ELT). These then go onto the Audit & Standards Committee on a quarterly basis within the Strategic Risk focus agenda item which provides updates on changes to the Strategic Risk Register.

As part of this item the Committee also focuses on at least two, but normally four or five, 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. From 2020 The Strategic Risk Register is annually reported in full to the Policy & Resources Committee alongside the corporate Performance Report.

### 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 P&R 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 P&R 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 which can often lever in housing development;
- allocate £1.000m 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, minimise backlog maintenance, improve sustainability and energy efficiency of buildings where possible, and reduce longer term maintenance costs;
- similarly, 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 'capital receipt flexibilities' 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.
- the net receipts from 'right to buy' sales from council housing are reinvested directly into additional housing.
- 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 vehicles and plant where an options appraisal demonstrates borrowing provides the best value for money and the financing costs are reflected in the revenue budget;
- investment to support Corporate Plan priorities where the financial impact of any decision is treated as a commitment in future years' budgets and is affordable;
- restructuring 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 National Heritage Lottery Fund, Arts Council and the Coast to Capital Local Enterprise Partnership (C2C LEP). Other Government initiatives that may be considered include the Highways Maintenance Challenge Fund and the Housing Infrastructure Fund. The council can use its land to facilitate private sector or partnership based investments.
- Explore further the use of capital investment to assist recovery from the pandemic and achieve the city's carbon neutral 2030 corporate objective to inform future capital investment plans.

3.2. The financial resources used to fund the 2021/22 capital expenditure programme of £221.103m 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 the Housing Committee's priorities and workplan 2019-2023 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. Investment continues in the HRA to ensure council homes are maintained to the Brighton and Hove decent Homes standard; to provide investment to reduce the carbon footprint of council housing and to increase the number of affordable homes available across the city to help tackle the City's housing crisis. The capital investment proposal is over the following areas:
- Delivery of New Council Homes
  - Improving Housing quality & Standards
  - Sustainability & Carbon Reduction
  - Tackling Inequality
- 3.5. 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' has enabled the potential for substantial growth in the number of homes that can be built or purchased within the HRA with 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.

- 3.6. 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 'HRA Budget and Capital Investment Programme 2021/22 and Medium Term Financial Strategy' report.

#### **4. Capital Investment Plans 2021/22 to 2025/26**

- 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 P&R Committee through either separate project reports or as part of regular Targeted Budget Management (TBM) reports.
- 4.2. The capital investment plans for 2021/22 to 2025/26 are included within the Budget Book at Appendix 1 and a summary of the investment plans is provided in section 6 of the main report.

#### **5. Approach to Non-Treasury Investments**

- 5.1. The council's primary non-treasury 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 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 the Circus Street, Preston Barracks and New England House schemes.
- 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 Corporate Plan priorities and outcomes. The current portfolio and risks of these types of arrangements are outlined in sections 7 and 8.
- 5.4. The council will not invest in commercial activities where the primary purpose is to generate a yield. This approach is in response to HM Treasury's change to PWLB lending arrangements.
- 5.5. All non-treasury 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.
- 5.6. All proposals are approved by Policy & Resources Committee and the delivery of major schemes is overseen by both the member-led Strategic Delivery Board and the officer-led Strategic Investment Board.
- 5.7. 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 £289.4m generating an annual income of £12.0m which is therefore an important income source supporting council services. These figures are based upon the value as at the end of March 2020. 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 has been to re-balance the urban portfolio through a programme of disposals of under-performing assets and investment in primary assets generating a healthy income to support service delivery. However, the changes introduced by HM Treasury restricting access to PWLB loans for commercial activities means this strategy will need to be reviewed and options considered to mitigate the risks as a result of this change.
- 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, despite currently strong yields.
- 6.3. There is an increased risk of 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 as a result of the current balance of the portfolio. Options will be explored in order to mitigate the risk as outlined in 6.1 above.
- 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 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	829	7.11%	53,682	25.70%	1.54%
Seafront	Commercial property & concessions	1,865	15.99%	23,097	11.06%	8.44%
	Beach huts & chalets	85	0.73%			
Commercial property	Prime Shops	2,809	24.08%	44,320	21.22%	6.34%
	Secondary Shops	1,655	14.19%	25,784	12.35%	6.42%

## Appendix 2

managed by GVA	Tertiary Shops	666	5.71%	7,799	3.73%	8.54%
	Neighbourhood Shops	285	2.44%	4,073	1.95%	7.00%
	Offices	807	6.92%	12,916	6.18%	6.25%
	Industrial	778	6.67%	14,315	6.85%	5.43%
	Leisure	342	2.93%	9,684	4.64%	3.53%
	Miscellaneous	201	1.72%	2,675	1.28%	7.51%
	Mixed Use (St James Mansions)	47	0.40%	977	0.47%	4.81%
	Residential	19	0.16%	583	0.28%	3.26%
	New England House	1,251	10.72%	8,547	4.09%	14.64%
	Car Parking/Garages	26	0.22%	406	0.19%	6.40%
<b>Total</b>		<b>11,665</b>	<b>100%</b>	<b>208,858</b>	<b>100%</b>	<b>5.59%</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.*

- 6.5. The council’s Corporate Property Strategy and Asset Management Plan will be reviewed and redrafted for presentation to Members for consideration and ratification in the context of the pandemic and changing rules from HM Treasury regarding PWLB borrowing. In advance of the adoption of an Investment Strategy and Asset Management Plan, any disposals which seek to mitigate risk will be identified on a case-by-case basis. The council holds contracts with Avison Young 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 disposal. In producing the next Asset Management Plan and Investment strategy the contribution that commercial assets may make towards service provision and community wealth building will also be further developed.
- 6.6. Any opportunities explored that result in an expected asset disposal are presented and approved by Policy & Resources 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, legal 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, Policy & Resources 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 it is required 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 the total loan value that can be provided to external bodies which 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 2020:

Organisation	Loan Value at 31 Dec 2020	Purpose of loan & link to council priorities / service objectives	Meeting at which loan approved
The i360 Company	£38,903,000	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. (4) P&R (Recovery) Sub Committee 24 June 2020
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 and then extended to 2026 by PR&G Committee on 11 October 2018.
Housing Joint Venture	£1,471,000	Joint venture partnership with Hyde Housing Association for the delivery of 1000 affordable homes within the City	PR&G Committee, 12 October 2017 P&R Committee 21 October 2020

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.
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- 7.9. The loan to the i360 company represents a financial risk as reported to Policy & Resources (Recovery) Sub Committee in June 2020. The current performance of the i360 is insufficient to make full loan repayments in accordance with the agreement, however, loan repayments currently include a commercial mark-up. The committee agreed to restructure the loan to provide the best financial outcome to the City Council.
- 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.
- 7.11. The council is providing a £4.0m cash flow facility to the Royal Pavilion and Museum Trust to be drawn down over a three-year period and repaid over a maximum period of ten years. This was agreed at the Special P&R Committee of 30 July 2020 in response to the potential cash flow impacts of the pandemic.
- 7.12. The council is providing a short-term cash flow facility to Freedom Leisure to be fully repaid by the end of 2023/24. This was agreed at the Special P&R Committee of 14 August 2020.

## 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 Allowance rates do not keep pace with inflation. The amount provided to 31 March 2020 under this rent guarantee was £2.0m. The contract stipulates that the rent guarantee will be returned to the council when BHSC achieves a level of surpluses as defined by the contract and business plan.

- ***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. At its meeting in December 2018, the former Policy Resources & Growth committee agreed to earmark £3.0m and an additional £5.0m was approved at October 2019 Policy & Resources Committee. A further sum of £1.0m is requested at this committee (February 2021). All these sums were identified to cover this risk, contingency and cost over-runs on the project.

## 9. Other schemes

The primary objectives of the following schemes are 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 the former Policy, Resources & Growth committee at its meeting of 12 October 2017 and included a projected investment by the council of £59.7m for 50% of the homes, net of receipts from shared ownership sales. Subsequently on 21 October 2020 a joint Policy & Resources and Housing committee approved that the business plan is amended for the development of the first 2 sites at Coldean Lane and Portslade, delivering 346 homes. The approval given was for 50% of the homes to be purchased by the HRA for an investment of up to £41m including fees and utilising Homes England Grant funding.
- 9.2. The remaining 654 homes are still to be delivered under the original business plan approvals with a reduced investment requirement of £38.8m net of receipts from shared ownership sales. Each tranche of development is required to undergo a due diligence procedure to ensure the original business plan cost parameters are met, this process 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 the joint venture are cost overruns, rent levels below expectations and the value 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 a capital receipt of £6.25m 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 preferred option was presented to this committee in January 2021. A full business plan will be presented to Policy & Resources 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 and regeneration and expansion of the Churchill Square shopping centre and is currently exploring revised options for a future development proposal.

## 10. Proportionality & Summary of Risk Exposure

- 10.1. Often, 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.

Non-Treasury Investments	£m	% of General Fund
PWLB repayment amount relating to the i360	£1.844m	1.00%
Income from commercial properties	£12.025m	6.51%
<b>Total financial risk</b>	<b>£13.869m</b>	<b>7.50%</b>
<b>Net Revenue Budget</b>	<b>£184.807m</b>	<b>100%</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 non-treasury 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 20 (and forecast to be outstanding at 31 March 2021) 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.

	As at 31/03/20	Forecast to 31/03/21
General Assets CFR	74%	75%
i360	20%	18%
Phoenix House	2%	2%
Lyndean House	3%	3%
Housing Joint Venture	1%	2%
<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 and 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 Avison Young (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 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 2021/22

Annex B - List of current non-treasury investments

Annex C - List of planned non-treasury investments

## Capital Resources 2021/22

A fully financed Capital Investment Programme is proposed for 2021/22 assuming that existing approved capital projects spend in-line with approved budgets and certain net usable receipts of £10.030m in total are achieved. Table 1 below shows how the programme can be financed in 2021/22. The position for the years 2022/23 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>2021/22 £ million</b>
Capital Grants:	
- Capital grant announcements in previous years and profiled for spend in 2021/22	41.244
- New capital grants	18.936
<b>Total Government Support</b>	<b>60.180</b>
Capital Receipts Reserve	17.873
Capital Reserves	4.147
Specific Reserves	3.981
External Contributions	5.169
Direct Revenue Funding – Housing Revenue Account	27.010
Direct Revenue Funding – Service Departments	1.008
Council Borrowing	101.735
<b>Total Capital Resources</b>	<b>221.103</b>

## Capital Grants

The Government distributes capital grants towards the financing of certain capital expenditure. In 2021/22, it is anticipated that the council will receive new capital grants of £18.936m as summarised in Table 2 below, and £41.244m from grants already announced where the spending of these grants is now profiled in 2021/22.

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.

The new capital grants are in three main areas:

- Education Basic Need for new pupil places of £4.916m;
- Education funding of £4.500m (estimated and due to be announced) for investment in the maintenance of educational buildings and Children's Centres in the city;

- Transport funding of £5.000m (estimated and due to be announced) to include transport related schemes and highways maintenance.

<b>TABLE 2: New Grants announced for 2021/22</b>	<b>£ million</b>
Education Basic Need	4.916
Education Capital Maintenance *	4.500
Schools Devolved Capital *	0.500
Highways Maintenance Block Allocation (LTP) *	2.000
Integrated Transport Block Allocation (LTP) *	3.000
Coast Protection Grant from Defra	2.000
Better Care Funding *	1.500
Land Release Fund and Homes England Grant for HRA	0.340
Energy Grants for HRA	0.180
<b>Total</b>	<b>18.936</b>

*\* Funding to be confirmed by government*

## Capital Receipts

The funding of the capital investment programme assumes estimated net capital receipts of £10.030m in 2021/22. This includes receipts associated with the disposal of surplus buildings for reinvestment into the Stanmer Regeneration Project, subject to the outcome of the City Downland Estate Plan consultation, a lease re-gear at West Street, surplus land identified at the Cliff, the transfer of sites to the HRA associated with the Moulsecoomb redevelopment and a number of surplus properties identified for disposal. 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 reinvested directly in delivering additional housing.

## 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 Brighton Centre Redevelopment Reserve will continue to support the plans for the Waterfront development. The Madeira Terrace crowdfunding reserve supports the Madeira Terraces development. The Sports Development Reserve will contribute toward the Withdean Sports soft play development. The property dilapidations reserve will support commercial property repairs. Finally, the Earmarked Rent Reserve will support delivery of the HRA Capital Investment programme.

### External Contributions

The council will receive new external contributions totalling £5.169m in 2021/22 associated with donations, partner and private contributions for the playgrounds refurbishment programme, Hove Lagoon skatepark project and the Withdean Sports soft play development. There are also commuted sums associated with the Home Purchase Policy for the HRA.

### Direct Revenue Funding

The General Fund and Housing Revenue Account budget proposals include direct revenue funding of £28.018m. A summary of the allocations by service is shown in the table below.

<b>TABLE 3: Direct Revenue Funding 2021/22</b>	<b>£ million</b>
Schools Services - Structural maintenance for schools	0.623
City Environment Management – Playground Refurbishment Programme	0.280
Culture, Tourism and Sports – Withdean Sports Development and the Hove Lagoon Skatepark Improvements.	0.105
<b>Total General Fund Services</b>	<b>1.008</b>
Housing Revenue Account	27.010
<b>Grand Total</b>	<b>28.018</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 2021/22 it is proposed that the council will undertake borrowing of £101.735m to finance capital expenditure plans as detailed in table 4.

<b>TABLE 4: Council Borrowing in 2021/22</b>	<b>£ million</b>
Housing Revenue Account – 2021/22 new borrowing	12.562
Housing Revenue Account – 2020/21 reprofiled schemes	17.764
Housing Joint Venture	27.769
Replacement programme vehicles	2.500
Street lighting invest to save scheme	1.722



## Appendix 2

Planned maintenance for Corporate and Social Care buildings	1.000
Planned maintenance for corporate buildings 2020/21 reprofiled	0.380
Acquisition of land at Moulsecoomb Way	1.000
Solar panels for corporate buildings	0.500
Royal Pavilion Estate Regeneration	1.000
Library at Saltdean Lido	0.680
Saltdean Lido Restoration	1.550
Sustainability and Carbon Reduction Investment Fund (SCRIF)	3.100
Sustainability and Carbon Reduction Investment Fund - Transport	3.900
IT&D Fund and Investment for desktop and laptop replacement programme	0.750
Wide Area Network – The Link	2.500
Workstyles Phase 4 including Moulsecoomb Hub and Housing project	1.261
Madeira Terrace Developemnt Implementation Works	4.300
Playground Refurbishment Programme 2021-25	0.230
Brighton Bikeshare Replacement Programme	0.467
Pocket Parks – Parks and Open Spaces	0.350
School Streets – Transport	0.050
Covered Cycle Racks – Transport	0.500
Low Traffic Neighbourhoods – Transport	0.300
Accommodation for Supported Housing Delivery	3.000
Brighton & Hove Warmer Homes Investment Fund	5.200
Brighton Youth Centre project	2.100
Adult Social Care Accommodation	4.000
Climate Assembly Actions	1.300
<b>Total for Capital Programme</b>	<b>101.735</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 £17.764m was profiled from 2020/21 for investment in new build, conversions and repairs at various sites with a further £12.562m planned in 2020/21. The financing costs have been identified within the HRA capital financing revenue budget.
- The Joint Venture Housing Delivery proposal is for the council to contribute borrowing of up to £59.7m alongside investment from Hyde Housing for the delivery of 1,000 affordable homes. The estimated profile of borrowing in 2021/22 following some reprofiling from 2020/21 is £27.769m with no net cost to the council and all costs being met through the Joint Venture business plan.

- A provision of £2.500m 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 the former 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.
- Borrowing to support the Planned Maintenance Budget has been introduced to support the ongoing maintenance pressures for Social Care operational buildings, corporate and civic buildings. The revenue costs for the borrowing have been addressed within the Medium Term Financial Strategy. The borrowing includes some reprofiled schemes from 2020/21.
- Land at Moulsecoomb Way was approved to be purchased by the council last financial year. A total of £9.1m was required for completion of the purchase with £1.0m of this profiled into 2021/22. This was approved at P&R Committee on 8 October 2020.
- 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 and support Corporate Plan carbon neutral targets. 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 is reported to this committee to cover a combination of cost increases resulting from the Covid-19 pandemic delays, cost overruns and delays whilst alternative contractors were appointed. A sum of £1.459m was met from additional Arts Council England and National Heritage Lottery Fund Kickstart grants with a further £1.0m required to be met from council borrowing. The additional repayment costs have been factored into the council's revenue budget.
- The contribution to the replacement library at Saltdean Lido was approved at Policy Resources & Growth Committee in February 2017 and has been reprofiled into 2020/21. The financing costs of this investment are reflected in the Medium Term Financial Strategy. There is a further £1.550m approved for the Saltdean Lido renovation project within the 2021/22 Capital Investment Programme as reported to P&R Committee on 9 July 2020.
- The Sustainability and Carbon Reduction Investment Fund (SCRIF) provided funding to departments for projects that meet a number of council sustainability priorities. An allocation of £0.5m was included for 2020/21 which was paused during the pandemic period and has now been reprofiled into 2021/22. A further £2.6m has been allocated for 2021/22. Bids for this funding are approved through the SCRIF Members Oversight Group. A separate allocation of £3.9m for transport related schemes was also allocated in 2020/21 and paused mid-year. This budget has also been reprofiled into 2021/22. The financing costs for these schemes have been incorporated into the 2021/22 revenue budget.

- Additional IT&D investment has been identified specifically for an annual desktop and laptop replacement programme. An annual allocation of £1.0m is allowed for investment into the IT&D fund of which £0.500m is funded from capital receipts and the remaining £0.500m is met from borrowing. The financing costs of this investment are reflected in the Medium Term Financial Strategy.
- The implementation of the Wide Area Network (the Link) was reported to P&R Committee on 9 July 2020 and is estimated to cost up to £2.5m. The WAN contract comes to an end in December 2021 and there is a requirement to re-tender the WAN data services with members of the Link partnership.
- The Workstyles Phase 4 budget which included support for the Moulsecoomb Hub and Housing project was funded through capital receipts. The budget is now met from borrowing through approved switching of funds to support the modernisation programme in previous years. This budget has been reprofiled from previous years to support the planned timetable of Workstyle corporate projects.
- The Madeira Terrace Development is supported by borrowing of £4.300m financed from revenue budget approved at the 2020/21 Budget Council. Commencement of work on the development is expected in 2021/22.
- Playground Refurbishment Programme 2021-25 for a total investment of £2.447m is reported to this Committee. A total of £0.529m is required up to 2025 with £0.230m profiled for 2021/22. The financing cost are being met through the corporate budget as detailed in the report.
- The Brighton Bikeshare Procurement options report presented to the 3 December 2020 P&R Committee approved the reinvestment of surplus revenue from the bikeshare scheme received by the council into service borrowing to support fleet replacement programme. A total of £1.170m is to be reinvested in the first two years with £0.467m required in 2021/22.
- Capital borrowing for £0.350m into Pocket Parks has been incorporated into the 2021/22 Capital Investment Programme. Funding for the borrowing costs have been incorporated into the 2021/22 revenue budget.
- Capital borrowing for transport investment relating to £0.050m for extension of the School Streets initiative, £0.500m for Covered Cycle Racks and £0.300m for a Low Traffic Neighbourhoods pilot has been incorporated into the 2021/22 Capital Investment Programme. Funding for the borrowing costs have been incorporated into the 2021/22 revenue budget.
- Capital borrowing for £3.000m to support Accommodation for Supported Housing Delivery has been incorporated into the 2021/22 Capital Investment Programme. Funding for the borrowing costs have been incorporated into the 2021/22 revenue budget. Further details on the investment will be reported back to this committee.
- Capital borrowing for £2.600m to support the Brighton & Hove Warmer Homes Investment Fund has been incorporated into the 2021/22 Capital Investment Programme. This is in addition to previous year's allocation of £2.600m already approved. Funding for the borrowing costs have been incorporated into the 2021/22 revenue budget. Further details on the investment will be reported back to this committee.
- An investment of £2.1m to support investment in youth services has been included in the 2021/22 Capital Investment Programme to provide match-funding for the

Brighthelm Youth Centre project. Further details on the investment will be reported back to this committee.

- An investment of £4.0m to support investment into Adult Social Care accommodation has been included in the 2021/22 Capital Investment Programme. Further details on the investment will be reported back to this committee.
- An investment of £1.3m to support Climate Change Assembly Actions has been included in the 2021/22 Capital Investment Programme. Further details on the investment will be reported back to this committee

## 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:

Investment Type	Scheme Name	Value
Investment Property Portfolio	Urban & Agriculture Property Portfolios	£289.419m*
Loan to external body	i360 Company	£38.903m
Loan to external body	Saltdean Lido	£0.220m
Loan to external body	East Sussex Credit Union	£0.250m
Financial Guarantee	Saltdean Lido	£1.600m
Financial Guarantee	Brighton & Hove Seaside Community Homes	£1.400m**
Financial Guarantee	Royal Pavilion Estate fundraising	£3.000m**
Housing Property Joint Venture	Brighton & Hove	£59.700m***

\* Value as at 31 March 2020

\*\* Estimated value of debtor at 31 March 2020

\*\*\* 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:

Investment Type	Scheme Name	Value
Investment in commercial property portfolio	New England House refurbishment	£21.050m
Cash flow support (third party loan)	Cash flow support to Royal Pavilion Museums Trust	£4.000m
Cash flow support (third party loan)	Cash flow support to Freedom Leisure	tba