West Sussex Capital Strategy 2022-2027

1. Purpose

1.1 The West Sussex Capital Strategy drives the Council's strategic capital investment ambition to support the sustainable long-term delivery of services. The Strategy supports delivery of Our Council Plan, the Council's vision for the county and its commitment to the communities of West Sussex as part of a suite of strategic financial management approaches that inform the Medium-Term Financial Strategy (MTFS).

1.2 The Capital Strategy is informed by the Council's Asset Management Strategy, which collates services' asset requirements and integrates them with corporate asset management objectives. These demand-led objectives help shape Member decisions about the value and scale and the priorities of the Capital Programme which is approved annually by County Council as part of the Annual Budget decision.

1.3 The Capital Strategy sets the framework for the identification, development and delivery of capital projects across all services. It supports and informs the control environment for delivering and reporting projects.

1.4 The Capital Strategy conforms with the Local Government Act 2003, which sets out the power to borrow, affordable borrowing limits, power to invest and relevant guidance. It is also informed by the CIPFA Prudential Code 2017, the Treasury Code of Practice 2017 and relevant guidance. In line with best practice set out in the Prudential and Treasury Codes, it:

- applies a long-term approach
- explores external influence on the Capital Strategy
- examines commercial activity/ambition
- notes the implications of the Treasury Management Strategy
- ensures Council Plan priorities drive capital investment
- examines available resources and capacity to deliver
- assesses affordability against ambition and addresses any gap
- identifies capital financing principles
- demonstrates integration with other strategies and plans
- supports a 5-year capital investment plan, with actions, timescale, outputs and outcomes plus a five-year funded programme in line with the Medium-Term Financial Strategy
- identifies risks and mitigations
- outlines capital governance, monitoring, processes and procedures.

1.5 CIPFA published the updated Treasury Management and Prudential Codes on 20 December 2021. CIPFA has stated that there will be a soft introduction of the codes. However, resulting activity in 2022/23 should have regards to the new Codes of Practice with full implementation required for 2023/24.

1.6 Several external organisations and partners help inform the Council's Capital Strategy, including district and borough councils via local plans and partnerships and funding bodies, including government departments and devolved funding bodies. The Capital Strategy brings together the demand for capital investment and the available funding to enable the Council to set out its plan to fund the development and delivery of its priorities over the medium term through the five-year Capital Programme.

2. Principles

2.1 Capital expenditure is expenditure that results in the acquisition, construction or enhancement of an asset for a period of more than one financial year. Assets can include land, buildings, roads, plant and equipment. Spending on projects can be capitalised if it meets the definition of capital expenditure.

2.2 The Capital Strategy sets the direction for the foreseeable future and informs the five-year Capital Programme. The Capital Programme is reviewed and updated annually to ensure it remains focused on the Council's priority outcomes and can react to changes in circumstances or need.

2.3 The key principles of the Capital Strategy are:

- Capital expenditure enables the achievement of the Council's priority outcomes in the Council Plan
- Business intelligence data drives long-term asset planning to meet the needs of services
- Maintenance of assets is vital to the integrity of the Council's approach to asset management and capital planning
- Capital investment decisions are made within a clear framework ensuring value for money

2.4 Individual projects are considered based on the extent to which they contribute towards Our Council Plan priorities. Projects are assessed via business cases demonstrating they will deliver benefits derived from the council's priorities and the extent to which they affect ongoing revenue costs to the County Council.

2.5 Projects that deliver Our Council Plan objectives and which are self-financing, in that the revenue benefits include income sufficient to cover the total cost of delivery, including financing costs, are funded from the Future Economic Developments line in the programme. Section 7 covers the arrangements for the projects funded from the Future Economic Developments line in detail.

3. Programme Objectives and Priorities

3.1 Our Council Plan sets out the Council's vision and priority areas for the county. Individual Service Business Plans at departmental and directorate level identify objectives for each service to deliver Plan priorities for their area of responsibility. Directorate-owned Asset Management Strategies set out the asset requirements to deliver those objectives.

3.2 The Core Programme includes the following areas of asset management:

- Corporate Estate maintenance – including the corporate and service-operated estate
- School's maintenance – across the Local Authority maintained school estate
- Highway's maintenance – including network condition-based repairs, upgrade and replacement of signals and signage and structural maintenance
- Fleet – investment in the Council's vehicles including Fire and Rescue, Highways and Transport and Social Care vehicles
- Asset improvements arising from the Councils Climate Change Strategy

- Energy efficiency projects – where external funding pays back the investment
- IT investment - so the Council can deliver modern and compliant services

3.3 Other projects require a business case prior to progress for consideration in the Capital Programme. The business case considers the extent to which projects deliver Our Council Plan objectives set against technical project deliverables and the financial impact to the Council. Where the Council receives external funding to meet strategic demands and objectives (including provision of school places and highways improvements to meet increased demographic and development demand), this reduces or even eliminates the capital costs of projects required of the Council. Financial considerations include:

- Cost Avoidance – projects that offset the costs of increasing service demand, including the cost of project development and delivery with a clear net revenue payback
- Strategic Investments - with a longer-term payback including the benefits of regeneration of town centres
- Borrowing costs – where external funding is not received, the cost of borrowing is included to indicate the full cost of project delivery
- The ability of the project to generate capital receipts

3.4 Other projects also include Highway's major projects, funded from external grants and developer contributions and the provision of new school places and the creation of special school places, where increased in-county capacity reduces requirements for more costly independent placements.

3.5 Future Economic Developments projects are projects where the revenue benefits are projected to exceed the total cost of their delivery, including development, operational and financing costs. The cost of financing the projects is funded through the revenue income and has a positive net benefit to the bottom line.

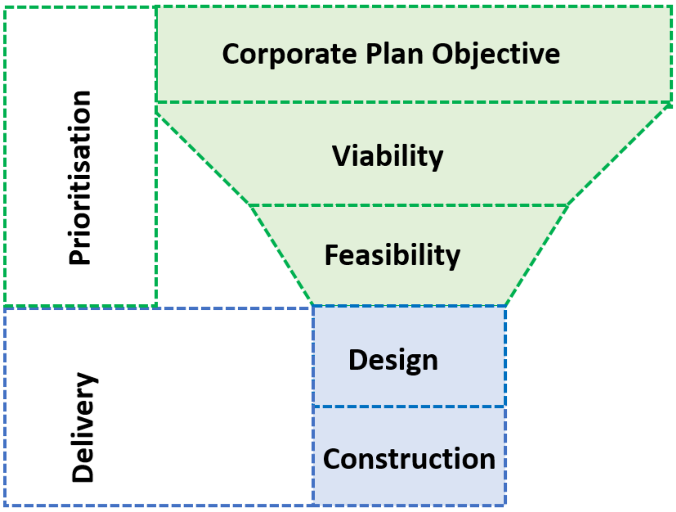
3.6 In order to deliver its outcomes more effectively and improve its financial resilience in the longer term, the Council entered into a Joint Venture (JV) with a long-term partner to take forward and benefit from the development opportunities available through developing sites with our partner. The financial benefits of this approach are currently being modelled and anticipated capital receipts will be used to reduce future borrowing requirements. The potential timeline of these receipts will be considered in the financing of the capital programme in future years.

4. Governance Arrangements for Capital Investment

4.1 The core maintenance programmes are approved via an Outline Business Case led by service asset condition survey data. Agreed condition scoring methodologies define an on-going programme of activity designed to maintain an overall standard for each type of asset. A list of proposed works is presented each year, with delivery, changes and reactive budgets delegated to the relevant Director.

4.2 Other proposed projects included in the Capital Programme are progressed through the capital programme governance framework

4.3 Each project is brought through a standard gateway process characterised by the following stages, which focus and reduce the options taken forward:



As proposals are developed, a detailed Full Business Cases is produced to demonstrate cost/ benefit of the project and seek approval for funding and implementation.

4.4 Revenue funding to assess scheme viability is allocated against Outline Business Case proposals to test emerging projects and further feasibility funding is subject to senior officer approval of shortlisted or preferred options also against an Outline Business Case.

4.5 Cabinet Member approval is required for the funding and implementation of significant and high value projects. Projects and changes to projects costing over £0.5m are subject to a Key Decision before proceeding. Lower value or less significant changes are approved within agreed limits set out in Table 1.

Table 1 Senior officer approval limits

Limit	Approval
(i) Where the level of investment or variation is no more than 5% of the total project cost or no greater than £250,000;	Senior officer
(ii) Where, not fitting within (i), the level of investment or variation is no more than 10% of the total project cost or no greater than £500,000 and (iii) Where the decision has not previously been marked by the relevant Cabinet Member for decision by the Cabinet Member	Senior officer will consult the Cabinet Member before deciding
(iv) Where the matter has been the subject of previous Cabinet Member decision delegating further decisions	Delegated Officer

Limit	Approval
(v) Where the relevant Executive Director, in discussion with the Cabinet Member, does not consider the matter to be politically sensitive and so the use of officer delegation would be appropriate	Executive Director

4.6 The overall programme approach is reviewed and approved by the County Council each year at its budget setting meeting and the Financial Regulations (Financial Regulation B, paragraphs 2.2 – 2.4) set out the associated governance arrangements.

4.7 Options appraisals are based on the HM Treasury Green Book five-case business case model, adapted to meet local requirements[1]. All business cases and project changes are reviewed at the officer Capital Programme Board meetings before being recommended to the relevant decision-maker for approval.

4.8 The Capital Programme is monitored as part of the Performance and Resources Report developed to support and monitor delivery of Our Council Plan. The quarterly reports are presented to the Cabinet and to scrutiny committees. The report is also published in the Members' Bulletin and linked to the Members' Information Network database. Oversight of programme performance management is part of the core business of the Executive Leadership Team and the Cabinet. These forums and individual scrutiny committees may also consider individual projects to monitor outcomes.

5. Five-year programme

5.1 Capital investment is made in order to maintain, support and enhance delivery of the County Council's strategic objectives and climate change ambition as set out in the Council Plan. The Plan priorities and objectives and current programme allocations in each area are set out below with specific climate change plans identified under 'best use of resources':

Keeping people safe from vulnerable situations

- Children's Social Care – a programme of development of existing Children's Social Care placements to provide improved and more local services for vulnerable children and young people
- Adults' Social Care – a range of investments in the care market, including the high needs sector, Extra Care and in-house improvements
- Live Training Centre and Horsham Fire Station – a new fire station and training centre, ensuring future emergency response needs are met

[1] HM Treasury's Green Book Five-Case Model, is as follows:
Strategic – there is a robust "case for change" which meets corporate objectives
Economic – the scheme delivers value for money
Financial – the scheme is affordable within capital and revenue resources
Commercial – procurement arrangements and any deal structure have been considered
Management –ensuring strong arrangements for the set-up and delivery of the project

- Fire and Rescue Service equipment – keeping the service supported with state-of-the-art emergency response equipment
- Highways safety and resilience improvements – including flood risk-management, road safety schemes and footways improvements

A sustainable and prosperous economy

- Growth Programmes – strategic infrastructure improvements improving connectivity and access to the town centres at the heart of the West Sussex economy
- Digital Infrastructure – providing the infrastructure backbone for gigabit accessibility for businesses and residents
- Major Highways Projects – including the Lyminster Bypass, re-alignment of the A29 between Bognor and Westergate and corridor improvements on the A2300 and A259
- Highways Maintenance – additional investment in road maintenance reflecting the importance of the infrastructure for economic growth
- Local Transport Improvements – a programme of traffic management schemes aimed at improving traffic flow

Helping people and communities to fulfil their potential

- Additional School places – to meet the needs of our growing communities
- Special Educational Needs and Disabilities Strategy – a programme of investment in additional places in West Sussex schools, increasing quality and local choices
- School Access Initiative – enhancing the choices for children with special educational needs by making minor adaptations to accommodate a wider variety of needs in mainstream schools
- Safeguarding Schools – boundary and access improvements to ensure that children are safe and secure within schools

Making best use of resources

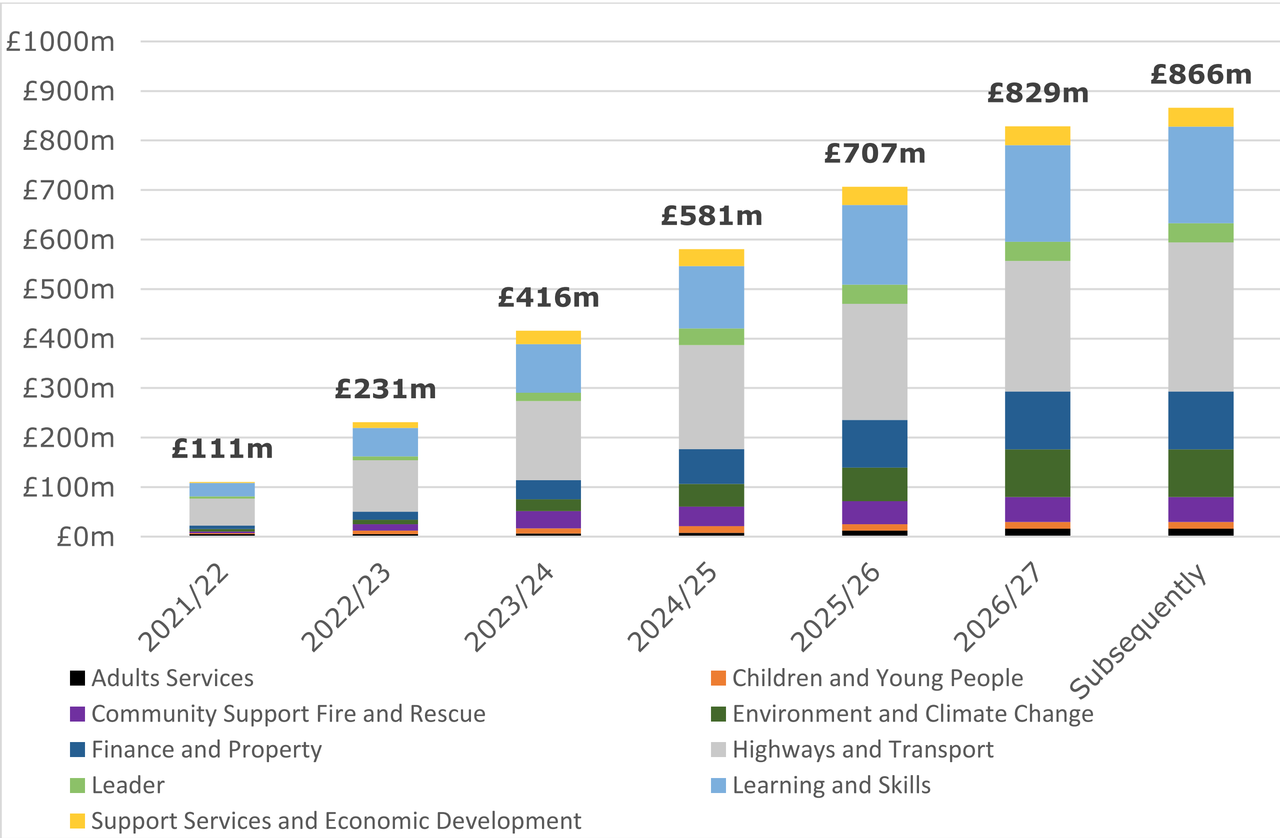
- Highway's maintenance across the networking, including programmes addressing the condition of carriageways, footways, structures, signals
- Education property maintenance across the school estate, ensuring that schools are safe, secure and suitable learning environments
- Corporate maintenance across the property estate, ensuring that buildings are safe, secure and suitable for service requirements
- Energy Generation – exploring green energy technology to reduce the Council's reliance on fossil fuels, reduce carbon consumption and maximise cost-efficiency of energy usage
- Carbon reduction – targeting investment in low-carbon upgrade options for routine maintenance and planned projects

- Corporate estate improvements – tactical site improvement works to optimise usage and future options
- Major development projects - Broadbridge Heath Park development and Horsham Enterprise Park
- Joint venture - work with long term partner to take forward development opportunities to increase yield on surplus assets
- Waste management – ensuring closed landfill sites are suitably maintained and managed to protect local environments
- Fleet – investment in the Council's vehicle requirements to support activities across the range of services

6. Capital Programme expenditure and funding

6.1 The total value of schemes in the 2022/23—2026/27 Capital Programme is £755.7m. Figure 1 analyses the Capital Programme; Appendix A gives further details.

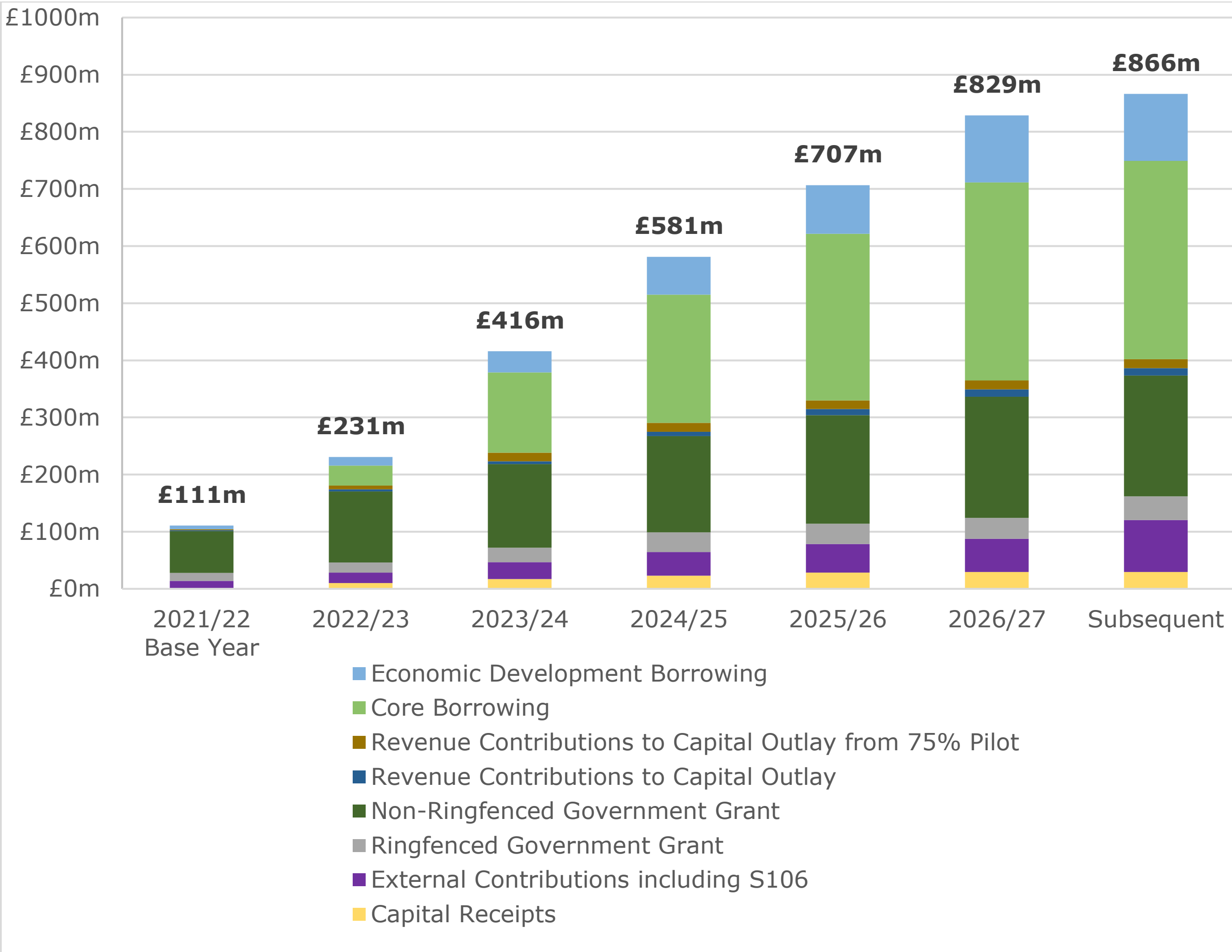
Figure 1: Capital programme expenditure 2021/22 to 2026/27 and subsequent years



6.2 Capital expenditure may be financed from a range of corporate and external resources. Corporate resources include capital receipts, revenue contributions, reserves and corporate borrowing. External sources include Government grants and private sector contributions such as developer contributions. External resources can sometimes come with limitations on their use such as ring-fenced grants or restrictions on the application of s106 funds. The programme reflects capital spending plans at the date when the County Council formally approves the Budget and MTFS. During the year additional funding (for instance, capital grants or developer contributions) may become available.

6.3 The assumed funding profile for the programme to 2026/27 is shown in Figure 2.

Figure 2: Capital programme funding 2021/22 to 2026/27 and subsequent years



6.4 Capital plans, outlined in section 5, show a total borrowing requirement of £44.0m is required to finance the Council's capital expenditure plans in 2022/23.

6.5 The revenue impact (capital financing cost as a percentage of net revenue streams) of the recommended borrowing strategy for the Council's Capital Programme (excluding Economic Development schemes, PFI and finance leases) is outlined below in Table 2. As part of the capital financing cost, the Council has to make an annual contribution from revenue called Minimum Revenue Provision (MRP) to reflect the expenditure. Appendix B sets out the Council's (MRP) Statement for 2022/23.

Table 2: Revenue impact of the Capital Programme borrowing strategy (excluding Economic Development schemes, PFI and finance leases)

	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Net Revenue Expenditure	648.3	677.7	691.4	712.3	726.0
Capital Programme Financing Charges					
- MRP	11.8	13.0	16.0	18.8	20.4
- Interest	17.6	18.2	20.4	22.5	23.5
TOTAL	29.4	31.2	36.4	41.3	43.9
% Ratio	4.5%	4.6%	5.3%	5.8%	6.1%

6.6 The implications of the Capital Programme outlined in paragraphs 6.1 to 6.3 in terms of the Council's Authorised Borrowing Limit and Operational Boundary are detailed in the Treasury Management Strategy Statement which is set out in Annex 2(b) of the main budget report.

6.7 The Council has considered long term capital planning and the implications this will have on both the level of borrowing and the revenue budget. As at 31 March 2022 the Council had external loans with the Public Works Loans Board (PWLB) totalling £471.3m, with a maturity profile which stretches out to 2071. Appendix C sets out the Council's borrowing profile to 2072 and assumes that from 2027/28 onwards the Council has an annual core programme borrowing requirement of £20m and continues to hold useable reserves, provisions and working capital (£130m each year from 2043/44 onwards).

6.8 Within the Economic Developments borrowing figures, the borrowing need gradually reduces over the period to 2072, due to both the application of capital receipts generated by some of the Economic Development projects, along with other projects generating revenue returns to reduce the associated borrowing need.

6.9 Relevant Prudential Indicators for 2022/23 to 2026/27 are set out in Annex 2(c) of the main budget report, including the commercial investment indicators.

7. Non-Treasury Investments

7.1 The Council's capital investment plans (Section 5) includes a portfolio of Economic Development projects, or non-treasury investments. This portfolio will generate economic benefit to the county and a revenue return to the Council, which will meet the Our Council Plan objectives. The Council's Economic Development projects are only agreed when supported by approved business cases and subject to Members' obtaining appropriate assurance regarding the security of capital sums involved. Performance and Finance Scrutiny Committee undertakes appropriate scrutiny.

7.2 Examples of the Council's non-treasury, Economic Development, investments include (but are not limited to) the following:

- Working in partnership with other councils to improve energy efficiency and reducing energy costs for the local residents and small to medium-sized businesses in Sussex (including solar farms and solar panel installations)

- Third party loans and investments made for service purposes
- Corporate estate improvements – including major development projects at Broadbridge Heath Park development and Horsham Enterprise Park, as well as tactical site improvement works to optimise usage and future options

7.3 Business cases for all schemes set out the economic or regeneration benefits for the community, together with the funding arrangements and all associated revenue costs (for instance the cost of borrowing) applicable to the schemes. Business cases demonstrate the ongoing stewardship, sustainability, affordability and benefits of any proposed project. Funding arrangements may include (but are not limited to) the following:

- Corporate borrowing when evidenced that any income return will first cover all associated revenue (capital financing) costs
- Share capital in companies associated with the project(s)
- Capital receipts generated by the project(s)

7.4 The Council acts prudently investing in Economic Development projects, including a rigorous evaluation of potential opportunities and risks against the principles outlined above. As a minimum, the Council discloses the assessment of Economic Developments and the associated capital financing costs over the life-cycle of the MTFS; but also as assessed over the longer-term (as set out in the Prudential Indicators – Annex 2(c) within the main budget report).

7.5 The Council's Economic Development projects forecast to achieve a contribution net of capital financing costs (MRP and interest) of £1.6m in 2022/23 as shown in Table 3.

Table 3: Financial performance of Commercial and Economic Development projects 2022/23

Commercial and Economic Development scheme type	**Investment to date (i) £m**	**Capital financing costs £m**	**Forecast income £m**	**Net contribution £m**
Investment properties	35.029	1.262	1.960	0.698
Tangmere solar farm	7.306	n/a	0.500	0.500
All other solar & battery storage projects	23.315	1.191	1.600	0.409
Total	66.650	2.453	4.060	1.607

(i) As per the County Council's 2020/21 audited Balance Sheet (Gross Book Value); plus forecast Capital Expenditure (Your Energy Sussex projects) in 2021/22.

8. Flexible Use of Capital Receipts Strategy 2022/23

8.1 Since 2019/20, the Council has approved the flexibility to apply capital receipts to fund transformation projects as enabled by the Secretary of State's Direction and outlined in the Government's Statutory Guidance on the flexible use of capital receipts. Extension of the flexibility for a further three years was announced in the final settlement in February 2021 but the details on the conditions for extending the flexibility beyond 31 March 2022 are still being finalised. For 2022/23, the Council proposes to use the flexibility to fund up to £10.0m of qualifying transformation expenditure. Potential qualifying expenditure is currently funded through the revenue budget or reserves such as the service transformation reserve. Should availability of suitable, qualifying projects and funding allow, the Council will consider adding projects it will fund through flexible use of capital receipts and this will be reported through the Performance and Resources Report (PRR).

8.2 The Council's flexible use of capital receipts to fund transformation projects will continue to be subject to development and approval of robust business cases. The business cases will demonstrate that: the initiative will transform services, generate future savings or reduce future costs, and the costs being funded are implementation or set up costs and not on-going operational costs.

9. Risks

9.1 Preparation, financing and delivery of a multi-year capital programme involves a series of risks. Operational risk management is undertaken proportionately across the range of individual projects and programmes in the wider capital programme. Table 4 sets out the Capital Strategy risks and their mitigations.

Table 4: Capital programme risks and mitigations

Key Risk	Mitigations
Schemes taken forward do not support Our Council Plan objectives	• Service Strategies and Asset Management Strategy aligned with Council Plan • Member engagement in Capital Strategy development and prioritising programme. • Member input, prioritisation and scrutiny ahead of County Council approval
High priority scheme not reflected in plans	• Yearly review of priorities with all Members • Governance allows changes to priorities in-year
Availability of feasibility and other revenue funding constrains approved capital plans	• Creation of Feasibility Reserve • Outline Business Cases to include feasibility funding requirement • Future programmes to be funded on basis of capital and revenue requirements
Schemes' total costs are above budget	• Comprehensive viability/ feasibility studies undertaken before capital estimates are included in the funded programme • Budgets managed by SRO and programme sponsors within defined programmes • Change requests subject to governance control
Lack of capacity prevents timely delivery of schemes	• Use of multi-disciplinary consultancy (MDC) for professional services • Monthly highlight reports for timely identification and resolution of resource issues
Unaffordability of financing costs in revenue budget	• Preparation of Treasury Management Strategy • MTFS budgets reflect ongoing revenue costs of capital programme

Key Risk	Mitigations
Economic Development schemes fail to generate an adequate revenue return	• Rigorous evaluation and scrutiny of business cases before making investments • Regular monitoring of income against costs
Expiry of time limited S106 contributions	• Monitoring system in place to ensure contributions are spent within time period
Spending is not in line with grant conditions (e.g. Local Growth Fund)	• Monitoring of spending against agreed profiles and grant conditions • Negotiation with grant-awarding bodies where conditions may not be met
Interest rate volatility regarding borrowing	• Regular monitoring of interest rates • Use of external advisors
Impact of shortage of supply of goods and labour on costs and timelines	• Regular monitoring of projects • Creation of an additional contingency line to deal with inflation
External market volatility and other external impact on delivery and financing	• Regular monitoring and awareness
Impact of water neutrality on planning and developments	• Regular monitoring and awareness as projects are developed

10. Knowledge and Training

10.1 The Capital Programme Office provides advice and support to programme and project managers on an ongoing basis.

10.2 The Council uses professional advisory services as necessary in the preparation and delivery of its capital programme. For example, these include:

- Faithfull + Gould (multi-disciplinary consultant)
- WSP (highways and public realm consultant)
- Savills (property advisory services)
- Montagu Evans (valuers)
- Link (treasury management advisory)

10.3 CIPFA's Treasury Management Code of Practice requires that staff with responsibility for treasury management and property investment receive adequate training. Staff undertake regular professional training to ensure their skills are kept up to date. Future training needs are periodically reviewed as part of staff appraisals and personal development plans. Training options for officers include professional qualifications from CIPFA and other appropriate organisations; attendance at workshops and seminars run by the Council's appointed treasury management advisor; and on the job training.

Appendices

Appendix A – Capital Programme Portfolio Pages

Appendix B – Minimum Revenue Provision (MRP) Statement 2022/23

Appendix C - Illustrative External Debt/Internal Borrowing Projections

Appendix D – Graphical Illustration of Debt Projections to March 2072

Appendix E – Flexible Use of Capital Receipts

Background papers

Statutory Guidance on the Flexible Use of Capital Receipts (updated)
Department for Communities and Local Government, March 2016