

Appendix 11 - Capital Programme Update

1 Background

1.1 Through the Reconciling Policy Performance and Resources (RPPR) process the Capital Strategy and programme are reviewed annually to ensure that they support the Council's responsibilities and departmental service strategies. To manage investment to a sustainable level, the Capital Strategy focuses on the delivery of targeted basic need for the council to continue to deliver services as efficiently as possible, rather than rationing through prioritisation. This is in recognition that there will be conflicting priorities but that a level of investment is needed across the council in order to deliver the council's services and react to changes in technology, economy and the environment. Basic need for the purpose of strategic capital planning is provided below: -

- Place: ensuring we can deliver services by planning for future need.
- Asset Condition: maintaining our assets to an agreed level.
- ICT Strategy: ensure that our ICT is fit for purpose for delivering modern council services in a digital era and protecting data.
- Climate Change: tackling climate change has become part of ESCC core business, investment will be required towards the achievement of carbon neutrality.

1.2 At Full Council in February 2022 the target led basic need capital strategy of 20 years, supported by a 10-year planned capital programme was approved. The strategy provides for the programme being updated annually to maintain this 10-year planning horizon unless there is a compelling reason not to, this will be done as part of the RPPR process.

1.3 The capital programme 2021/22 to 2031/32 reported as part of the Budget in February 2022 had a total programme expenditure of £752.9m. Table 1 below provides details of the funding.

Table 1 - Capital Programme funding (£m)	2021-2032
Formula Grants	(230.4)
S106/CIL target	(24.1)
S106/CIL identified contribution	(14.3)
Specific Funding (inc. grants, partner contributions etc.)	(32.0)
Capital Receipts	(21.0)
Reserves and Revenue set aside	(56.7)
New Homes Bonus	(0.8)
Borrowing	(373.6)
Total Programme Funding	(752.9)

1.4 In addition to the basic need programme the Capital Strategy allows for the Council to consider business cases where a clear payback or funding stream can be demonstrated. Any payback reducing the borrowing in the year it is received and therefore contributing to the ongoing sustainability of the programme.

1.5 As such these projects are not included in the capital programme until their overall impact, including funding implications, have been assessed and approved.

2 Capital Programme Update

2.1 Table 2 below summarises the gross movements to the approved capital programme since budget setting in February 2022, noting that the first 3 years of the programme to 2024/25 are approved, whilst the remaining years to 2031/32 are indicative to represent longer term planning against priority outcomes for capital investment. The movements reflect the 2021/22 outturn position and other updates in accordance with the approved governance and variation process.

Table 2 - Capital Programme (gross) movements (£m)	2021/22	MTFP Programme			2025/26 to 2031/32	Total
		2022/23	2023/24	2024/25		
Approved programme at February 2022	88.219	101.899	77.088	78.892	406.781	752.879
Approved Variations (see 2.2)	(2.329)	1.696	(0.500)	0.250	-	(0.883)
2021/22 Net Slippage / Service Reprofiles (2.3)	(10.022)	(7.926)	6.132	4.619	7.197	0.000
2021/22 Underspend (2.3)	(0.275)	(0.081)	-	-	-	(0.356)
2021/22 Covid-19 Related (2.3)	0.326	-	-	-	-	0.326
2021/22 Expenditure (2.3)	(75.919)	-	-	-	-	(75.919)
Total Programme	0.000	95.588	82.720	83.761	413.978	676.047

2.2 Net nil approved variations to the programme since Budget in February 2022 total a reduction of £0.883m. This reflects that funded increases to the programme have been offset by a large reduction of £3.5m in the LEP programme due to the Getting Building Fund Fast Track Business Solutions project not meeting conditions attached to the funding award. Funding, therefore, was removed and the project withdrawn from the capital programme.

Table 3 – Net nil approved variations and programme movements since February 2022	Gross Variation (£m)
Capital Building Improvements – Additional Schools Condition Allocation grant (formula grant)	0.882
Other Integrated Transport Schemes: Additional Grant (formula grant)	0.022
Other Integrated Transport Schemes: Uckfield Bus Station (revenue set aside)	0.150
Peacehaven Library Refurbishment & Conversion (revenue set aside)	0.070
The Keep (revenue set aside)	0.005
Rights of Way Vehicle (revenue set aside)	0.024
Schools Delegated Capital Expenditure 2021/22 (specific grant and schools contributions)	0.788
IT&D Strategy Implementation: Workstyles Technology (specific reserves)	0.152
Flood and Coastal Resilience Innovation Programme (specific grant)	0.445
Emergency Active Travel Fund – Tranche 1 (specific grant)	0.019
Salix Solar Panels (Specific Grant)	0.025
Salix Grant programme 2021/22 outturn (specific grant)	(0.265)
Getting Building Fund: Food Street (Local Enterprise Partnership (LEP) Specific Grant)	0.100
Getting Building Fund: Seven Sisters (Local Enterprise Partnership (LEP) Specific Grant)	0.200
Getting Building Fund: Fast Track Business Solutions (LEP Specific Grant removed)	(3.500)
Programme Movement: Other Integrated Transport Schemes – allocate funding to specific scheme below (formula grant)	(1.100)
Programme Movement: Eastbourne Town Centre Phase 2 (formula grant)	0.900
Programme Movement: A22 Corridor Scheme (formula grant)	0.200
Programme Movement: Community Match Fund – allocate underspend to community focused road safety interventions (capital reserve)	(0.750)
Programme Movement: Community Focused Road Safety Interventions (capital reserve)	0.750
Total Variations	(0.883)

2.3 Total 2021/22 capital expenditure was £75.9m against an approved budget of £85.9m (including a net budget reduction of £2.3m of approved variations detailed above), resulting in a variation to budget of £10.0m (compared to net variation estimated of £3.5m forecast at Q3). This variation comprises of slippage of £10.0m which has been reprofiled into future years following a review by services and Capital and Strategic Asset Board, and an underspend of £0.3m on the planned programme. In addition, there is £0.3m of projected COVID-19 related costs that will be funded from COVID-19 specific or tranche funding, thereby having a net nil impact on the Council's capital programme. Details of this are presented in the Q4 monitoring.

2.4 A detailed programme has been included **Annex 1**.

3 Funding Update

3.1 At budget setting in February 2022 several announcements regarding future formula grant allocations were still outstanding. Assumptions previously made for planning purposes relating to these were therefore not changed, as levels were considered reasonably prudent. Given that these non-specific grants are used to fund the approved targeted Basic Need capital programme, but not to inform the level of investment. The level of investment being a strategic decision by the Council. Therefore, the Capital Strategy asserts that any additionality is used to reduce the Councils need to borrow.

3.2 The February 2022 report also considered the potential increased burdens of pending planning system reform and the trend of Community Infrastructure Levy contributions to focus on

transport infrastructure work (which is added via approved variation as net nil to the programme). Both have increased the risk of achieving the S106/CIL funding target identified in the programme. Additionally, on the 11 May, the Government introduced the Levelling Up and Regeneration Bill into Parliament. Within this Bill are likely to be changes to the mechanism currently used for securing new and improved/expanded infrastructure (i.e. S106 agreements and CIL) with the introduction of a single Infrastructure Levy which continues to increase the uncertainty with regard this funding stream. The capital update approved at Full Council in February proposed that, due to this ongoing uncertainty, any increase in capital formula grant allocations in 2022/23 would look to reduce the Section 106/CIL income target. With the caveat that additional grant over the current assumption for Highways, will first be considered against further capital investment opportunities.

3.3 Considering the above, table 4 provides the capital funding position, updated to reflect the 2021/22 outturn position, approved variations and Government funding announcements.

Table 4 - Capital Programme Funding movements (£m)	As at February 2022	Approved Variations and Programme Updates (see 2.2)	2021/22 (Under) / Over Spend (2.3)	2021/22 Use (2.3)	Other Funding Changes	Updated Funding
Section 106 & CIL - identified (see 3.8)	14.282	-	-	(5.916)	1.257	9.623
Section 106 & CIL - Target (see 3.4 and 3.8)	24.068	-	-	-	(4.861)	19.207
Other Specific Funding	31.704	(2.632)	-	(10.330)	-	18.742
Capital Receipts (see 3.9)	21.004	-	-	(5.840)	4.136	19.300
Formula Grants (see 3.4)	230.391	0.904	-	(22.916)	12.226	220.605
New Homes Bonus Grant*	0.816	-	-	-	-	0.816
Reserves and Revenue set aside	56.731	0.845	(0.153)	(5.185)	2.089	54.327
Covid-19 Grant Funding	0.250	-	0.326	(0.365)	-	0.211
Borrowing	373.633	-	(0.203)	(25.367)	(14.847)	333.216
Total Programme Funding	752.879	(0.883)	(0.030)	(75.919)	0.000	676.047

* If New Homes Bonus is received in 2023/24 a decision will be made through the RPPR process regarding its potential use for capital.

3.4 More detail of the £12.2m additional funding (2022/23 – 2024/25) from formula grants is provided in table 5 below. Initial proposals, in line with the position presented in February 2022, would reduce borrowing by £8.6m and the S106/CIL target by £3.6m and as set out below:

Table 5 – Changes to Formula Grants	2022/23	2023/24	2024/25	Total
Local Transport Capital Block Funding (3.5)	2.939	0.000	0.000	2.939
School Basic Need capital allocation (3.6)	0.329	2.682	(1.622)	1.389
HNPCC capital allocation change (3.7)	3.275	4.623	0.000	7.898
Total Changes to Formula Grants	6.543	7.305	(1.622)	12.226
Total reduction to borrowing	2.939	7.305	(1.622)	8.622
Total reduction to S106 and CIL target	3.604	-	-	3.604
Total Changes to Funding	6.543	7.305	(1.622)	12.226

- 3.5 **Local Transport Capital Funding:** On 28 February 2022 the Department for Transport announced the allocation of Local Transport Capital Block Funding (comprising Highways Maintenance Block and including the Potholes Fund) to local authorities for the financial year 2022/23 and indicative allocations for the years 2023/24 and 2024/25 subject to consultation. This represents an increase in funding of £2.939m for 2022/23 compared to assumed grant, currently no increase has been included for the latter 2 years so that a prudent approach can be taken ahead of the outcome of consultation. In line with the principles outlined in the Capital Strategy, the additional allocation announced for 2022/23 is proposed to reduce the required borrowing, supporting the highways maintenance programme, of £53.6m by £2.939m. For prudence, no further reduction to borrowing will be applied for the subsequent two years. Should the outcome of the consultation confirm the additional funding then this would also reduce the borrowing requirement in line with Capital Strategy principles.
- 3.6 **Schools Basic Need Allocation:** On 28 March 2022 the Department for Education (DfE) made various announcements with regard to schools' capital funding to local authorities for the 2022/23 financial year and beyond. With regards to Schools Basic Need capital allocation, the announcement based principally on data collected from local authorities in the 2021 School Capacity Survey (SCA), represents a total increase in funding of £1.389m (£0.329m in 2022/23 and a total of £1.060m in the following two years) compared to assumed grant funding. ESCC allocates this grant to fund the Schools Basic Need capital programme to meet the statutory duty of providing sufficient school places. The programme is also supported by S106/CIL contributions and borrowing. The required level of investment is historically greater than the level of basic need grant received, with a borrowing requirement of £28.0m over the period 2021/22 to 2024/25. It is proposed that the £0.329m increase in 2022/23 will be used to reduce the Section 106/CIL income target in line with the principles agreed in February 2022, and the additional grant in later years would reduce the level of borrowing associated to the Schools Basic Need programme in line with the principles outlined in the Capital Strategy.
- 3.7 **High Need Provision Capital Allocation (HNPCA):** The DfE announcement on 28 March 2022 also included allocations for the HNPCA for 2022/23 and 2023/24. The announcement represents a total increase in funding of £7.898m (£3.275m in 2022/23 and £4.623m in 2023/24 compared to assumed grant funding. ESCC allocates this grant to fund the programme of required SEND places. The required level of investment is historically greater than the level of grant received, with a borrowing requirement of £13.9m over the MTFP to 2024/25 (including for provision at Grove Park / Beacon). It is proposed that the £3.275m increase in 2022/23 will support the current investment in SEND, but rather than reduce borrowing, will be used to reduce the S106/CIL income target in line with the principles agreed in February 2022. The additional grant in later years would then reduce the level of borrowing associated to the SEND programme in line with the principles outlined in the Capital Strategy.
- 3.8 **S106 and CIL update:** Ongoing work through the cross departmental CIL and S106 working group has identified a further £1.257m of S106 contributions that can be used to fund basic need programme. This will reduce the S106/CIL funding target identified in the capital programme. There continues, however, to be a risk that the current target for Infrastructure Contributions to support the programme is too high. A detailed review of the risk associated to the income target will be carried out as part of the RPPR process. S106 and CIL funding contributions provide an important source of funding towards basic need requirements and unfunded infrastructure schemes, and can often facilitate leverage of additional external funding. CET had previously identified £27m of transport infrastructure requirements up to 2024 to support the delivery of growth allocations in Local Plans across the County. Work has been ongoing to update this requirement, with latest estimates being a total requirement of £171.5m up to 2030. These schemes are funded by development contributions including S106 and CIL and other external funding sources and, in line with the Capital Strategy, will be approved via

variation as funding streams are confirmed and will have a net nil impact on the capital programme.

- 3.9 **Capital Receipts update:** Review and refinement of Property Services schedule of capital receipts is undertaken on a regular basis with estimates are based on Property Officers' professional judgement on a site by site basis. This is supported by the work undertaken recently and successfully getting a number of surplus properties to the point of sale. Following a recent review, it is suggested that anticipated capital receipts can be increased by £4.136m for capital planning purposes.

4 Programme Risks and Pressures

- 4.1 A £7.5m ongoing risk provision was approved in February 2022 to mitigate against capital programme risks, representing more than 2% of the programme over the MTFP period. This risk provision is a permission to borrow for emerging risks and is managed through ensuring Treasury Management capacity rather than representing funds that are within the Council's accounts. There are several risks and uncertainties regarding the programme to 2024/25 and beyond which have necessitated holding a risk provision, these risks as reported at Budget 2022 include:
- Excess inflationary pressures on construction costs
 - Uncertainty about delivery of projects in the programme, e.g. highways and infrastructure requirements
 - Any as yet unquantifiable impact of supply issues and cost increases
 - 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.
- 4.2 There are currently increased uncertainties that exist within the construction industry in terms of supply chain issues and high-cost inflation. The capital programme includes an element of 'normal' level of inflation for ongoing target-based core programmes (as opposed to programmes that have cash limited envelopes) such as Highways of 3% annually, with any increases above this level to be covered by the risk provision.
- 4.3 In addition, it is anticipated that there will be increasing pressures on the current programme due to the climate change agenda meaning additional requirements will need to be incorporated into the current programme, such as emerging environmental planning requirements and low carbon replacements of current assets. Emerging pressures on supply chain and inflation should be reported to Capital and Strategic Asset Board so they can be considered as part of the broader RPPR process.

5 Programme Update and Review / RPPR Next Steps

- 5.1 Work will now be progressed as part of the RPPR process to extend the programme by a further year to maintain a 10-year planning horizon and ensure continued links into, and support of, the Council's other strategies. As well as adequacy of the risk provision and climate emergency work allocation.
- 5.2 The Capital Strategy will also be reviewed to ensure it continues to drive investment ambition in line with the Council's priorities and to continue to include equality impact assessments (EQIAs) as part of the capital RPPR process. Whilst also providing for appropriate capital expenditure, capital financing and treasury management within the context of sustainable, long-term delivery of services. Updates to the Capital Strategy approved in February 2022 included the emerging relevance of Environment, Social and Governance (ESG) considerations.
- 5.3 Any ongoing pressures and issues that Covid-19 presents will continue to be reviewed as part of the Council's performance monitoring process and funding options will be considered if specific mitigations are not forthcoming.
- 5.4 As part of RPPR Service Departments will also, as normal be asked to conduct a general review of their specific investment need. Specific issues arising are set out below: -
 - **Highways Maintenance:** impact of the highways contract.
 - **Special Education Needs and Disability (SEND) School Places:** further SEND provision.
 - **Schools Basic Need:** School Basic need requirements based on SCAP returns and District/Borough council local plans.
 - **Workstyles investment:** a joint review of investment need (including on IT&Digital) to support changing workstyles where the impact of the pandemic has provided opportunities to accelerate planned changes of new working practices.
 - **Carbon Neutral Commitment:** adequacy of provision.
 - **Opportunity to bid for One Off funding from the £5.175m Services Grant allocation set aside as part of the budget in February 2022:** this is a separate process.
 - Ongoing business case development outside basic need.

6 Conclusion

- 6.1 This report provides an update on current approved capital programme as part of the annual RPPR cycle. Work will now be progressed as part of the RPPR process to extend the programme by a further year to maintain the 10-year planning horizon and link into and support the Council's other strategies. The Capital Strategy and programme will be reviewed, considering other Council strategies as defined in the Capital Strategy, any requirements outside basic need will need to be supported by a business case.

Annex A – Detailed Capital Programme

Capital Programme (gross) (£m)	MTFP Programme			2025/26 to 2031/32	Total
	2022/23	2023/24	2024/25		
Adult Social Care:					
House Adaptations	0.050	0.050	0.050	-	0.150
Greenacres	0.144	-	-	-	0.144
Adult Social Care Total	0.194	0.050	0.050	-	0.294
Business Services:					
Salix Contract	0.350	0.350	0.350	2.450	3.500
Lansdowne Secure Unit – Phase 2	0.075	-	-	-	0.075
Special Educational Needs	1.600	1.589	-	-	3.189
Special Educational Needs – Grove Park / Beacon	2.500	5.000	6.000	5.600	19.100
Special Provision in Secondary Schools	0.120	-	-	-	0.120
Disability Children's Homes	0.218	-	-	-	0.218
Westfield Land	0.721	-	-	-	0.721
Schools Basic Need	5.416	5.517	15.853	71.737	98.523
Capital Building Improvements (Schools)	5.179	4.182	4.182	29.274	42.817
Capital Building Improvements (Corporate)	3.439	4.520	4.520	31.640	44.119
IT & Digital Strategy Implementation	12.237	13.057	4.928	48.625	78.847
IT & Digital Strategy Implementation - Utilising Automation	0.024	-	-	-	0.024
Business Services Total	31.879	34.215	35.833	189.326	291.253
Children's Services					
House Adaptations	0.050	0.050	0.050	-	0.150
School Delegated Capital	0.729	1.150	1.150	-	3.029
Conquest Centre Redevelopment	0.015	-	-	-	0.015
Children's Services Total	0.794	1.200	1.200	-	3.194
Communities, Economy & Transport:					
Broadband	0.911	2.757	2.757	-	6.425
Salix Solar Panels	0.077	-	-	-	0.077
Climate Emergency Works	2.090	1.516	5.922	-	9.528
Flood & Coastal Resilience Innovation Programme	0.250	-	-	-	0.250
Bexhill and Hastings Link Road	0.318	-	-	-	0.318
Bexhill and Hastings Link Road – Complementary Measures	0.167	0.060	-	-	0.227
Economic Intervention Fund – Grants	0.282	0.435	0.300	1.054	2.071
Economic Intervention Fund – Loans	0.497	0.500	0.500	0.473	1.970
Stalled Sites	0.055	0.120	0.104	-	0.279
Upgrading Empty Commercial Properties	-	0.007	-	-	0.007
Community Match Fund	0.100	0.380	-	-	0.480

Community Road Safety Interventions	0.250	0.250	0.250	-	0.750
Newhaven Port Access Road	0.189	0.020	0.776	-	0.985
Real Time Passenger Information	0.074	0.078	0.060	0.061	0.273
Queensway Depot Development	0.175	0.466	-	-	0.641
Hailsham HWRS	0.164	-	-	-	0.164
The Keep	0.132	0.096	0.026	0.823	1.077
Other Integrated Transport Schemes	3.144	5.440	5.209	21.867	35.660
Integrated Transport Schemes – A22 Corridor	0.200	-	-	-	0.200
Exceat Bridge Replacement	2.176	3.733	2.509	-	8.418
Emergency Active Travel Fund – Tranche 2	0.756	-	-	-	0.756
Libraries Basic Need	0.497	0.789	0.449	2.245	3.980
Peacehaven Library Refurbishment and Conversion	0.028	-	-	-	0.028
Libraries Targeted Support	0.211	-	-	-	0.211
Highways Structural Maintenance	21.186	21.147	21.688	168.404	232.425
Bridge Assessment Strengthening	3.022	3.708	1.775	15.519	24.024
Street Lighting and Traffic Signals	3.723	3.792	3.839	10.590	21.944
Street Lighting and Traffic Signals – Salix Scheme	0.650	-	-	-	0.650
Visually Better Roads	5.609	-	-	-	5.609
Rights of Way Surface Repairs and Bridges	0.565	0.565	0.514	3.616	5.260
Communities, Economy & Transport (LEP Funded Schemes):					
Eastbourne Town Centre Phase 2	3.241	-	-	-	3.241
Eastbourne/South Wealden Walking & Cycling Package	2.351	-	-	-	2.351
Hailsham/Polegate/Eastbourne Movement & Access Corridor	0.550	0.409	-	-	0.959
Hastings & Bexhill Movement & Access Package	4.089	0.987	-	-	5.076
Skills for Rural Businesses Post-Brexit	0.915	-	-	-	0.915
Getting Building Fund – Rising Sunbeams	2.477	-	-	-	2.477
Getting Building Fund – UTC Maritime and Sustainable Technology Hub	1.300	-	-	-	1.300
Getting Building Fund – Food Street	0.100	-	-	-	0.100
Getting Building Fund – Seven Sisters	0.200	-	-	-	0.200
Communities, Economy & Transport Total	62.721	47.255	46.678	224.652	381.306
Total Programme	95.588	82.720	83.761	413.978	676.047