

# Capital Strategy

2020/21 to 2040/41

# CAPITAL STRATEGY 2020/21 – 2040/41



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## Appendix 9a: Capital Strategy

### 1. Purpose of the Strategy

1.1 The purpose of the Capital Strategy is to drive the authority's capital investment ambition whilst also ensuring appropriate capital expenditure, capital financing and treasury management within the context of the sustainable, long-term delivery of services.

1.2 The Capital Strategy supports the Council Plan, which is our vision for a basic but decent level of service for East Sussex, in a difficult financial climate, the core offer is set out under the following priority outcomes, further information is available at:

<https://www.eastsussex.gov.uk/yourcouncil/about/keydocuments/coreoffer/coreofferindex/>

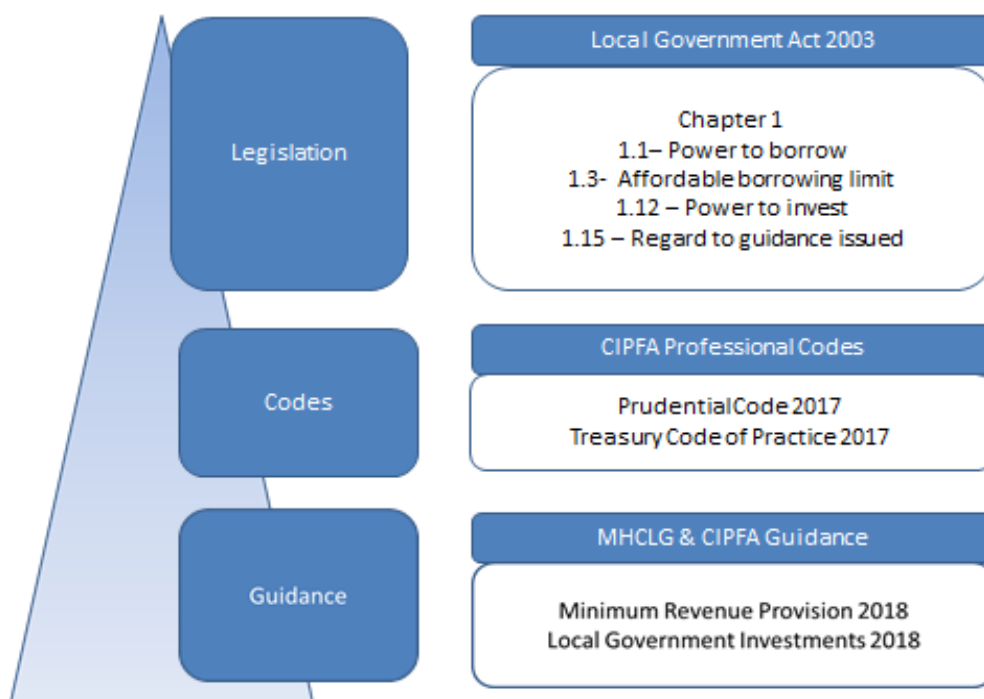
- Driving sustainable economic growth
- Keeping vulnerable people safe
- Helping people help themselves
- Making best use of resources

1.3 The Strategy prioritises investment in assets that support the objectives of the Council Plan.

1.4 The aim of this Capital Strategy is also to ensure that all elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

### 2. Technical Background

2.1 The Capital Strategy is framed within the following statute and guidance:



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2.2 In response to a growing number of authorities increasing their use of non-financial investments (such as commercial property portfolios) to generate income in response to reducing resources to deliver their core services the Prudential Code was updated in 2017. The revised code and guidance sought to increase transparency and to provide a single place to assess the proportionality of this activity in comparison to an authority's core services.

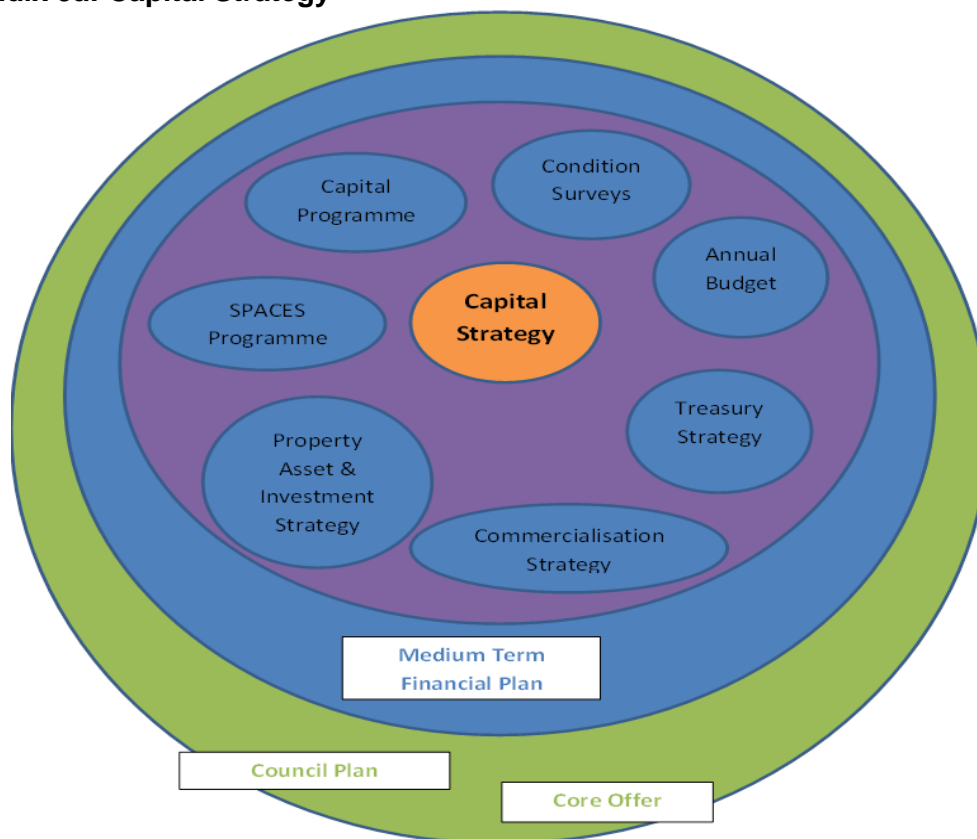
2.3 The Strategy is completed in line with best practice as outlined within the Chartered Institute of Public Finance and Accountancy (CIPFA) revised 2017 Prudential and Treasury Management Codes, it:

- Applies a long-term approach;
- Explores external influence on Capital Strategy e.g. Local Enterprise Partnership;
- Examines Commercial activity/ambition;
- Determines implications of Treasury Management Strategy;
- Ensures Council Plan priorities drive capital investment;
- Examines available resources and capacity to deliver;
- Assesses affordability against ambition and address any gap;
- Identify capital financing principles;
- Demonstrate integration with other strategies and plans;
- Produce a 10-year capital investment plan, with actions, timescale, outputs and outcomes; plus a 3-year funded programme in line with the Medium term Financial Plan.
- Identify risks and mitigation;
- Outline Governance, monitoring processes and procedures.

### 3. Reconciling Policy, Performance and Resources Framework

3.1 The Capital Strategy is an integrated part of the Councils planning framework, Reconciling Policy, performance and Resources (RPPR). It will have an impact on and will be impacted by the other strategies and documents both internally and externally: Internally this includes:-

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Name	
Council Plan	<ul style="list-style-type: none"> <li>• Sets ambitions and plans for each of the four overarching priority outcomes: driving sustainable economic growth; keeping vulnerable people safe; helping people help themselves; and making best use of resources.</li> </ul>
Capital Planned Programme	<ul style="list-style-type: none"> <li>• The programme sets out for the coming 10 years the programme of capital investment that supports delivery of the Council's priority outcomes updated each year to maintain the 10 year horizon.</li> </ul>
Medium Term Financial Plan	<ul style="list-style-type: none"> <li>• The Medium Term Financial Plan covers up to the next five years, it is updated each year to encompass any economic or political impacts.</li> </ul>
Annual Budget	<ul style="list-style-type: none"> <li>• The annual budget details the intended revenue (current) expenditure for the next financial year, it allows the Council to set its Council Tax rate for that year. Including any impact from planned investment.</li> </ul>
<b>Capital Strategy</b>	<ul style="list-style-type: none"> <li>• With a scope of 20 years, the strategy sets the framework in which the capital programme is planned and allows the Council to prioritise the use of its resources to support the long term priorities.</li> </ul>
Treasury Strategy	<ul style="list-style-type: none"> <li>• Setting out the acceptable limits on ratings, investment periods, amounts to be invested and the borrowing strategy.</li> </ul>
Property Asset & Investment Strategy	<ul style="list-style-type: none"> <li>• The key purpose of the Strategy is to deliver an ongoing net income stream to the Council with investment defined as allocating money in the expectation of some benefit in the future.</li> </ul>
Commercialisation Strategy	<ul style="list-style-type: none"> <li>• Providing the framework and template for the Council's approach to considering the commercial opportunities that exist, or can be created, in order to drive value for residents and businesses.</li> </ul>
SPACES Programme	<ul style="list-style-type: none"> <li>• A well-established multi organisation partnership that has been delivering property and land co-location and collaboration projects across East Sussex and Brighton &amp; Hove since 2011.</li> </ul>

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- 3.2 To ensure the separation of the core treasury function under security, liquidity and yield principles (SLY), and the policy and commercialism investments usually driven by expenditure on an asset, the Capital Strategy is reported separately from the Treasury Management (TM) Strategy. Therefore, the debt related to the activity and the associated interest costs, payback period, Minimum Revenue Provision policy or for non-loan type investments, the cost against the current market value and the financial risks are part of the TM Strategy.
- 3.3 In addition to the internal framework there are a number of external organisations and partners who inform our capital strategies, these include, but are not limited to:
- South East Local Enterprise Partnership (*SELEP*);
  - Coast to Capital Local Enterprise Partnership;
  - District and Borough Councils via their Local Plans: 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. Each authority IFS will improve transparency, increase accountability and promote infrastructure delivery through publication of S106 and CIL monies held, including details on allocations and spending. Districts and boroughs will also 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. Providing the opportunity to actively bring processes together on monitoring, spending and promote delivery. The Council will continue to work in partnership with its districts and boroughs on infrastructure planning and delivery through the IFS and Local Plan reviews;
  - Eastbourne, Hailsham, Seaford CCG, Hastings and Rother CCG and High Weald, Lewes, Havens CCG;
  - Brighton University;
  - SPACES (*Strategic Property Asset Collaboration in East Sussex Programme*) is a partnership that includes East Sussex County Council (ESCC), all district and borough councils, Brighton & Hove City Council, three emergency services, representatives from the voluntary and community sector, NHS including Clinical Commissioning Groups (CCGs), Trusts and NHS Property Services and some central government departments such as Probation Services, Job Centre Plus (Department for Work and Pensions - DWP) and Department for Transport (DfT).
- 3.4 The Council will actively seek opportunities to engage with other partner organisations to achieve positive outcomes for our residents, using all available forums to develop connections that can be utilised to achieve mutually beneficial approaches to deliver capital projects.

## 4. Principles

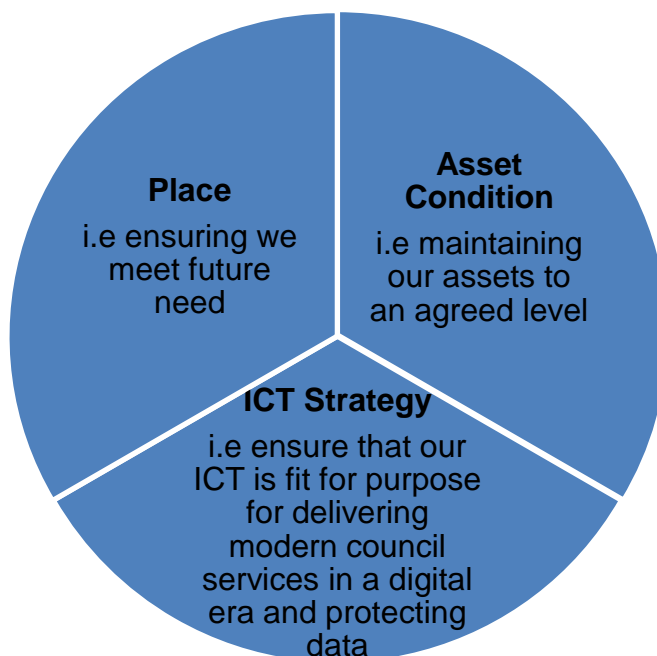
- 4.1 Capital expenditure can be defined as expenditure that results in the acquisition, construction or enhancement of an asset (e.g. land, buildings, roads, plant and equipment), that continues to benefit the Council for a period of more than one financial year. At East Sussex County Council (ESCC), projects can be capitalised if they meet the definition of capital expenditure and are over the current approved de minimus of £20,000. Any item below this limit is charged to revenue.

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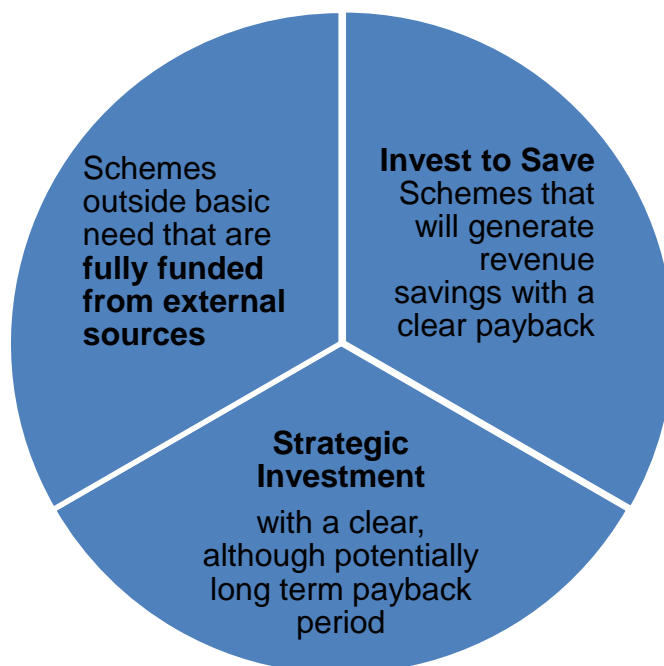
- 4.2 The strategy sets the strategic direction for next 20 years and is supported by a 10 year planned programme. Published as a separate document, the Capital Programme will be updated annually through the RPPR process, to ensure that the Council continues to focus on the right priorities and is able to react to changes in circumstances.
- 4.3 The Prudential Code requires that authorities demonstrate that they make capital expenditure and investment decisions in line with services objectives and have proper stewardship arrangements, provide value for money, are prudent, sustainable and affordable.
- 4.4 To ensure that the Council meets the requirements, it will:
- **Ensure capital expenditure contributes to the achievement of the Council's Priority Outcomes.** Capital is considered annually as part of the RPPR process, which underpins the financial planning process;
  - **Ensure investment decisions make best use of resources.** A capital and treasury model is in place to ensure that the impact of capital expenditure and use of resources is understood and a holistic view taken;
  - **Have a clear framework for making capital expenditure decisions.** Basic need provides a platform that **must** be funded. Other decisions require a business case that meet certain criteria to be approved (see Appendix B);
  - **Ensure a corporate approach to generating capital resources is established.** The approach to providing funding for capital is set out in section 5 of this strategy;
  - **Have access to sufficient long-term assets to provide services.** The Council use statistical information, including population trends and housing development plans along with asset condition surveys and regular valuations of our assets to help plan long-term need.

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- 4.5 **Basic Need** - The strategy focusses on the delivery of basic need for the Council to continue to deliver our services as efficiently as possible. Basic need for the purposes of the capital strategy is, further detail is provided in in *Appendix A*:



- 4.6 **Investment Projects** - In addition to the basic need programme the Council will consider business cases for:





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- 4.7 In all cases, a clear payback to the Council should be demonstrated. This payback will reduce borrowing in the year it is received and contribute to the sustainability of the programme.
- 4.8 Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs, investment requirements and any credit information must be disclosed, including the ability to sell the asset and realise the investment cash (in line with good practice this will not be ring-fenced but treated as a general capital receipt).
- 4.9 If the Council borrows to fund any non-treasury (strategic) investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital Strategy.

### 5. Funding

- 5.1 The Councils Capital Programme is funded from a range of sources including:
- **Prudential Borrowing** – The introduction of the Prudential Code in 2004 allows the Council to undertake unsupported borrowing itself. This borrowing is subject to the requirements of the Prudential Code for Capital Expenditure for Local Authorities. This has revenue implications for the Council in the form of financing costs which will be considered via the RPPR process.
  - **External Grants for Specific Purposes** – mainly grant allocations from central government departments including the Department for Education and the Department for Transport, to deliver specific schemes.
  - **External Grants for Non-Specific Purposes** – grant allocations for the delivery of the Council's capital plans, but are not for specific purposes, any grants attracted are used to fund the existing capital programme, reducing the Council's need to borrow.
  - **S106 Contributions** – some projects within the Capital Programme are funded by contributions from private sector developers. Where applicable we request contributions for infrastructure such as roads and transport, schools, libraries, household waste recycling centres and rights of way relating to development that has an impact in East Sussex.
  - **Community Infrastructure Levy (CIL)** - CIL is a standard charge on developments used to fund a wide range of infrastructure that is needed because of the development. The Charging Authorities (District & Borough Councils) are required to produce a CIL Charging Schedule, which sets out the rates of CIL to be charged on development, East Sussex County Council can then approach the Charging Authority to drawdown some or all of the CIL to fund infrastructure projects.
  - **Other External Contributions** - Other organisations and partners may from time to time make a contribution towards the delivery of a specific capital project.
  - **Revenue Funding** – The Council can use revenue resources to fund capital projects, where these have been approved. There is no planned revenue contribution to capital outlay, other than New Homes Bonus (see below).

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- **Capital Receipts** – The Council can generate capital receipts through the sale of surplus assets such as land and buildings. The Council seeks to maximise the level of these resources, which will be available to support the Council's plans.
  - **Capital Reserve** – The Council has set aside funds in a reserve that can be drawn upon to fund capital schemes, however reserves can only be used once and therefore are a finite resource.
  - **New Homes Bonus** – New Homes Bonus is a (non-specific) revenue grant given by Central Government to Councils which is based on the number of homes build or brought back into habitation in the previous year, and is payable for four years. New Homes Bonus can be used to fund revenue or capital expenditure. This will be decided annually through the RPPR process.
- 5.2 The application of these funding sources to capital expenditure incurred during the year will be in the following order:
- a. Scheme specific income e.g. specific grants, s106 contributions
  - b. Revenue funding, including the New Homes Bonus
  - c. Capital reserve dependant on allocations for any specific items of investment set aside for future years)
  - d. Non-specific grants
  - e. Capital receipts
  - f. Borrowing
- 5.3 **Leasing** - Lease obligations are similar to borrowing as they have an ongoing revenue budget commitment. Leasing will be considered following due diligence over the life of the asset, comparing the financial and non-financial benefits and risks to the Council owning and delivering such assets itself.
- 5.4 The Capital Strategy is reported separately from the Treasury Management Strategy Statement.
- 6. Governance**
- 6.1 The Council's constitution and financial regulations govern the capital programme as set out below:
- All capital expenditure must be carried out in accordance with the financial regulations and the Council's constitution;
  - Capital expenditure must comply with the statutory definition of capital purposes as defined within this document and wider financial standards;
  - The Capital Programme approved by Full Council as part of the Council's annual RPPR budget report sets the capital funding availability for the Council. This is updated and approved by Full Council as part of the Council's RPPR State of the County report;
  - All schemes are formally approved into the capital programme by following the process set out in the financial regulations;
  - With the exception of strategic projects supported by a business case (see 1.3.2) Basic need will only be added to, or removed from, the Capital programme as part of the annual budget setting process or as part of State of the County. Any request outside of this processes would have to be approved by Cabinet;
  - Officers are not authorised to commit expenditure without prior formal approval as set out in the financial regulations;

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- Each scheme must be under the control of a responsible person/project manager.

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- 6.2 The Council has a Capital Strategic Asset Board (CSAB), a cross-departmental group consisting of officers from each service department, finance, property and procurement. CSAB oversees the development and delivery of the Council's capital programme.
- 6.3 Departmental Capital Boards/sub boards exist for the school basic need programme and related projects, Communities, Economy and Transport and Information, Technology and Digital.
- 6.4 In year, the Capital Programme is monitored and reported to the Corporate Management Team and then to Cabinet and Full Council, on a quarterly basis, as part of the Council's RPPR monitoring.
- 6.5 Governance arrangements, including risk management (see section 7), will be reviewed to ensure that it remains fit for purpose and is in line with best practice.

### 7. Risk

- 7.1 The Council seeks to minimise its exposure to risks that are unwanted and unrewarded. Capital is managed centrally on an ongoing basis to ensure that there is sufficient liquidity in the short and medium term to meet costs and support front line services, as well as meeting long-term solvency and funding requirements.
- 7.2 The Council is exposed to a range of risks including:
- Financial risks related to the investment of the Council's assets and cash flow, market volatility, currency etc.
  - Macroeconomic risks related to the growth or decline of the local economy, interest rates, inflation and, to a lesser degree, wider national and global economics.
  - A credit and counterparty risk related to investments, loans to institutions and individuals and counterparties in business transactions.
  - Operational risks related to operational exposures within its organisation, its counterparties, partners and commercial interests.
  - Strategic risks related to key initiatives undertaken by the Council such as significant purchases, new ventures, commercial interests and other areas of organisational change deemed necessary to help the Council meet its Priority Outcomes.
  - Reputational risks related to the Council's dealings and interests, and the impact of adverse outcomes on the Council's reputation and public perception.
  - Environmental and social risks.
  - Governance risks related to ensuring that prudence and careful consideration sit at the heart of the Council's decision-making, augmented by quality independent advice and appropriate checks that balance oversight and efficiency.
- 7.3 Managing the Council's risks is an area of significant focus for senior management and members, and the Council adopts an integrated view to the management and qualitative assessment of risk.
- 7.4 The Council aims to minimise its exposure to unwanted risks – risks that are avoidable and which carry no commensurate reward for the Council – through a range of cost effective mitigation strategies.
- 7.5 To ensure that risks to the delivery of the capital programme, a structured framework of planning and monitoring is maintained as detailed in section 6, which is intended to identify those schemes at risk of non or late delivery.

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- 7.6 The Council maintains a contingency at a corporate level, to mitigate possible risks arising from the capital programme. Control of this contingency is maintained by the CSAB, which operates within the normal governance arrangements (see section 6).
- 7.7 As part of capital planning, a number of potential projects or needs for additional funding maybe identified, these are added to a register of such schemes, with the risks and impacts analysed. The CASB will review these on a regular basis and commission further work as necessary to bring the business cases forward if risk is deemed to have developed to a point where further action is required.

### **8. Skills and Knowledge**

- 8.1 The Capital Programme and Treasury Management Strategy are managed by a team of professionally qualified accountants with extensive Local Government Finance experience, who attend courses on a regular basis to keep abreast of new developments. The Council's Section 151 Officer is the officer with overall responsibility for Capital and Treasury activities and is a qualified accountant.

## BASIC NEED SERVICE DEFINITIONS

### 1. Place

- 1.1 The overarching principle of “Place” is that the Council ensures that it is investing in its assets to meet future need. The areas of agreed investment are:

#### 1.2 Schools Basic Need Programme

- 1.2.1 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.
- 1.2.2 The programme will recognise the potential need for additional primary school places in areas of new housing development together with the increase in secondary school places required for those children already at primary school, which reflects an historic increase in births.

#### 1.3 Economic Development including Place Shaping

- 1.3.1 A Council’s priority outcome is to drive sustainable growth. Working with our partners, the Council will include in its capital programme schemes that support this outcome.
- 1.3.2 The Council will consider, as part of the “Other Investments” outside of basic need, schemes that will provide long-term benefits and demonstrate payback of the initial investment.

#### 1.4 House Adaptations

- 1.4.1 House adaptations for both adults and children are an important element of allowing people to remain in their homes (District & Boroughs) or in accommodation, which meets their needs (County).
- 1.4.2 Working alongside our partners in Districts and Boroughs to ensure Disabled Funding Grant is utilised, along with our own resources, to provide the best outcomes for our residents.

#### 1.5 Integrated Transport

- 1.5.1 The integrated transport delivers the objectives of the County’s Local Transport Plan, which is complemented five-year implementation plans, delivering priority schemes. The schemes to be delivered are only added to the capital programme when external grant or contributions have been secured.

### 2. Asset Condition

- 2.1 The overarching principle of “Asset Condition” is that the Council ensures that it is investing in its assets to maintain a basic level of condition, which allows the Council to deliver its Priority Outcomes, meeting any security and health and safety requirements. The areas include:

## BASIC NEED SERVICE DEFINITIONS

### 2.2 Highways Structural Maintenance

- 2.2.1 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 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.
- 2.2.2 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.
- 2.2.3 We receive many requests to install physical features to prevent driving or parking in unsuitable places. All requests are assessed by the Road Safety team and will not be taken forward unless the location meets the criteria used by our scoring system.
- 2.2.4 If we can improve safety by making minor changes, this will be carried out as part of the highways maintenance programme. However, more complex improvements, such as traffic calming schemes, pedestrian crossings or cycle lanes are funded from our budget for transport improvements and undergo a strict scoring process.
- 2.2.5 To ensure that highways drainage is adequate to meet the needs of maintaining safe roads and, as the occurrence of extreme weather events increases, is able to cope with those events

### 2.3 Bridge Strengthening/Street Lighting/Traffic Signals

- 2.3.1 As traffic continues to increase on our roads there is requirement for a programme of bridge strengthening and replacement to ensure they remain safe.
- 2.3.2 To ensure that street lighting is adequate and, as the existing stock comes to the end of its life, it is replaced with modern, energy efficient, technology that also addresses the issue of light pollution.
- 2.3.3 To ensure that the maintenance of traffic signals is adequate to meet the needs of maintaining safe roads and that meet the needs of all users.

### 2.4 Rights of Way

- 2.4.1 Maintaining and protecting the public's right to use the 2000 miles (3,500km) of footpaths, bridleways and byways in East Sussex.

## BASIC NEED SERVICE DEFINITIONS

### 2.5 Real Bus Information

- 2.5.1 Real Time Passenger Information (RTPI) has been introduced in East Sussex to help provide better, more reliable information about bus services. The County Council continues to work with neighbouring local authorities and bus operators to roll out the system, which enables live bus times (real time information) to be displayed on electronic RTPI signs installed at a number of major bus stops and also on the Traveline website, text messages and smartphone apps..

### 2.6 Building Maintenance - schools

- 2.6.1 Work related to legislation, statutory requirement, health and safety and urgent repair work, as identified via the condition surveys and plans that ensure that schools are maintained at a minimum requirement, including the provision of temporary classrooms, plans based on birth rates and population projections are included in the Place (see section 1.2 above).

### 2.7 Building Maintenance – non schools

- 2.7.1 Work related to legislation, statutory requirement, health and safety and urgent repair works. The money spent on capital will avoid higher running costs helping to reduce the cost of occupancy of corporate buildings.

### 2.8 Libraries

- 2.8.1 To maintain libraries in a safe and suitable condition from which to deliver the outcomes of the Libraries Strategic Commissioning Strategy.

### 2.9 Energy Efficient Projects

- 2.9.1 Where funding from Salix can be attracted that pays back the investment, these will be added to the capital programme.

## 3. IT&D Strategy Programme

- 3.1 The overarching principle of the IT&D strategy is to ensure that our Information and Communications Technology (ICT) is fit for purpose for delivering modern council services in a digital era and protecting any data held.
- 3.2 The business has a dependent on a basic level of infrastructure in order to be able to function. A substantive proportion of the ICT Strategic Investment bid is for operational activity, essential to keep working, services that support the rest of the organisation.
- 3.3 Continued investment in provisioning operational services keeps the Council's technology tools up to date and working, to ensure that as an organisation, contractual support obligations are maintained and ESCC remains secure, resilient and compliant.



**BASIC NEED SERVICE DEFINITIONS**

- 3.4 In order to stay ahead of business user expectation, investment in developing current systems is fundamental. Failure to keep pace with technological development will, in the short-term, paralyse Council infrastructure. The current development activity will become the future operational activity. 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.

## BUSINESS CASE GUIDANCE

- B1. The Council does not prescribe how a business case should be made but a template is available for services to use as necessary. There are also some basic principles.
- B2. The 5-Case Business Case model, as recommended by HM Treasury, sets out some basic questions that all business cases should answer.

**The Strategic Case**

- **Is the proposal needed?**
  - Will it further the Council's objectives?
  - Is there a clear case for change?

**The Economic Case**

- **Is it value for money?**
  - Have a range of options been considered?
  - Is it the best balance of cost, benefits and risk?

**The Commercial Case**

- **Is it viable?**
  - Is there a supplier who can meet our need?
  - Can we secure a value for money deal?

**The Financial Case**

- **Is it affordable?**
  - Are the costs affordable and realistic?
  - Is there funding available and is it supported?
  - Is there a clear payback?

**The Management Case**

- **Is it achievable?**
  - Are we capable of delivering the project?
  - Do we have robust systems and processes in place?