Appendix 9: Capital Programme 2019-30 and Capital Strategy 2020-41

1. Background

1.1 Through the Reconciling Policy Performance and Resources (RPPR) process the capital programme is reviewed and monitored to ensure that it supports the Council's Core Offer and departmental service strategies; either providing for basic need or via strategic investments demonstrating benefit to the Council.

1.2 Departments have worked together to develop a target led basic need capital strategy extending the timescale to 20 years and supported by 10 year planned capital programme.

1.3 The development of the capital programme is set on the following sections:

a. Update the Current Programme within Medium Term Financial Plan (MTFP) (Section 2);
b. Update the Current Programme where it has impact over 10 year programme (Section 3);
c. Development of the Capital Strategy to inform the new 10 year programme (Section 4);
d. Propose a 10 year programme (Section 5); and
e. Provide funding model for complete programme (Section 6)

2. Current Capital Programme Update

2.1 As part of the RPPR process and informed by the Quarter 2 monitoring position, Service Finance and Departmental Capital Teams have completed a Capital Programme refresh. Re-profiling their programmes and schemes as accurately as possible based on current knowledge held.

2.2 Table 1 summarises the movements to the approved programme 2019-23 since State of the County in July 2019. The changes include the refresh at quarter 2, plus any subsequent updates from services (Quarter 2.5).

Table 1 – Current Programme Update

	2019/20 £000	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**Total £000**
Gross Approved Programme as at SoC 2019	109,162	81,094	45,592	46,263	**282,111**
Refresh of Programme post Q2*	(11,707)	10,028	453	1,155	**(71)**
Approved variations**	1,410	2,580	1,169	49	**5,208**
Gross programme updated for refresh and variations	**98,865**	**93,702**	**47,214**	**47,467**	**287,248**

**at Q2 there was a small underspend of £30k reported and £41k profiled outside the current programme period – this will be picked up in the future programme.*
*** all variations to the programme are net nil and in line with variation policy*

Funding updates

2.3 In addition to State of the County and approved variations there have been a number of areas of funding requiring update, these are as follows:-

- Payback of SEND – profiles the payback from SEND investment already agreed.
- Community Infrastructure Levy (CIL) funding for Seahaven Academy –the successful bid for CIL funding for expenditure already included in the capital programme.
- New Homes Bonus – the expected amount of New Homes Bonus not used to fund revenue expenditure.
- Reduction in Borrowing – the movement in the need to borrow after taking into account all of the movements above.

Table 2 – Funding

	Total
Funding at State Of County	**£000**
Other funding	193,861
Borrowing *	88,250
Funding	**282,111**
Funding Updates	
Funding for approved variations	5,208
Payback for SEND	486
Community Infrastructure Levy (CIL) funding of Seahaven Academy	400
New Homes Bonus	767
Reduction in borrowing **	(1,724)
Gross programme updated for refresh and variations	**287,248**

2.4 This reduces the overall borrowing to £86.5m (* £88.2m less ** £1.7m) for the current approved programme. Should there be any unused underspend on Treasury Management in 2019/20 after outturn on service budgets is managed, it is proposed, as is normal policy and practice, that this would also be used to reduce borrowing.

3.0 Amendments to Current Programme impacting on future years

3.1 There are a number of updates to the current programme that also impact on future years that need to be noted as they will need to be reflected in the proposed programme to 2030. These are:-.

- **Newhaven Port Access** – Whilst the project remains on track, as part of the Quarter 2 monitoring the budget for the Newhaven Port Access Road has been profiled to more accurately reflect the landscaping aftercare period which extends to 5 years after completion. ESCC are responsible for aftercare in years 2, 3, 4 & 5 for which we have estimated £20,000 per year for budget profiling purposes and therefore moved £41,000 from the current programme to 2023/24 and 2024/25.

- **The Keep** – The replacement and update of equipment at the Keep has been identified as needed over the next 10 years, contributions from the partner organisations have been and will be kept in an earmarked reserve. Of the planned expenditure of £1.091m, £691,000 is currently matched by drawdowns from this reserve for the first 8 years. It is proposed that the council also provides for the additional £400,000 contribution required by the Council in 2028/29 in its capital programme as this is basic need in order for the Keep to remain functional.

- **House Adaptations** – House adaptations will now only be included for the first three years of the programme in line with the MTFP period, they will be net nil and funded by contribution from reserve. This will allow them to be more reflective of demand rather than representing a budget allocation that continuously slips. The amounts included in the programme are indicative and represent the historic trend, any variations will be managed through the RPPR process and reserve policy.

3.2 **Table 3** shows the amendments to the current programme and **Table 4** the related ongoing future programme requirement detailed above in section 2. This will give revised current programme to be funded of £ 286.2m (see Table 3) and a starting point for future years of £1.0m (see Table 4). Reducing borrowing by a further £1.1m to £85.3m.

Table 3 – Summary of amendments to Current Programme for MTFP

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total 2019/23 £000
Current Programme (Table 1)	98,865	93,702	47,214	47,467	287,248
Removal of Existing House Adaptations Budget	(160)	(160)	(568)	(540)	(1,428)
Adult House Adaptations		50	50	50	150
Children's House Adaptations	67	50	50	50	217
(Decrease)/Increase in Expenditure	(93)	(60)	(468)	(440)	(1,061)
Revised Current Programme	98,772	93,642	46,746	47,027	286,187

Table 4 – Summary of amendments to Current Programme impacting 2023 - 2030

	2023/ 24 £000	2024/ 25 £000	2025/ 26 £000	2026/ 27 £000	2027/ 28 £000	2028/ 29 £000	2029/ 30 £000	Total 2023/30 £000
Newhaven Port Access	20	21						41
The Keep	96	26		85	110	628		945
Baseline Future Programme	**116**	**47**		**85**	**110**	**628**		**986**

4.0 Proposed Capital Strategy and 10 Year Programme

4.1 In 2017, the CIPFA Prudential Code was revised and included the requirement for Local Authorities to produce a Capital Strategy. The Council's current Capital Strategy was approved as part of RPPR 2019/20, however, it was recognised that further development was required. A 30 year Capital Strategy has therefore been developed for 2020/21 and is supported by a 10 year planned capital programme in recognition of the need to provide a planned capital programme and strategy over a longer period. The Capital Strategy is attached at **Appendix 9a**.

4.2 The 10 year programme will be reviewed annually as part of the RPPR process to ensure it reflects current knowledge and service need. To be consistent and to allow alignment to the MTFP regarding investment decision, the first 3 years of the planned programme will represent firm planning assumptions and an agreed direction with future years being more indicative. This strategy has been developed during a period of significant unknowns: the economic effect of withdrawal from the European Union and the subsequent transition period; local government funding reform, and the level of funding that will be made available in future years as the government will review its capital funding in 2020.

4.3 In conjunction with reviewing the programme, the governance arrangements will also be reviewed to ensure that they remain in line with best practice as advised by CIPFA and the Council's Financial Regulations.

5.0 Proposed Capital Programme from 2023/24 to 2029/30

5.1 The proposed strategy focuses on basic need and allows the delivery of the Council's Core Offer. The level of basic need investment has been ascertained through a service target led approach. The following paragraphs provide a summary of the additional investment proposed form 2023/24 to 2029/30. The total proposed programme, which includes the revised current programme, is provided in detailed at appendix 3. Where strategic investment is required, beyond basic need, these will be considered separately via business cases. As such these will not be included in the Capital Programme until their overall impact, including funding implications, have been assessed and approved.

Communities, Economy and Transport

5.2 **Libraries** – The existing approved capital programme to 2022/23 is £1.997m, the new capital budget allocation for 2023/24 to 2029/30 is £3.143m, giving a total revised capital budget of £5.140m. The budget only enables libraries to be maintained in a safe and suitable condition from which to deliver the outcomes of the Libraries Strategic Commissioning Strategy. There is no element of 'enhancement' in this programme. S106 targets will cover some of the cost.

5.3 **Economic intervention grants and loans** – will be treated as a single investment item and will include the Economic Intervention Fund, the Enabling Fund (previously called the Stalled Site Fund) and the Incubator Fund. The Economic Intervention (EI) Fund supports local businesses through investment to grow and create jobs. The Enabling Fund will be providing funding to enable sites to be developed. The Incubator Fund will support identifying further business incubator opportunities with Districts and Boroughs, together with our own assets or with Social Enterprises to allow wider benefit and access further private and public match funding to increase the number and quality of jobs in East Sussex. The overriding principle, however, is that the Council does not borrow to fund grants or loans. Therefore, the pump prime monies and loan repayments, plus any one off agreed funding, will be held in reserve to fund expenditure in future years through the RPPR process. Expenditure on loans and grants will be included for the first three years of the programme in line with the MTFP period; there is therefore no change to the expenditure profile in the current programme of £4.537m. Any unused funding over the MTFP period will remain in reserve for use in future years. It is proposed that working with CET detailed monitoring of the Economic Intervention Fund and its reserve will be presented to Capital Strategic Asset Board (CSAB) as part of the annual RPPR and monitoring process and will include future years for completeness.

5.4 **Integrated Transport** – The existing approved capital programme to 2022/23 is £10.326m, the new capital budget allocation for 2023/24 to 2029/30 is £21.483m, giving a total revised capital budget of £31.809m. The Integrated Transport Capital Programme delivers the objectives of the County's Local Transport Plan (LTP) 2011 - 2026 which is complemented by a series of five year Implementation Plans that set out the priority schemes that could be delivered in the five year period subject to the availability of funding. It is proposed that funding for Integrated Transport is at the level of grant received, supported by other scheme specific funding from S106 and CIL which will be approved via variations to the programme. Should additional S106 and/or CIL not be available where required, decisions not to do work may have to be taken.

5.5 **Real Time Transport Information** – The existing approved capital programme to 2022/23 is £0.165m, the new capital budget allocation for 2023/24 to 2029/30 is £0.316m, giving a total revised capital budget of £0.481m. Current installed Real Time Passenger Information (electronic bus signs) have an estimated live of 15 years. Maintenance and part replacements are covered from revenue budget. Where S106 is attracted this will be used to support replacement. If this funding is not available these life expired signs will have to be removed.

5.6 **Highways Structural Maintenance** –The existing approved capital programme to 2022/23 is £72.896m, the new capital budget allocation for 2023/24 to 2029/30 is £142.859m, giving a total revised capital budget of £215.755m. The Highway Structural Maintenance budget includes carriage resurfacing as well as capital maintenance of footways, drainage replacement, street signs and street furniture, crash barriers and soft landscaping (trees and verges). Carriageway deterioration modelling that has been run in order to illustrate the likely impact on road condition of a number of investment scenarios, as summarised in **Table 5**.

Table 5 – Road Condition (%) resulting from investment levels

Road Condition (%) resulting from Highway Investment									
				Future Level of Annual Investment in Carriageway Resurfacing					
	Original Targets	Current Targets	Current Condition	£5m	£10m	£13.2m	£14m	£15m	£16.5m
A Roads	8	8	5	19	12	8	8	6	5
B & C Roads	9	9	7	31	22	9	9	9	7
Unclassified Roads	20	15	9	36	22	20	15	12	9
£'000 at 2019/20 prices									
Highway Structural Maintenance Allocation Required				8,062	13,062	16,262	17,062	18,062	19,562
£'000 at 2023/24 prices									
Highway Structural Maintenance Allocation Required				8,810	14,273	17,770	18,644	19,736	21,376

5.7 The programme has been modelled to maintain the Council's currently agreed road condition targets and therefore is based on the £14.0m (at current prices) option highlighted in the table above. This option would require investment of £18.6m by 2023/24.

5.8 The Council currently receives formula grant in support of this investment, based on road length and category as well as some national weighting; it is therefore relatively static. A smaller incentive fund (c. £1.7m annually) is also available based the Council's standing as a Band 3 (highest) Highway Authority recognising its approach to highway asset management. The modelling aims to maintain condition at target levels, therefore any changes to the grant levels from Government is used to offset borrowing in the first instance.

5.9 It is proposed that a one off contribution of £1.000m is made in 2020/21 towards the Highways Works Programme in order to achieve agreed condition targets, including drop kerbs, patching and other areas of highways maintenance.

5.10 **Road Bridge Assessment Strengthening/Street Lights/Traffic Signals –** The existing approved capital programme to 2022/23 is £8.383m, the new capital budget allocation for 2023/24 to 2029/30 is £31.214m, giving a total revised capital budget of £39.597m. Investment in these assets is for priority health and safety works, and is maintained at current levels to ensure the safety of road users.

5.11 **Salix - Replacement of street lighting with LED Bulbs** – This includes Salix funding for street lighting energy efficiency of £3.583m. To improve energy efficiency, reduce carbon emissions and lower energy bills, repaid via the savings generated.

5.12 **Rights of Way (Surface Repairs and Bridge Replacement)** – The existing approved capital programme to 2022/23 is £1.706m, the new capital budget allocation for 2023/24 to 2029/30 is £3.865m, giving a total revised capital budget of £5.571m. The County Council has a statutory duty to maintain bridges and path surfaces so that they can be safely used by the public. The proposed level of investment is at current levels, increased for inflation. Additionally, three years of £135,000 has been added to 2020/21 to 2022/23 to invest in urgent bridge work where assets have come to the end of their natural lifespan.

Business Services Department

5.13 **Salix - Energy Efficiency Schemes** - The existing approved capital programme to 2022/23 is £1.423m; the new capital budget allocation for 2023/24 to 2029/30 is £2.450m, giving a total revised capital budget of £3.873m. This investment is now fully funded by recycled loans and the £350,000 a year represents target investment which may fluctuate.

5.14 **School place planning** - The existing approved capital programme to 2022/23 is £52.076m; the additional proposed capital budget allocation for 2020/21 to 2029/30 is £54.630m, giving a total revised capital budget of £106.706m. Provided by the Business Services Directorate on behalf of Children's Services, place planning is driven by demand as a result of developments, migration and birth rates. It is supported by formula grant that either increases or decreases as a result of demand fluctuations. The provision of places is also supported by S106 contributions and more recently CIL. Risks and issues will continue to be managed through School Place Planning sub-board and escalated to CSAB where required. The level of investment only provides for current estimated places, supported by an estimated level of grant. There is therefore a risk that grant reduces and place requirements increase. Due to the potential significance of these risks a risk factor has been applied consistent with the level in the current approved programme.

5.15 **Special Educational Needs** - Proposed capital budget allocation for 2020/21 to 2029/30 is £3.6m. SEN Pupil forecasts show that there will continue to be significant increases in this cohort. Two new specialist facilities for primary and one new specialist facility for secondary will be required.

5.16 **Capital Buildings Maintenance** - The existing approved capital programme to 2022/23 is £16.104m, the new capital budget allocation for 2023 to 2030 is £28.000m, giving a total revised capital budget of £44.104m. This work is currently done on the basis of Priority 1 works; identified via condition reports as essential to meet health and safety requirements of the council's assets. It is proposed this strategy continues although refinement of need is required and a rationalisation of assets continues that will drive down cost. There is no specific funding attached to this investment need it is therefore funded via borrowing. This is a cash limited budget and therefore there is a risk that this might not cover all category 1 works in a financial year.

5.17 **Capital School Buildings Maintenance -** The existing approved capital programme to 2022/23 is £16.361m, the new capital budget allocation for 2023/24 to 2029/30 is £27.874m, giving a total revised capital budget of £44.235m. This work is currently done on the basis of Priority 1 works; identified via condition reports as essential to meet health and safety requirements of schools assets. Additionally it is considered necessary that a risk category is also applied where safeguarding issues arise that require immediate work. Currently the pot available is the grant received; it is proposed that this continues. This is a cash limited budget and therefore there is a risk that this might not cover all category 1 works in a financial year especially if safeguarding requirements emerge in year.

5.18 **IT&D -** The existing approved capital programme to 2022/23 is £14.281m, the new capital budget allocation for 2020/21 to 2029/30 is £55.036m, giving a total revised capital budget of £69.317m.This is for the cost of maintenance of the IT&D assets that allow the council to conduct its business. There is no funding to support this investment need so it is all funded via borrowing. Expenditure identified as basic need includes staff and member equipment refresh, server refresh, network upgrades and compliance and cyber defence. There is a risk that the profile of expenditure may change as further scoping work is undertaken and that at the authority works on understanding its risk appetite in relation to cyber security these costs may be reduced. The projects identified as basic need will enable the Council to continue to operate services that support the underpinning functioning of the organisation.

Children's Services

5.19 It is proposed that a one off investment is made of £0.242m to remodel two disability children's homes. By creating greater in-house capacity the costs of residential care placements in the independent sector will reduce. It is estimated that there would be a reduction in costs of £0.352m p.a., which will help to alleviate the cost pressures on the service.

General

5.20 Where inflation pressures have been identified as part of the individual schemes, indices appropriate to that business sector have been used; however no general inflation measure (i.e. Retail Price Index (RPI) or Consumer Price Index (CPI)) has been applied across the programme as a whole.

Strategic Investment

5.21 Investment beyond basic need, including asset enhancements and strategic investments will be considered separately via business cases. Business cases should support organisational strategic direction. Payback will be expected as agreed in the Business Case and will annually be used to reduce the borrowing requirement as part of affordability management. As such these will not be included in the Capital Programme until their overall impact, including funding implications, have been assessed and approved.

Considerations emerging are:

5.22 **Adult Social Care (ASC) -** Over recent years there have been clearly identifiable and continued changes in the demand and supply of residential and nursing care beds across the East Sussex. People are increasing choosing to stay living at home with support for as longer. This is supported the ESCC ASC policy to help people maintain their independence for as long as possible. The demand for more traditional residential placements is therefore reducing, whilst the number of people requiring nursing placements has increased because by the time a person needs a bedded care placement they are likely to have a much higher level of acuity. This is particularly the case for those with complex dementia requiring nursing and also specialist residential placements. Recent developments of new residential and nursing facilities have been targeted firmly towards the self-funding market with bed prices being considerably in excess of ESCC ‘published rates’. At the same time there have been continued home closures, a number of which were older facilities that took placements within published rates. The shift in demand and market dynamics has resulted in growing concerns within ESCC over the future ability to source certain types of beds at ESCC published rates. This is particularly so in relation to standard nursing beds as well as residential and nursing beds for people with complex dementia.

5.23 During 2019 a needs assessment into the supply and availability of care and nursing home placements across the County was undertaken. The concerns over access to dementia specific nursing and residential care are set to become more pronounced unless there is an increase in supply of beds at ESCC published rates given well-rehearsed democratic predictions. The prevalence of dementia increases with age. It is predicted that by 2035 number of people living with dementia across East Sussex will increase by 60% from 10,793 to 18,250. The density of those with dementia across the County differs. The highest rates are in in the most populous coastal towns and also in the middle of the County around Uckfield and Crowborough. ESCC could help mitigate increasing risks to access to residential and nursing beds through pro-active intervention in the form of the release of surplus land for this purpose or by the Council developing new facilities to lease to the provider market. Further work will be undertaken in relation to the opportunities and risks of the following options:

- Release of land to a provider for the development of new care of nursing home facilities.
- Leasing to a provider a facility built and owned by ESCC.

5.24 **Environmental Strategy –** On 15th October 2019 the Council recognised and declared a climate emergency and resolved to a number of actions. A revised Environmental Strategy is being developed and the impact of this will be incorporated into our capital strategy to ensure that it supports the Council's ambitions on carbon emissions.

Total Proposed Additional Programme Investment

5.25 **Table 6** below shows the total proposed additional programme.

Table 6 – Total New Programme

2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	Total £000
7,637	12,143	11,009	51,053	47,814	51,900	47,853	51,255	47,758	46,738	375,161

5.26 The updated capital programme and proposed investment aligned with the strategy as detailed elsewhere in this report is shown in table 6. Details of the final proposed programme are shown in appendix 3.

Table 7 – Total

Expenditure	**2019-23 £000**	**2023-30 £000**	**2019-30 £000**
Current Programme Update (Table 1)	287,248		**287,248**
Amendments to Current Programme in MTFP (Table 3)	(1,061)		**(1,061)**
Amendments to Current Programme in 2023 -30 (Table 4)		986	**986**
Subtotal	*286,187*	*986*	***287,173***
New Programme (Table 5)	30,789	344,372	375,161
Total	**316,976**	**345,358**	**662,334**

6.0 Funding

6.1 The Capital Programme is funded by a combination of government grants, capital receipts, s106/CIL contributions and other specific contributions where they can be accessed. As these do not cover the required investment in basic need the programme has historically and will continue to also be supported by borrowing. This directly impacts the revenue budget. The following paragraphs provide updates to these funding sources an update to borrowing for the current programme and the proposed borrowing implications on the MTFP in support of the extended programme to 2030.

6.2 Capital receipts

6.2.1 Property Services schedule of capital receipts available to support the Capital Programme are reviewed regularly. Capital receipts of £14.2m are now reasonably expected over the period of the current MTFP to 2022/23, with £3.1m already held in balances. This compares to the previous estimate £15.7m, and has arisen due to an increase in expected receipts and earlier than previously anticipated sales. These estimates are based on Property Officers' professional judgement on a site by site basis. The profile of receipts, however, is subject to change for various reasons and therefore for prudence (at a maximum) only the estimated balance held is profiled to be used the following year this provides for £8m of receipts available to be used in the programme 2023/30; where assets which have been declared surplus have that decision rescinded (i.e. they are re used for another purpose), or if the asset is retained but transferred under a long term lease at below market value (i.e. under the Council's Community Asset Transfer policy for 99 years at a peppercorn rent).

6.2.2 The council also holds a number of assets that would generate Valuing People's Needs (VPN) receipts from disposal. These relate to properties granted to the Council by the NHS for the provision of accommodation for clients with a learning disability. A condition of the property grant is that capital receipts are ring-fenced to future Learning Disability developments. Such developments are beyond basic need and therefore require a business case to be approved for inclusion in the capital programme; as such, future VPN capital receipts currently estimated at £2.5m are not included in the estimated capital receipt figure. They will be brought into the capital programme to support business cases that are in line with NHS outcomes.

6.3 Non-specific grants

6.3.1 The current approved capital programme to 2022/23 is supported by £94.3m of non-specific grants. There continues to be uncertainty in relation to these grants, 64% of which remain unconfirmed and therefore at risk. These estimates are based on current levels and formula projections.

6.3.2 The current assumption for the programme post 2022/23 to 2029/30 is that it will be supported at the same level by non-specific grants through the relevant government departments. In the case of the DfE grant for school basic need the formula makes an annual adjustment for estimated places required. Therefore this has been projected forward using a regressive analysis of percentage investment which has been agreed to be as reasonable an estimate as could be ascertained so far into the future.

6.3.3 The government is reviewing its capital budgets and new limits and updates to formula are expected to be announced in 2020 impacting on 2021/22 onward.

6.4 Section 106 (s106) and Community Infrastructure Levy (CIL)

6.4.1 The current approved programme is supported by £14.0m of S106 receipts to 2023.

6.4.2 A high level analysis shows there to be in the region of an estimated £42.6m potentially available to the council. Low risks are those already held by either the County Council or Districts and Borough which amounts to £14.6m. A further £19.8m is for developments that have commenced but the contributions are yet to be collected are reasonable to assume. A further £8.3m is estimated for contributions for developments that are yet to start, these are higher risk as developments may not go ahead and additionally there is some risk that these could potentially revert to CIL.

6.4.3 For the future programme it is proposed that a reasonable target for s106 be set and that achievement of this is managed through the s106 and CIL working group. Of the £34.4m s106 that it is reasonable to assume, £14.0m is already applied to the programme. Over half of the remaining £20.4m is on LTP schemes (see below at 6.4.4) so will enter the programme through variation and there are concerns that others are not available for use in the right areas or are for investment outside basic need. Therefore a prudent target of £5.0m has been included although work to maximise use in support of basic need will continue.

6.4.4 Communities, Environment and Transport (CET) have identified £27m of basic need transport infrastructure requirements necessary up to 2024 to support the delivery of growth allocated in Local Plans across the County. These have been identified through joint infrastructure work with district, boroughs and the South Downs National Park Authority during the production of Local Plans and are included in the Infrastructure Delivery Plans which authorities have produced to outline essential infrastructure required to support these Local Plans. CET has confirmed these schemes will be principally funded by Development Contributions including S106 and the Community Infrastructure Levy (CIL) and external funding sources. These will therefore enter the programme in line with the current variation process as and when funding streams are confirmed.

6.4.5 S106 agreements are being replaced by the CIL and the Council has to bid to districts and boroughs for this funding, therefore there is a risk that income from CIL will not match previous levels arising from s106 agreements. The Council is working with the Borough and District Councils to ensure basic need is prioritised effectively across the county and has been successful in securing £1.9m.

6.4.6 There is a new requirement for contribution receiving authorities to publish an annual 'Infrastructure Funding Statement' (IFS). The first IFS needs to be published by 31 December 2020 and will report on the financial year 2019/20. The aim of IFS is to improve transparency, increase accountability and promote infrastructure delivery. We will need to publish data on S106 and CIL monies we hold including details on allocations and spending. Borough and District Councils will also need to provide future spending priorities on infrastructure linked to their Local Plans with a statement on projects or types of infrastructure they intend will be funded by CIL. Though this new requirement will put an additional burden on us, it will provide the opportunity to actively bring processes together on monitoring, spending and promote delivery. The Council will continue to work in partnership with Borough and District Councils on infrastructure planning and delivery though the IFS and Local Plan reviews

6.4.7 For the future programme it is proposed that a reasonable target for CIL be set and that achievement of this is managed through the s106 and CIL working group. Current estimates of CIL pots held and to be generated via developments by Districts and Boroughs is £82.5m. The County Council cannot bid for all of these and various limits are set. Based on these limits a prudent target of £24.0m has been included for 2023/24 to 2029/30. Given the process to access CIL, there is significant risk that the priorities set in the IFS will mean that securing the Council will be unable to secure all of this funding.

6.5 Specific Grants and External Contributions

6.5.1 The current approved programme is supported by £58.5m of specific grants (in the main comprising of LEP funding; grant for Newhaven Port Access and Broadband) and contributions. There is currently £3.5m identified in support of the proposed programme to 2029/30.

6.6 New Homes Bonus

6.6.1 Revised estimates have been included based on the CTB1 returns and affordable homes data for 2020/21, this may change due to a national redistribution, however the figure will not be confirmed until the Local Government Financial Settlement has been announced.

6.7 Capital Risk Provision

6.7.1 There are a number of risks and uncertainties regarding the programme to 2022/23 and beyond which have necessitated holding a risk provision, these include:

- Inflationary pressures on construction costs;
- Uncertainty about delivery of projects in the programme, e.g. highways and infrastructure requirements;
- Any as yet unknown requirements;
- Residual project provision (previously removed) if required; and
- Uncertainty regarding the level of government grants and the ability to meet CIL and S106 targets.

6.7.2 At February 2019, the Capital Risk Provision was £7.5m, which represented 2% of the programme. While capacity within borrowing arrangements is ensured through Treasury Management for this provision, no borrowing for this is planned to be undertaken currently. These are not funds that are in the Council's accounts, but a permission to borrow for future emerging risks; it is proposed that this risk provision continues.

6.8 Borrowing

6.8.1 The current updated capital programme has a borrowing requirement for the period 2019-23 of £115.7m (before the Capital Risk Provision). The addition of the proposed programme to 2029/30 would require a further £144.3m borrowing.

6.8.2 Current Treasury Management modelling had estimated, that for every £10m borrowed, there would be an associated revenue cost of £780,000 per annum over the current MTFP period (based on 20 year asset life) this rises to an average of £850,000 over the full life of the asset as under annuity methodology the cost increase in later years. On 9th October the Treasury announced that Public Works Loans Board (PWLB) rates would increase by 1% with immediate effect, which resulted in the comparable figures now being £900,000 per annum rising to an average of £970,000. The change, which is designed to dampen borrowing, is an indication of the volatility that is inherent in the current financial climate. As these revised rates bring PWLB rates closer to the general market, the Council will examine other rates available in the market to ensure that the best rates within our risk appetite are obtained.

6.8.3 Based on the latest PWLB borrowing rates and current Minimum Revenue Provision policy, the revenue cost of borrowing for the proposed capital strategy is:

Table 8: **Additional cost of borrowing**

Additional Borrowing to 2022/23 (MTFP period)	Annual Cost of Borrowing in MTFP Period	Total Borrowing Required to 2029/30	Annual Cost of Borrowing after 10 years
£m	**£m**	**£m**	**£m**
24.5	2.4	260.1	26.0

6.8.4 Using the treasury management model which takes a more holistic approach, for example, it reflects the repayment of loans, accounts for balances held and other cash management transactions, allows a more realistic assessment of the provision required within the Treasury Management budget, this is shown in **Table 9**:

Table 9: **Annual Revenue Cost of Borrowing over the MTFP**

2020/21		**2021/22**		**2022/23**		**Total**	
Additional Borrowing	**Additional TM Budget Required**	***Additional Borrowing***	**Additional TM Budget Required**	***Additional Borrowing***	**Additional TM Budget Required**	***Total Additional Borrowing***	**Annual Cost of Borrowing by 2023**
£000	**£000**	*£000*	**£000**	*£000*	**£000**	£000	**£000**
3,749	**-**	*9,946*	**-**	*10,815*	**1,000**	*24,510*	**1,000**

6.8.5 Where scheme specific business cases are agreed payback will be required and this will be used to reduce the borrowing need to limit the risk on the MTFP and Treasury Management budget for Minimum Revenue Provision.

6.9 Summary of Funding

6.9.1 As has been mentioned in this report, the funding of the 10 year programme is reliant on targets and estimates from external funding sources. Whilst based on the best information available there remains significant uncertainty and therefore risk. Updates through the normal RRPR process will consider these as they emerge, it is expected that further information will be available as part of the Government review of capital funding and the Spending Review 2020. Therefore this position represents our best understanding and a holding point until such time as further clarity is provided.

6.9.2 Additionally, as this programme provides for targeted basic need, any additional grants will be used to reduce the borrowing required, unless provided for a specific purpose outside of this basic need and agreed via a business case to Capital Strategic Asset Board (CSAB).

6.9.3 Table 10 below provides a summary of funding:-

Table 10 – Summary of funding

Funding Source	2019-23 £000	2023-30 £000	2019-30 £000
Capital receipts	(14,242)	(8,000)	**(22,242)**
Non-specific grants	(94,261)	(143,403)	**(237,664)**
Specific Funding: grants/external contributions/CERA	(56,442)	(2,491)	**(58,933)**
S106 Contributions	(14,046)	(5,000)	**(19,046)**
Community Infrastructure Levy	(1,900)	(24,000)	**(25,900)**
New Homes Bonus	(767)	-	**(767)**
Reserves - capital and set aside	(19,447)	(18,141)	**(37,588)**
Borrowing (excl. contingency)	(115,871)	(144,323)	**(260,194)**
Total	**(316,976)**	**(345,358)**	**(662,334)**

7.0 Other Corporate Strategies for Consideration

7.1 **Treasury Management (TM) Strategy -** The proposed investment has consideration directly to the TM Strategy, a specific model has been developed for the purpose. Any borrowing required is within the limits set by the TM Strategy, which sets out the acceptable limits on ratings, investment periods, amounts to be invested and the borrowing strategy.

7.2 **Property Asset Disposal and Investment Strategy -** At State of the County 2017 it was agreed to set some money aside in the Financing Reserve to help realise returns in future years through support for investment and/or for reduced borrowing in the capital programme. The Property Asset Disposal and Investment Strategy was approved at Cabinet on 24 April 2018. Opportunities will continue to be considered that align with the priorities within the strategy which can now be facilitated by the use of some of these funds to bring forward the development of potential investment sites. Updates will be provided to this through the RPRR process as necessary.

8.0 Conclusion and Recommendations

8.1 It is recommended that the 20 Year Capital Strategy, to 2040/41, based on target driven basic need, which supports the Council's Core Offer and wider service strategies is adopted. It also allows for strategic opportunities that are outside core need that are either to be match funded or produce a business case that demonstrates benefits. Approved bids are added to the programme in line with current variation policy and financial regulations.

8.2 In support of the Strategy it is recommended that a total capital planned rolling programme to from 2019/20 to 2029/30 of £661.067m, is adopted. The programme is structured to reflect the MTFP period (3 years) together with an additional 7 years. The programme will continue to be reviewed through the RPPR process each year to ensure it remains aligned to the MTFP, TM Strategy and funding model.