

<b>Subject:</b>	<b>Capital Resources and Capital Investment Programme 2017/18</b>		
<b>Date of Meeting:</b>	<b>23 February 2017</b> 9 February 2017, Policy Resources & Growth Committee		
<b>Report of:</b>	<b>Executive Director for Finance &amp; Resources</b>		
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<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE****1. PURPOSE OF REPORT AND POLICY CONTEXT:**

- 1.1 The purpose of the report is to inform Policy, Resources & Growth Committee of the level of available capital resources in 2017/18 to enable the committee to propose a Capital Investment Programme for 2017/18 to Budget Council. The capital programme is set in the context of the Medium Term Financial Strategy included alongside the General Fund Revenue Budget and Council Tax report elsewhere on this agenda. The proposed programme results in £148.9m investment in council services next year.
- 1.2 In December 2015 and March 2016, the Government confirmed a number of capital allocations within the Local Government Capital Finance Settlement for 2017/18 and there have been no changes announced to these allocations. Some indicative allocations for the following years 2018/19 to 2020/21 were also announced. All capital allocations from the Government now come in the form of capital grants.
- 1.3 This report includes the use of revenue contributions and general reserves to support capital investment and should be read in conjunction with the General Fund Revenue Budget and Council Tax 2017/18 and the Housing Revenue Account Budget and Investment Programme 2017/18 reports elsewhere on the agenda.

**2. RECOMMENDATIONS:**

That the Policy, Resources & Growth Committee recommend to Council the following:

- 2.1 The Capital Investment Programme for 2017/18 in appendix 1.
- 2.2 To note the estimated capital resources in future years as detailed in appendix 1.

- 2.3 To allocate £0.25m resources in 2017/18 for the Strategic Investment Fund for the purposes set out in paragraph 3.23.
- 2.4 To note the £2.0m allocation for the Digital First Scheme.
- 2.5 To allocate £1.0m for the Asset Management Fund.
- 2.6 The proposed use of council borrowing as set out in paragraph 3.40 and appendix 3.
- 2.7 To note the use of capital receipts to fund investment in change as part of the governments Flexible Use of Capital Receipts strategy set out in paragraphs 3.26 and recommended in the General Fund Revenue Budget and Council Tax 2017/18 report.

### **3. CONTEXT/ BACKGROUND INFORMATION**

#### **Context**

- 3.1 The capital programme is funded through a combination of government grants, borrowing, capital receipts and reserves, external contributions and revenue contributions. Over the last four years the level of other capital receipts received by the council has risen as a result of an upturn in the property market and a concerted effort to review the surplus and non core assets within the council including those associated with the Workstyles modernisation programme. A number of sites have been identified and approved for disposal which will support the delivery of new investment such as the Workstyles Phase 3 and any further modernisation phases plus support for investment to deliver the 4-year Integrated Service & Financial Plans.
- 3.2 Sites recently sold include 251-253 Preston Road, 11 Little East Street, Lions Court and land at Park Wall, Falmer, 76-80 Buckingham Road and other vacant corporate properties. Projected disposals include Kings House and Patcham Court Farm. Over the past 4 years the number of council house sales has risen and are estimated to continue at similar levels for the next 3 years.
- 3.3 The council has been successful in attracting new grants and working with partners to generate other resources to enable a programme of £148.9m to be proposed. Grants have been awarded from the Heritage Lottery Grants (HLF) and Arts England Council to support the Royal Pavilion Estates Regeneration project plus funding from the Heritage Lottery Fund to support the Stanmer Estate Restoration Project and the Volks Railway. Successful bids were made in previous years to the Highways Infrastructure Fund for much needed investment at the Shelter Hall. A number of bids have been made throughout the region as part of the Greater Brighton City Region and funding has been agreed through the Local Growth Fund to support investment directly within the city including funding for Valley Gardens phases 1, 2 and 3, the Brighton and Hove Bike Share scheme, Intelligent Transport System, Digital Catapult at New England House, Preston Barracks Central Research Laboratory and the Circus Street Development.
- 3.4 The agreed policy of the council is to set a fully funded Capital Investment Programme for 2017/18 dependent upon the achievement of certain capital

receipts. Forecast levels of capital receipts for the next few years are sufficient to cover proposed allocations in the capital strategy assuming receipts from the sales of properties mentioned in paragraph 3.2 are achieved.

### **Capital Investment Programme**

- 3.5 A proposed Capital Investment Programme for 2017/18 together with the impact in future years, by project, is shown at appendix 1 to this report. The latest capital re-profiling arising from the 2016/17 capital programme detailed in the Targeted Budget Management (TBM) month 9 report elsewhere on the agenda is incorporated into the 2017/18 programme and will be finalised when the capital accounts are closed in April 2017. The re-profiling is funded from resources carried forward from earlier years.
- 3.6 The financial implications of individual projects are included in the detailed reports that are submitted by services for each project to allow the relevant committees to give their full consideration to the capital and revenue costs prior to approval. Full provision for the revenue implications arising from the proposed Capital Investment Programme has been made in the General Fund and Housing Revenue Account revenue budgets.
- 3.7 The 2017/18 capital programme includes additional investment in the following areas:-
- £16.890m will be spent on new investment in schools.
  - £39.854m new investment in the housing stock including the New Homes for Neighbourhoods programme.
  - £13.683m in new and approved transport related schemes.
- 3.8 The capital programme will support the delivery of the 4 year service and financial plans and in 2017/18 £5.0m has been set aside to support the investment requirements set out in the General Fund Revenue Budget and Council Tax report elsewhere on this agenda. In addition, £2.0m of the £6.0m allocated to the Customer First in a Digital Age programme is also included.
- 3.9 The capital programme also includes allocations for investment in Public Conveniences over the next 3 years and additional funding to supplement the Planned Maintenance Budget (PMB) for investment in the Prince Regent and civic buildings in 2017/18.
- 3.10 As well as significant capital investment in the short term, the council is facing some major longer term capital investment challenges including the delivery of additional secondary school places, the major works needed to the seafront structures / infrastructure, pressure in identifying affordable housing across the city and investment in street lighting infrastructure. The 10-year Capital Investment Programme in appendix 1 details some of those challenges for which funding is being explored.

## Major Capital Investment Areas

- 3.11 The council is facing demands for new pupil places in particular parts of the city, and previously the government's allocation of Education Basic Need funding was not keeping pace with these demands. The current government policy indicates that extra capital resources for Free Schools and Academies would not be provided where these are being developed to meet Basic Need. The government announced three year allocations up to 2017/18 for new pupil Basic Need of £12.039m for 2015/16, £12.641m for 2016/17 and £11.445m for 2017/18. Previous years' allocations were around £3.9m per annum.
- 3.12 The government has announced Basic Need for 2018/19 and the council will receive a nil funding allocation for that year. This will be the first time that no Basic Need funding has been allocated to Brighton & Hove City Council. The future allocations are based upon revised calculations of costs and the need to cope with pupils moving from primary to secondary schools. No further indicative announcements have been made beyond 2018/19. A detailed Education Capital Resources and Capital Investment Programme report will be presented to Policy, Resources & Growth Committee in March 2017.
- 3.13 The Housing Revenue Account (HRA) Capital Programme 2017/18 - 2019/20, also being presented to this Committee, includes investment proposals that aim to create a long-term sustainable asset base that best meets the needs of residents and the City as a whole. The HRA capital strategy focuses on meeting Corporate Plan priorities through building new homes and improving the quality and sustainability of the existing housing stock. The HRA capital strategy aims to ensure that every pound invested reaches beyond the housing service and contributes to regeneration, tackling inequality, creating training and employment opportunities and improving sustainability.
- 3.14 The council secures capital funding for transport schemes through the government's Local Transport Plan (LTP) process. The LTP consists of a long-term strategy and a short term delivery plan that identifies the principles that help deliver the council's strategic transport objectives and the city's Sustainable Community Strategy. Funding for the LTP has been announced for 2017/18 at £5.391m. Further indicative allocations have been announced for the 3 years 2018/19 to 2020/21 for £5.169m per annum; the announced allocations are lower than previous years of £5.463m in 2016/17 and £5.682m in 2015/16.
- 3.15 Funding for the Highways Maintenance grant which forms an element of the government transport funding has been reduced nationally and diverted toward a new Local Highways Maintenance Challenge Fund. Local authorities will be able to bid from this fund for major maintenance projects that are sometimes difficult to fund through the normal needs element allocations they receive. The council has already been successful in obtaining £8.915m of funding from the Local Highways Maintenance fund for the West Street Shelter Hall structure. A detailed Local Transport Plan report will be presented to Policy, Resources & Growth Committee in March whilst the LTP4 Delivery Plan report will also be presented in due course. Additional transport related grants announced for 2017/18 includes Pothole Action Fund of £0.135m, National Productivity Investment Fund of £0.978m to assist with reducing congestion, and Incentive Funding that assists with transport asset management.

- 3.16 The Council has agreed, subject to negotiation of the final terms, to enter into a Living Wage Joint Venture with Hyde Housing to deliver up to 1,000 new lower cost rental and sale homes. The outline proposal is for up to £105.470m investment with the council providing half (£52.7m) of that funding potentially through borrowing with no net cost to the council and all net costs being met through the Joint Venture business plan.
- 3.17 The Capital Investment Programme includes proposals for investment in the Madeira Terraces seafront highways infrastructure for up £23.6m investment over a number of years through a bid to the Coastal Communities Fund and borrowing met from increased commercial and business rates income. The LTP will make contributions toward the grant funding relating to the West Street Shelter Hall. The Street Lighting Invest- to-Save proposals have been included within the Capital Investment Programme and include £7.956m of investment over the next 3 years from a combination of borrowing and LTP contributions.
- 3.18 The council has developed ways of providing major capital investment in the city by working in partnership with the private sector and public bodies, for example, the Heritage Lottery Fund (HLF), Arts Council England (ACE) and the Coast to Capital Local Enterprise Partnership (C2C LEP) whereby most of the capital investment is undertaken and accounted for by the private sector. Recent bids include Arts Council and HLF funding totalling £9.922m towards the £20.749m phase 1 capital works for the Royal Pavilion Estates Regeneration project. Work will continue to secure funding for Phase 1 through external fundraising and match funding from the council and Brighton Dome & Festival Ltd. Further bids to HLF will be prepared and submitted for subsequent phases of the works.
- 3.19 A development grant from the HLF of £3.79m (Parks for People grant) has also been identified to develop detailed plans to support the Stanmer Estate Restoration Project bid. The council has also received £1.647m HLF funding toward the repairs, workshops and station at the Volks Railway.
- 3.20 Local Growth Fund has been awarded from the Coast to Capital Local Enterprise Partnership (LEP) to support total investment for Valley Gardens Phases 1 & 2 at £8.0m, Intelligent Transport System at £1.83m, Brighton & Hove Bike Share Scheme at £1.160m, Digital Catapult at New England House at £0.135m, Preston Barracks Central Research Laboratory at £7.7m and the Circus Street Development at £2.7m. Further bids are being considered for submission to the next round of funding through the Greater Brighton Economic Board of which Brighton & Hove City Council is a principal member.
- 3.21 Funding has also been secured as part of the Greater Brighton City Deal to develop New England House into a Growth Hub. Grant of £4.9m has been awarded to the council toward the development. A list of further major projects under construction or yet to commence is shown in Appendix 2.

### **Corporate Funds**

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

<b>TABLE 1: Corporate Funds</b>	<b>2017/18 £ million</b>	<b>2018/19 £ million</b>	<b>2019/20 £ million</b>	<b>2020/21 to 2026/27 £ million pa</b>
Strategic Investment Fund (SIF)	0.250	0.250	0.250	0.250
Asset Management Fund (AMF)	1.000	1.000	1.000	1.000
Digital First	2.000	2.000	0.500	0.500

### ***Strategic Investment Fund***

- 3.23 It is proposed to allocate £0.250m to the Strategic Investment Fund (SIF) in 2017/18. The council has ongoing commitments to major projects that require financial support to enable their progression. The financial support takes the form of legal fees and specialist advisors for finance, design, architectural, transport, engineering and other external specialists. This will be reported at a later date to Policy, Resources & Growth Committee.

### ***ICT Fund – Digital First***

- 3.24 This committee approved the Customer First in a Digital Age programme on the 15<sup>th</sup> October 2015 which included the allocation of £2.0m per annum over the next 3 years to support the programme. The programme has now been renamed ‘Digital First’ and will enable the delivery of council wide revenue savings, improve customer experience, help to manage demand for services and develop new capabilities to ensure the council is fit for the future.

### ***Asset Management Fund***

- 3.25 It is proposed to allocate £1.0m resources per annum to the Asset Management Fund (AMF). The AMF includes expenditure on a range of properties covering, fire safety, health & safety, Equalities Act 2010 responsibilities and general improvements. The AMF will also support contribution towards future Workstyles projects. Bids to the remaining balance of the fund are currently being finalised and proposals for allocations of resources to schemes will be subject to a further report to this committee.

### ***Supporting the 4 Year Integrated Service & Financial Plans***

- 3.26 The General Fund Revenue Budget and Council Tax report elsewhere on this agenda identifies significant investment requirements to support achievement of over £60m savings identified in the 4 year service and financial plans, and, as mentioned in paragraph 3.8, capital resources are identified in supporting this investment in 2017/18. The capital investment programme includes allocations in 2017/18 to 2019/20 to fund all remaining investment requirements from capital receipts subject to the capital receipts being realised as planned. These investment requirements will be reviewed and confirmed each year to ensure the levels are appropriate.

- 3.27 In the Provisional Settlement, the Government outlined flexibility for the use of capital receipts enabling councils to use asset sales to help pay for upfront revenue investment in service transformation where this supports revenue savings. The planned use of capital receipts in 2017/18 to support transformation does not however require use of this flexibility as it can be applied to capital expenditure. In order to use this flexibility in future years, an 'Efficiency Strategy' will need to be approved by Council in advance of the financial year.

### Capital Resources

- 3.28 A fully financed Capital Investment Programme is proposed for 2017/18 assuming that existing approved capital projects spend in-line with their budget and certain net usable receipts of just under £27.1m in total are achieved next year. Table 2 below shows how the programme will be financed in 2017/18. The position for the years 2018/19 onwards is less clear until future Government allocations are confirmed. All Government support is now allocated through capital grants and all grants are unringfenced with the exception of Devolved Schools Capital Grant which must be allocated to schools.

<b>TABLE 2: Capital Resources</b>	<b>2017/18 £ million</b>
Capital Grants:	
- Capital grant announcements in previous years and profiled for spend in 2017/18	32.442
- New capital grants	25.204
<b>Total Government Support</b>	<b>57.646</b>
Capital Receipts Reserve	19.291
Capital Reserves	2.514
Specific Reserves	1.231
External Contributions	5.095
Direct Revenue Funding – Housing Revenue Account	27.538
Direct Revenue Funding – Service Departments	0.410
Council Borrowing	35.163
<b>Total Capital Resources</b>	<b>148.888</b>

### Capital Grants

- 3.29 The Government distributes capital grants towards the financing of certain capital expenditure. In 2017/18, it is anticipated that the council will receive new capital grants of £25.204m as summarised in table 3 below, and £32.442m from grants already announced where the spending of these grants is now profiled in 2017/18.

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

3.31 The new capital grants are in three main areas.

- Education Basic Need funding of £11.445m is included for new pupil places
- Education funding of £4.909m for investment in the maintenance of educational buildings and children’s centres in the city.
- Transport funding of £5.391m to include the transport related schemes and highways maintenance

<b>TABLE 3: New Grants announced for 2016/17</b>	<b>£ million</b>
Education Basic Need	11.445
Education Capital Maintenance	4.909
Schools Devolved Capital*	0.535
Transport and Maintenance (LTP)	5.391
Pothole Action Fund	0.135
National Productivity Investment Fund - transport	0.978
Incentive Funding – transport	0.131
Better Care Funding*	1.500
HCA Empty Homes Grant	0.180
<b>Total</b>	<b>25.204</b>

\*Funding to be confirmed from government

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

3.33 The proposed new Local Transport Plan (LTP) programme for 2017/18 of £5.391m represents a slight decrease over 2016/17 which was allocated at £5.463m. The LTP is made up of Integrated Transport funding and Highways Maintenance funding from the government. The allocations for Highways Maintenance were reduced nationally from 2015/16 with funding allocated to a separate Local Highways Maintenance Challenge Fund and authorities able to bid to this fund for major maintenance projects. The LTP grant will be fully allocated to the service for 2017/18. The funding will be prioritised to invest in street lighting as well as maintain roads and pavements alongside other sustainable transport initiatives such as match funding toward Valley Gardens, the Intelligent Transport System, Brighton and Hove Bike Share Scheme and the



West Street Shelter Hall. A separate detailed report will be presented to Policy, Resources & Growth Committee in March.

### **Capital Receipts**

- 3.34 The funding of the 2017/18 capital programme is dependent upon the achievement of £27.1m net capital receipts for investment into the General Fund during the year. This includes receipts associated with the disposal of surplus buildings identified under the Workstyles project which are required for investment into this project and receipts ringfenced for reinvestment into the Stanmer regeneration project. Progress will be closely monitored throughout the year for all receipts and reported through the regular TBM reports. Within 2017/18 the generation of the large capital receipt from the disposal of Kings House (Workstyles Phase 3) is included in the forecast. In future years receipts associated with the Brighton Waterfront and Preston Barracks will be required to be ringfenced back into the Waterfront scheme and corporate regeneration projects. Failure to achieve some of these receipts will require the capital allocations for future years to be reviewed.
- 3.35 The net receipts from 'right to buy' sales are split between funding for corporate strategic projects delivering regeneration including affordable housing opportunities, and investment directly in housing. The forecast receipts for Brighton & Hove City Council are set at an assumed level of £0.500m per annum. Any surplus above £0.500m will be set aside to reinvest in replacement homes.

### **Capital Reserves**

- 3.36 The level of reserves relates purely to unspent resources carried forward from previous years and has already been earmarked for specific schemes. The council monitors these resources over a rolling period by continually updating projections and comparing these against the level of commitments within the approved Capital Investment Programme.

### **Specific Reserves**

- 3.37 Specific reserves will be used to support schemes directly related to the purpose of the reserve or to support corporate priorities. Specific reserves relate to the refurbishment and maintenance of properties managed by the Brighton and Hove Seaside Community Homes with the costs being met as per the housing agreement. A contribution from the Brighton Centre Redevelopment Reserve will also support bringing forward the Waterfront project and the sports facilities reserve will support maintenance requirements at Prince Regent.

### **External Contributions**

- 3.38 The council will receive new external contributions totalling £5.095m in 2017/18 associated with transport initiatives, section 106 contributions and private developers and partners contributions and donations.

## Direct Revenue Funding

- 3.39 The General Fund and Housing Revenue Account budget reports elsewhere on the agenda include direct revenue funding of £27.948m. A summary of the allocations by service is shown in the table below.

<b>TABLE 4: Direct Revenue Funding</b>	<b>£ million</b>
Property & Design – planned maintenance	0.100
Sports & Leisure for Prince Regent	0.310
<b>Total General Fund Services</b>	<b>0.410</b>
Housing Revenue Account	27.538
<b>Grand Total</b>	<b>27.948</b>

## Council Borrowing under the Prudential Code

- 3.40 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 2017/18 it is proposed that the council will undertake borrowing of £35.163m to finance capital expenditure plans as detailed in appendix 3.

## 4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 The budget process allows all parties to put forward viable alternative capital investment proposals to Budget Council on 23 February 2017. Budget Council has the opportunity to debate both the proposals put forward by Committee at the same time as any viable alternative proposals. All budget amendments must have been “signed off” by finance officers no later than 12.00 noon on Thursday 16 February.

## 5. COMMUNITY ENGAGEMENT AND CONSULTATION

- 5.1 The level of consultation undertaken on individual schemes will be reported to Members when the detailed report is submitted for approval. The overall programme and appropriate levels of capital investment are subject to the same consultation processes as the revenue budget, which are described in the revenue budget report elsewhere on the agenda.

## 6. CONCLUSION

- 6.1 The council is under a statutory duty to set its council tax and budget before 11 March each year. The recommendations to Budget Council contained within this report together with the recommendations in the revenue budget report, will enable the council to meet its statutory duty.

## **7. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

- 7.1 These are contained within the main body of the report.

*Finance Officer Consulted: Rob Allen*

*Date: 30/01/2017*

### Legal Implications:

- 7.2 Policy, Resources & Growth Committee has delegated power to formulate the council's capital investment programme, and to recommend its adoption by full Council as part of the overall budget setting process.

*Lawyer Consulted: Elizabeth Culbert*

*Date: 01/02/17*

### Equalities Implications:

- 7.3 The equality implications of individual schemes included within the Capital Investment Programme are reported to Members when the detailed report is submitted to the relevant committees for final approval along with any appropriate Equality Impact Assessments. The programme includes resources to finance adaptations to the homes of disabled people and capital projects that are designed to improve living conditions of all sections of the community, through direct investment by the council or through capital grants to the private sector. The Asset Management Fund will address access improvements to council services and buildings.

### Sustainability Implications

- 7.4 The environmental implications of individual schemes included within the Capital Investment Programme are separately reported to Members when the detailed report is submitted to the relevant committee for final approval. All projects are required to give due consideration to sustainability issues including energy conservation and the procurement of materials from managed and sustainable sources. The investment in sustainable transport initiatives and in street lighting will have a positive impact on the council's One Planet Living programme and on carbon reduction targets for the council and city as a whole.

### Any Other Significant Implications:

### Risk and Opportunity Management Implications:

- 7.5 The risk implications of individual schemes included within the Capital Investment Programme are reported to Members when the detailed report is submitted for approval. The Risk Matrix in appendix 5 of the General Fund Revenue Budget and Council Tax report elsewhere on the agenda highlights some of the general risks to the Capital Investment Programme.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Capital Investment Programme 2017/18 to 2026/27
2. Other Capital Investment
3. Council Capital Borrowing 2017/18

### **Documents in Members' Rooms**

1. None

### **Background Documents**

1. Letter from the Department for Transport dated 11 December 2015.
2. Notifications from the Department for Education dated 31 March 2016.
3. Various files, budgets and accounting files held within the Corporate Finances & Resources Team, Financial Services.