

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 2024 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 2024 to reflect the 2023/24 outturn, project and programme reprofiles and approved variations, revising the gross programme to £797.0m to 2033/34. For planning purposes, the first 3 years of the programme are considered approved, whilst the remaining years are indicative to represent the longer-term planning for capital investment.
- 1.3 The capital programme is funded from a number of sources, and can be split into the elements that are funded from identified specific sources (such as grants, developer contributions and earmarked specific reserves), and elements considered to be Core Council Funded. Core Council Funded relates to those projects funded from council resources that ultimately increases the Council's need to borrow.
- 1.4 The financial outlook for local authorities is increasingly challenging, with uncertain funding allocations, inflationary pressure on contracts and wages, increasing service demands and the impact of national reforms leaving much uncertainty about the Council's future financial position, with a large financial deficit being forecast as part of the RPPR planning process. Capital investment decisions have a direct impact on the council's revenue budget, particularly relating to borrowing costs, and are therefore to be considered in the context of their impact on the MTFP.
- 1.5 This update proposes changes to the Capital Programme outside of normal Capital Strategy updates, to reduce the level of investment of core council funded programmes that increase the Council's borrowing requirement. The recommendations made throughout this update are based on an assessment of risks and likely implications made by services of removing / reducing core funded programmes based on set criteria.

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 2024 and proposed updates to be made in accordance with Capital Strategy principles and the risk-based review of the programme. The updates provide a revised capital programme of £670.0m, of which £268.4m is planned for delivery in the period to 2027/28. The first three years of the programme over the MTFP period to 2027/28 are to be presented for approval, whilst the remaining years to 2034/35 are indicative to represent the longer-term planning for capital investment. A detailed capital programme that reflects all the proposals outlined in this update is provided at **Annex A**.

Table 1 - Capital Programme Gross Expenditure Updates	Ref:	Current Year 2024/25 £'000	MTFP Period			2028/29 to 2034/35 £'000	Total £'000
			2025/26 £'000	2026/27 £'000	2027/28 £'000		
Approved Capital Programme (State of the County 2024)		108.305	116.650	67.960	72.251	431.879	797.045
Approved Variations	A	0.931	2.710	0.039	-	-	3.680
Capital Programme Extension	B	-	-	-	1.150	35.185	36.335
Capital Programme Risk Review	D	-	(16.185)	(14.547)	(19.418)	(116.871)	(167.021)
Total Updates		0.931	(13.475)	(14.508)	(18.268)	(81.686)	(127.006)
Revised Capital Programme		109.236	103.175	53.452	53.983	350.193	670.039
Capital Slippage Risk Factor	C	(24.281)	(14.769)	(7.291)	(5.086)	51.427	0.000
Approved Capital Programme (after Capital Slippage Risk Factor)		84.955	88.406	46.161	48.897	401.620	670.039

Normal Capital Strategy Updates

A Approved Variations

There is a gross increase to the programme of £3.7m relating to fully funded schemes having a net nil impact on the capital programme borrowing due to the identification of specific funding in accordance with the Capital Strategy, as detailed in Table 2 below:

Table 2 – Approved Variations since State of the County 2024	Gross Variation (£m)
School Basic Need - National Wraparound Childcare Programme (funding from specific grant)	0.165
Hollington Youth Centre (funding from specific grant)	3.412
Children's Services Essential System Developments (funding from approved revenue contribution)	0.103
Total Net Nil Approved Variations	3.680

B Capital Programme Extension

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 into 2034/35.

C Capital Slippage Risk Factor

A capital slippage risk factor was applied to the capital programme from 2024/25 onwards to reflect likely slippage based on a risk assessment of historic levels of actual expenditure and slippage at a project/programme level and has been updated to reflect the latest capital proposals. The risk factor is held at a corporate level to enable services / project managers to manage project budgets at a local level, whilst ensuring greater robustness to the planning and monitoring process at a corporate level.

Capital Programme Risk Review

D Capital Programme Risk Review

The Capital Strategic Asset Board (CSAB) conducted a capital programme risk review, starting from an assumed base position of removing all core funded projects and providing the capital programme at funded levels only, to provide the maximum level of potential MTFP savings. This would reduce the capital programme by £129.2m over the period 2025/26 to 2027/28. Services then considered the risks and implications of removing / reducing core funded programmes from the capital programme based on set criteria. The outcome of the review is summarised below.

Remove/Reduce the following programmes:

- Remove Adults and Children's Carers House Adaptations programme and seek alternative funding sources.
- Reduce Special Educational Needs place planning to anticipated grant levels only.
- Reduce the Schools Basic Need programme to provide for temporary place requirements only over the MTFP period.
- Reduce the Integrated Transport Programme back to funded levels (DfT Grant and developer contributions) only.
- Remove the core-funded element of the Highways Structural Maintenance Programme and provide at DfT grant levels only.
- Remove the core-funded element of the Broadband programme, with the remaining committed programme requirement to be funded from gainshare funding held.
- Remove Economic Intervention Fund (Grants), Stalled Sites and Upgrading Empty Properties programmes.
- Remove future years allocation of the Newhaven Port Access Road project, to reflect anticipated project underspends and absorb future costs within other existing funded programmes.
- Remove Queensway Depot Programme.
- Remove the Climate Emergency Works programme, subject to review of alternative funding proposals*

Maintain the following core-funded programmes:

- Capital Corporate Building Improvement programme to ensure essential health and safety works are maintained and to support pressure on the Council's revenue reactive maintenance budget.
- Special Educational Need Provision at Grove Park as this was approved on an invest to save business case basis. Options to maximise external funding from developer contributions will be explored.
- Children's Services Essential System as this was subject to an approved business case.
- Bridge / Structure Maintenance and Street Lighting Replacement programmes as these are critical to maintaining public safety.
- Rights of Way Surface Repairs and Bridges programme as this provides essential health and safety works to ensure public safety in line with statutory duty, although seek to maximise funding from alternative sources (e.g. developer contributions) where possible.
- Libraries Basic Need programme as this is essential to maintain libraries in a safe condition.
- Gypsy and Traveller Site Refurbishment programme as this is required to ensure that the council continues to offer sites and amenity block facilities that are safe and meet the basic needs of our Gypsy and Traveller community.
- Various projects funded by Local Enterprise Partnership Option 4 grant, as removal would result in the need to repay grant values; although seek to maximise funding from alternative sources (e.g. in-year grant underspends) where possible.

*Proposals for reduced investment include removing climate emergency works from the capital programme, together with associated revenue spend. This would have an impact on meeting the corporate climate emergency targets. Corporate climate change work that could continue as part of business as usual includes:

- Producing the local nature recovery strategy for East Sussex and working with partners to deliver biodiversity net gain.
- Climate change adaptation through flood risk management on relevant highway schemes.
- Work to align relevant Council decisions with the organisation's climate change ambition where possible and appropriate.
- Carbon reduction that will be achieved through the Property planned maintenance programme, to ensure replacement of heating systems, window replacement, insulation and roof replacement are focused on energy reduction and carbon emissions.
- Training for site managers and controllers of premises on energy efficiency.
- Awareness-raising and engagement with staff and Members.
- Staff travel offers that promote cycling, as well as the use of public transport and electric vehicles.
- Bidding for external funding.
- Lobbying government for long-term and sustainable levels of funding.
- Monitoring and reporting annually on progress.

3 Capital Programme Funding Update

3.1 Table 3 below 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 3 – Capital Programme Funding Update	Ref:	Current Year 2024/25 £'000	MTFP Period			2028/29 to 2034/35 £'000	Total £'000
			2025/26 £'000	2026/27 £'000	2027/28 £'000		
Gross Expenditure		84.955	88.406	46.161	48.897	401.620	670.039
Specific Funding	E	(30.575)	(36.075)	(3.796)	(1.150)	-	(71.596)
Specific Developer Contributions	F	(3.613)	(2.022)	(2.179)	(2.512)	(0.100)	(10.426)
Net Expenditure		50.767	50.309	40.186	45.235	401.520	588.017
Formula Grants	G	(25.772)	(27.130)	(26.930)	(28.520)	(191.577)	(299.929)
Capital Receipts	H	(4.802)	(3.950)	(4.075)	(4.795)	-	(17.622)
Reserves & Revenue Set Aside	I	(11.391)	(0.440)	(0.385)	(0.452)	(6.383)	(19.051)
Capital Reserve	J	(1.558)	(2.589)	-	(3.836)	(5.884)	(13.867)
Developer Contribution Target	-	-	-	-	-	(17.601)	(17.601)
Capital Programme Borrowing	K	7.244	16.200	8.796	7.632	180.075	219.947

E Specific Funding

The approved programme is supported by £71.6m of scheme specific grants and external funding which is sourced and managed by services at a project level, in the main comprising of DfT grants for Bus Service Improvement Plan, social care capital grants towards supported living improvements; Youth Investment Fund grant towards youth centre improvements; Levelling Up Fund grant towards Exceat Bridge replacement; and Devolved Formula Capital grant toward schools delegated capital works.

F Developer Contributions

Developer contributions is a collective term used to refer to the Community Infrastructure Levy (CIL) and Section 106 planning obligations, being funding secured in support of the provision of infrastructure and to mitigate the impact of development, largely in respect of school places provision, transport and rights of way improvements, and libraries provision. The Council seeks to maximise the use of Developer Contributions to fund basic need requirements and unfunded infrastructure schemes (via net nil variation). For future planning purposes, capital programme includes a reasonable funding target for future years. An assessment of the current developer

contribution position has identified £0.983m of S106 to be added to the capital programme to fund basic need programmes and reduce the future years funding target.

G Formula Grants Update

The capital programme is supported by £299.9m of non-specific government formula grant towards capital expenditure. Formula grant assumptions reflect best estimates but noting that there continues to be risk in relation to these grants as values for future years are still yet to be announced. The level of assumed formula grants will continue to be reviewed to ensure that they represent prudent estimates and updated 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. In accordance with Capital Strategy principles, formula grants are used to fund the approved Basic Need capital programme and reduce the Council's need to borrow.

H Capital Receipts

Property Services hold a schedule of capital receipts available to support the capital programme, which is reviewed regularly with estimates being based on Property Officers' professional judgment on a site by site basis. In accordance with Capital Strategy principles, the profile of capital receipt funding has been updated to prioritise funding towards assets with the shortest useful life, such as IT equipment, to reduce the requirement to borrow for assets that attract a greater annual Minimum Revenue Provision cost on the revenue budget.

I 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, an approved business case or approved variation. This includes specific reserves, payback from invest to save schemes and revenue contributions. The revised profile of reserve and revenue funding of the capital programme reflects the wider review of Council reserves to ensure usages provides best value.

J Capital Programme Reserve

The Council also holds a Capital Programme Reserve to support the capital programme to reduce the need to borrow, that has a consequential increase in pressure on revenue budgets. In accordance with Capital Strategy principles, the profile of capital reserve funding has been updated to prioritise funding towards assets with the shortest useful life, such as IT equipment, to reduce the requirement to borrow for assets that attract a greater annual Minimum Revenue Provision cost on the revenue budget.

K Capital Programme Borrowing

The updated capital programme has a total borrowing requirement of £219.9m, of which £39.9m is anticipated over the period to 2027/28. This presents a decrease in required borrowing of £39.1m over the period to 2027/28 compared to that reported in the State of the County 2024 due to the updates presented in this report, largely being the impact of the capital programme risk review, capital programme reprofiles and their impact on the slippage risk factor.

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 position, whereby the cost of funding and Minimum Revenue Provision needs to be included within the MTFP. The proposed capital programme has been prepared to seek reductions in the Council's borrowing requirement to support the revenue budget position, whilst considering the level of risk associated to removing/reducing investment.

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 per year over the full life of the asset** (based on a 30 year asset life), although the value and profile of costs will vary dependent on a number of variables such as timing, internal balances and interest rates. As highlighted at budget setting in February 2024 the current planned programme borrowing requirement will need Treasury Management budget increases outside the current MTFP period.

4.3 The revised capital programme, including the impact of the capital programme risk review, would reduce the level of borrowing to £39.9m up to 2027/28, which is estimated to have a positive MTFP impact for cost of borrowing of £3.9m as detailed in Table 4 below. 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.

Table 4 – Cost of Borrowing Impact on the MTFP	MTFP Period			Total £'000
	2025/26 £'000	2026/27 £'000	2027/28 £'000	
Normal Capital Strategy Updates	-	-	-	0.000
Capital Programme Risk Review	(0.800)	(2.000)	(1.100)	(3.900)
Total Impact on the MTFP	(0.800)	(2.000)	(1.100)	(3.900)

5 Risk Provision Update

5.1 A £7.5m ongoing risk provision was approved in February 2024 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. 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 2027/28 and beyond which have necessitated holding a risk provision. These risks previously reported include:

- 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 developer contribution targets.

5.3 There may be increased risks following the proposed recommendations throughout this report, particularly relating to reductions in the capital programme. Potential risks include reputational, impact of service delivery and revenue budgetary implications. All recommendations have been made based on an assessment of risk against the level of borrowing reductions in an environment of significant revenue pressure. The level of risk associated to the capital programme and required risk provision will continue to be monitored as part of the ongoing RPPR process.

6 Capital Strategy

6.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Prudential Code was includes the requirement for Local Authorities to produce a Capital Strategy. The Council's current Capital Strategy covers the period 2024/25 to 2044/45 and was approved as part of

RPPR 2023/24. The Capital Strategy has been reviewed to ensure it continues to reflect emerging risks, principles and corporate priorities, and informed by decisions made as part of the RPPR process.

Annex A – Detailed Capital Programme

Detailed Capital Programme (Gross Expenditure)	Current Year 2024/25 £'000	MTFP Period			2028/29 to 2034/35 £'000	Total £'000
		2025/26 £'000	2026/27 £'000	2027/28 £'0000		
Adult Social Care						
Adults House Adaptations	0.050	-	-	-	-	0.050
Learning Disability Support Living Scheme	3.700	1.256	0.081	-	-	5.037
Greenacres	0.070	0.070	-	-	-	0.140
Adult Social Care Total	3.820	1.326	0.081	-	-	5.227
Business Services						
SALIX Contract	0.350	-	-	-	-	0.350
Lansdowne Secure Unit	0.039	-	-	-	-	0.039
Youth Investment Fund	7.003	-	-	-	-	7.003
Hollington Youth Centre	0.663	2.710	0.039	-	-	3.412
Disability Children's Home	0.024	-	-	-	-	0.024
Westfield Land	0.017	-	-	-	-	0.017
Special Educational Needs Provision	0.525	0.500	0.500	0.500	-	2.025
Special Educational Needs Provision Grove Park	1.300	11.000	3.390	1.430	-	17.120
Schools Basic Need Provision	0.518	0.400	0.512	5.941	54.668	62.039
Capital Building Improvement (Schools)	5.781	4.589	4.389	4.389	30.723	49.871
Capital Building Improvement (Corporate)	4.401	4.000	4.000	4.000	28.000	44.401
IT&Digital Strategy Implementation	6.399	6.409	4.075	8.631	45.720	71.234
IT & Digital Strategy Implementation – Oracle Implementation	9.634	-	-	-	-	9.634
IT&D – Utilising Automation	0.024	-	-	-	-	0.024
Business Services Total	36.678	29.608	16.905	24.891	159.111	267.193
Children's Services						
Children's House Adaptations	0.050	-	-	-	-	0.050
Schools Delegated Capital	1.150	1.150	1.150	1.150	-	4.600
Children's Services Essential System Developments	0.839	0.885	0.958	0.774	-	3.456
Children's Services Total	2.039	2.035	2.108	1.924	-	8.106
Communities, Economy and Transport						
Broadband	0.065	1.945	-	-	-	2.010
Bexhill and Hastings Link Road Complementary Measures	0.241	-	-	-	-	0.241
Economic Intervention Fund – Grants	-	-	-	-	-	0.000
Economic Intervention Fund – Loans	-	0.300	0.300	0.300	0.797	1.697
Upgrading Empty Commercial Properties	-	-	-	-	-	0.000

Growing Places Fund Loan Scheme	-	-	-	-	4.958	4.958
Community Match Fund	0.379	0.066	-	-	-	0.445
Community Road Safety Interventions	0.547	-	-	-	-	0.547
Newhaven Port Access Road	0.135	-	-	-	-	0.135
Real Time Passenger Information	0.180	0.131	-	-	-	0.311
Passenger Services Software	0.005	-	-	-	-	0.005
Bus Service Improvement Plan - Bus Prioritisation	6.933	11.380	-	-	-	18.313
Bus Service Improvement Plan - Passenger Transport	1.251	-	-	-	-	1.251
Queensway Depot Development	0.120	-	-	-	-	0.120
The Keep	0.172	0.040	0.085	0.152	0.628	1.077
Other Integrated Transport Schemes	2.957	4.595	4.818	3.523	20.587	36.480
A22 Corridor Package	0.100	-	-	-	-	0.100
Exeat Bridge Replacement	5.340	0.880	-	-	-	6.220
Schools Streets	0.150	-	-	-	-	0.150
Eastbourne Liveable Town Centre	0.316	-	-	-	-	0.316
Hastings Town Centre Public Realm and Green Connections	0.706	8.624	-	-	-	9.330
Libraries Basic Need	0.773	0.550	0.467	0.449	0.898	3.137
Highways Structural Maintenance	24.704	19.100	19.100	19.101	133.707	215.712
Bridge Assessment and Strengthening	7.945	2.901	2.901	1.830	14.447	30.024
Street Lighting Replacement Programme	3.835	3.988	3.429	1.041	8.790	21.083
Rights of Way Programme	0.588	0.643	0.662	0.702	5.780	8.375
Gypsy and Traveller Site Refurbishment	0.070	0.070	0.070	0.070	0.490	0.770
Visibly Better Roads	0.504	-	-	-	-	0.504
Local Electric Vehicle Infrastructure	0.400	2.298	1.843	-	-	4.541
Flood & Coastal Resilience Innovation Programme	0.758	0.989	0.683	-	-	2.430
Flood Management and SuDS in Schools	0.218	-	-	-	-	0.218
Climate Emergency Works	3.336	-	-	-	-	3.336
Eastbourne Town Centre Phase 2a	2.079	1.746	-	-	-	3.825
Eastbourne Town Centre Phase 2b	0.022	5.050	-	-	-	5.072
Eastbourne / South Wealden Walking & Cycling Package	0.990	1.328	-	-	-	2.318
Hailsham / Polegate / Eastbourne Movement & Access Corridor	0.134	-	-	-	-	0.134
Hastings / Bexhill Movement and Access Package	0.746	3.582	-	-	-	4.328
Communities, Economy and Transport Total	66.699	70.206	34.358	27.168	191.082	389.513
Capital Programme Total	109.236	103.175	53.452	53.983	350.193	670.039