Capital Strategy 2020-25

1. Purpose

1.1. The West Sussex Capital Strategy 2020-25 sets out the Council's purpose and objectives from its strategic capital investment. The Capital Strategy is informed and led by the Council's Asset Management Strategy, which collates service ambitions and requirements and integrates them with corporate asset management and investment objectives. Both the Asset Strategy and Capital Strategy are aligned with the West Sussex Plan, the Council's vision for and commitment to the communities of West Sussex. The Council sets out its plan to deliver and fund these strategies over the medium term through its five-year Capital Programme.

1.2. The Capital Strategy sets out how the priorities emerging from service and corporate strategies will realistically be delivered. It establishes the controls and prioritisation process by which different schemes from across the Council's services are selected to be brought forward in the capital delivery plan.

1.3. The Capital Strategy sets out the optimum affordable level of investment against the available resources to fund and deliver projects. It provides a long-term view of the capital investment requirements (capital borrowing and revenue viability/feasibility funding) in the Medium Term Financial Strategy (MTFS).

1.4. The Capital Strategy provides a baseline for capital investment decisions and a frame of reference for service project development.

2. Background

2.1. In December 2015, the County Council adopted a new capital governance approach, establishing a five-year capital investment programme. The new governance arrangements established an effective framework for capital control, monitoring delivery and reporting benefits.

2.2. In July 2018, the Cabinet Member for Finance and Resources approved an Asset Management Strategy (AMS) to guide the Council's approach to managing its property estate. The AMS provides an overview of the priorities for managing and developing the land and property estate over the next 20-30 years. The AMS is supplemented by a suite of service-level asset strategies setting out predicted demand growth and service requirements where land and property considerations will be required. The AMS is based on the following objectives:

- to plan and manage property as a corporate resource for the benefit of the people of West Sussex;
- to provide the right property, fit for purpose, in the right place, to meet current service needs and plan for the future;
- to acquire, manage, maintain and dispose of property effectively, efficiently and sustainably, together with optimising financial return and commercial opportunities;
- to use land and buildings to stimulate development and growth; and,
- to promote joint working where it will provide benefit for service delivery and in securing efficiencies.

2.3. The Council continually reviews its capital programme priorities to ensure that delivery is optimised against the objectives of the AMS and Capital Strategy. As such, the aim of this Capital Strategy is to engage all elected members of the County Council in understanding the long-term policy objectives and resulting governance procedures, resource requirements and appetite for risk in relation to capital investment. This approach is part of embedding the AMS and improving the capital programme governance and management.

2.4. The Capital Strategy provides:

- high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to service provision (section 3);
- corporate governance arrangements for capital investment (section 4);
- expected costs and funding of the capital programme, including projected debt related to capital activity and associated interest costs and payback period (MRP policy) (section 5);
- arrangements for non-treasury (commercial) investments (section 6);
- an overview of the Council's Flexible Use of Capital Receipts Strategy (section 7);
- the key risks associated with the capital programme (section 8); and
- knowledge and training (section 9).

3. Long-Term Capital Objectives and Priorities

3.1. The capital programme aims to invest in the delivery of the Council's vision for the county and its commitment to the communities of West Sussex. The West Sussex Plan 2017-2022 sets out the five priority areas for the Council - Best Start in Life, A Prosperous Place, Strong, Safe and Sustainable Place, Independent for Later Life and A Council that Works for the Community. Individual Service Business Plans identify how each service will deliver the vision for their area of responsibility, and each service's AMS sets out its land, property and other fixed asset requirements and opportunities to deliver those strategies.

3.2. The capital programme is the delivery mechanism for priority projects. Evaluation of projects for inclusion in the capital programme include consideration of: alignment to the West Sussex Plan priorities; delivery of statutory obligations; affordability, value for money and ability to deliver on time and to budget.

3.3. The current whole capital programme includes proposed investment in the following priority areas:

- Giving Children the Best Start in Life
  - Basic Need - additional school places
  - Special Educational Needs and Disabilities (SEND) Strategy – increased provision for children with SEND
  - Schools capital maintenance
- A Prosperous Place
  - Growth Programme – targeted investment in key areas to improve the public realm and connectivity

- Horsham Enterprise Park – development of a key strategic site to provide high value jobs, business opportunities and new housing
- Digital Infrastructure and Connectivity – investment in the infrastructure to enable businesses and residents to benefit from the latest digital technology
- Highways Major Projects – investment in key infrastructure to support development across the county
- Highways Improvement – a programme of junction improvements to help reduce congestion

• A Strong, Safe, and Sustainable Place

  - Solar farms and battery storage – a programme of sustainable energy projects on unused Council land
  - Schools solar programme - reducing energy bills for schools and providing a financial return
  - Fire and Rescue Service Fleet and Equipment – a programme of investment in new vehicles and equipment

• Independence for Later Life

  - In-House Day Centres – investment in the County Council's in-house adult's services provision

• A Council that Works for the Community

  - Footway Improvements Programme – in targeted key areas aimed at reducing slips, trips and falls in public places
  - LED Streetlighting – reducing the County Council's carbon impact and utility bill
  - Operation Watershed – a grant programme funding local community groups to build their resilience and reduce the risk of flooding
  - Commercial Property Investment – securing long-term assets for capital growth and revenue income
  - Asset Management (block) allocations – ensuring maintenance of corporate properties and highways

3.4. The County Council's whole capital programme (outlined in Appendix A) provides direct service provision through new community assets such as schools and highways, cost-avoidance activities which minimise the future cost of services to local taxpayers along with investment in assets (Income Generating Initiatives) which also generate a cashable return and thus make a contribution to reducing the Council's net operating costs.

3.5. Cost avoidance schemes are designed to reduce the expected ongoing net revenue costs of a service by more than the capital financing costs of the scheme. Cost avoidance schemes are subject to business case analysis, including risk and return profiles, to assess this. The Capital Programme 2020/21 to 2024/15 includes £57.2m investment in cost avoidance schemes. Examples of these schemes include extra care housing for vulnerable adults, special support centres for children and young adults with SEND and support for recycling initiatives.

3.6. The Council's consideration of Income Generating Initiative assets for investment does not just refer to the financial aspects of yield and profit and the balance that asset might bring to an authority's overall investment strategy included in the Commercial Property Strategy, but also to its contribution to meeting the objectives of the West Sussex Plan, such as regeneration, environmental considerations, business rates growth and amelioration of local market failure. Examples of these activities include (as explored in more detail in Section 6):

- County Gigabit
- Your Energy Sussex
- Investment Property
- Horsham Enterprise Park
- Street-Lighting LED programme

3.7. Projects put forward for investment as Income Generating Initiatives are subject to enhanced decision making requirements and scrutiny before inclusion in the capital programme and before release of funding, as outlined in the Council's Commercial Property Strategy and as set out in Section 6.

4. Corporate Governance Arrangements for Capital Investment

4.1. Members set priorities for capital investment and delegate detailed planning to officers, who prepare a draft capital programme for approval by the County Council. The aim is a sufficiently long-term programme, aligned to corporate priorities and Asset Management Strategies. The programme is reviewed and approved by the County Council each year at its budget setting meeting and Financial Regulations (Financial Regulation B, paragraphs 2.2 – 2.4) set out the associated governance arrangements.

4.2. Options appraisal and prioritisation of projects is based on the HM Treasury Green Book five-case business case model, adapted to meet local requirements[1]. Individual projects are initially supported by Strategic Outline Cases (SOCs) describing the purpose of the scheme, the options to achieve it, its anticipated cost, delivery mechanism and benefits.

4.3. An established officer governance process reviews SOCs to ensure their quality. Next, Cabinet Members consider the draft Capital programme. Following this, Cabinet recommends the Capital Programme to County Council for approval at its budget setting meeting.

4.4. Projects included in the five year Capital Programme will be developed into a more detailed Full Business Case (FBC) to demonstrate the costs and benefits of the project and seek approval to implement it.

4.5. All proposed SOCs, FBCs and project changes are reviewed at officer 'Programme Board' meetings and recommended to the decision-maker for approval. Member approvals are required for significant and high value projects and changes and projects costing over £0.5m are subject to Key Decision before proceeding. For lower value or less significant changes, senior

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[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

officers have authority to approve, within agreed limits previously approved by the Council. Table 1 summarises the limits for senior officer approvals.

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 decides
(ii) (iii)	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 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 to the Executive Director	Executive Director decides
(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 decides

4.6. As well as the large schemes and development projects that make up much of the Capital Programme, the Council invests in maintaining its core business and allocates grants. The Maintenance Block Allocations include programmes of property and highways asset maintenance, fleet and equipment asset replacement and other comparable projects. Grant Allocation programmes are to community groups. The County Council approves these allocations through the appropriate governance processes.

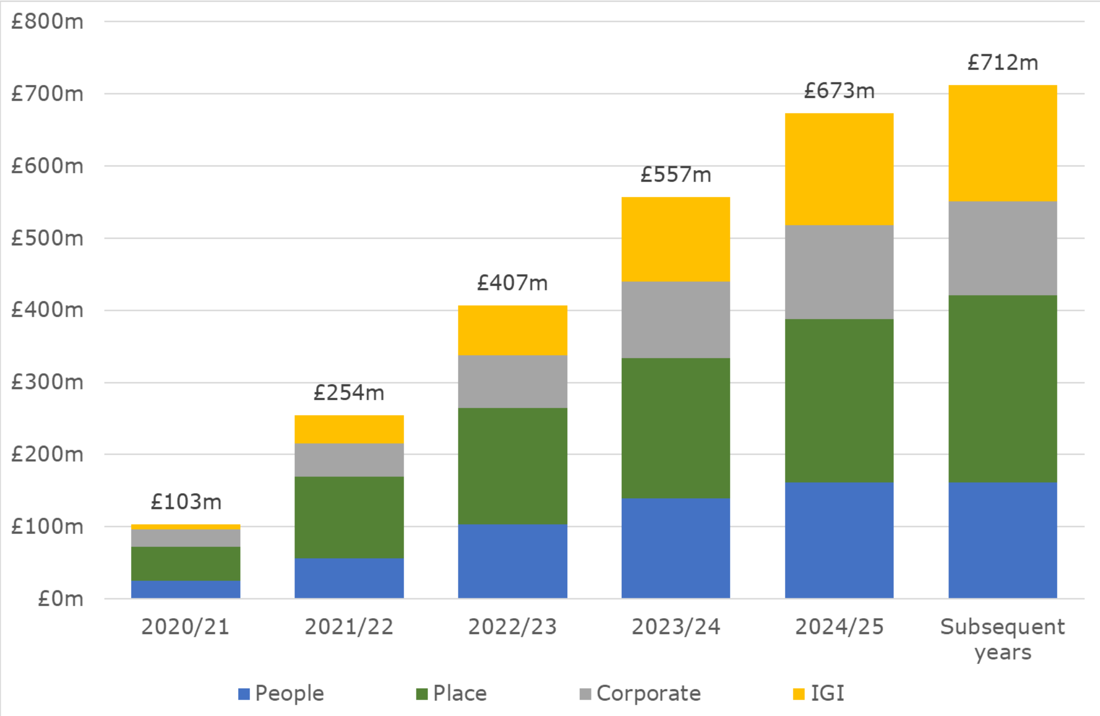
4.7. Review of the Capital Programme performance management is part of the core business of the Cabinet and the Performance and Finance Select Committee (PFSC) each quarter. Select committees may also consider individual projects. A quarterly performance report on the Capital Programme is published in the Members' Bulletin and linked to the Members' Information Network database.

4.8. The Capital Programme is constrained by the affordability of borrowing within the revenue budget, and the Council's finite delivery capacity. Therefore, the Council is developing a robust methodology to prioritise projects in future years.

5. Cost and Funding of the Capital Programme

5.1. The total value of schemes in the 2020/21 to 2024/25 capital programme is £712.3m. This comprises £551.0m of the core programme and £161.3m Income Generating Initiatives (IGI) as set out by theme in Figure 1 and by portfolio in Appendix A.

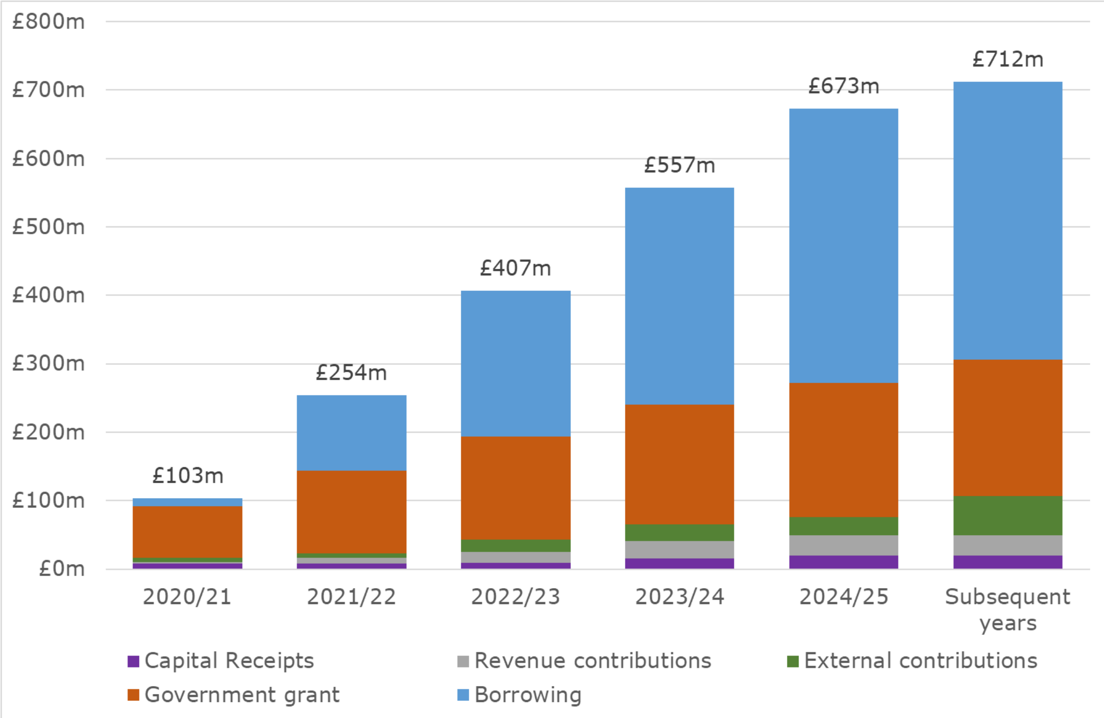
Figure 1: Capital programme expenditure 2020/21 to 2024/25 and subsequent years



5.2. Capital expenditure may be financed from a range of internal and external sources. Internal sources include: capital receipts, revenue contributions, reserves and internal borrowing. External sources include: private sector contributions, such as S106/CIL developer contributions, Government grants (which may be ring-fenced for specific purposes or non-ring-fenced and available for general application by the County Council) and external borrowing. The programme reflects capital spending plans at the date of formal member approval (14 February 2020). During the year additional funding (for instance, capital grants or developer contributions) may become available, which the Council considers through the appropriate governance processes.

5.3. Figure 2 shows the assumed funding profile for the capital programme.

Figure 2: Capital programme funding 2020/21 to 2024/25 and subsequent years



5.4. Capital plans, outlined in paragraph 5.3, show a borrowing requirement of £11.6m is required to finance the Council's capital expenditure plans in 2020/21, including:

- borrowing of £4.2m to support the core programme; and
- additional borrowing of £7.4m for IGI schemes.

5.5. The total borrowing to finance the core and IGI capital programme is £406m. The equivalent figure in the 2019/20 to2023/24 Capital Programme is £344m. Details of the funding are set out in the Treasury Management Strategy.

5.6. The revenue impact (capital financing cost as a percentage of net revenue streams) of the recommended borrowing strategy for the Council's core capital programme (excluding IGI 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 for the repayment of long-term borrowing, known as the Minimum Revenue Provision (MRP). Appendix B sets out the Council's MRP Statement for 2020/21. The impact of the change in borrowing is the proportion of net revenue expenditure accounted for by capital financing costs changes only marginally over the five years of the Capital Programme when compared with the 2019/20 to 2023/24 Capital Programme.

Table 2: Revenue impact of the core Capital Programme borrowing strategy

	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Net Revenue Expenditure	593.9	611.4	623.3	638.5	650.0
Capital Financing (core)					
- MRP	10.4	10.8	12.5	14.3	15.9
- Interest	18.1	17.9	17.6	17.6	19.0
Total	28.5	28.7	30.1	31.9	34.9
% Ratio	4.8%	4.7%	4.8%	5.0%	5.4%

5.7. The implications of the capital programme outlined in paragraphs 5.1 to 5.3 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.

5.8. 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 2019 the Council had external loans with the Public Works Loans Board (PWLB) totalling £388.8m, with a maturity profile which stretches out to 2060. The Council took advantage of historically low borrowing rates offered by the PWLB and borrowed an additional £100m during the first quarter of 2019/20. Appendix C sets out the Council's borrowing profile to 2069, taking into account the recent borrowing, and assumes that from 2025/26 onwards the Council has an annual core programme borrowing requirement of £20m and continues to hold useable reserves, provisions and working capital (£140m each year from 2039/40 onwards).

5.9. Within the IGI borrowing figures, the borrowing need gradually reduces over the period to 2069, due to both the application of capital receipts generated by some of the IGI projects, along with other projects generating revenue returns to reduce the associated borrowing need.

5.10. A list of the relevant Prudential Indicators for 2020/21 to 2024/25 is set out in Annex 2(c) of the main budget report, including the commercial investment indicators.

6. Non-Treasury (Commercial) Investments

6.1. The Council's capital investment plans (Section 3) includes a portfolio of IGI projects, or non-treasury (commercial) investments. This portfolio will generate a revenue return to the Council, which will meet the West Sussex Plan (2017-2022) objectives of supporting financial sustainability and protecting the provision of services to the county's residents. The Council's IGI projects are only agreed when supported by approved business cases and subject to members' obtaining appropriate assurance regarding the security of capital sums involved.

6.2. Examples of the Council's non-treasury, IGI, investments include (but are not limited to) the following.

- The purchase of land and property for investment purposes.

- 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.

6.3. 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:

- External 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).

6.4. As part of a previous Capital Programme, the Council invested £35m in Commercial Property as part of a planned £50m investment over the period 2018/19 to 2022/23. This expenditure is to meet the objectives of the West Sussex Plan, along with maintaining and growing the capital value of the investment. The Council's Commercial Property strategy includes the following principles.

- Ensuring the portfolio of assets is prudently balanced to minimise the risk of income fluctuation and loss of capital value. This will be achieved by investing in a range of asset types and in a range of locations.
- Ensuring that the rate of return exceeds that which could be achieved through traditional sources of investments.
- A comprehensive due diligence process to minimise the risks in building an investment portfolio, to ensure both the quality of the asset and the incumbent tenant. This would include building and site specific surveys, estimates of future maintenance costs and estimates of any future capital refurbishment requirements.
- Appropriate governance arrangements to ensure decisions are made in a streamlined and efficient way, within a transparent and risk aware environment.

6.5. The Council acts prudently in making IGI investments, including a rigorous evaluation of potential opportunities and risks against the principles outlined above. The Council considers the assessment of income generating initiatives and the associated capital financing costs over the life-cycle of the project prior to making any changes, including the impact on the Prudential Indicators (Annex 2(c) within the main budget report).

6.6. The Council's IGI investments forecast to achieve a contribution net of capital financing costs (MRP and interest) of £1.7m in 2019/20 as shown in Table 3.

Table 3: Financial performance of IGI investments 2019/20

IGI scheme type	Investment to date £m	Capital financing costs £m	Forecast income £m	Net contribution £m
Investment properties	34.890	1.262	1.956	0.694
All solar & battery storage projects	18.018	0.973	2.020	1.047
Total	52.908	2.235	3.976	1.741

7. Flexible Use of Capital Receipts Strategy 2020/21

7.1. In October 2019 the Council approved the flexibility to apply up to £7.0m of 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.

7.2. The Council proposes to use these powers again in 2020/21 to fund up to £10.0m qualifying transformation expenditure, although only £5.3m of use of the capital receipts flexibility is built into the proposed budget. Appendix E shows the transformation projects to which it proposes to use flexible capital receipts funding and the impact of the use of this funding on the Council's Prudential Indicators. Should availability of suitable, qualifying projects and funding allow, the Council will consider amending the projects it will fund through flexible use of capital receipts and report the change through the Total Performance Monitor.

7.3. Transformation projects funded by the Council's flexible use of capital receipts will continue to be reviewed to ensure the initiative will either transform service delivery improving outcomes, generate future savings or reduce future costs.

8. Risks

8.1. Preparation, financing and delivery of a multi-year capital programme involves a series of risks. Table 4 sets out the major risks and their mitigations.

Table 4: Capital programme risks and mitigations

Key Risk	Mitigations
Schemes taken forward do not support West Sussex Plan objectives	• Service Strategies and Asset Management Strategy aligned with West Sussex Plan • Member engagement in Capital Strategy development and in shaping prioritisation of the programme. • Member scrutiny ahead of County Council approval
High priority scheme not reflected in existing capital plans	• Yearly review of priorities • Governance flexibility to amend priorities in-year

Key Risk	Mitigations
Availability of feasibility and other revenue funding constrains approved capital plans	• Creation of Feasibility Reserve • Outline Business Cases to include feasibility funding requirement • Feasibility of 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 functional programmes
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 and Prudential Indicators • MTFS budgets reflect ongoing revenue costs of capital programme
IGI schemes fail to generate an adequate revenue return	• Rigorous evaluation and scrutiny of business cases before making investments. • Regular monitoring of income against relevant costs.
Expiry of time limited S106 contributions	• Monitoring system in place to ensure that contributions are spent within appropriate 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 • Review forward borrowing possibilities
Implications of wider economic environment both on delivery and financing of the capital programme	• Regular monitoring and awareness

9. Knowledge and Training

9.1. Comprehensive Capital Programme and Project Management training was undertaken during the summer of 2016, reaching the majority of Programme and Project Managers following the implementation of governance arrangements in December 2015. Further Project Management and Business

Case development training was undertaken ahead of a review of capital governance and management arrangements. Further training and support will be put in place following implementation of the review. The Capital Programme Office provides advice and support to programme and project managers on an ongoing basis.

9.2. 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)

9.3. 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.

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Appendices

Appendix A – Capital Programme Portfolio Pages
Appendix B – Minimum Revenue Provision (MRP) Statement 2020/21
Appendix C – Illustrative External Debt/Internal Borrowing Projections
Appendix D – Graphical Illustration of Debt Projections to March 2069
Appendix E – Projects to be funded from 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