Appendix 2

Capital Strategy 2023/24 to 2027/28

1. Background

1.1. CIPFA's Prudential Code for Capital Finance in Local Authorities and DLUHC's Investment Guidance, require all local authorities to prepare 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. The Prudential Code and the Treasury Management Codes were updated in 2021, for full implementation in 2023/24. The updates included:

- Local authorities are required to acknowledge that they will not borrow for projects where the primary purpose is for commercial return;
- Further transparency required for non-treasury investments, including new indicators that demonstrate the proportionality of non-treasury investments to the council's other activity;
- Creation of Investment Management Practices (IMPs), which are similar to the existing Treasury Management Practices (TMPs). The IMPs will outline the processes, practices and governance that will be followed in the management and decision making for non-treasury investments. These IMPs are in the process of being developed for 2023/24 and will be scrutinised by the Section 151 officer in advance of being enacted.

1.4. 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.

1.5. 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 investments and associated risks are covered under the council's Annual Investment Strategy, which forms part of Appendix 3 to General Fund budget report.

1.6. 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 3. These indicators ensure that any borrowing undertaken is prudent, affordable and sustainable.

1.7. 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 DLUHC. The council's MRP policy for 2023/24 is consistent with the current guidance and is included in Appendix 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 of 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 within the Annual Governance Statement. An example is given below on using the three lines of defence to structure and categorise assurances for procurement.

> An organisation might identify 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 and managing contracts.
>
> **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 a minimum of £2.000m per annum through borrowing to support investment in planned maintenance in operational and social care buildings;
- Assess the potential social value of surplus or underperforming assets against the potential disposal value and where possible maximise the use of assets to enhance social value across a 4 year asset management plan;

- Subject to an assessment of the potential social value, 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, Levelling Up Fund (LUF) 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 capital investment opportunities to support the city's carbon neutral 2030 corporate objective and incorporate in future capital investment plans.

3.2. The financial resources used to fund the 2023/24 capital expenditure programme of £211.698m are included at Annex A and the 5-year capital projections are incorporated in 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. Key priorities of the Housing Strategy, Asset Management Strategy and Work Plan that inform the Housing Revenue Account Capital Investment Programme 2023/24 are improving housing supply and investing in homes and neighbourhoods to provide safe and good quality housing.

3.4. The Housing Capital Programme seeks to provide substantial investment in the council's housing stock and improve the quality of homes. The implementation of the proposed programme will take account of all relevant best practice guidelines and has been informed by the priorities agreed in the current HRA Asset Management Strategy. The investment programme looks 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 covers the following areas:

- Delivery of New Council Homes
- Improving Housing quality & Standards
- Sustainability & Caron 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 2023/24 and Medium Term Financial Strategy' report.

4. Capital Investment Plans 2023/24 to 2027/28

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 2023/24 to 2027/28 are included at Appendix 1 and a summary of the investment plans is provided in section 7 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 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 Kingsway to the Sea 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 outlines in sections 7 and 8.

5.4. Whilst income generation is often necessary to support the business case of certain capital investments, the council will not invest in activities where the primary purpose is to generate a yield. The council may, however, invest in existing commercial assets (such as the existing investment property portfolio) where investment is required to maintain the assets and therefore protect the income streams. This approach is in response to both HM Treasury's change to PWLB lending arrangements and CIPFA's revision of the Prudential and Treasury Management Codes.

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 Corporate 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 £273.9m generating an annual income of £11.8m which is therefore an important income source supporting council services. These figures are based upon the value as at the end of March 2023. 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*".

6.2. One of the strategies had been to re-balance the urban portfolio through a programme of disposals of under-performing assets and investing in primary assets generating a healthy income to support service delivery. However, the changes introduced by HM Treasury and CIPFA removes the council's ability to be able to invest in new commercial assets.

6.3. Before the pandemic, the council's urban commercial portfolio had performed well, with low levels of voids, arrears and bad debt. Despite the economic impact of the pandemic, performance in most sectors, including retail and industrial, has remained strong, however there is currently a high level of voids within the multi-let office properties. In addition, there are a number of tenants on payment plans having deferred their rent payments to assist their financial cashflow. The council is therefore holding a higher level of debt which is at risk.

6.4. In addition to the impact of the pandemic the portfolio has 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.

6.5. 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 above.

6.6. 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 42% 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	883	7.46%	57,522	29.44%	1.54%
Seafront	Commercial property & concessions	1,999	16.89%	29,817	15.26%	7.55%
	Beach huts & chalets	251	2.12%			
Commercial property managed by GVA	Prime Shops	2,257	19.07%	34,545	17.68%	6.53%
	Secondary Shops	1,559	13.17%	20,921	10.71%	7.45%
	Tertiary Shops	796	6.72%	5,472	2.80%	14.55%
	Neighbourhood Shops	337	2.85%	2,952	1.51%	11.42%
	Offices	1,148	9.70%	15,119	7.74%	7.59%
	Industrial	960	8.11%	9,915	5.07%	9.68%
	Leisure	300	2.53%	6,155	3.15%	4.87%
	Miscellaneous	138	1.17%	2,181	1.12%	6.33%
	Mixed Use	49	0.41%	683	0.35%	7.17%
	Residential	17	0.14%	437	0.22%	3.89%
	New England House	1,078	9.11%	8,983	4.60%	12.00%
	Car Parking/Garages	65	0.55%	674	0.34%	9.64%
Total		**11,837**	**100%**	**195,376**	**100%**	**7.87%**

Note – the table excludes a number of sites managed "in-house" such as community centres, car parks and legacy sites belonging to the council.

6.7. 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 changing rules from HM Treasury regarding PWLB borrowing. In advance of this, 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.

6.8. 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 (now Subsidy Control). Advice from legal and finance officers is sought in each instance to ensure loans are 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/subsidy control 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 2022:

Organisation	Loan Value at 31 Dec 2022 £m	Purpose of loan & link to council priorities / service objectives	Meeting at which loan approved
The i360 Company	44.161	To build the i360 observation tower, unlocking economic regeneration on the seafront	(1) Special Policy & Resources Committee, 6 March 2014.

		and increasing business rate income.	(2) Policy & Resources Committee 7 July 2022
Wave Community Bank (formerly East Sussex Credit Union)	0.250	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	9.408	Joint venture partnership with Hyde Housing Association for the delivery of 1000 affordable homes within the City. This will be fully repaid during 2022/23	PR&G Committee, 12 October 2017 P&R Committee 21 October 2020
Royal Pavilion & Museum Trust	2.000	To provide a cash flow facility for the Royal Pavilion and Museum Trust.	Special P&R Committee, 30 July 2020

7.9. The loan to the i360 company represents a financial risk as reported to Policy & Resources Committee in July 2022. The committee agreed to restructure the loan to provide the best financial outcome to the City Council however this revised loan agreement was not finalised due to further financial difficulties of the attraction and the council is considering its options for managing this debt. The 2023/24 budget makes full provision for the associated borrowing costs of the debt irrespective of the i360 Ltd financial position and this is reflected in the revised Minimum Revenue Provision policy included at appendix 3.

7.10. The council is providing a (maximum) £4.0m cash flow facility to the Royal Pavilion and Museum Trust (RPMT) 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. To date the RMPT has drawn down £2.0m.

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 (BHSCH)***

  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 outstanding as at 31 December 2022 under this rent guarantee was £1.156m. 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.

- ***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 £8.4m was approved at October 2019, February 2021 and October 2021 Policy & Resources Committees. A final sum of £2.5m was approved at July 2022 Policy & Resources Committee to cover risk, contingency and cost over-runs on the project and potential shortfalls in fundraising targets.

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.

Housing Joint Venture

9.1. The council has entered into a living wage joint venture with Hyde Housing Association for the delivery of 1,000 affordable homes for the city. The Homes for the City of Brighton & Hove LLP's (LLP) 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 meeting 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 £41.0m including fees and utilising Homes England Grant funding.

9.2. The LLP's business plan to deliver the remaining 654 homes has since been updated following a review to enable the new development company delivery model for future developments. Significant changes to the LLP agreements is a reserved matter and requires Policy & Resources approval. At the 7 July 2022 Policy & resources meeting approval was given to amend the business plan accordingly. The revised business plan adopts the development company model for future projects with HBH developing homes and selling back to the Council and Hyde, all new projects require individual sign off Policy & Resources before progressing to the development stage.

10. Proportionality & Summary of Risk Exposure

10.1. The Capital Strategy provides an opportunity to demonstrate the totality and proportionality of the council's non-treasury investments in one place.

10.2. The Prudential Code now requires authorities to report a new indicator showing the expected income from non-treasury investments compared to the net budget. This is shown in the table below..

Net income from Non-Treasury Investments to Net Revenue Stream	2023/24 Estimate £m	2024/25 Estimate £	2025/26 Estimate £

Income from commercial properties	12.373	12.848	13.320
Net revenue budget	***232.835***	***260.983***	***267.124***
Ratio of net income from non-treasury investments to net revenue budget	***5.3%***	***4.9%***	***5.0%***

10.3. 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 1.7

10.4. 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 22 (and forecast to be outstanding at 31 March 2023) 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 31/03/22	Forecast to 31/03/23
General Assets CFR	72%	78%
i360	20%	18%
Phoenix House	2%	2%
Lyndean House	3%	2%
Housing Joint Venture	3%	0%
Total General Fund CFR	**100%**	**100%**

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 2021 CIPFA Prudential Code and the 2021 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 2023/24

Annex B - List of current non-treasury investments

Annex C - List of planned non-treasury investments

Capital Resources 2023/24

A fully financed Capital Investment Programme is proposed for 2023/24 assuming that existing approved capital projects spend in-line with approved budgets and certain net usable receipts of £15.620m in total are achieved. Table 1 below shows how the programme can be financed in 2023/24. The position for the years 2024/25 onward is less certain until future Government grant 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.

TABLE 1: Capital Resources	**2022/23 £ million**
Capital Grants:	
- Capital grant announcements in previous years and profiled for spend in 2023/24	12.023
- New capital grants	32.035
Total Government Support	**44.058**
Capital Receipts Reserve	18.885
Capital Reserves	2.036
Specific Reserves	4.720
External Contributions	7.714
Direct Revenue Funding – Housing Revenue Account	19.281
Direct Revenue Funding – Service Departments	0.770
Council Borrowing	114.234
Total Capital Resources	**211.698**

Capital Grants

The Government distributes capital grants towards the financing of certain capital expenditure. In 2023/24, it is anticipated that the council will receive new capital grants of £32.035m as summarised in Table 2 below, and £12.023m from grants already announced where the spending of these grants is now profiled in 2023/24.

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 four main areas:

- Education funding of £7.868m (estimated and due to be announced) for investment in the maintenance of educational buildings, Children's Centres in the city and High Needs Provision;

- Transport funding of £6.250m (estimated and due to be announced) to include transport related schemes and highways maintenance. The grant comes in the form of Highways Maintenance and Integrated Transport block grant plus assumed levels of investment for pothole maintenance and support from the Highways Maintenance Incentive fund;

- Better Care grant funding that supports the Disabled Facilities Grant programme and Adult Social Care investment to be confirmed;

- Levelling Up Fund to support the West Hove Seafront Improvement Plan as part of the application for a total of £9.5m grant funding for the project.

TABLE 2: New Grants announced for 2023/24	**£ million**
Education Capital Maintenance *	4.000
Schools Devolved Capital *	0.500
Education High Needs Provision Capital	3.368
Highways Maintenance Block Allocation (LTP) *	1.500
Integrated Transport Block Allocation (LTP) *	3.000
Pothole Action Fund (LTP)*	1.400
Highways Maintenance Incentive Fund (LTP)*	0.350
Bus Service Improvement Grant	2.688
Coast Protection Grant from Defra	2.652
Better Care Funding *	1.500
Levelling Up Fund	8.100
Changing Places Public Conveniences	0.330
Homes England and Land Release Funding Grant HRA	2.467
Energy Grants for HRA	0.180
Total	**32.035**

** Funding to be confirmed by government*

Capital Receipts

The funding of the capital investment programme assumes estimated net capital receipts of £15.620m in 2023/24. This includes receipts associated with the transfer of sites to the HRA associated for the Moulsecoomb redevelopment, the disposal of Patcham Court Farm and potential disposal of Montague Place. There are also a lease re-gear at Hollingbury, potential HRA transfer of land at Portslade plus 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 support essential maintenance works at the Brighton Centre. The Madeira Terrace crowdfunding reserve supports the Madeira Terraces development.

The property dilapidations reserve will support some commercial property repairs. The Surface Water Management Reserve will provide some funding toward the Water Level Protection Transport scheme. A contribution from the Sports Facilities reserve will support maintenance works at Prince Regent. Finally, the Income Leaseholder and Earmarked Rent reserves will support delivery of the HRA Capital Investment programme.

External Contributions

The council will utilise external contributions totalling £7.714m in 2023/24 associated with donations, partner and private contributions including S106 contributions. Contributions are forecast for the Brighton Museum and Art Gallery Works of £1.463m from Arts Council England. S106 contributions are forecast for the Kingsway to the Sea development, Withdean Sports complex 3G and soft play development, Stanmer pond restoration, the playground refurbishment programme. There are also commuted sums associated with the Home Purchase Policy for the HRA of £4.3m

Direct Revenue Funding

The General Fund and Housing Revenue Account budget proposals include direct revenue funding of £20.051m. A summary of the allocations by service is shown in the table below.

TABLE 3: Direct Revenue Funding 2023/24	**£ million**
Schools Services - Structural maintenance for schools	0.500
City Environment Management – Playground Refurbishment Programme	0.175
Culture, Tourism and Sports - Prince Regent Mechanical Equipment Replacement	0.064
Culture, Tourism and Sports – Withdean Sports Complex 3G Development & Sports Soft Play Development	0.031
Total General Fund Services	**0.770**

TABLE 3: Direct Revenue Funding 2023/24	£ million
Housing Revenue Account	19.281
Grand Total	**20.051**

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 2023/24 it is proposed that the council will undertake borrowing of £114.234m to finance capital expenditure plans as detailed in table 4.

TABLE 4: Council Borrowing in 2023/24	£ million
Housing, Neighbourhood & Communities	
Housing Revenue Account – 2023/24 new borrowing	31.187
Housing Revenue Account – 2022/23 reprofiled schemes	27.614
Accommodation for Supported Housing Delivery	3.000
Brighton & Hove Warmer Homes Investment Fund	1.480
Health & Adult Social Care	
Knoll House Resource Centre Supported Housing	2.000
Families, Children & Learning	
Cardinal Newman 4G Pitch & Changing Rooms	1.850
Brighton Youth Centre project	2.100
Economy, Environment & Culture *City Environment Management*	
Replacement Programme Vehicles	2.500
Pavilion and Mess Room Refurbishment Programme	0.350
Playground Refurbishment Programme 2021-25	0.070
Parks and Open Spaces Investment	0.967
Public Conveniences	0.090
On Street and Communal Bin Infrastructure	0.500
Hollingdean Deport Office Accommodation and Site Surface	2.582
Stanmer Park Offices and Road Repairs	0.320
City Development & Regeneration	
Carbon Neutral 2030 Investment Fund projects	9.100
Madeira Terrace Development Implementation Works	5.600
Black Rock Enabling Works	2.000
Culture, Tourism & Sport	

Library at Saltdean Lido	0.700
Kingsway to the Sea	1.447
King Alfred Main Pool Reinforcement	0.650
Seafront Railings and Shelters Upgrade	0.180
Transport	
Street Lighting Invest to Save Scheme	0.810
Seafront Heritage Lighting Renewal Programme	1.050
Brighton Bikeshare Replacement Programme	1.000
Covered Cycle Racks	0.099
Citywide Strategic Transport Model	0.800
Valley Gardens Phase 3	0.144
Hove Station Footbridge	0.250
School Streets	0.050
Climate Assembly Action Capita Invdestment Transport	1.000
Property	
Workstyles Phase 4 including Office Accommodation Strategy	0.700
Commuity Asset Transfer Policy	0.210
Carbon Reduction in Operational Buildings	1.000
Planned maintenance for Corporate and Social Care Buildings	2.500
Planned Maintenance for Corporate Buildings 2022/23 reprofiled	0.667
Finance & Resources	
IT&D Fund and Investment for Desktop and Laptop Replacement Programme	1.500
Wide Area Network – The Link	1.238
Enterprise Resources Learning Programme	4.795
Replacement Learning Management System	0.134
Total for Capital Programme	**114.234**

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 £27.614m was profiled from 2022/23 for investment in new build, conversions and repairs at various sites with a further £31.187m planned in 2023/24. The financing costs have been identified within the HRA capital financing revenue budget.
- Capital borrowing for £3.000m to support Accommodation for Supported Housing Delivery was agreed at Budget Council in 2022 Capital Investment Programme. Plans are due to be brought back to this committee. Funding for the borrowing costs have been incorporated into the revenue budget.

- A total sum of £8.0m was identified to support the Brighton & Hove Warmer Homes Investment Fund. A sum of £1.480m of this budget has already been allocated in 2023/24 with balance profiled over the following 3 years to 2026/27. Funding for the borrowing costs have been incorporated into the revenue budget.
- The Knoll House Resource Centre scheme involves the demolition and new build of a 3-storey Supported Housing service on the site of the Knoll House care home. A capital programme budget up to a maximum of £10.500m for the delivery of a Supported Housing service is be financed through capital borrowing and a Homes England bid (or the difference between £10.500m and the sum released by Homes England as agreed at Policy & Resources Committee on 1 July 2021). The council is awaiting confirmation of the grant bid and will report back the business plan and bid details this financial year.
- Cardinal Newman has approval for investment of £1.850m into a new 4G pitch and changing rooms as at October 2022. The development is now due to go ahead in 2023/24. The financing costs are built into the schools business plan.
- An investment of £2.100m to support investment in youth services had been included in the 2021/22 Capital Investment Programme to provide match-funding for the Brighton Youth Centre project. Further details on the investment will be reported back to this committee.
- An annual provision of £2.500m for replacement of vehicles is built into City Environment Management's operational budget. 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.
- Pavilion and Mess Room Refurbishment Programme. A total refurbishment programme of £3.000m between 2022/23 and 2025/26 is required to address historic underinvestment in parks pavilion and mess rooms for staff. A sum of ££0.350m is identified for 2023/24
- Playground Refurbishment Programme 2021-25 for a total investment of £2.447m has been reported to this Committee. A total of £0.275m is required for the reminder of the project with £0.070m financed through borrowing. The financing cost are being met through the corporate budget as detailed in the report
- Parks and Open Spaces Investment has a total of £3.5m over the next three years to support parks, playgrounds and tree planting. A sum of £0.967m is forecast this financial year with the remainder over the next two years. The financing costs for the new investment has been built into the revenue budget
- The Public Conveniences investment plan sets out a programme of £3.271m investment between 2022/23 to 2025/26. For 2023/24 a proportion of borrowing is required to support the Changing Places grant funded scheme that will be completed this year with the remainder of investment for 2024/24 and 2025/26
- A total of £1.250m has been provided to support the On Street and Communal Bin Infrastructure programme. This will commence in 2023/24 through to 2025/26 and a forecast amount of £0.500m is required in this financial year.
- A sum of £2.0m has been corporately provided for urgent health and safety works at Hollingdean Depot Office Accommodation and a further £1.0m for the depot site

surface also provided. The majority of the accommodation works will complete in 2023/24 and the site surface works will complete in 2024/25.

- A sum of £0.150m was provided for works at the Stanmer Park offices and a further £0.200m for road repairs. This investment supports the completion of the Stanmer Park restoration project alongside the Heritage Lottery Fund programme of works. A total of £0.320m is required for 2023/24.
- The Carbon Neutral 2030 Investment Fund includes an allocation of £1.000m toward support carbon reduction investment in operational buildings as well as providing funding to departments for projects that meet a number of council sustainability priorities. Bids for this funding were approved through the Members Oversight Group and funding was released to individual schemes in July 2022 and October 2022. The majority of these schemes are reprofiled into 2023/24 The financing costs have been built into the revenue budget. The buildings operational budget will be met from service departments and potentially savings generated as a result of the investment.
- The Madeira Terrace Development is supported by borrowing of £5.600m financed from revenue budget approved at previous year's Budget Councils. Commencement of work on the development is expected in 2023/24 following a thorough design and procurement exercise..
- The Black Rock Enabling Works was awarded Local Growth Fund grant of £12.111m awarded to the redevelopment of the Black Rock site. Following a full design and cost exercise borrowing of £3.900m is required to enable the project to complete. The majority of the works were completed in 2022/23 but requires the remaining budget to complete during 2023/24.The works include sea wall replacement, marina pedestrian connection, public transport infrastructure for the marina link, traffic improvements, public realm and refurbishment and repairs to the Reading Room and the Temple. The financing costs are expected to be met from income generated at the site.
- The contribution to the replacement library at Saltdean Lido was approved at Policy Resources & Growth Committee in February 2017 and has been reprofiled into 2023/24. The financing costs of this investment are reflected in the Medium Term Financial Strategy. There was a further £2.000m approved for the Saltdean Lido renovation project within the 2021/22 and 2022/23 Capital Investment Programme as reported to P&R Committee on 9 July 2020
- The Kingsway to the Sea project was approved at December 2021 P&R Committee and an update was provided in July 2022. The £12.990m project included £2.147m of service borrowing funded through increased revenue streams. A sum of £1.447m is estimated to be required in 2023/24
- New investment into the Sport and Leisure services swimming pools repairs and maintenance includes £0.650m into the reinforcement of the King Alfred main pool. The financing costs have been built into the revenue budget.
- Investment into seafront railings and beach shelters upgrades was approved at last year's budget council and a balance of £0.180m remains this financial year. The financing costs have been built into the 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.

- A total of £2.1m investment for the seafront heritage lighting renewal programme for 2022/23 to 2024/25 has been provided. Further match funding is likely with grant contributions being explored and likely LTP match funding required. An estimated £1.050m borrowing will be required for 2023/24..
- 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 £1.000m is required in 2023/24.
- Covered cycle racks investment supports the city's sustainable transport priorities. A sum of £1.0m was allocated with the balance of £0.099m required to complete the scheme in 2023/24.
- City Wide Strategic Transport Model to support business case for a major new policy work and scheme development across the city. The financing costs for the new investment has been built into the revenue budget.
- The Valley Gardens phase 3 project has received £6.0m of Local Growth Funding and requires Local Transport Plan match funding and corporate borrowing of up to £2.0m in total. Work will continue into 2023/24 and 2024/25 with some drawdown of borrowing forecast for 2023/24.
- Investment of £0.500m for repairs to the Hove Station footbridge was identified in 2022/23. A sum of £0.250m is set aside for this financial year with the remainder profiled for 2024/25.
- School Streets transport project supports the city's corporate sustainability and transport priorities. The project is funded primarily for Local transport Contributions with some additional borrowing which will fall into this financial year.
- A sum of £1.404m was allocated toward the Climate Assembly Action Capital Investment in transport to help achieve the outcomes of the Climate Assembly. The list of schemes were reported to P&R committee in July 2021 and included such things as car free city, improved public transport; pedestrianised communities and mobility hubs. The schemes are forecast to continue into 2023/24.
- The Workstyles Phase 4 budget is funded through the Asset Management Fund cannula contributions. The budget is now met from borrowing through approved switching of funds to support the modernisation programme in previous years. This budget will support the modernisation programme and the Office Accommodation Strategy and has been reprofiled from previous years to support the planned timetable of Workstyle corporate projects.
- Funding was approved at Budget Council in 2021/22 to provide a match funding pot for organisations seeking to make use of the Community Asset Transfer Policy.
- Borrowing to support the Planned Maintenance Budget has been increased to £2.0m in 2023/24 to support the essential maintenance pressures for corporate and civic buildings. Social Care operational buildings have an annual allocation of £0.500m . The revenue costs for the borrowing have been addressed within the Medium Term Financial Strategy. The borrowing includes some reprofiled schemes from 2022/23.

- An annual allocation of £1.000m 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. A further £1.000m is specifically allocated toward the laptop and desktop replacement programme. 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 was estimated to cost up to £2.500m. The WAN contract came to an end in December 2021. The remaining budget has been profiled into 2023/24 when the works will be completed.
- The replacement Enterprise Resources Learning Programme was reported to P&R Committee in October 2022. This relates to the initial design and review phase with the implementation phase to be approved at this committee at a later date following the completion of the business case. Spend is forecast to commence in 2023/24.
- Replacement Learning Management System will be completed in 2023/24 and was reported to committee in October 2022.

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 Corporate Investment Board where required:

Investment Type	Scheme Name	Value
Investment Property Portfolio	Urban & Agriculture Property Portfolios	£273.915m*
Loan to external body	i360 Company	£44.161m
Loan to external body	The Wave Community Bank (formerly ESCU)	£0.250m
Loan to external body	Royal Pavilion and Museums Trust	£2.000m
Financial Guarantee	Brighton & Hove Seaside Community Homes	£1.156m**
Housing Property Joint Venture	Brighton & Hove	£9.408m***

* Value as at 31 March 2022

** Estimated value of debtor at 31 March 2023

*** This will be fully repaid by 31 March 2023

Appendix 2

ANNEX C

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 Corporate Investment Board where required:

Investment Type	Scheme Name	Value
Cash flow support (third party loan)	Cash flow support to Royal Pavilion Museums Trust	£2.000m