Capital Strategy 2019/20 to 2023/24

1 Introduction

1.1 In December 2017 CIPFA issued revised Prudential and Treasury Management Codes. As a consequence, from 2019/20 all local authorities are required to prepare a separate Capital Strategy report. The aim of this Capital Strategy is to ensure that all elected members of the County Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.2 The Capital Strategy is reported alongside the budget report and the Treasury Management Strategy Statement for Council approval. This ensures the separation of the core treasury function under security, liquidity and yield principles; and the policy and commercialism investments usually driven by expenditure on an asset.

1.3 The Capital Strategy will provide the following:

- The corporate governance arrangements for these types of activities (section 2);
- A high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of service (section 3);
- The expected income, costs and resulting contribution (section 4);
- The debt related to the activity and the associated interest costs and the payback period (MRP policy) (section 5);
- For non-treasury investments, the cost against the current market value (section 6);
- The risks associated with each activity (section 7);and
- Knowledge and training (section 8).

1.4 The Council will ensure that the concepts of proportionality as detailed within the CIPFA Codes of Practice (Prudential Code and Treasury Management Code) and the MHCLG 'Statutory Guidance on Local Government Investments' are adhered to. The Director of Finance, Performance and Procurement will continually assess whether the Council is overdependent on its non-treasury (profit-generating) activities in achieving a balanced revenue budget and report on contingency plans, should the Council fail to meet the expected net profits.

1.5 A capital strategy is the foundation of a proper long-term planning of capital investment in assets and how it is to be delivered. The strategy should link in to the Council's overall corporate objectives and strategic priorities and align with the Council's Asset Management Strategy. The strategy provides a set of objectives and a framework, within CIPFA codes and statutory legislation, by which new capital projects are evaluated and investment decisions made whilst ensuring funding is targeted towards meeting the Council's priorities.

2 Corporate Governance arrangements

2.1 Priorities for capital investment are set by members, with the detailed planning delegated to officers, who prepare a draft capital programme for ultimate approval by the full County Council. The associated governance arrangements are set out in the Financial Regulations (Financial Regulation B, paragraphs 2.2 to 2.4).

2.2 Projects that have had a Strategic Outline Case (SOC) and are included in the approved five-year capital programme are considered to be in the pipeline. The preferred option/s will be developed into a Full Business Case (FBC) for a decision to proceed, in accordance with the approved capital programme governance, before the project can enter into the delivery stage. Schemes costing over £0.5m are also subject to a Cabinet Member Key Decision before proceeding.

2.3 Each of the projects in delivery is subject to monthly highlight reports produced by the Project Manager. The highlight reports are scrutinised through the capital governance arrangements and provide a RAG rating for each project. Individual highlight reports are collated into a single Performance Report. The Performance Report also includes a benefits realisation framework and identifies at least one benefit to be tracked throughout the lifecycle of each project's investment as well as beyond the project's completion. Project benefits and measures are set out in each project's Full Business Case, along with review dates for monitoring their delivery.

2.4 Performance towards converting pipeline projects to delivery stage, through delivery of the approved project and the tracking of benefits is scrutinised through the capital governance arrangements. Progress is reported to Cabinet Board and Performance and Finance Select Committee through the Quarterly Capital Performance Report.

2.5 The capital programme covers a five-year period - with some recognised demand pressures extending beyond this period in line with the Asset Strategy. The capital programme is constrained by the affordability of borrowing within the revenue budget, and the Council's finite delivery capacity. Therefore, robust prioritisation methodology to prioritise projects in future years is under development.

2.6 For approval under the governance arrangements, schemes are assessed on the basis of business cases which follow the Treasury Green Book Five-Case Model, as set out below:

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

3 Council's Corporate Objectives and Priorities

3.1 The West Sussex Plan 2017-22 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**. The capital programme sets out how the County Council proposes to invest in the delivery of the Council's vision for the county and its commitment to the communities of West Sussex. The capital programme is aligned to the plan priorities, as set out in the paragraphs below.

Giving Children the Best Start in Life

The County Council is committed to ensuring that every child in West Sussex reaches their potential and aims to provide them with the foundation to do that. A key element of that is the provision of modern, maintained and fit for purpose educational facilities. The capital programme ensures that the correct numbers of school places are provided in the correct locations. The Council may also invest in residential facilities for children and care leavers where there is a strong business case to do so.

The capital programme also provides £6.7m for implementation of the SEND Strategy, focusing on provision for children with autistic spectrum disorder and social, emotional and mental health needs.

We will also plan a wide programme of schools capital maintenance works across the West Sussex schools estate to ensure that schools remain structurally safe, secure and provide an environment where children are able to thrive.

A Prosperous Place

West Sussex has a dynamic business community and we are committed to ensuring continued economic growth and prosperity, working with our partners to understand the needs of businesses and provide the infrastructure and skills for them to succeed and grow in West Sussex. The capital programme proposes a package of works designed to stimulate economic growth, by providing and contributing to significant job creation, delivering additional commercial floorspace in key locations and unlocking the potential for the provision of new homes. The County Council's investment leverages funding from the Government as well as other public sector and private sector partners, to support businesses in difficult economic times and to ensure that West Sussex remains open for business and thrives.

In December 2016, the County Council purchased the former Novartis site in Horsham. We continue to plan, working with a range of external advisors, with up to £50m investment, including the site purchase in 2016/17, of **Horsham Enterprise Park**. The project aims to create high value jobs and business and provide new housing in the area.

The West Sussex local government area has been awarded pilot status in 2019/20 to trial the proposed 75% business rates retention scheme. The

County Council and the Districts and Boroughs made a joint submission to the Government seeking pilot status, and news of the success of this bid was contained in the provisional finance settlement announced on 13 December 2018. The extra business rates growth retained (estimated at **£19.1m** for 2019/20) will be pooled by participating local authorities and used to make a strategic investment in the county's economic infrastructure. It is anticipated the funds will be applied to enhance the digital infrastructure and connectivity for business and residents in the county, starting in 2020/21.

A Strong, Safe, and Sustainable Place

£44.5m further investment in an innovative sustainable energy programme of works is proposed to provide a revenue return for the County Council. As part of the Your Energy Sussex partnership, the County Council is proposing to invest in the installation of **Solar farms and battery storage** on unused Council land. In addition, a **schools solar programme** will install solar panels on the schools estate helping to reduce energy bills for schools and provide a return on investment for the County Council.

Horsham Combined Blue-Light Centre: work in partnership with the district council to relocate the fire station, create residential development space in the town centre and provide income-generating training facilities.

Independence for Later Life

The County Council is committed to working closely with partners to enable older people to remain independent for longer. It aims to provide the technology and support structure to ensure that West Sussex remains a great place to grow older, by keeping people safe and secure. It also aims to address social isolation by trying to keep older residents connected within their communities.

A Council that Works for the Community

The County Council is committed to serving the people of West Sussex, making it easier and better when they contact us and improving services to meet their needs. The County Council is acutely aware that it is a guardian of its residents' money and aims to ensure that everything it does is best value for money.

The capital programme continues to invest in priority areas for local communities, including a continuation of the **Footway Improvements** programme (£4.5m) to address the condition of our footway assets in key areas across the county, aimed at reducing the number of slip, trips and falls in public places and helping to keep people safe and secure.

The County Council has secured government investment and partnership engagement in a programme of works called the **One Public Estate** (OPE). Detailed planning has continued throughout 2018/19 and the programme aims to: improve service delivery through co-location and integration of services, rationalise the public estate, generate revenue savings and reductions in running costs, release land for new housing, jobs and economic

growth, and secure capital receipts from the disposal of surplus land and assets. There is a capital allocation to deliver a wide range of projects. Initial schemes in progress that have been approved include:

- **Worthing (Centenary House):** Redevelopment of the site to provide new accommodation for the County Council and Sussex Police, a multi-agency hub offering integrated and co-located public services, a new library and Coroner's Court, community facilities, new housing and commercial or employment space.
- **Shoreham (Pond Road):** Redevelopment of derelict care home, existing health centre and existing library to provide new multi-agency hub (including health), new library and community facilities, new housing and commercial space.
- **Regeneration of Crawley Town Centre:** The focus for the County Council is the redevelopment of County Buildings, Telford Place, Crawley Town Hall and the Library to provide extra commercial space and several hundred new homes. The project has now been expanded to include the fire station and Crawley College.
- **Chichester (Southern Gateway regeneration):** This project centres on the redevelopment and regeneration of the Southern Gateway in Chichester, focusing on the area around the railway and bus stations, the former law courts, the County Council-owned former Kingsham School, the Police Station and the canal frontage.
- **The Brow, Burgess Hill:** Redevelopment of The Brow, to provide new housing and a new health centre, potentially with co-located social care services.
- **Hurst Road, Horsham:** Releasing fire station at Hurst Road, Horsham for redevelopment.
- Further schemes are under development, including at **Littlehampton Drayton** where work is underway to develop a joint-highways and 'blue-light' emergency services fleet maintenance facility.

A programme of capital works to support the remodelling of **Community Hubs** (£5m) services is proposed. The programme will aim to transform existing sites into economic enablers, social hubs, cultural centres and digital connectors, whilst enhancing their role in supporting reading and learning for all ages.

£12m has already been included in the 2018/19 capital programme for the phased **purchase of commercial property**. A further £38m remains available for investment in properties meeting return criteria. The purpose is to secure long-term assets, which will not only produce capital growth but also revenue income for the County Council.

The capital programme continues to invest in the services that keep people safe, with a £13.8m investment in **Corporate and Fire Fleet** vehicles and £1.8m of **Fire Equipment** to support the work of the Fire and Rescue Service.

3.2 The capital programme comprises large schemes and development projects supplemented by routine investment in the core business of the Council. This latter activity is managed through asset management plans. Funding

for such work is made through annual 'block allocations' which are refreshed annually. Block allocations include property and highways asset maintenance, fleet and equipment asset replacement and other comparable projects. Block allocations are approved by the County Council on the basis of a summary business case and subsequently planned and budgeted within the approved control totals.

3.3 The main new schemes introduced into the programme since the last approval by County Council in December 2017 are investment in LED Street Lighting (£22m), which provides for more energy-efficient lamps whose brightness can more easily be controlled, and in-house social care (£3m), leaving the County Council at less risk of market volatility in cost and supply of care places. Funding has also been provided for improved SEND provision at Woodlands Meed School, Burgess Hill (£20m) and the Horsham Combined Blue-Light Centre project (£25m). These are subject to final approval of a Full Business Case.

4 Expected Income, Costs and Resulting Contribution

4.1 The County Council's capital investment is not restricted to direct service provision through new community assets such as schools and highways. It also invests in Income Generating Initiatives - which generate a cashable return and thus reduce the Council's operating costs - and in cost-avoidance activities which minimise the future cost burden on local taxpayers. Examples of these activities include (as explored in more detail in Section 3):

Income Generating Initiatives

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

Cost Avoidance (Core Programme)

SEND Development programme
In-house social care for care leavers
Woodlands Meed
Brookhurst Wood (Waste Infrastructure)
Operation Watershed
Community Hubs

4.2 Funding for Income Generating Initiatives is included in the capital programme, but is released only on approval of a Full Business Case. Cost-avoidance schemes are included within the core programme and are not subject to any additional governance.

5 Cost and Funding of Capital Strategy

5.1 The total value of schemes in the 2019/20 to 2023/24 capital programme is £705.0m. This comprises £534.7m of the 'core programme' with the

remaining £170.3m being 'Income Generating Initiatives', as set out by portfolio in the table below. These latter schemes are intended to generate revenue income for the County Council, and the will proceed subject only to the approval of a business case.

18/19		19/20	20/21	21/22	22/23	23/24	Total
£m		£m	£m	£m	£m	£m	£m
1.0	Adults and Health	1.5	1.6	1.7	1.5	0.1	6.4
0.0	Children and Young People	0.0	1.0	1.0	1.0	0.0	3.0
1.2	Corporate Relations	1.3	16.0	2.1	0.0	0.0	19.4
29.0	Education and Skills/ Children and Young People	31.3	30.5	38.8	18.9	15.1	134.6
0.7	Environment	1.2	3.0	2.3	0.0	0.0	6.5
5.3	Finance and Resources	7.0	16.3	17.5	16.0	13.7	70.5
38.7	Highways and Infrastructure	33.8	45.0	57.9	35.7	37.5	209.9
5.8	Leader including Economy	7.7	8.2	4.0	12.0	2.0	33.9
4.9	Safer, Stronger Communities	9.0	16.7	7.7	8.0	9.1	50.5
86.6	**Total Core**	**92.8**	**138.3**	**133.0**	**93.1**	**77.5**	**534.7**
5.3	Corporate Relations	2.4	1.0	0.0	0.0	0.0	3.4
7.2	Environment	2.7	13.0	7.8	14.9	9.1	47.5
12.4	Finance and Resources	10.1	18.0	20.0	10.1	8.7	66.9
0.0	Highways and Infrastructure	0.0	3.7	3.7	7.6	7.0	22.0
1.4	Leader including Economy	1.0	6.8	7.7	15.0	0.0	30.5
26.3	**Total IGIs and Bold Ideas**	**16.2**	**42.5**	**39.2**	**47.6**	**24.8**	**170.3**
112.9	**Total Programme**	**109.0**	**180.8**	**172.2**	**140.7**	**102.3**	**705.0**

Further details of the individual schemes by portfolio are **set out in Annex 2(a), Appendix A**.

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 (15 February 2019). During the course of the year additional funding (for instance, capital grants or developer contributions) may become available.

5.3 The assumed funding profile for the programme to 2023/24 is shown below:

18/19		19/20	20/21	21/22	22/23	23/24	Total
£m		£m	£m	£m	£m	£m	£m
1.0	Capital Receipts	3.8	3.8	7.7	22.3	36.9	74.5
5.0	External Contributions including S106	5.8	9.7	11.1	11.8	11.3	49.7
27.4	Ringfenced Government Grant	5.8	17.4	18.2	9.5	1.3	52.2

18/19		19/20	20/21	21/22	22/23	23/24	Total
£m		£m	£m	£m	£m	£m	£m
51.9	Non-Ringfenced Government Grant	64.9	20.4	19.8	19.4	18.9	143.4
5.1	Revenue Contributions to Capital Outlay	2.1	19.4	6.8	2.3	10.5	41.1
1.2	Core Borrowing	13.5	69.0	76.2	33.3	7.4	199.4
21.3	IGI and Bold Ideas Borrowing	13.1	41.1	32.4	42.1	16.0	144.7
112.9	**Total Financing**	**109.0**	**180.8**	**172.2**	**140.7**	**102.3**	**705.0**

5.4 Capital plans (set out in paragraph 5.3) highlight that a borrowing requirement of £26.6m is required to finance the Council's capital expenditure plans in 2019/20, including:

- Borrowing of up to £13.5m relating to the core programme; and
- Additional borrowing of up to £13.1m relating to Income Generating Initiatives.

5.5 **Revenue Impact:** The revenue impact (capital financing cost as a percentage of net revenue streams) of the recommended borrowing strategy relating to the Council's 'core' capital programme (excluding IGIs, Bold Ideas, PFI and Finance Leases) is outlined below:

	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Net Revenue Expenditure	574.9	580.9	593.3	607.3	620.0
Capital Financing Charges – **Excluding** IGIs, PFI and Finance Leases	27.3	27.8	29.9	32.6	33.8
% Ratio	**4.8%**	**4.8%**	**5.0%**	**5.4%**	**5.5%**

5.6 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.

5.7 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 2018 the Council had external loans with the PWLB totalling £395.9m, with a maturity profile which stretches out to 2060. As originally approved within the 2018/19 Treasury Management Strategy Statement, the Council intends to repay any loan as it falls due; including the annual repayment of £7m in respect of the £70m PWLB loan taken out in April 2011. This can be demonstrated **in Annex 2(a), Appendix C**, which extends out to 2060 and assumes that from 2024/25 onwards the Council has an annual core programme borrowing requirement of £20m to cover our essential requirements and continues to hold useable reserves, provisions and working capital (£130m each year from 2039/40 onwards). This assumption is based on the Council's historic level of core borrowing and provides for essential core funded schemes only, and will be continually reviewed in the coming years. The Council's external core programme debt at the end of this period would be £313m, as at today's value, after utilising the internal cash

balances relating to useable reserves, provisions and working capital. On a time value basis, taking into account the impact of inflation and other economic changes, the debt outstanding at 2060 is forecast to be around a quarter of its valuation at current prices (£77m). **Annex 2(a), Appendix D** graphically sets out the debt projections to 31 March 2060.

5.8 Within the IGI borrowing figures, the borrowing need gradually reduces over the period to 2060, 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.

5.9 A list of the relevant Prudential Indicators for 2019/20 to 2022/23 is set out in Annex 3(c) of the main budget report, including new commercial investment indicators.

6. Non-Treasury (Commercial) Investments

6.1 The Council's capital investment plans (Section 3) includes a portfolio of non-treasury (commercial) investments. This portfolio will generate a revenue return to the Council, which will meet the objectives of the West Sussex Plan (2017-2022) in supporting financial sustainability and protecting the provision of services to the residents of West Sussex. The Council's Income Generating Initiatives (and Bold Ideas) will only be agreed when supported by approved business cases and subject to members' obtaining appropriate assurance regarding the security of capital sums involved; scrutiny being undertaken by the Performance and Finance Select Committee.

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

- The purchase of land and property for investment purposes.
- Working in partnership with other Council's 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 will set-out the economic and/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 will demonstrate the ongoing stewardship, sustainability, affordability and benefits of any proposed project. Funding arrangements may include (but 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 the Capital Programme which was approved by County Council in February 2017, the Council planned to invest up to £50m in Commercial Property over the period 2018/19 to 2022/23; to meet the objectives of the

West Sussex Plan (as set out in paragraph 3.1) along with maintaining and growing the capital value of the investment. The principles of the Council's Commercial Property strategy include:

- 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 assets 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; and
- 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 will act prudently in making any non-treasury (commercial) investment, including a rigorous evaluation of potential opportunities and risks against the principles outlined above. The assessment of the Council's income generating initiatives and the associated capital financing costs will be disclosed over the life-cycle of the MTFS as a minimum; but also assessed over the longer-term (as set out in the Prudential Indicators – **Annex 2(c)** within the main budget report).

7. Risks

7.1 Preparation, financing and delivery of a multi-year capital programme involves a series of risks. The major ones, and their mitigations, are set out below:

Key Risk	Mitigation
Schemes' total costs are above budget	Preparation of monthly highlight reports scrutinised through the governance arrangements Reporting via monthly Total Performance Monitor
Lack of capacity prevents timely delivery of schemes	Use of multi-disciplinary consultancy (MDC) for professional services Monthly highlight reports for timely identification of slippage
Unaffordability of financing costs in revenue budget	Preparation of Treasury Management Strategy
Schemes taken forward do not support West Sussex Plan objectives	Inclusion of members on Capital and Assets Board to align prioritisation
High priority scheme not reflected in existing capital plans	Flexibility in capital governance to allow change in priorities

Key Risk	Mitigation
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
Availability of feasibility and other revenue funding constrains capital plans	Creation of Feasibility Reserve Outline Business Cases to include feasibility funding requirement
Outline Business Cases do not fully reflect cost of scheme	Rigorous challenge of Outline Business Cases through the capital programme governance arrangements
Interest rate volatility regarding borrowing	Regular monitoring of interest rates Use of external advisors
Implications of Brexit both on delivery and financing of capital programme	Regular monitoring and awareness

8. Knowledge and Training

8.1 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)
- Savills (property advisory services)
- Montagu Evans (valuers)
- Link (treasury management advisory)

8.2 CIPFA's Code of Practice requires that staff with responsibility for treasury management and property investment receive adequate training. Staff undergo regular professional training to ensure their skills are regularly updated. 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.

Jeremy Hunt

Cabinet Member for Finance and Resources

Appendices

Appendix A – Capital Programme Portfolio Pages

Appendix B – Minimum Revenue Provision (MRP) Statement 2019/20
Appendix C – Illustrative External Debt/Internal Borrowing Projections
Appendix D – Graphical Illustration of Debt Projections to March 2060

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Background Papers

None