Appendix 4

Capital Programme Strategy 2018/19 to 2022/23

1. Background

1.1 During 2015/16, a high level Capital Programme management review was commissioned in recognition that firm targets need to be set to focus and shape the forward Capital Programme.

1.2 The current Capital Programme runs until 2017/18 and a new five year Capital Programme will be needed from 2018/19 to 2022/23.

1.3 At the February 2016 Cabinet meeting, Members were made aware of the requirement for a new Capital Programme and, at that time, the initial estimates of core needs identified a gross requirement of £414m and a net funding level of £202m, creating a funding gap of £212m.

1.4 Since this meeting, further detailed planning has taken place in order to identify ways to manage demands against the future Capital Programme in the context of significantly reduced funding sources and resources. The Council has focused on a strategy to deliver its future Capital Programme core need as efficiently as possible and, therefore, for a reduced investment. Where there are other service developments and needs that require capital investments (that are not identified as core need) they will either be match funded or would need to be the subject of a business case that demonstrates return and payback and have, therefore, not been included in the future Capital Programme at this stage.

1.5 The gross estimated costs for the core need have now been revised to £327m. The estimated level of funding against this programme is £234m, creating a funding gap of £92m. This is, however, within the context of a very uncertain financial outlook, largely in respect of Government grant funding for the core activity. Of the £234m estimate of funding, £143m relates to Government grants, of which, only £3m (2%) at this stage is confirmed.

1.6 In addition to the core need above, there are some additional needs that should also be considered which total £25m. Whilst these are not core need they do relate to core activity and should be considered in the context of overall Council priorities and resources in the context of the RPPR process. If approved in total, they would increase the gross costs of the future Capital Programme to £352m and the funding gap would increase to £117m.

1.7 This Appendix provides an updated position on the need for the core programmes and other known pressures including a high level estimate of potentially available funding for the future Capital Programme 2018/19 to 2022/23.

1.8 The areas of essential core need are:

- Schools Places (primary, secondary and special);
- Highways Structural Maintenance;
- Highways Bridge Strengthening;
- Highways Street Lighting;
- Highways Rights of Way and Bridge Replacement Programme;
- Property Building Maintenance;
- ICT Strategy; and
- Adults and Social Care Adaptations Programme.

1.9 In addition to the core need, there are a number of other areas of need that are assumed to be fully funded by respective funding sources, examples of these are the Local Enterprise Partnership and the Economic Intervention Fund.

1.10 Whilst each of the Capital Programmes represents core need, they support and align to the Council's priority outcomes.

2. Supporting information

2.1 Assumed grant funding of the programme is set at the level of funding that has been received in previous years and for schools basic need, the current formula has been applied.

2.2 It should be noted that this funding is **not** in the main confirmed. The grant funding shown in Table 1 has, therefore, been risk rated to highlight the risk level attributed to the receipt of that funding (of the £143m assumed only £3m [2%] is confirmed at this stage).

2.3 Capital receipts have been reviewed and best current estimates are included, this will remain under review and may be subject to change as the Council's Asset Management Plans are reviewed and developed.

2.4 For the purpose of planning, the revenue contributions to the Capital Programme have been assumed to continue at the current levels.

2.5 The Capital Programme reserve contributions include the £20.9m set aside from the Waste Reserve as approved at County Council in February 2016, a further £3.3m underspend from 2015/16 outturn and a further proposed £2.6m available from review of the current programme. Should there be a requirement for additional investment to create a property investment portfolio, this would need to be subject to a specific business case.

2.6 Currently, no Section 106, Community Infrastructure Levy or New Homes Bonus funding has been included in the programme. Work will continue to identify where these can support basic need and will therefore reduce the funding gap required to be supported by borrowing.

2.7 For each of the core need programmes, there are decisions to be made regarding the budget that will be allocated to each of these areas.

2.8 Each area of the core need programmes is set out below with a short narrative outlining the recommendation.

2.9 ESCC has a strategy of repaying debt and reducing its borrowing. Further savings from postponing the requirement to secure external borrowing with the effect of delaying the impact of debt servicing costs will, where possible, be used to reduce borrowing.

Highways Programme

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

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

2.12 In 2013, Cabinet agreed that a level of capital maintenance of £15m per annum (at today's prices) would be required, over 10 years, in order to maintain the roads in a condition that reflected the Council's priorities, to stem the rate of deterioration and to maintain the current condition of the county's roads. This funding level was provided for in the current Capital Programme and has been assumed, at this stage, for the term of the next Capital Programme 2018/19 to 2022/23.

2.13 There are some additional needs as shown in Table 1 that include funds the Transport & Environment Scrutiny Committee recommended in April 2016 for drainage improvements (this adds an additional £22.4m to the programme costs). Other requirements for additional investment in footways, crash barriers, signs and additional maintenance in bridges and structures reflect the emerging asset plans, the improved understanding of these asset types and the estimated shortfall in capital maintenance to adequately keep pace with their deterioration.

Schools Basic Need Programme

2.14 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.

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

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

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

2.18 There is significant pressure on special schools as the number of pupils with specialist needs is increasing. The provision of school places can be broken down into three programme areas primary, secondary and special schools.

2.19 The costs currently shown within the Programme do not include any land costs and are based on high level benchmark figures and, as such, work needs to be undertaken to validate and refine the costs for each school over the next 6-9 months. This will provide more accurate cash flows, greater cost certainty, clarity of the issues and the programme to achieve the required completion of works.

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

2.21 Whilst the costs can be driven down, the impact of the Education White Paper and academisation need to be noted. As schools convert to academies, they cannot be directed to expand and are likely to object to the scope of works prior to agreeing expansion, leading to potential increased costs. As schools become academies, they will transfer from being a Council asset (subject to a 125 year lease) to the private sector; incurring a cost to the Council for no additional value.

2.22 A Free Schools Strategy is being developed that will reduce the costs to the Council of new schools. Free schools are being considered as there are a number of new build schools with land in all three of the programmes that could be pushed forward. Free schools are funded by the Education Funding Agency and, as such, will reduce the funding requirement of the Council. Whilst the grant for schools may be reduced as a result of the provision of a free school, as the programme is significantly underfunded, it will help to reduce the funding gap and be beneficial to the Council.

ICT Strategy Programme

2.23 The business has a fundamental dependency on a basic level of foundation 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 the foundation services that support the rest of the organisation.

2.24 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.

2.25 In order to stay ahead of business user expectation, investment in developing current systems is similarly fundamental. Failure to keep pace with technological evolvement will, in the short-term, paralyse the infrastructure, rendering it out of step with the organisation. 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. Lack of foundation IT growth will inhibit other parts of the organisation from growing and transforming.

2.26 Items listed as "transformational" would help services achieve their objectives by investing in corporate tools with a wider organisational benefit. However, each of these items could be evidenced by individual business case, should the conditions dictate, therefore, it is suggested that the Capital Programme for ICT is the operation and system development items only as per Table 1.

Property Building Maintenance Programme

2.27 The funding for maintenance covers schools and non-schools. For schools, the level of budget has been set at the level of the grant although this is lower than the level of funding needed to meet the condition backlog. The funding level is higher than in previous years when the capital grant was used for non-schools. This grant should now be used for schools or it will be at risk of reduction by the Department for Education in future years. In addition, the funding is insufficient for the total backlog of the non-schools estate and expenditure will be focused on the health and safety and critical works only. The risk of this is that as the estate deteriorates, there will be a funding pressure in the future due to not replacing items until they are life expired rather than through a programme of preventative works.

2.28 For non-schools, the corporate buildings costs include 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.

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

Adults Social Care (ASC) and Children's Services Deparmtent (CSD) Adaptations

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

2.31 This allocation also enables close partnership working with the Borough and District Councils and access to Disabled Facilities Grants. As part of the development of the East Sussex Housing and Accommodation Strategy (including Borough and District Councils and Clinical Commissioning

Groups) there may be a requirement for additional capital investment, which will be supported by a full business case.

3. Conclusion

3.1 The recommendations are that all of the core need provision is funded as these relate to statutory or legislative requirements and are cost neutral to the Council or enable access to further funds. Table 1 highlights the current estimates of the core need programmes which will be further refined as part of the RPPR process and as further feasibility works are delivered.

3.2 The additional items should be considered within the affordability of the funding gap to the Council.

3.3 Items that are “invest to save” and are not included in the Capital Programme will be subject to individual business cases.