Capital Programme Supporting Information

1. Background

1.1 In 2015/16, a high-level Capital Programme management review was commissioned in recognition that firm targets need to be set to focus and shape the new 5 year Capital Programme 2018-2023 in light of the financial challenges this presented.

1.2 As reported to Cabinet in October 2016, the Council had a gross remaining 2016-18 programme of £194.9m, which, after applying £46.4m scheme specific income, results in a net programme to be financed of £148.5m. This comprises the final 2 years of the previously approved 5 year programme. The 2018-23 programme reported to Cabinet in October was a gross estimate of £337.6m.

1.3 Work has been ongoing and this report updates the remainder of the 2013-18 programme and the proposals for the 2018-23 programme in one combined 2016-23 programme.

1.4 Due to the ongoing financial pressures the Council is facing, the agreed approach for the future is to prioritise investment in a core Capital Programme for defined basic core need areas. Therefore the Capital Programme 2018-2023, has focused on a strategy to deliver core need as efficiently as possible. Where there are other service developments and investment opportunities that require capital investment (that are not identified as core need), they will be required to be either match funded or would require a business case that demonstrates benefits. Approved bids would be added to the programme in line with the current variation policy.

1.5 The areas of essential core need included in the 2018-2023 programme are:

- Schools Places (early years, primary, secondary and special);
- Highways Structural Maintenance;
- Highways Bridge Strengthening;
- Highways Street Lighting;
- Highways Rights of Way and Bridge Replacement Programme;
- Property Building Maintenance;
- ICT Strategy; and
- Adults and Children's House Adaptations Programme.

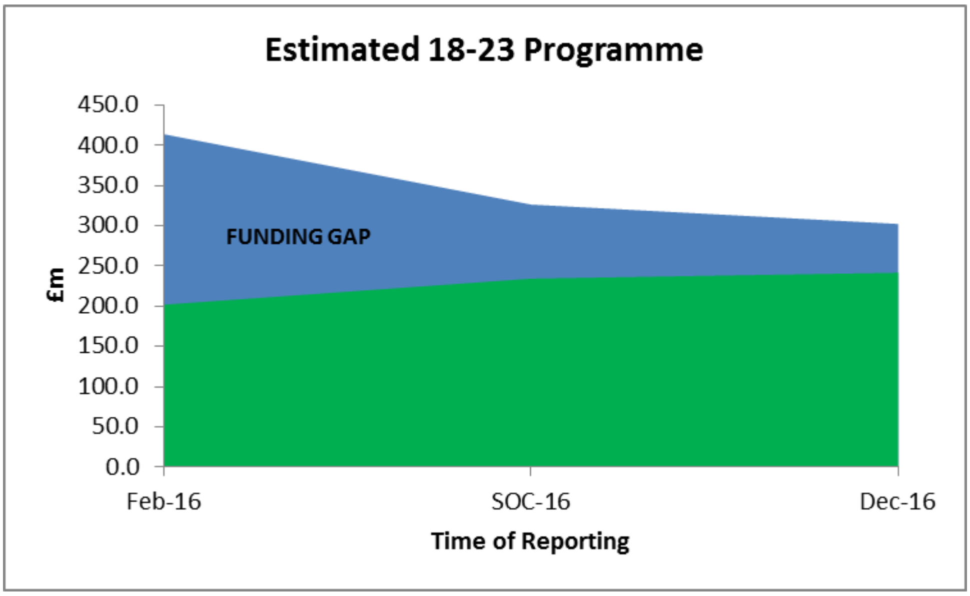
1.6 In addition to the core need, there are a number of other fully funded schemes which are either funded through the South East Local Enterprise Partnership, or for the provision of grants and loans. These were originally pump primed in the 2013-2018 programme and include the Economic Intervention Fund, that by 2021/22 will become self-funding.

2. Capital Programme Update

2.1 Spending profiles within the 2016-18 programme have been updated for Quarter 2 by departments and for other known variations. In addition, as part of the RPPR process, departments have specifically been asked to review their profile across years for reasonableness and some further adjustments have been made.

2.2 Detailed below are the updates since the 2016-18 programme was reported at State of the County.

	£m
Gross Current (16-18) Capital Programme at State of the County	**205.1**
Movements:	
Net slippage into 18-23 programme (mainly Newhaven Port Access Road)	(14.3)
Approved variations	2.4
Under spends (mainly due to a reduction in the need for primary places at Meridian Primary School)	(6.1)
Total Gross Programme at Dec 16	**187.1**
Less:	
Scheme specific resources at SOC	**45.8**
Movements:	
Additional grants/contributions etc. supporting Approved Variations	2.4
Total scheme specific resources at Dec 16	**48.2**
Total Net Programme	**138.9**



2.3 Work has also been ongoing to review and refine the 2018-23 programme. The graph above shows how costs have been driven down from the original estimated costs of £414.0m, with a funding gap of £212.1m as reported in February 2016 and resources maximised to reduce the funding gap. The estimated 2018-23 programme is now £326.8m gross, with a reduced funding gap of £68.2m.

2.4 The borrowing for the 2013-18 programme is currently £47.6m, excluding the approved capital risk provision of £8.7m, reduced from an original approved borrowing requirement of £100.0m.

2.5 While we are driving efficiencies by having a 7 year programme, there are a number of risks associated with doing this. These include inflationary pressures on construction costs, uncertainty regarding delivery of projects, still unknown requirements and the uncertainty regarding the level of Government grants. It is therefore proposed to hold a capital risk provision of £12.9m (that includes the previously approved £8.7m contingency) based on 2.5% of the total 2016-23 gross programme, that will enable the Council to manage these risks over the future programme, should they materialise.

2.6 It is proposed that the current remaining programme and the new 2018-23 programme are combined. Therefore, the total 2016-23 proposed programme is estimated at an investment of £526.8m (over 7 years). This includes the proposed capital risk provision of £12.9m, however we would not borrow for this until potential risks materialise. The current total borrowing requirement is therfore £115.8m. The detailed programme can be found in the capital section of the budget summary at Appendix 2.

3. Core Programme Detail

3.1 <u>Schools Basic Need Programme</u>

3.2 Ensuring the provision of sufficient school places is a statutory duty of the Council and needs to be funded. The requirement for school places in East Sussex is driven by housing growth, inward migration and increases in births.

3.3 To date, additional places have been provided in primary schools but the children in primary schools will need secondary school places as they move through the school system. In the period beyond 2018/19, ongoing primary school place pressure is expected in a number of areas due to major housing plans.

3.4 At secondary school level, higher intakes are expected from 2017/18 reflecting the earlier growth in primary schools coming through. There is some capacity in the secondary school estate to take the initial increase in numbers but there will be a requirement for additional school places in the secondary school estate from 2018/19.

3.5 There are a limited number of primary school places needed but these are mostly as a result of new housing and have some S106 funding.

3.6 There is significant pressure on special schools as the number of pupils with Special Educations Needs and Disability (SEND) is increasing.

3.7 The provision of school places can be broken down into four programme areas early years, primary, secondary and special schools.

3.8 As agreed at State of the County, inception studies have been carried out to re-profile and reduce costs. This has resulted in a significant reduction in the costs of the schemes. There are several reasons for this:

- The inception studies have shown that there is capacity in some of the schools without undertaking significant building work.
- There have been some changes to the pupil forecasts and schemes have been pushed out beyond 2023 and therefore come out of the 2018-23 programme.
- As a result of the inception studies, the funding required is based on known information rather than on a per pupil basis.
- As projects are developed and if risks aren't realised and ways are found to mitigate or eliminate them then costs should be driven down as the programme develops.

3.9 The profiled cash flow of the schemes is a best estimate at this time. This cashflow can be impacted by:

- The selected procurement route.
- The number of phases that the scheme is delivered within.
- Statutory or legislative decision making e.g. expansion or planning approval.

- Delays to the “build-out” of housing and consequent delays to the requirement for pupil places.
- Demographic changes to when the school places are required.

3.10 There are a number of issues to be considered as a result of the need to drive down costs. School expansions will not provide for reorganisation of the school, resolution of historical issues or additional scope above the basic need requirement that will be to a baseline specification.

3.11 A Procurement Strategy has been developed to leverage benefits taking a programme approach, using local Small Medium Enterprises (SMEs) where appropriate. For larger schemes, we will use the new Orbis framework which is a dedicated framework that will be in place in 2017 for both East Sussex and Surrey. It will lead to increased efficiencies and ensure long-term contractor commitment. Procurement resource will be allocated across the life of this framework to work with our contractors to drive further efficiencies.

3.12 For lower value schemes, typically below £4m, local SME contractors will competitively bid for these opportunities. This is a proven and cost-effective approach at East Sussex. As well as supporting the local market directly, the existing Build East Sussex network will help larger main contractors to use local sub-contractors as part of their supply chains alongside supporting apprenticeship and other work opportunities. This reflects the Council’s priority for use of local companies and realising social value from its contracts.

3.13 A number of bids for free schools have been submitted by proposer sponsors to the Education Funding Agency (EFA) and, as such, would not need to be funded by the Council if the bids are successful. Current capital cost assumptions assume a prudent approach and include no successful free school bids. Although the grant the Council receives from the Department for Education (DfE) for schools would be reduced as a result of a successful bid for a free school, the grant received from the DfE does not fully fund our need therefore any successful bids will further reduce the funding gap.

3.14 There is significant pressure on special schools as the number of pupils with SEND is increasing alongside demographic increases. The new forecasting model that the Council has developed for pupils with SEND has provided key information on the pressures for special school places by age and type of need. The Free School strategy is actively being pursued for new special school provision and 4 of the free school applications being submitted to the DfE were for new special schools. In the event that none of the special school free school bids are successful, then two new special schools will be required, the cost of which are included in the programme. Inception work is also being undertaken to provide greater cost and programme certainty for expansion of existing provision. The success of these free school bids will not be known until after March 2017 and an update of the impact of the outcome will therefore be provided at State of the County, together with any impact this might have on revenue budgets.

3.15 <u>ICT Strategy Programme</u>

3.16 The Council has a fundamental dependency on a basic level of foundation IT infrastructure in order to be able to function. The IT Strategic Investment bid is for operational activity, essential to keep foundation services that enable front line service delivery working.

3.17 Capital investment in IT assets (hardware and software) is an essential requirement to ensure the Council is contractually compliant and remains secure, resilient and has access to systems that are functional. Costs in this area are uncertain as a result of leaving the European Union and likely to increase in light of the weakening pound against the dollar, particularly for assets such as licenses purchased from USA companies.

3.18 Inadequate levels of investment will, in the short-term, mean that the infrastructure is less effective and is out of step with the organisation's needs. Failure to build upon the technology investments already made will leave the Council ill-prepared for the future, compromising the ability of the infrastructure to support the business in achieving its goals, making it difficult to share business information securely with partners and access it more flexibly across traditional boundaries.

3.19 Property Building Maintenance Programme

3.20 The funding for maintenance covers schools and non-schools. For schools, the level of budget has been set at the level of the condition capital grant received from the DfE, although this is lower than the level of funding needed to meet the total school condition backlog. In addition, the funding is insufficient for the total backlog of the non-schools estate and expenditure will have to be prioritised on health and safety and critical works only. The risk of this is that as the estate deteriorates, there will be a funding pressure in the future due to not replacing items until they are life expired rather than through a programme of preventative works, with increased costs and risk of disruption to services.

3.21 For non-schools, the corporate buildings costs include work related to legislation and statutory compliance. The money spent on capital will avoid higher running costs helping to reduce the cost of occupancy of corporate buildings.

3.22 Each year the condition backlog will be reviewed again as condition surveys are updated (buildings come into and go out of the portfolio), new legislation is introduced and further essential requirements are identified. The figures that will be subject to change are those at the end of the programme (2021/22 and 2022/23).

3.23 Adult Social Care (ASC) and Children's Services Department (CSD) adaptations

3.24 For ASC and CSD, the only programme (other than school places) that will currently need funding from the 2018/19 to 2022/23 Programme is the housing adaptations programme. Although this is not a statutory duty, this investment enables individuals' assessed needs to be met whilst maintaining independence in their own homes (a key strategic objective), thereby reducing the potential for more costly revenue placements in specialist accommodation.

3.25 This allocation also enables close partnership working with the Borough and District Councils and access to Disabled Facilities Grants. As part of the development of the East Sussex Housing and Accommodation Strategy (including Borough and District Councils and Clinical Commissioning Groups) there may be a requirement for additional capital investment, which will be supported by a full business case.

3.26 Adult Social Care ICT

3.27 In addition, East Sussex Better Together (ESBT) requires significant IT investment to develop an integrated digital care record. Initial work is being funded through the NHS, but there is a group working to identify when this project will progress and what capital requirement will be needed by partners.

3.28 Highways Programme

3.29 Maintenance of public highways and public rights of way across the county is a statutory requirement of the County Council under the Highways Act. ESCC has very clear obligations to maintain the public highway, and, therefore, without an adequate supporting capital maintenance budget the pressure on revenue budgets will undoubtedly increase and the Council will be at greater risk of third party claims for damages.

3.30 Road condition, and the ability to prevent the formation of potholes, has long been a priority for Members, and, in recent years, the focus of the Capital Maintenance Programme has been to improve the overall condition of the carriageway through programmes of preventative patching and carriageway resurfacing. The increase in capital investment from historical levels has now contained that rate of deterioration.

3.31 In 2013, Cabinet agreed that a level of capital maintenance of £15.0m per annum (at current prices) would be required, over 10 years, in order to maintain the roads in a condition that reflected the Council's priorities, to stem the rate of deterioration and to maintain the current condition of the county's roads. This funding level was provided for in the current Capital Programme and has been assumed, at this stage, for the term of the next Capital Programme 2018/19 to 2022/23.

3.32 For the programme 2018-23, a commitment has been made to a 5-year highways maintenace programme of £91.3m in order to secure efficiencies in partnership with the contractor. This is subject to agreement with the contractor.

4. Review of funding

4.1 Work has also been undertaken to review and maximise resources available to the 2016-23 programme, these are summarised in Table 1 below. The subsequent paragraphs provide further detail.

Table 1 – Funding

Funding Source	16-17 £m	17-18 £m	18-19 £m	19-20 £m	20-21 £m	21-22 £m	22-23 £m	**Total 16-23 £m**
Specific Income	20.3	23.4	6.5	10.6	11.7	1.1	1.1	**74.7**
S106 Contributions	3.5	0.9	7.8	3.1	2.2	5.2	2.9	**25.6**
Capital Reserves	0.0	0.0	26.8	0.0	0.0	0.0	0.0	**26.8**
Capital Receipts (including VPN)	3.1	2.0	0.6	0.8	0.0	13.1	0.0	**19.5**
Contribution from earmarked reserves	0.7	1.7	0.0	0.0	0.0	0.0	0.0	**2.5**
Non-Specific grants	35.1	31.9	20.5	43.3	38.6	17.9	22.5	**209.8**
New Homes Bonus	2.9	2.3	0.0	0.0	0.0	0.0	0.0	**5.2**
Revenue contributions	6.0	4.0	4.0	4.0	4.0	4.0	4.0	**30.0**
Payback on Prudential borrowing	0.8	0.9	0.9	0.9	0.6	0.0	0.0	**4.0**
Borrowing	19.2	28.4	16.8	14.0	10.2	14.2	13.0	**115.8**
Total	**91.6**	**95.5**	**83.9**	**76.7**	**67.3**	**55.5**	**43.4**	**513.9**

4.2 Specific Income

4.3 This includes scheme specific grants or external contributions, including South East Local Enterprise Partnership (SELEP) funding. For the 2016-18 programme, specific income of £43.0m has been confirmed. For the 2018-23 programme £24.9m of SELEP (rounds 1 and 2) funding is confirmed. An announcement on Local Growth Fund round 3 is expected in January 2017 and could result in additional Local Enterprise Partnership projects in the 2016-23 programme.

4.4 S106 Contributions

4.5 A detailed review of S106 has identified a further £21.3m available to the Council for the identified basic need programme. This therefore has helped to reduce the funding gap. The status of these S106 resources is detailed in Table 2.

Table 2 – Proposed use of S106

Current 2016-18 programme	**£3.6m**
Direct to school 2016-18 programme (net nil impact)	£0.3m
Approved variation use of S106 (net nil impact)	£0.2m
Total additional S106	**£0.5m**
School basic need and integrated transport to offset the 2016-18 programme	£0.3m
School basic need - Received (held by either ESCC or district and borough)	£3.3m
School Basic need - not received but the development has started	£1.5m
School Basic need - development has not started*	£15.9m
Total proposed S106 for 2016-23 programme that has reduced the funding gap	**£21.0m****

**Should the development not go ahead then not all the school places will be required, therefore, both the programme and associated S106 will reduce but not necessarily proportionally. There is a risk that planning will be resubmitted and this could turn to Community Infrastructure Levy (CIL). If this happened we would have to agree with Borough and District Councils the required funding for the work.*
***There was £0.5m S106 already included in the 2018-23 programme within schemes supported by the Local Enterprise Partnership.*

4.6 There are further S106 of £25.6m that have been identified and will be subject to further review and monitoring. No work has been identified in the proposed programme that these could be used against. However, it is anticipated that there may be a possibility of offsetting historical costs or holding them for future Capital Programmes post 2023. Where this is not the case, and the S106 is nearing its end date, the contributions, through the variation process, may enter the programme as additionality. Of the £25.6m, £18.2m relates to developments that have not yet started. Therefore, there is a risk that the developments may not go ahead or that planning is re-submitted and these could turn into CIL.

4.7 There is a need to develop a broad strategy regarding S106 and future CIL contributions, we will work closely with Borough and District Councils to demonstrate the links between their developments and our core need Capital Programme.

4.8 Work is ongoing to establish what funding is expected from CIL contributions and the process that the Council will need to undertake to obtain CIL contributions. The County Council will need to work closely with the Borough and District Councils to ensure basic needs are prioritised effectively and ensure CIL funding is secured where appropriate.

4.9 Capital Reserves

4.10 The capital reserve for the 2013-18 programme has been fully committed against schemes within the 2013-18 programme. For the 2018-23 programme, a reserve of £26.8m is set aside to use as funding in the early years of the programme.

4.11 Capital Receipts (including valuing people now [VPN] receipts)

4.12 The planned capital receipts use in 2016-23 is currently estimated to be £17.1m. These can only be used for capital or, for receipts received before 31st March 2019, for projects (revenue or capital) that can demonstrate ongoing savings. The VPN receipts are £2.4m, which are ring-fenced for Adult Social Care projects.

4.13 Contribution from revenue reserves

4.14 In the 2016-18 programme, there are contributions of £2.5m from earmarked reserves. This is for Terminus Road, Speed Management and Real Time Passenger Information projects.

4.15 Non-specific grants

4.16 For the 2016-18 programme, there is £67.0m of non-specific grants which have been confirmed. Funding of the 2018-23 programme includes an estimated £142.8m of government grants. These estimates are based on current levels and formula projections. Table 3 below shows the assumed grants for the entire programme 2016-2023. It therefore been risk rated to highlight the risk level attributed to the receipt of this funding. Of the £209.8m only £64.3m (31%) is currently confirmed.

Table 3 - Grant risk status

Funding Type	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/12 £m	2022/23 £m
Basic Need Funding	-16.992	-14.190	-2.674	-25.425	-20.803	0.000	-4.623
Dates of Confirmed allocation	*Mar-15*	*Mar-15*	*Mar-16*	*Mar-17*	*Mar-18*	*Mar-19*	*Mar-20*
Schools Condition Grant Funding	-4.83	-4.799	-4.597	-4.597	-4.597	-4.597	-4.597
Dates of Confirmed allocation	*Feb-16*	*Feb-17*	*Feb-18*	*Feb-19*	*Feb-20*	*Feb-21*	*Feb-22*
Highways Grant Funding	-9.746	-9.451	-8.554	-8.554	-8.554	-8.554	-8.554
Dates of Confirmed allocation	*Dec-14*	*Dec-14*	*Dec-17*	*Dec-18*	*Dec-19*	*Dec-20*	*Dec-21*
Incentive Grant Funding	-0.596	-0.531	-1.782	-1.782	-1.782	-1.782	-1.782
Dates of Confirmed allocation	*Apr-16*	*Apr-17*	*Apr-18*	*Apr-19*	*Apr-20*	*Apr-21*	*Apr-22*
Integrated Transport Block Funding	-2.919	-2.919	-2.919	-2.919	-2.919	-2.919	-2.919
Dates of Confirmed allocation	*Jul-14*	*Jul-14*	*Jul-17*	*Jul-18*	*Jul-19*	*Jul-20*	*Jul-21*
Total	**-35.083**	**-31.890**	**-20.526**	**-43.277**	**-38.655**	**-17.852**	**-22.475**

Not confirmed
Indicative amount
Confirmed

4.17 New Homes Bonus (NHB)

4.18 The NHB is a grant paid by Central Government to local Councils to reflect and incentivise housing growth in their areas. As the building of new homes results in a subsequent requirement for infrastructure, NHB, once confirmed, is used to fund the Capital Programme. The current approved programme only includes the NHB as funding for the Capital Programme in 2016/17; therefore, it is now proposed to include the 2017/18 NHB.

4.19 Revenue contributions

4.20 The current assumption is that there will be a £4.0m contribution from revenue each year from 2017/18 – 2022/23 to support the programme. The Council's capital investment ranges across assets with a life of between 5 and 60 years. However, as Table 1 above demonstrates, other sources of funding are diminishing in the latter years of the programme. It is also important that a level of revenue investment is maintained to continue the Council's investment in short life assets and avoid borrowing for these assets. Table 4 below provides detail of the estimated investment required on assets with a short life. These include ICT and House adaptations. Table 4 also includes an element of Highways Infrastructure. This is approximately £10m a year over and above the amount of grant received from central government. If we are investing this amount on an ongoing basis then at least some of this value should be funded from revenue, as this level of investments does not appear to be reducing the maintenance backlog. While we would borrow in full for new road infrastructure, it makes less financial sense to borrow for ongoing capital maintenance.

Table 4 - short life assets

Project	2018/19 SOC £'000	2019/20 SOC £'000	2020/21 SOC £'000	2021/22 SOC £'000	2022/23 SOC £'000
House Adaptions ASC	250	250	250	250	250
House Adaptions CSD	100	100	100	100	100
ICT Strategy*	3,700	3,983	2,300	2,305	2,550
Total	**4,050**	**4,333**	**2,650**	**2,655**	**2,900**
Additional Highways expenditure above government grant	10,424	10,424	10,424	10,424	10,424
Total	**14,474**	**14,757**	**13,074**	**13,079**	**13,324**

**the 2018-23 programme only includes expenditure for run and grow projects, there will be additional transformational needs that emerge (e.g. the Accountable Care Organisation).*

4.21 To fund the short life asset investment from revenue contributions it would total £16.6m, however, if we borrowed to fund these assets the principal plus interest would total £18.0m. This is at current low interest rate levels, which are likely to increase in the future.

5. Conclusion

5.1 Significant work has been undertaken to review the delivery of basic need as efficiently as possible and to identify all potential funding. This has resulted in the funding gap for the 2018-23 Capital Programme being reduced to £58.2m, although significant risks remain regarding Government grants.

5.2 ESCC has a strategy of using surplus Treasury Management budget to fund the Capital Programme directly and reduce its borrowing where possible. It is proposed that this continues as it reduces the overall impact on revenue budgets when possible.

5.3 The proposed 2018-23 programme is significantly lower than the Council's previous programme which was an average of circa £125m per year. The proposed programme of £526.8m covers seven years, which is an average of £75m a year. The first 2 years of which relate to the previously approved programme and total 36% of the value of the investment. This shows how far the Council has contracted its capital programme by focusing on core need and driving down delivery costs.

5.4 It is recommended that the proposed Capital Programme is agreed as this will allow the Council to fulfil its statutory or legislative requirements in relation to provision of core need.