

Appendix 11 – State of the County 2023 Capital Programme Update

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. 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: supporting the Council's aim of reaching carbon neutrality from our activities as soon as possible and in any event by 2050 in an appropriate and cost-efficient way.
- 1.2 At Full Council in February 2023 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.
- 1.3 The capital programme 2022/23 to 2032/33 reported as part of the Budget in February 2023 had a total programme expenditure of £724.9m and a borrowing requirement of £332.9m. Table 1 below provides details of the approved capital programme and funding.

Table 1 – Capital Programme (Budget 2023) (£m)	2022/23	MTFP Period			2026/27 to 2032/33	Total
		2023/24	2024/25	2025/26		
Gross Expenditure	82.207	96.744	102.376	61.050	382.528	724.905
Specific Funding	(10.293)	(18.680)	(26.973)	(3.417)	(1.386)	(60.749)
Net Expenditure	71.914	78.064	75.403	57.633	381.142	664.156
Formula Grants	(33.418)	(25.243)	(17.937)	(17.960)	(135.738)	(230.296)
New Homes Bonus Grant	(0.816)	-	-	-	-	(0.816)
Capital Receipts	(9.591)	(5.149)	(3.149)	(3.360)	-	(21.249)
Reserves and Revenue Set Aside	(20.435)	(12.768)	(5.540)	(6.100)	(15.106)	(59.949)
Developer Contributions Target	-	-	-	-	(18.970)	(18.970)
Programme Borrowing	7.654	34.904	48.777	30.213	211.328	332.876

- 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 reduces the borrowing in the year it is received and therefore contributes to the ongoing sustainability of the programme. 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 Updates

- 2.1 Table 2 below summarises the gross movements to the approved capital programme since budget setting in February 2023, noting that the first 3 years of the programme to 2025/26 are

approved, whilst the remaining years to 2032/33 are indicative to represent longer term planning against priority outcomes for capital investment. The movements reflect the 2022/23 outturn position and other updates in accordance with the approved governance and variation process. A detailed programme has been included at **Annex 1**.

Table 2 - Capital Programme (gross) movements (£m)	2022/23	MTFP Programme			2026/27 to 2032/33	Total
		2023/24	2024/25	2025/26		
Approved programme at February 2023	82.207	96.744	102.376	61.050	382.528	724.905
Approved Variations (see 2.2)	1.891	0.200	0.000	-	-	2.091
Other Programme Updates (2.3)	-	0.689	-	-	-	0.689
Capital Programme Reprofiles (2.4)	-	(17.007)	(10.399)	19.227	8.179	0.000
*2022/23 Net Outturn Slippage (2.4)	(7.988)	8.226	(0.200)	(0.038)	-	0.000
*2022/23 Net Outturn Over/ Underspend (2.4)	(0.702)	-	-	-	-	(0.702)
*2022/23 Expenditure (2.4)	(75.408)	-	-	-	-	(75.408)
Total Programme	0.000	88.852	91.777	80.239	390.707	651.575

2.2 Net nil approved variations to the programme since Budget in February 2023 total a gross £2.1m, as summarised in Table 3 below:

Table 3 – Approved Variations since February 2023	Gross Variation (£m)
Getting Building Fund: Observer Building (Local Enterprise Partnership (LEP) Specific Grant)	0.315
Getting Building Fund: Seven Sisters (Local Enterprise Partnership (LEP) Specific Grant)	0.084
Passenger Transport Software Replacement (revenue set aside)	0.037
Hastings/Bexhill Movement and Access Programme (Local Enterprise Partnership (LEP) Specific Grant)	0.174
Lewes Bus Station Replacement (revenue set aside)	0.100
Community Match Fund (Parish Council Contributions)	0.021
Youth Investment Fund (specific funding and revenue set aside)	0.193
Solar Panels on Primary Schools (specific grant)	0.151
Schools Delegated Capital (specific grant and schools contributions)	0.712
Eastbourne Town Centre Phase 2b (specific grant)	0.304
Total Net Nil Approved Variations	2.091

2.3 The capital programme has also been updated for cash limited programmes that represent grants received. Following government announcements of 2023/24 grant allocations, the Other Integrated Transport Schemes (£0.022m) and Schools Capital Building Improvements (£0.667m) programmes have been updated to reflect anticipated grant as detailed in section 3.

2.4 Total 2022/23 capital expenditure was £75.4m against an approved budget of £84.1m, resulting in a variation to budget of £8.7m. This variation comprises of net slippage of £8.0m which has been reprofiled into future years following a review by services and Capital and Strategic Asset Board, and a net underspend of £0.7m on the planned programme. Details of this are presented in the Q4 monitoring report. The revised programme also reflects reprofiles across years following a review from services to reflect current best knowledge.

3 Funding Update

- 3.1 At budget setting in February 2023 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, 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 Considering the above, Table 4 provides the capital funding position, updated to reflect the 2022/23 outturn position, approved variations and Government funding announcements.

Table 4 - Capital Programme Funding movements (£m)	As at February 2023	Approved Variations (see 2.2)	2022/23 (Under) / Over Spend* (2.3)	2022/23 Funding * (2.3)	Other Funding Changes	Updated Funding
Developer Contributions - identified (see 3.7)	9.860	0.004	0.000	(0.558)	0.332	9.638
Development Contributions - Target (3.7)	18.970	-	-	-	(0.332)	18.638
Other Specific Funding	50.889	1.924	(0.856)	(7.472)	0.114	44.599
Capital Receipts (see 3.8)	21.249	-	-	(9.591)	3.162	14.820
Formula Grants (see 3.3 to 3.6)	230.296	-	-	(33.857)	8.584	205.023
New Homes Bonus Grant	0.816	-	-	(0.816)	-	0.000
Reserves and Revenue set aside	59.949	0.163	0.115	(17.302)	(0.034)	42.891
Borrowing	332.876	-	0.039	(5.812)	(11.137)	315.966
Total Programme Funding	724.905	2.091	(0.702)	(75.408)	0.689	651.575

Formula Grants

- 3.3 **Highways Maintenance Capital Funding:** As part of the Budget on 15 March 2023, the government announced an additional one-off £200million for highways maintenance for the financial year 2023/24, of which the East Sussex County Council allocation is £2.360m. In addition, the DfT also confirmed that Highways Maintenance allocations for 2022/23 of £13.275m per year will be rolled forward to 2023/24 and 2024/25, being an increase of £2.939m per year compared to the prudent planning assumption. It should be noted that these announcements are subject to wider incentivisation measures to be consulted on with local highways authorities.

The level of grant funding continues to be lower than the approved highways maintenance investment, and therefore in line with the principles outlined in the Capital Strategy, it is proposed that the total additional funding of £8.238m between 2023/24 to 2024/25 will reduce the required borrowing associated to highways investment.

The Integrated Transport capital programme is funded by the Integrated Transport Block at grant level, supported by external funding (such as developer contributions) approved via variations. The allocations for 2023/24 and 2024/25 of £2.941m per annum have been announced alongside the Highways Maintenance block funding. Consistent with current funding

principles, the increase in Integrated Transport Block funding of £0.022m per year compared to the planning assumption will therefore result in an increase to the programme budget.

- 3.4 **Schools Basic Need Allocation:** On 28 March 2023 the Department for Education (DfE) announced the schools' capital funding to local authorities for the 2025/26 financial year to support the creation of places needed for September 2026. With regards to Schools Basic Need capital allocation, the announcement based principally on data collected from local authorities in the 2022 School Capacity Survey (SCA), represents a total decrease in funding of £0.344m compared to estimated 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 required level of investment is historically greater than the level of basic need grant received, with a borrowing requirement of £6.2m over the period 2022/23 to 2025/26.
- 3.5 **High Need Provision Capital Allocation (HNPCA):** The DfE announcement in March 2022 provided allocations for the HNPCA for East Sussex County Council for 2022/23 (£3.775m) and 2023/24 (£5.124m). ESCC allocates this grant to fund the programme of required SEND places. From 2023 there will be a requirement to report on SEND places in the annual School Capacity (SCAP) return to the DfE in the same way for mainstream school places. As a result, capital funding for SEND places is likely to come through the council's annual school basic need funding allocation in future years.
- 3.6 **Schools Condition Allocation:** The Schools Capital Building Improvements programme is currently planned on the basis of priority one (health and safety) works; identified via condition reports, and essential safeguarding risk mitigation. This is a cash limited budget representing estimated grant received, thereby having a net nil impact on the programme. The confirmed funding allocations for 2023/24 of £4.649m represents an increase of £0.667m compared to planning assumptions and will therefore result in an increase to the programme budget.

Developer Contributions (Section 106 and Community Infrastructure Levy)

- 3.7 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. Ongoing work through the cross departmental CIL and S106 working group has identified a further £0.332m of developer contributions that can be used to fund basic need programme to reduce the S106/CIL funding target in the capital programme.

In May 2022, 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 expanded infrastructure with the introduction of a single Infrastructure Levy which continues to increase the uncertainty with regard to this funding stream.

There continues to be a risk that the current target for Developer Infrastructure Contributions to support the programme is too high, and opportunities will be sought through the RPPR process to reduce the funding target while not increasing the need to borrow.

Capital Receipts

- 3.8 Review and refinement of Property Services schedule of capital receipts is undertaken on a regular basis with estimates 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 £3.162m for capital planning purposes.

4 Programme Update and RPPR Next Steps

- 4.1 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.

- 4.2 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.
- 4.3 As part of RPPR Service Departments will also, as normal, be asked to conduct a general review of their specific investment and any ongoing business case development outside basic need. Specific issues arising are set out below: -

School Place Planning - School Basic Need and Special Education Needs and Disability (SEND) School Places

- 4.4 There remains some uncertainty over precisely how many school places will be required in the future. This is dependent on local planning authorities developing their local plans for housing and the impact this will have on the number of school places required to serve those developments. The 10-year school basic need capital strategy will be updated taking into account potential impacts of local plan reviews to inform future requirement.
- 4.5 The number of children and young people in East Sussex with an Education, Health, and Care Plan (EHCP) continues to rise steeply. In the next four years, it is forecast that overall numbers of children and young people aged 4-19 with EHCPs will grow by around 15%. The current capital budget allocation for SEND place provision is £21.9m over the MTFP period to 2025/26. This includes £18.9m for nursery, secondary and post-16 provision at Grove Park, which is proposed to be taken forward at the current primary school site subject to consultation and feasibility. An update of the schools basic need strategy over the summer will assess need and gaps in provision for specialist facilities and inform requirements for the wider 10-year programme as part of the RPPR process.

Highways Maintenance Investment

- 4.6 The Highways Maintenance capital programme was uplifted as part of the 2022/23 RPPR process to stem the rate of road deterioration and ensure the basic need target maintained current road conditions. A review of the latest highway maintenance prices from the recent highway contract procurement and the condition information from recent surveys in is being undertaken to inform potential additional one-off and ongoing investment requirements to maintain the Council's road condition targets of 4%, 4% and 14%, and is to be considered as part of a separate report and as part of the RPPR process.

Carbon Neutral Commitment

- 4.7 To achieve the Council's aim of reaching carbon net zero by 2050 at the latest in an appropriate and cost-efficient way, extensive works to decarbonise ESCC's estates operations will be necessary. 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.

Modernising Back Office Systems (MBOS)

- 4.8 The Modernising Back Office Systems (MBOS) programme was established to deliver the replacement of the Council's financial, resource management and procurement systems. The total approved capital budget allocation for the MBOS delivery is £13.1m, of which £3.3m is remaining in 2023/24. Additional resources are earmarked in reserves to support delivery, to be

included in the capital programme as an approved variation at a later date as the programme progresses.

5 Programme Risks and Pressures

- 5.1 A £7.5m ongoing risk provision was approved in February 2023 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 2025/26 and beyond which have necessitated holding a risk provision, these risks as reported at Budget 2023 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.
- 5.2 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.
- 5.3 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. The risk provision and potential provision for the area will be reviewed as these requirements become clearer.

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 1 – Detailed Capital Programme

Capital Programme (gross) (£m)	MTFP Period			2026/27 to 2032/33	Total
	2023/24	2024/25	2025/26		
Adult Social Care:					
House Adaptations	0.050	0.050	0.050	-	0.150
Learning Disability Support Living Scheme	2.177	2.914	0.854	0.104	6.049
Greenacres	0.140	-	-	-	0.140
Adult Social Care Gross	2.367	2.964	0.904	0.104	6.339
Business Services:					
Salix Contract	0.350	0.350	-	-	0.700
Lansdowne Secure Unit – Phase 2	0.065	-	-	-	0.065
Schools Basic Need	1.931	0.837	11.833	49.177	63.778
Special Educational Needs	1.692	1.347	-	-	3.039
Special Educational Needs – Additional Places	5.422	8.000	5.000	0.429	18.851
Disability Children’s Homes	0.716	0.024	-	-	0.740
Westfield Lane	0.053	-	-	-	0.053
Capital Building Improvements (Schools)	5.594	4.199	4.182	28.074	42.049
Capital Building Improvements (Corporate)	3.509	4.640	4.640	31.960	44.749
IT & Digital Strategy Implementation	4.742	5.319	7.187	55.708	72.956
IT & Digital Strategy Implementation - MBOS	3.332	-	-	-	3.332
IT & Digital Strategy Implementation - Utilising Automation	0.024	-	-	-	0.024
Business Services Gross	27.430	24.716	32.842	165.348	250.336
Children’s Services:					
House Adaptations	0.050	0.050	0.050	-	0.150
School Delegated Capital	1.150	1.150	1.150	-	3.450
Conquest Centre Redevelopment	0.015	-	-	-	0.015
Children’s Services Gross	1.215	1.200	1.200	-	3.615
Communities, Economy & Transport:					
Broadband	0.160	0.100	5.257	-	5.517
Climate Emergency Works	3.095	5.459	-	-	8.554
Flood & Coastal Resilience Innovation Programme	0.943	0.930	0.989	0.683	3.545
Bexhill and Hastings Link Road – Complementary Measures	0.189	-	-	-	0.189
Economic Intervention Fund – Grants	0.175	0.300	0.300	1.083	1.858
Economic Intervention Fund – Loans	0.300	0.300	0.300	0.850	1.750
Stalled Sites	0.050	0.050	0.050	0.120	0.270
Upgrading Empty Commercial Properties	-	0.007	-	-	0.007
Community Match Fund	0.140	0.325	-	-	0.465
Community Road Safety Interventions	0.485	0.237	-	-	0.722

Newhaven Port Access Road	0.086	0.708	-	-	0.794
Real Time Passenger Information	0.070	0.094	0.061		0.225
Passenger Services Software	0.026	-	-	-	0.026
Bus Services Improvement Plan	3.245	18.680	-	-	21.925
Lewes Bus Station Replacement	0.004	-	-	-	0.004
Queensway Depot Development	0.504	-	-	-	0.504
The Keep	0.228	0.026	-	0.823	1.077
Other Integrated Transport Schemes	3.740	3.308	7.324	20.762	35.134
Integrated Transport Schemes – A22 Corridor	0.100	-	-	-	0.100
Exceat Bridge Replacement	2.320	3.612	0.920	-	6.852
Libraries Basic Need	0.508	0.799	0.449	1.796	3.552
Peacehaven Library Refurbishment and Conversion	-	0.027	-	-	0.027
Highways Structural Maintenance	20.193	21.688	22.246	172.805	236.932
Bridge/Structures Assessment Strengthening	4.740	1.775	3.025	14.616	24.156
Street Lighting and Traffic Signals	4.686	3.839	3.888	8.012	20.425
Street Lighting and Traffic Signals – Salix Scheme	0.219	-	-	-	0.219
Visibly Better Roads	1.293	-	-	-	1.293
Rights of Way Surface Repairs and Bridges	0.552	0.514	0.484	3.705	5.255
Communities, Economy & Transport (LEP Funded Schemes):					
Eastbourne Town Centre Phase 2	3.296	-	-	-	3.296
Eastbourne/South Wealden Walking & Cycling Package	2.064	-	-	-	2.064
Hailsham/Polegate/Eastbourne Movement & Access Corridor	0.275	0.119	-	-	0.394
Hastings & Bexhill Movement & Access Package	4.154	-	-	-	4.154
Communities, Economy & Transport Gross	57.840	62.897	45.293	225.255	391.285
Total Programme Gross	88.852	91.777	80.239	390.707	651.575