Appendix 7

Capital Programme update

1 Capital Programme Expenditure Update

1. 1 As part of the RPPR process, and also informing the Quarter 2 monitoring position, Service Finance and Departmental Capital Teams have completed a Capital Programme Refresh which has re-profiled their programmes and schemes as accurately as possible based on current knowledge held.

1.2 Table 1 summarises the movements to the approved programme 2018-23 since State of the County in July 2018. The changes include the refresh at quarter 2 in line with updated information from services, approved variations or variations requiring approval through the RPPR process. These are summarised in table 1 below.

Table 1 – Capital Programme Expenditure Movements

	2018/19	2019/20	2020/21	2021/22	2022/23	Total
2018-2023 gross Programme at SOC 2018	106,448	106,076	65,035	42,242	57,998	377,799
Refresh of programme	(14,193)	15,458	(4,791)	2,606	(15,135)	(16,055)
Approved Variations	(306)	1,045	424	150	107	1,420
2018-2023 gross programme	91,949	122,579	60,668	44,998	42,970	363,164
2019/20 risk adjustment		(19,472)	19,472			-
Proposed risk adjusted 2018-23 programme	91,949	103,107	80,140	44,998	42,970	363,164
Revised specific funding	(31,630)	(32,045)	(22,193)	(4,353)	(3,409)	(93,630)
Proposed 2018-2023 net Programme	60,319	71,062	57,947	40,645	39,561	269,534

The current approved programme runs from 2018/19 to 2022/23 (current year plus 4 years).The paragraphs below provide further detail behind the movements summarised in table 1.

1.3 Refresh of programme

Departments have re-profiled their programmes for the best knowledge they hold to date, therefore further slippage should only be incurred as a result of any unknowns impacting on the programme.

Q2 monitoring reported a variation of £12.2m to the gross capital programme; further updates have subsequently been received resulting in additional net slippage of £2.0m.

As part of the refresh of the overall Capital Programme, departments have taken the opportunity to re-profile their programmes and projects to reflect the best knowledge they hold to date, including current slippage or spend in advance.

As a result, £15.5m has been re-profiled into 2019/20, with slippage from 2018/19 and as well as spend in advance from future years mainly on Schools Basic Need and Highways Structural Maintenance. With total expenditure in 2019/20 provisionally set at £122.6m, it has been recognised that there a risk of further slippage in the programme, particularly with reference to the level of slippage experienced in prior years. To mitigate this risk, an adjustment has been applied to projects considered at risk of slippage - on the basis of; projects with an assessed high risk of slippage reduced by 40% in year; and projects with an assessed medium risk of slippage reduced by 25% in year (the assessment was based on value, historic issues and slippage). This has moved £19.5m of expenditure, from 2019/20 into 2020/21 and work continues to re-profile this over future years as the future programme is developed. This gives a revised 2019/20 gross Capital Programme of £103.1m.

As a result of the programme refresh, underspends have also been identified. These are listed at Table 3.

Table 2 – under / (over) spends

	Ref	**Total £m**
School Basic Need	1.3.1	12.6
Property Building Improvements	1.3.2	2.3
Eastbourne/ South Wealden Cycling and Walking Package	1.3.3	0.7
Residual projects	1.3.4	0.4
Total		**16.0**

1.3.1 School Basic Need
Due to delays in housing developments, the need for school places has slipped outside the scope of the current programme. *[It should be noted that this is a gross slippage and there is an associated reduction in grant anticipated noted in the funding section of this paper].*

1.3.2 Property Building Improvements
The Building Maintenance team has undergone a restructure and is now an integrated Orbs Maintenance Team between ESCC and SCC. The Building Improvements Capital programme has been reviewed and re-profiled based on the teams capacity to deliver the programme, available resources, a review of the last 5 years spend and a review of the ESCC Estate in line with the Core Offer. As a result of this work £2.3m has been removed from the programme.

1.3.3 Eastbourne/South Wealden Cycling and Walking Package
A business case has recently been submitted to the South East Local Enterprise Partnership identifying £4.3m resources required for this project, this releases £0.7m of budget as underspend.

1.3.4 Residual Projects
There are a number of projects in the Capital Programme that have finished, where a residual retention budget remains. Capital Strategic Asset Board have proposed the programme is reduced by these amounts, however, for accounting purposes the projects will remain open in the accounting system. Should any final payments be incurred these will be managed through the Capital Risk Provision and additional budgets approved via the variation process for these specific schemes.

1.4 Approved variations

Approved variations since State of the County are detailed in Table 3 and have been added to the proposed programme. These have all been approved in line with current variation process and have a net nil impact on the programme.

Table 3 – Approved Variations 2018-23

	Total £'000
Salix reduced grant	367
Schools Delegated Capital reduced grant	7
School Basic Need budget transfer to nurseries	(43)
Nurseries budget transfer from School Basic Need	43
Agile budget transfer from Agile reserve	107
Integrated transport reduced contribution	50
Real time Passenger Information increased s106 contribution	(279)
Greenacres additional NHS England grant	(248)
Community Match budget transfer from Integrated Transport	(540)
Integrated Transport budget transfer to Community Match	540
Community Match Capital Expenditure from Revenue Account (CERA) transfer	(750)
Community Match Parish contribution	(60)
Queensway Depot budget transfer from Highways Structural Maintenance	(370)
Highways Structural Maintenance budget transfer to Queensway Depot	370
Integrated Transport budget transfer to Eastbourne Town Centre Phase 2	(386)
Eastbourne Town Centre Phase 2 budget transfer from Integrated Transport	386
Eastbourne Town Centre Phase 2 – additional contribution	100
Eastbourne/South Wealden Walking and Cycling package – additional contribution	300
Funded by scheme specific income	**1,420**
Total	**0**

1.5 Other items of note (currently not submitted for inclusion in the programme)

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

1.5.2 At State of the County 2017 it was agreed to set some money aside in the Financing Reserve to help realise returns in future years through support for investment and/or for reduced borrowing in the Capital Programme. **The Property Asset Disposal and Investment Strategy** was approved at Cabinet on 24 April 2018. During 2019/20 opportunities will be considered that align with the priorities within the strategy which can now be facilitated by the use of some of these funds to bring forward the development of potential investment sites. Updates will be provided to this through the RPRR process as necessary.

1.5.3 In the pipeline there is a potential bid for funding for a Local Full Fibre Network which will be subject to the bidding process of the Department for Digital, Culture, Media and Sports. In addition, a bid is expected for Special Educational Need Provision in Secondary Schools.

1.6 Capital Risk Provision

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

- inflationary pressures on construction costs, including through the impact of BREXIT;
- uncertainty about delivery of projects in the programme, e.g. highways and infrastructure requirements;
- any as yet unknown requirements;
- any minor residual payments on the agreed removed projects (managed via variations); and
- uncertainty regarding the level of government grants.

The current provision is £7.5m (2% of the programme) agreed at State of the County. While capacity within borrowing arrangements is ensured through treasury management for this provision no borrowing for this is planned to be undertaken currently. These are not funds that are in the Council's accounts, but a permission to borrow for future emerging risks.

2. <u>Capital Programme Funding updates</u>

The net Capital Programme (after specific funding) is funded by a combination of government grants, capital receipts and s106 contributions. As these do not cover the required investment in basic need the programme is also supported by borrowing and the revenue contribution to capital outlay (RCCO). Both of which directly impact the revenue budget. The following paragraphs provide updates to these funding sources.

2.1 Capital receipts (including VPN receipts)

For State of the County 2018, Property Services provided an update of capital receipts available to support the Capital Programme. This increased the capital receipts available to £21.8m. This is based on Property Officers' professional judgement and is on a site by site basis. It was noted however that this profile, however, is subject to change should any assets which have been declared surplus have that decision rescinded (i.e. they are used for another purpose), or if the asset is retained but transferred under a long term lease at below market value (i.e. under the Council's Community Asset Transfer policy e.g. for 99 years at a peppercorn rent).

The latest review sees a shift in the timing of these receipts, this is most notably the result of land issues. It should also be noted that there will need to be an asset rationalisation as a result of moving to the Core Offer. Capital receipts will continue to be reviewed at regular interviews.

Given ongoing revenue pressures capital receipts have been for 2019/20 onwards been re-profiled to (a) provide funding that could support, in the main, short life assets, and (b) to allow a balance to be retained annually in the region of £3.0m-£4.0m to allow for future receipts flexibilities if they are required. This has had the impact of reducing their planned use to £18.3m.

2.2 Non-specific grants

Non-specific grants are estimated to reduce by a net £2.3m. This is a result of a reduction in School Basic Need grant of £7.0m, due to a decrease in the number of school places required. Offset by additional Highways Maintenance grant announced at the autumn budget of £4.7m. There continues to be uncertainty in relation to the £125.5m Government Grants remaining that support the programme, 65% of which remain unconfirmed. These estimates are based on current levels and formula projections.

2.3 Section 106/ Community Infrastructure Levy (CIL)

S106 agreements are being replaced by the CIL and the County Council will have to bid to boroughs and districts for this money, there is therefore a risk that the income from CIL will not match the current levels arising from s106 agreements. Work is ongoing to establish what funding is expected from CIL and the process that the Council will need to undertake to obtain CIL contributions. The County Council will need to work closely with the Borough and District Councils to ensure basic needs are prioritised effectively and ensure CIL funding is secured where appropriate. A cross department CIL working Group has been set up, which reports to the Capital and Strategic Asset Board, and is overseeing this work for the Council.

A bid for CIL funding has been submitted to Lewes District Council (LDC) for the sum of £1.2m in support of school places at Seahaven. This has been supported by LDC's CIL Executive Board, and will now be recommended for approval at their Full Council on 11 February. This has been reflected in the funding assumptions.

2.4 Revenue supported funding (borrowing and revenue contribution to capital (RCCO))

The revenue contribution to capital was previously planned at £4m per annum. This has historically been considered a minimum level because it supports investment in short life assets, as borrowing for these assets is not sustainable.

Taking account of the slippage and underspend on the current programme, and the re-profiling of projects, in support of the continued unprecedented pressures on the revenue budget, it is proposed that the revenue contribution to capital for the life of the MTFP (2019/20-2021/22) is removed from the Capital Programme funding.

As noted at 1.4 capital receipts have been re-profiled to support the need not to borrow for short life assets.

2.5 Borrowing

The prudential code allows the option to borrow for investment in assets with a longer life (20 years or more), e.g. schools, other buildings and highways infrastructure. In the current programme annual borrowing supports on average 46% additional expenditure on highways over and above the grant received by the Council and an additional 53% over and above government grant for school basic need places. At State of the County the borrowing of £85.5m was approved, before any use of the capital risk provision. The four year borrowing requirement from 2019/20 to 2022/23 to support the Capital Programme, as referenced in the Treasury Management Strategy, is £74.6m. Given the strain revenue borrowing incurs, the programme updates are being managed within this agreed level of borrowing which will require an additional draw from reserves of £0.6m (this will be the first call if the programme reduces further in future).

2.6 Summary of Proposed updates to funding

Table 5 below provides a summary of the proposed updates to funding the programme. Overall expenditure has reduced by £14.6m with income reducing by a net £15.2m, and therefore a £0.6m draw from reserves is required as mentioned in 2.5 above.

Table 5 – proposed funding

Funding Source	18/19 £'000	19/20 £'000	20/21 £'000	21/22 £'000	22/23 £'000	Total Remaining £'000
Restricted use						
New Homes Bonus	(1,231)	-	-	-	-	**(1,231)**
Other departmental revenue contributions	(850)	(850)	(655)	-	-	**(2,355)**
Contributions from Revenue Reserves set aside	(2,821)	(1,067)	-	-	-	**(3,888)**
Community Infrastructre Levy		(1,200)	-	-	-	**(1,200)**
Non Specific Grants	(27,149)	(36,504)	(18,016)	(17,413)	(26,413)	**(125,495)**
VPN Receipts	(620)	(1,503)	(399)	-	-	**(2,522)**
Flexible use						
Capital Receipts	(2,622)	(4,757)	(4,979)	(2,845)	(3,090)	**(18,293)**
Capital Reserves	(10,000)	(11,000)	-	-	-	**(21,000)**
Revenue Contributions	(4,000)	-	-	-	(4,000)	**(8,000)**
Borrowing (excluding contingency)	(11,026)	(14,181)	(33,898)	(20,387)	(6,058)	**(85,550)**
Subtotal non-scheme specific	**(60,319)**	**(71,062)**	**(57,947)**	**(40,645)**	**(39,561)**	**(269,534)**

3. Future Programme

The Capital Programme from 2023/24 onwards will require consideration and planning. The level of resources available to fund capital expenditure post 2022/23 will be significantly reduced due to the use in its entirety of the Capital Programme reserve, potential reductions in government grants, and a reducing potential to generate further capital receipts and afford borrowing.

This will be at a time of increasing spending pressures for the Council and the requirement to continue to provide the infrastructure to support District and Boroughs' extensive Local Growth Plans as well as other basic need requirements.

The Council will therefore need to give careful consideration to how to spend the limited capital resources to best meet the delivery of the Council's priority outcomes.

4. Ongoing work

Work continues to refine and update the Capital Programme through the normal RPPR process. The Children’s Services Sub-Board continues to scrutinise the School Basic Need programme at a more granular level with an aim to manage and, where possible, drive down costs further. The CSAB has built in further in-year scrutiny of the Programme in line with the quarterly monitoring cycle and there are regular reviews of income streams, including a sub board specifically looking at maximising and managing CIL.

5. Conclusion

Taking into account the movements set out above, the proposed 2018-23 Capital Programme is £363.2m gross, funded by £93.6m specific income, giving a net programme to be financed of £269.6m (before contingency of £7.5m) and comprises the current year +4 years.

The detailed 2018-23 Capital Programme is set out in the Financial Budget Summary at Appendix 2.