

Capital Programme Update

1 Background

- 1.1 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 approved programme was further updated at State of the County in July 2022 to reflect the 2021/22 outturn, project and programme reprofiles and approved variations, revising the gross programme to £676.0m to 2031/32. For planning purposes, the first 3 years of the programme, to 2024/25 are considered approved. Whilst the remaining years are indicative to represent the longer term planning for capital investment. The approved Capital Strategy provides for the programme being updated annually to maintain a 10-year planning horizon unless there is a compelling reason not to.
- 1.2 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.
- 1.3 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. As such they are not included in the Capital Programme until their overall impact, including funding implications, have been assessed and approved.
- 1.4 Updated estimates to funding assumptions are reflected as part of normal capital strategy updates. Further updates to Formula Grant assumptions will be made to reflect government announcements, noting that changes in funding formula and allocation criteria will alter the level of grants anticipated and impact on the level of borrowing required.
- 1.5 The financial outlook for local authorities remains challenging, with factors such as the volatile economic situation, undefined impact of national reforms and uncertain long term funding allocations leaving much uncertainty about the Council's future financial position. Capital investment decisions have a direct impact on the council's revenue budget, particularly relating to the increasing cost of borrowing, and are therefore considered in the context of their impact on the Medium Term Financial Plan (MTFP).
- 1.6 The Capital Strategy therefore continues to drive the authority's capital investment ambition whilst also ensuring appropriate capital expenditure, capital financing and treasury management within the context of the sustainable, long-term delivery of services.

2 Capital Programme Update

- 2.1 Table 1 below summarises the gross movements to the approved capital programme since State of the County in July 2022 and proposed updates to be made in accordance with Capital Strategy principles. Noting that the first three years of the programme over the MTFP period to 2025/26 are being presented for approval, whilst the remaining years to 2032/33 are indicative

to represent the longer-term planning for capital investment. The proposed updates are detailed throughout this report and at Annex A.

Table 1 – Capital Programme Updates (£m)	Current Year 2022/23	MTFP Period			2026/27 to 2032/33	Total
		2023/24	2024/25	2025/26		
Approved Gross Expenditure (State of the County 2022)	95.588	82.720	83.761	76.649	337.329	676.047
Capital Programme Departmental Reviews (2.2)	(17.015)	5.124	(1.560)	(16.680)	44.269	14.138
Approved Variations (2.3)	3.634	8.900	20.175	1.081	0.930	34.720
Revised Gross Expenditure	82.207	96.744	102.376	61.050	382.528	724.905

- 2.2 Capital Programme Departmental Reviews:** As part of the normal RPPR process, Service Finance and Departmental Capital Teams have completed a capital programme refresh, re-profiling their current approved programmes and projects as accurately as possible based on current knowledge held. This included a review of the School Basic Need (SBN) requirements and Special Education Needs and Disability (SEND) provision. The movement is summarised in table 2 below.

Table 2 – Capital Programme Departmental Reviews (£m)	Current Year 2022/23	MTFP Period			2026/27 to 2032/33	Total
		2023/24	2024/25	2025/26		
(a) Capital Programme Reprofiles	(17.854)	8.596	8.387	(0.461)	1.332	0.000
(b) School Basic Need Update	-	(4.177)	(9.971)	(17.119)	(0.773)	(32.040)
(c) IT&D Programme added year	-	-	-	-	4.057	4.057
(d) Investment Beyond Basic Need	0.839	0.705	0.024	-	-	1.568
(e) Other updates incl. added Year	-	-	-	0.900	39.653	40.553
Total Capital Programme Departmental Reviews	(17.015)	5.124	(1.560)	(16.680)	44.269	14.138

- (a) Capital Programme Reprofiles:** Review of current programme profiles across years to reflect current best knowledge and to be consistent with Quarter 2 monitoring.
- (b) Schools Basic Need (SBN) Update:** There remains a large degree of uncertainty over precisely how many school places will be required in the future and when. Much will be dependent on local planning authorities developing their local plans to an extent that will inform and enable housing growth and for those developments to happen. A best estimate has therefore been included in the revised programme. The SBN programme has reduced by £32.0m as a result of the removal of 4FE and extension of the Temporary Accommodation Programme across the ten-year programme. There have also been some revisions to land purchases to align to the strategy that solutions will be found where possible from land provided net nil from developers, use of existing sites and from the Council's surplus assets (net reduction of £8m). The update also includes increased scope of provision at Wadhurst CE Primary School, which was previously included in the Temporary Accommodation Programme (TAP), but following feasibility design identified that mobile provision would not meet the project requirements and has now been incorporated as basic need at an increased cost of £0.5m.
- (c) IT&D Programme:** has been subject to separate review and an extension of the programme by 1 year to maintain a ten-year planning horizon would require an additional £4.1m investment as set out below:-
- Compliance £2.0m
 - Cyber Defence £0.3m
 - IT Core Provision £1.7m

- Staff Technology Refresh £0.1m

(d) **Investment beyond basic need:** 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. Approved investment projects are as follows:

- **Disability Children's Homes (Sorrel Drive):** Approved as part of the Q1 monitoring to Cabinet in September 2022, design work has identified that an increased scope would deliver additional benefits including future cost avoidance relating to alternative provision. The revised cost has increased by £0.568m, of which £0.261m has been identified within Children's Services revenue budgets, and £0.307m from capital programme borrowing. This addition to the capital programme was approved in accordance with the Capital Strategy via business case, demonstrating value for money when considering the cost of alternative provision and its potential ongoing impact on revenue budgets.
- **Exceat Bridge (Blight Notice)** - A Blight Notice was issued to the Council in August 2022 on the grounds that a Property has been blighted by the Council's proposed highways works at Exceat Bridge. Provision has been made in the capital programme for the property purchase, the costs being in part offset by the future sale now included in capital receipt forecasts.

(e) **Other Updates including added year** - The capital programme has been updated to extend the programme by a further year to maintain a 10-year planning horizon. This extends annual envelopes of funding for ongoing programmes of work and those fully funded by grants by one year and therefore assumes these at the same level. Exceptions to this include SBN and SEND that have been considered separately across the entire programme.

Special Education Needs and Disability (SEND) School Places: The current capital budget allocation for SEND provision is £22.4m over the capital programme. The programme updates include a reprofile to reflect current best estimates and SEND provision is being reviewed across the County. From 2023 there will be a requirement to report on SEN 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 each year.

Highways Maintenance: 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. The council has now concluded a tender exercise to re-procure the Highways Infrastructure Service Contract to commence from May 2023. There is no tendered schedule of rates for capital works, but a Targeted Cost for each scheme is agreed and capital works will be paid for at the actual cost of works with a contractor's fee applied. Capital works will need to be managed within the approved budget envelope which, given high levels of inflation, may impact on the ability to meet previously agreed condition targets.

Workstyles investment: a joint review of investment need to support changing working practices. Phase 1 of the workstyles programme has now been completed and a staff survey is currently being carried out to inform the next phase to commence in Spring 2023. There is a specific amount set aside in the Transformation Reserve to support the Workstyles programme, and therefore any capital requirements for the next phase will have a net nil impact on the capital programme and will be added to the programme via variation.

2.3 **Approved Variations:** Table 3 below provides a summary of the approved variations to the programme relating to fully funded schemes having a net nil impact on the capital programme totalling £34.7m. Funded increases to the programme have been partly offset by a large reduction of £2.5m in the LEP programme. This is due to the Riding Sunbeams project not progressing as planned and funding therefore being withdrawn following approval of the SELEP Accountability Board.

Table 3: Approved Capital Variations (£m)	Total
Schools Delegated Capital (funded from specific grant and schools contributions)	0.656
Learning Disability Support Living (funding from specific grant and revenue contributions)	6.421
Bus Service Improvement Plan (funding from DfT grant)	22.315
Hailsham HWRS (funded from revenue contribution)	0.007
Flood & Coastal Resilience Innovation Programme (funded from specific grant)	4.004
IT & Digital Strategy Implementation – MBOS (funded from reserves set aside)	3.254
Salix Low Carbon Heating at Herstmonceux Primary School (funded from specific grant)	0.207
A22 Corridor Package	0.333
Getting Building Fund: Riding Sunbeams (LEP specific funding removed)	(2.477)
Total	34.720

3 Funding Updates

- 3.1 Table 4 provides an updated capital programme funding position to reflect the capital programme updates and their associated funding assumptions outlined above and other more specific updates.

Table 4 – Capital Programme Funding Update (£m)	Current Year 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 (3.2)	(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 (3.3)	(33.418)	(25.243)	(17.937)	(17.960)	(135.738)	(230.296)
New Homes Bonus Grant (3.4)	(0.816)	-	-	-	-	(0.816)
Capital Receipts (3.5)	(9.591)	(5.149)	(3.149)	(3.360)	-	(21.249)
Reserves and Revenue Set Aside (3.6)	(20.435)	(12.768)	(5.540)	(6.100)	(15.106)	(59.949)
Developer Contributions Target (3.7)	-	-	-	-	(18.970)	(18.970)
Programme Borrowing (3.8)	7.654	34.904	48.777	30.213	211.328	332.876

- 3.2 **Specific Funding:** The approved programme is supported by £60.7m of scheme specific grants and external funding which is sourced and managed by services at a project level, in the main comprising of Development Infrastructure Contributions allocated to specific projects; DfT grants for Bus Service Improvement Plan, 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 Annex A.
- 3.3 **Formula Grants:** The capital programme is supported by £230.3m of non-specific formula grant, which represents 32% of the total gross programme funding. Formula grant assumptions reflect best estimates but noting that there continues to be considerable risk in relation to these grants as values for future years are still yet to be announced. Changes made to formula grants include reducing the Schools Basic Need Allocation grant estimates by £7.7m in the later years

of the programme to reflect updated estimates for required pupil places and the continuation of assumptions for the one-year extension to the programme. Further updates to Formula Grants assumptions will be made once the detailed implications of any announcements are known, noting that changes in funding formula could change the level of grants anticipated and impact on the level of borrowing.

- 3.4 **New Homes Bonus Grant:** New Homes Bonus is a (non-specific) grant given by Central Government to councils based on the number of homes built or brought back into habitation in the previous year. New Homes Bonus can be used to fund revenue or capital expenditure, and it was approved as part of the RPPR process for the 2022/23 grant to fund the capital programme. Due to the pressures on revenue budget, the current MTFP planning assumption is that any future New Homes Bonus grant will support the revenue budget.
- 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 judgment on a site by site basis. At this stage, it is suggested that anticipated capital receipts can be increased by £1.9m for capital planning purposes. Further work is being completed on a range that could potentially be provided for community assets.
- 3.6 **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.
- 3.7 **Developer Infrastructure Contributions (Section 106 and Community Infrastructure Levy) Target:** The capital programme reported as part of the State of the County 2022 included a total of £28.8m of Developer Infrastructure Contributions, of which £9.6m was identified as applied to specific project / programme funding, and an additional £19.2m targeted over the capital programme. Work is ongoing through the S106 and CIL Working Group to maximise specific sums that can be applied to basic need projects / programme to reduce the funding target, which has resulted in £0.2m being applied as funding towards basic need project / programmes. There continues, however, 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.
- 3.8 **Borrowing:** The updated capital programme has a borrowing requirement for the period 2022/23 to 2032/33 of £332.9m, which represents 46% of the total gross programme funding. This is a reduction of just £0.3m compared to that reported in the State of the County 2022 of £333.2m due to the updates presented at section 2 in this report. Most notably an added year of investment offset in part by changes in School Basic Need requirements. 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.

4 **Impact on the Revenue Medium Term Financial Plan and Treasury Management Capacity**

- 4.1 Decisions on future capital investment should be considered in the context of the impact on the Treasury Management (TM) capacity to fund the investment and the revenue budget, whereby the cost of funding and Minimum Revenue Provision needs to be included within the MTFP. The current capital programme already requires borrowing in future years, which together with the Minimum Revenue Provision accounting requirements, will need the TM budget to be increased beyond the current MTFP.

- 4.2 Current TM modelling for the direct costs of borrowing estimates that for every £10m of additional borrowing, there would be an associated revenue cost of approximately £750,000 over the full life of the asset (based on a 30 year asset life).
- 4.3 As highlighted at budget setting in February 2022, the current planned programme borrowing requirement will need Treasury Management budget increases outside the current MTFP. Treasury Management modelling takes a holistic approach considering a number of variable factors including availability of cash balances and interest rates impacting borrowing costs and return on investments. Therefore any updates to the MTFP will consider the overall impact on the TM budget.

5 Risk provision update

- 5.1 A £7.5m ongoing risk provision was approved in February 2022 to mitigate against capital programme risks, representing approximately 3% 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. Its utilisation, if approved by CSAB would, therefore, require additional borrowing and be reported through the RPPR process and quarterly monitoring in the normal way.
- 5.2 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 State of the County 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.
- 5.3 There are currently increased uncertainties that exist within the construction industry in terms supply chain issues and volatile 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.
- 5.4 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 this area will be reviewed as these requirements become clearer.

6 Capital Strategy

- 6.1 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 2022/23 to 2042/43 and was approved as part of RPPR 2022/23. The Capital Strategy is being updated as part of the 2023/24 RPPR process to reflect emerging risks, principles and corporate priorities, and informed by decisions at State of the County 2022 and discussions at CSAB.

- 6.2 Updates to the Capital Strategy include clarification on the Council's policy on Flexible Use of Capital Receipts and clarification on cost avoidance being used as a consideration for investment projects. Another key update relates to the increasing pressure on SEND Place Planning and for this basic need requirement to be incorporated into the wider school place planning process.

7 Conclusion and reasons for recommendations

- 7.1 It is recommended that updates to the capital programme to 2032/33 are noted. The programme will continue to be reviewed through the RPPR, Capital Strategic Asset Board, Sub Boards and variation process to ensure it remains aligned to the MTFP, Treasury Management Strategy and other council strategies.
- 7.2 It is recommended that updates to the Capital Strategy to 2043/44 are noted, to reflect updates to target driven basic need, which supports the Council's responsibilities and wider service strategies adopted.

Annex A – Revised Capital Programme

Capital Programme (gross) (£m)	Current Year 2022/23	MTFP Period			2026/27 to 2031/32	Total
		2023/24	2024/25	2025/26		
Adult Social Care:						
House Adaptations	0.050	0.050	0.050	0.050	-	0.200
Learning Disability Support Living Scheme	0.200	2.000	3.990	0.231	-	6.421
Greenacres	0.144	-	-	-	-	0.144
Adult Social Care Gross	0.394	2.050	4.040	0.281	-	6.765
Scheme Specific Funding	(0.144)	(1.500)	(3.990)	(0.231)	-	(5.865)
Adult Social Care Net	0.250	0.550	0.050	0.050	-	0.900
Business Services:						
Salix Contract	0.350	0.350	0.350	-	-	1.050
Lansdowne Secure Unit – Phase 2	0.075	-	-	-	-	0.075
Schools Basic Need	2.749	2.536	7.274	6.628	47.217	66.404
Special Educational Needs	0.175	1.667	1.347	-	-	3.189
Special Educational Needs – Additional Places	0.750	5.000	8.000	5.000	0.429	19.179
Special Provision in Secondary Schools	0.120	-	-	-	-	0.120
Disability Children’s Homes	0.057	0.705	0.024	-	-	0.786
Westfield Lane	0.721	-	-	-	-	0.721
Capital Building Improvements (Schools)	5.179	4.182	4.182	4.182	29.274	46.999
Capital Building Improvements (Corporate)	3.439	4.520	4.520	4.520	31.120	48.119
IT & Digital Strategy Implementation	4.186	10.109	8.624	3.412	50.122	76.453
IT & Digital Strategy Implementation - MBOS	8.193	1.512	-	-	-	9.705
IT & Digital Strategy Implementation - Utilising Automation	0.024	-	-	-	-	0.024
Business Services Gross	26.018	30.581	34.321	23.742	158.162	272.824
Scheme Specific Funding	(2.134)	(2.156)	(0.350)	-	-	(4.640)
Business Services Net	23.884	28.425	33.971	23.742	158.162	268.184
Children’s Services:						
House Adaptations	0.050	0.050	0.050	0.050	-	0.200
School Delegated Capital	1.385	1.150	1.150	1.150	-	4.835
Conquest Centre Redevelopment	0.015	-	-	-	-	0.015
Children’s Services Gross	1.450	1.200	1.200	1.200	-	5.050
Scheme Specific Funding	(1.385)	(1.150)	(1.150)	(1.150)	-	(4.835)
Children’s Services Net	0.065	0.050	0.050	0.050	-	0.215
Communities, Economy & Transport:						
Broadband	0.911	2.757	2.757	-	-	6.425
Salix Solar Panels	0.077	-	-	-	-	0.077

Salix Low Carbon Heating at Herstmonceux Primary School	0.207	-	-	-	-	0.207
Climate Emergency Works	2.090	1.516	5.922	-	-	9.528
Flood & Coastal Resilience Innovation Programme	0.641	0.898	0.935	0.850	0.930	4.254
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	0.242	0.435	0.300	0.300	0.794	2.071
Economic Intervention Fund – Loans	0.347	0.500	0.500	0.500	0.123	1.970
Stalled Sites	0.035	0.120	0.124	-	-	0.279
Upgrading Empty Commercial Properties	-	0.007	-	-	-	0.007
Community Match Fund	0.069	0.411	-	-	-	0.480
Community Road Safety Interventions	-	0.500	0.250	-	-	0.750
Newhaven Port Access Road	0.257	0.020	0.708	-	-	0.985
Real Time Passenger Information	0.074	0.078	0.060	0.061		0.273
Bus Services Improvement Plan	1.125	5.940	15.250	-	-	22.315
Queensway Depot Development	0.175	0.466	-	-	-	0.641
Hailsham HWRS	0.171	-	-	-	-	0.171
The Keep	0.026	0.202	0.026	-	0.823	1.077
Other Integrated Transport Schemes	3.260	5.324	5.209	4.024	20.762	38.579
Integrated Transport Schemes – A22 Corridor	0.533	-	-	-	-	0.533
Exceat Bridge Replacement	2.955	3.954	2.509	-	-	9.418
Emergency Active Travel Fund – Tranche 2	0.756	-	-	-	-	0.756
Libraries Basic Need	0.497	0.789	0.449	0.449	1.796	3.980
Peacehaven Library Refurbishment and Conversion	0.001	0.027	-	-	-	0.028
Libraries Targeted Support	0.211	-	-	-	-	0.211
Highways Structural Maintenance	21.686	20.647	21.688	22.246	172.805	259.072
Bridge/Structures Assessment Strengthening	1.981	4.749	1.775	3.025	14.616	26.146
Street Lighting and Traffic Signals	2.973	4.542	3.839	3.888	8.012	23.254
Street Lighting and Traffic Signals – Salix Scheme	0.650	-	-	-	-	0.650
Visibly Better Roads	4.809	0.800	-	-	-	5.609
Rights of Way Surface Repairs and Bridges	0.565	0.565	0.514	0.484	3.705	5.833
Communities, Economy & Transport (LEP Funded Schemes):						
Eastbourne Town Centre Phase 2	0.532	2.709	-	-	-	3.241
Eastbourne/South Wealden Walking & Cycling Package	0.540	1.811	-	-	-	2.351
Hailsham/Polegate/Eastbourne Movement & Access Corridor	0.684	0.275	-	-	-	0.959
Hastings & Bexhill Movement & Access Package	2.265	2.811	-	-	-	5.076

Appendix 8a

Skills for Rural Businesses Post-Brexit	0.915	-	-	-	-	0.915
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 Gross	54.345	62.913	62.815	35.827	224.366	440.266
Scheme Specific Funding	(6.630)	(13.874)	(21.483)	(2.036)	(1.386)	(45.409)
Communities, Economy & Transport Net	47.715	49.039	41.332	33.791	222.980	394.857
Total Programme Gross	82.207	96.744	102.376	61.050	382.528	724.905
Scheme Specific Funding	(10.293)	(18.680)	(26.973)	(3.417)	(1.386)	(60.749)
Total Programme Net	71.914	78.064	75.403	57.633	381.142	664.156