Appendix 9(a): Capital Programme 2020-21 to 2029-30 and Capital Strategy

1. Background

1.1 Through the Reconciling Policy Performance and Resources (RPPR) process the capital programme is reviewed and monitored annually to ensure that it supports the Council's Core Offer and departmental service strategies; either providing for basic need or via strategic investments demonstrating benefit to the Council.

1.2 At full council in February 2020 the target led basic need capital strategy of 20 years, supported by a 10 year planned capital programme, was approved. The planned capital programme 2020/21 to 2029/30 reported as part of the State of the County Report in July 2020, had a total programme expenditure of £570.3m.

1.3 The capital programme focusses on the delivery of targeted basic need to enable the Council to continue to deliver services as efficiently as possible. Basic need for the purposes of the capital programme is:

- Place: ensuring we meet 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.

1.4 Investment beyond basic need, including asset enhancements and strategic investments will be considered separately via business cases. Business cases should support organisational strategic direction. Payback will be expected as agreed in the Business Case and will annually be used to reduce the borrowing requirement as part of affordability management. As such these will not be included in the capital programme until their overall impact, including funding implications, have been assessed and approved.

2. Capital Programme Update

2.1 Table 1 below summarises the movements to the approved capital programme since State of the County in July 2020. Noting that the first 3 years of the programme over the MTFP (Medium Term Financial Plan) period, to 2022/23, are approved, and this years' RPPR process will add 2023/24. Whilst the remaining years to 2029/30 are indicative to represent the longer-term planning for capital investment. The capital programme has not been extended by a further year due to the current uncertainty around future government funding.

Table 1 - Capital Programme (gross) movements (£m)	**2020/21**	**MTFP Programme**			**2024/25 to 2029/30**	**Total**
		2021/22	**2022/23**	**2023/24**		
Approved programme at July 2020	**96.889**	**69.391**	**59.285**	**51.688**	**293.076**	**570.329**
Programme Refresh (see 2.3)	(23.571)	17.105	1.753	1.034	3.679	0.000
Projected over / (under) spend (see 2.4)	(0.207)	-	-	-	-	(0.207)
House Adaptations added year (see 2.4)	-	-	-	0.100	-	0.100
Approved Variations (net nil) (see 2.6)	5.624	5.589	4.543	-	-	15.756
Total Programme	**78.735**	**92.085**	**65.581**	**52.822**	**296.755**	**585.978**

2.2 As part of the RPPR process, Service Finance and Departmental Capital Teams have completed a capital programme refresh, re-profiling their programmes and schemes as accurately as possible based on current knowledge held. The impact of Covid-19 on the programme is being reported as part of the capital monitoring process, with any slippage and/or spend in advance included as part of the Q2 refresh process (plus any subsequent updates from services for quarter 2.5), and are reflected in the table below. The detailed proposed programme is provided at Appendix 4.

2.3 The re-profiling of programmes and schemes includes £23.6m net slippage in 2020/21. This comprises of £15.7m net slippage (of which £13.9m is COVID-19 related) that relates to the South East Local Enterprise Partnership (LEP) schemes being delivered by, or in partnership with others, where those organisations control the timetable; and £7.9m net slippage (of which £5.6m is COVID-19 related) relating to schemes within the Council's control.

2.4 The £0.2m underspend relates to Parking Ticket Machine Renewals and House Adaptations for Disabled Children's Carers Homes, both are funded from reserves and therefore have a net nil impact on the overall programme. When the 10 year capital programme was set, Council approved that House Adaptation budgets would be set to be reflective of demand rather than representing a budget allocation that continuously slips, and be funded by contributions from reserve having net nil impact on the programme.

2.5 Within the programme there are a number of overspends relating to the Covid-19 pandemic. Should mitigations within programmes not be forthcoming it is proposed that in order to maintain the integrity of the basic need targets set, any overspend be funded by, in the first instance any of the remaining COVID-19 tranche 1-4 funding from Government. Or, as reported at February 2020, a capital risk provision of £7.5m is held. 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. If utilised to fund COVID-19 overspend it would, therefore, require additional borrowing.

2.6 The approved variations to the programme relate to fully funded schemes having net nil impact on the capital programme, totalling net £15.8m as follows:

Table 2: Approved Variations	**Value (£'m)**
Emergency Active Travel Fund Tranche 1	0.535
Schools Condition Allocation additional grant	1.850
Strategic Investment for Utilising Automation to Support Core Officer	0.132
Robertsbridge - Revised Business Case	0.855
Robertsbridge – Building Maintenance transfer	(0.300)
Lansdowne Secure Unit – cost increase (Specific funding to be confirmed)	0.849
SALIX Scheme – increased loan offer	0.157
Net LEP Schemes increase	6.393
Hailsham HWRS – increased S106	0.053
Modernising Back Office Systems (MBOS) – Internal Implementation Costs	5.232
Total gross increase	**15.756**

2.7 The capital budget allocation for Special Education Need provision is £3.2m over the MTFP period. Work is ongoing to identify priority provision in accordance with Basic Need and Core Offer requirements and taking into account place planning estimates. It is anticipated that the current funding allocation will not be sufficient to deliver all the priorities currently identified. The DfE (Department for Education) have provided local authorities with Special Provision funding between 2018/19 and 2020/21 to make capital investment in the provision for pupils with special educational needs. There have been no announcements made on future capital funding, however, future funding may be made available from the DfE in recognition that this continues to be an area of pressure for local authorities.

2.8 The capital programme provides for the need for additional school places in areas driven by demand as a result of developments, migration and birth rates as a basic need requirement. The level of investment in the programme provides for current estimated places, including the provision of temporary accommodation where required, supported by an estimated level of government grant. There is therefore a risk that grant reduces and place requirements increase. Due to the potential significance of these risks a risk factor was applied to the programme from 2020/21 onwards to manage these risks.

2.9 Cabinet on 23 June 2020 considered a report on Modernising Back Office Systems (MBOS) and approved the procurement for a Software-as-a-Service (SaaS) solution to replace the current system for Finance, HR and Procurement. The approved variation of £5.2m detailed at paragraph 2.6 relates to the forecasted internal implementation costs of the project, to be funded from use of reserves and therefore having a net nil impact on the overall programme. The external implementation contract cost of the new system will be determined as part of the procurement process and the budget requirement will be reflected in the capital programme in accordance with the capital variation process. The Financial Management reserve includes provision for additional investment required in the authorities core financial systems as detailed in the Reserves and Robustness Statement at Appendix 7.

3. Funding Updates

3.1 Table 3 provides an updated funding position. Updates reflect approved variations, the programme refresh and other funding updates detailed below.

Table 3 - Capital Programme Funding Update (£m)	**2020/21**	**MTFP Programme**			**2024/25 to 2029/30**	**Total**
		2021/22	**2022/23**	**2023/24**		
Gross Expenditure	**78.735**	**92.085**	**65.581**	**52.822**	**296.755**	**585.978**
Specific Funding	(16.203)	(19.272)	(6.825)	(0.350)	(2.100)	**(44.750)**
Section 106 & CIL (identified and target)	(6.528)	(6.712)	(1.602)	(3.516)	(23.447)	**(41.805)**
Capital Receipts	(1.809)	(6.866)	(4.658)	(5.695)	-	**(19.028)**
Formula Grants	(27.007)	(20.869)	(19.737)	(20.895)	(122.411)	**(210.919)**
New Homes Bonus	(0.767)	-	-	-	-	**(0.767)**
Reserves and Revenue set aside	(5.919)	(5.846)	(8.226)	(8.344)	(12.511)	**(40.846)**
Borrowing	(20.502)	(32.520)	(24.533)	(14.022)	(136.286)	**(227.863)**
Total Funding	**(78.735)**	**(92.085)**	**(65.581)**	**(52.822)**	**(296.755)**	**(585.978)**

3.2 **Specific Funding:** The approved programme is supported by £44.8m of scheme specific grants and external funding which is sourced and managed by services at a project level, in the main comprising of LEP funding; grants for Broadband project, Salix contributions to support energy efficiency measures and Devolved Formula Capital grant toward schools delegated capital works. The level of this specific funding is shown at a departmental level at Appendix 4. Specific funding from the DfE to fund increased costs at Lansdowne secure unit to the value of £0.8m is currently subject to confirmation and therefore at risk of requiring additional borrowing.

3.3 **Section 106 (S106) & Community Infrastructure Levy (CIL):** The capital programme reported as part of the State of the County 2020 included a total of £41.8m of S106 and CIL funding, of which £13.4m was identified as applied to specific schemes, and an additional £28.4m targeted over the ten year programme. Work is ongoing through the S106 and CIL Working Group to maximise specific sums that can be allocated to projects / programmes. This has resulted in an approximately £4.7m of additional specific S106 being identified towards the targets that can be applied to the capital programme and reduce the targeted amount. In addition, a bid for additional CIL funding of £0.7m has been approved by Lewes District Council towards Seahaven Academy.

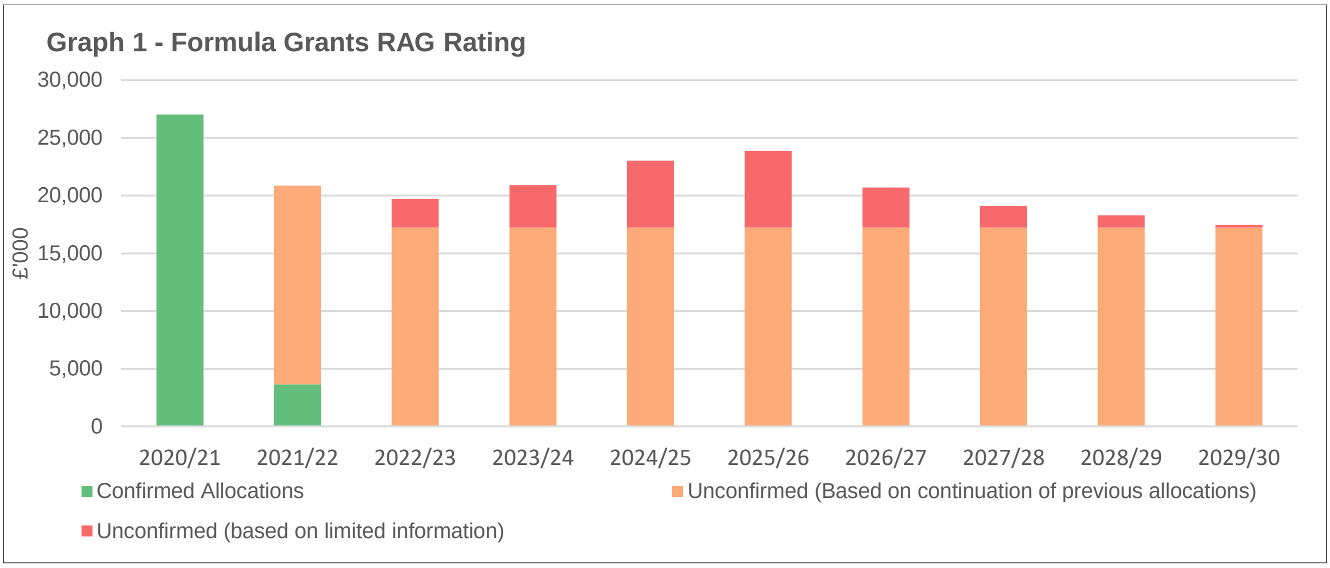
3.4 The government published the Planning for the Future White Paper in August 2020, proposing reform of the planning system in England. One of the proposals is to replace S106 and CIL with a national Infrastructure Levy. The Government acknowledge that this may impact on the ability to get new and improved infrastructure in place before developments are occupied and therefore suggest that councils consider forward funding the necessary infrastructure improvements. Should this happen, it would pose uncertainty and risk to funding assumptions and potentially an increased burden for the Council in providing crucial infrastructure investment. This will continue to be reviewed as part of the CIL and S106 Working Group and any necessary updates reported through the RPPR process.

3.5 **Capital Receipts**: Property Services hold a schedule of capital receipts available to support the capital programme, which is reviewed regularly and estimates are based on Property Officers' professional judgement on a site by site basis. There have been minor changes to the anticipated value of receipts since previously reported and the profile has been updated to reflect some delays in light of market conditions as a result of the Covid-19 pandemic.

3.6 The Council also holds a number of assets that would generate Valuing People's Needs (VPN) receipts from disposal. These relate to properties granted to the Council by the NHS for the provision of accommodation for clients with a learning disability. A condition of the property grant is that capital receipts are ring-fenced to future Learning Disability developments. Such developments are beyond basic need and therefore require a business case to be approved for inclusion in the capital programme; as such, future VPN capital receipts are not included in the estimated capital receipt figure. They will be brought into the capital programme to support business cases that are in line with NHS outcomes.

3.7 **Formula Grants:** The capital programme is supported by £210.9m of non-specific formula grants, which represents 36% of the total programme funding. Ahead of further government announcements and decisions there are no further material updates to the overall funding position with regards to Formula Grants. There continues to be considerable risk in relation to these grants with 85% of the value assumed remaining unconfirmed and being based on current levels and formula projections. The one-year Spending Review (SR) on 25 November set government department's revenue and capital budgets for 2021/22 only. Details of the 2021/22 formula grant allocations to local authorities are still to be announced and therefore we continue to have no certainty over future years capital grants.

3.8 The graph below provides a risk rating of formula grants assumed within the capital programme financing. This shows the increasing uncertainty and risks over the medium and long term. If actual grant settlements are lower than assumed, then the core programme basic need targets will be reviewed before consideration of additional borrowing as part of the capital risk provision (see 3.14).



3.9 **New Homes Bonus:** New Homes Bonus is a (non-specific) grant given by Central Government to Councils based on the number of homes build or brought back into habitation in the previous year. From 2021/22 onwards the New Homes Bonus grant will be retained in revenue rather than transferred to fund the capital programme.

3.10 **Reserves and Revenue Set Aside:** The Council can use revenue resources to fund capital projects, where these have been approved as part of the budget setting process or an approved business case. This includes specific reserves, payback from invest to save schemes and revenue contributions (CERA).

3.11 **Borrowing:** The updated capital programme has a borrowing requirement for the period 2020/21 to 2029/30 of £227.9m, which represents 39% of the total programme funding. This is a reduction of £0.9m compared to that reported in the State of the County report of £228.8m. The Capital Strategy seeks to maximise the application of other funding sources in order to reduce the council's borrowing requirement which has a long term revenue implication.

3.12 Borrowing can be applied to basic need expectations where government grants and other external funding is not sufficient to meet approved targets. For example, of the £227.9m overall programme borrowing, £67.3m (11% of total programme funding) is required to fund Highways Structural Maintenance basic need targets above government grant funding.

3.13 Current Treasury Management modelling has estimated, that for every £10m borrowed, there would be an associated revenue cost of £0.385m per annum over the current MTFP period (assuming a 30 year asset life). Following the Spending Review announcement on 25 November, the Public Works Loan Board (PWLB) have lowered borrowing rates by 100bps for all new Standard Rate and Certainty Rate Loans, bring rates back down to levels before an increase in October 2019.

3.14 **Capital Risk Provision:** The capital programme has been set with a Capital Risk Provision of £7.5m, which represents approximately 2.6% of the programme up to 2023/24. 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 to meet unfunded pressures that may arise.

3.15 There are a number of risks and uncertainties regarding the programme to 2023/24 and beyond which have necessitated holding a risk provision, these risks include:

- 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 associated to Brexit and Covid-19;
- 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.

Capital Strategic Asset Board (CSAB) have reviewed the need for an additional provision for inflation risks in the current programme and it is considered that the level of risk provision remains reasonable given inflation levels already built into the planned programme.

4. Capital Strategy Update

4.1 In 2017, the CIPFA (Chartered Institute of Public Finance and Accountancy) Prudential Code was revised and included the requirement for Local Authorities to produce a Capital Strategy. The Council's current Capital Strategy covers the period 2020/21 to 2040/41 and was approved as part of RPPR 2020/21. The Capital Strategy has been updated as part of the 2021/22 RPPR process to reflect emerging risks, principles and corporate priorities, following a review of the requirements of the CIPFA Prudential Code, and informed by discussions at CSAB. The updated Capital Strategy can be found at **Appendix 9(c)**.

4.2 Updates to the Capital Strategy include the emerging relevance of Environmental, Social and Governance (ESG) considerations, particularly in relation to climate change, and how the capital programme can support the council's aims through the RPPR process. This has been informed by the council's Climate Emergency Action Plan in June 2020 and subsequent Place Scrutiny Committee scrutiny review of Becoming a Carbon Neutral Council (due to be reported to Full Council in February 2021), which sets a direction of travel for the Council in its ambition to become carbon neutral.

5. Other Corporate Strategies for Consideration

5.1 **Treasury Management Strategy:** The proposed capital programme investment has consideration directly to the Treasury Management Strategy. A specific model developed for this purpose continues to be used and updated to remain current. Any borrowing required is within the limits set by the Treasury Management Strategy, which sets out the acceptable limits on ratings, investment periods, amounts to be invested and the borrowing strategy.

5.2 Should there be any unused underspend on Treasury Management in 2020/21, after the impact of Covid-19 and outturn on service budgets is managed, it is proposed, as is normal policy and practice, that this would be used to reduce borrowing for basic need. This will help provide for a sustainable programme and provide for future years investment need.

5.2 **Property Asset Disposal and Investment Strategy:** 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. Opportunities will continue to 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 RPPR process as necessary.

6. Conclusion

6.1 It is recommended that updates to the Capital Strategy to 2040/41 are approved, based on target driven basic need, which supports the Council's Core Offer and wider service strategies adopted. In support of the Capital Strategy, it is also recommended that the capital programme to 2029/30 as presented is adopted, with the first 3 years of the programme to 2023/24 over the MTFP period being approved whilst the remaining years to 2029/30 are indicative to represent the longer term planning for capital investment. The programme will continue to be reviewed through the RPPR, CSAB, Sub Boards and variation process to ensure it remains aligned to the MTFP, Treasury Management Strategy and other council strategies.

6.2 The one-year Spending Review (SR) on 25 November set government department's revenue and capital budgets for 2021/22 only, providing no certainty over future years capital grants. Capital investment should also be considered alongside revenue, which adds further uncertainty. Therefore the 10 year programme has not been extended for an additional year, as it would be not be considered meaningful to add an additional year at present. Work will be progressed next financial year to push the programme out a further 2 years 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, giving consideration to longer term council strategies and revised targeted basic need expectations, once a longer term funding settlement is announcement. In the meantime, requirements outside basic need will need to be supported by a business case and funding identified.