

Decision Maker: Executive
Council

Date: Executive 12th February 2020
Council 24^h February 2020

Decision Type: Non-Urgent Executive Key

Title: CAPITAL PROGRAMME MONITORING Q3 2019/20 & CAPITAL STRATEGY 2020 TO 2024

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Chief Officer: Director of Finance

Ward: All

1. Reason for report

This report updates the Council's Capital Strategy. It also summarises the current position on capital expenditure and receipts following the third quarter of 2019/20 and presents for approval the new capital schemes in the annual capital review process. The Executive is asked to consider the updated Capital Strategy and approve a revised Capital Programme.

2. **RECOMMENDATION(S)**

2.1 **The Executive is requested to:**

- (a) **Note the report, including a total re-phasing of £13.6m from 2019/20 into future years, and agree a revised Capital Programme;**
- (b) **Approve the following amendments to the Capital Programme:**
 - (i) **Increase of £3,141k to the capital programme for a Crystal Palace subway capital scheme (report elsewhere on this agenda) (para 3.2.1),**
 - (ii) **Increase of £115k to the Central Depot Wall Reconstruction, funded by the Infrastructure Investment Fund (earmarked reserve) (para 3.2.2) – agreed by the Executive on January 15th 2020,**
 - (iii) **Increase of £10k to the TfL Bus Priority Programme scheme, funded by a £10k contribution from the Royal Borough of Greenwich (para 3.2.3) and**

- (iv) Decrease of £1k to the capital programme to reflect the removal of the Manorfield – Temporary Accommodation scheme from the capital programme (para 3.2.4)**
- (v) Increase of £232k to the Section 106 receipts from developers – as detailed in paragraph 3.2.5**

(c) Recommend to Council:

- (i) The inclusion of the new scheme proposals listed in Appendix C in the Capital Programme (see section 3.5)**

2.2 Council is requested to:

- (a) Agree the inclusion of the new scheme proposals listed in Appendix C in the Capital Programme (see section 3.5).**

Corporate Policy

1. Policy Status: Existing Policy: Capital Programme monitoring and review is part of the planning and review process for all services. Capital schemes help to maintain and improve the quality of life in the borough. Effective asset management planning (AMP) is a crucial corporate activity if a local authority is to achieve its corporate and service aims and objectives and deliver its services. For each of our portfolios and service priorities, the Council reviews its main aims and outcomes through the AMP process and identifies those that require the use of capital assets. The primary concern is to ensure that capital investment provides value for money and matches the Council's overall priorities as set out in "Building a Better Bromley".
 2. BBB Priority: Excellent Council
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Financial

1. Cost of proposal: Estimated Cost: Total net increase of £8.8m over the 5 years 2019/20 to 2023/24, mainly due to the additional capital bids outlined in this report
 2. Ongoing costs: Not Applicable
 3. Budget head/performance centre: Capital Programme
 4. Total current budget for this head: Total £155.4m over 5 years 2019/20 to 2023/24
 5. Source of funding: Capital grants, capital receipts and earmarked revenue contributions
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Staff

1. Number of staff (current and additional): 1fte
 2. If from existing staff resources, number of staff hours: 36 hours per week
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Legal

1. Legal Requirement: Non-Statutory - Government Guidance
 2. Call-in: Applicable
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): N/A
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 Capital Expenditure

3.1.1 This report sets out proposed changes to the Capital Programme following a detailed monitoring exercise carried out after the 3rd quarter of 2019/20 and also seeks approval for the new capital schemes submitted as part of the 2019 annual capital review process. The report is divided into two distinct parts; the first (sections 3.2 & 3.3) looks at the Q3 monitoring exercise and the second (sections 3.4 & 3.5) includes details of the capital strategy update and proposed new schemes.

3.1.2 Appendix A sets out proposed changes to the Capital Programme. The base position is the revised programme approved by the Executive on 27th November 2019, as amended by variations approved at subsequent Executive meetings. If all the changes proposed in this report are approved, the total Capital Programme 2019/20 to 2023/24 would increase by £8,817k, mainly due to new capital bids. Estimated expenditure in 2019/20 will reduce by £13.6m due to the re-phasing of expenditure from 2019/20 into future years. Details of the monitoring variations are included in Appendices A and B, and the proposed revised programme, including the additional funding provided, is summarised in the table below.

	2019/20	2020/21	2021/22	2022/23	2023/24	TOTAL 2019/20 to 2023/24
	£000	£000	£000	£000	£000	£000
Programme approved by Executive 27/11/19	44,400	41,387	29,575	31,240	0	146,602
Variations approved at subsequent Executive meetings	0	0	0	0	0	0
Approved Programme prior to 3rd Quarter's Monitoring	44,400	41,387	29,575	31,240	0	146,602
Variations requiring the approval of the Executive (Appendix A)	124	3,373	0	0	0	3,497
Variations not requiring approval of Executive:						
Net rephasing from 2019/20 into future years	Cr 13,631	12,880	751	0	0	0
Total Q3 Monitoring variations	Cr 13,507	16,253	751	0	0	3,497
New Schemes (Appendix C)	0	1,695	1,205	180	2,240	5,320
TOTAL REVISED CAPITAL PROGRAMME	30,893	59,335	31,531	31,420	2,240	155,419
Assumed Further Slippage (for financing purposes)	Cr 5,000	Cr 15,000	10,000	10,000	0	0
Assumed New Schemes (to be agreed)	0	0	3,500	3,500	3,500	10,500
	Cr 5,000	Cr 15,000	13,500	13,500	3,500	10,500
Total revised expenditure to be financed	25,893	44,335	45,031	44,920	5,740	165,919

3.2 Variations requiring the approval of the Executive (£3,497k total net addition)

3.2.1 Crystal Palace subway (£3,141k addition in 2020/21 budget)

A report elsewhere on this agenda requests that the Executive approve the adoption of a capital estimate for £3,141k to undertake restoration works to Crystal Palace park subway on the basis that this will be fully funded by grants and contributions from the Strategic Investment Pot (£2,340k), Historic England grant (£500k), TfL Highway works (£296k) and the Friends of Crystal Palace Subway group (£5k). This has been reflected in the figures in this report.

3.2.2 Central Depot Wall Reconstruction (£115k increase in 2019/20 budget)

At its meeting on January 15th, the Executive agreed the addition of £115k to this existing capital scheme, to be funded from the Infrastructure Investment Fund (earmarked reserve). The Executive is asked to formally agree to increase the capital estimate by this amount. This has been reflected in the figures in this report.

3.2.3 TfL Bus Priority Capital Programme (£10k increase in 2019/20 budget)

The Executive is asked to agree to make improvements at the junction of Mottingham Road with Elmstead Lane, William Barefoot Drive and White Horse Hill in order to ease congestion and reduce injury collisions. The existing 2019/20 budget for the TfL Bus Priority was £360k, of which this specific scheme had an allocated budget of £65k, which will now increase by £10k, with the increase to be funded from a contribution from the Royal Borough of Greenwich. This has been reflected in the figures in this report.

3.2.4 Manorfield Temporary Accommodation: remove from the capital programme – (decrease of £1k in 2019/20)

Members are asked to agree that this scheme be deleted from the capital programme as it has now completed. There is a remaining budget of £1k in 2019/20 which will be removed. This has been reflected in the figures in this report.

3.2.5 Section 106 receipts (uncommitted balance) (net increase of £232k in 2020/21)

In July 2015, the Executive agreed that the Capital Programme budget should reflect the total amount of s106 receipts available to fund expenditure. Members are asked to agree a net increase of £232k in the Capital Programme budget for Education s106 in respect of additional receipts received since the last report.

3.3 Scheme Re-phrasings

3.3.1 As part of the 3rd quarter monitoring exercise, a total of £13.6m has been re-phased from 2019/20 into 2020/21 and 2021/22 to reflect revised estimates of when expenditure is likely to be incurred. The largest elements of these are £3.5m relating to the Basic Need Scheme, £3.2m relating to the Affordable Housing Unallocated scheme, £1.4m relating to the Highways Investment scheme, and £1m relating to the Bromley High Street Improvements scheme.

3.3.2 Other schemes rephased into future financial years include the Sharepoint Productivity Platform upgrade/ replacement programme (£756k), the LIP Formula Funding (£415k) and the London Private Sector Renewal Scheme (£411k). This has no overall impact on the total approved estimate for the capital programme. Further details and comments are provided in Appendix B.

3.3.3 In view of the variations that have arisen in recent years, further slippage of £5.0m has been assumed for the remainder of 2019/20, as well as £15.0m of slippage in 2020/21, for financing purposes to cover unforeseen delays to capital schemes.

3.4 **Capital Strategy update and Annual Capital Review – new scheme proposals**

Capital Strategy update

3.4.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2017 introduced the setting and revising of a capital strategy. The Prudential Code laid out:

- Governance Procedure – the setting and revising of the capital strategy and prudential indicators will be done by the same body. For this Council it is the Executive and full Council.
- Determining a Capital Strategy – the Capital Strategy should demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives.

- Prudence & Affordability – each local authority should ensure that all of its capital, investment (and any borrowing) are prudent and sustainable.
- 3.4.2 As required, this Council’s strategy includes capital expenditure, investments and treasury management and the Council’s Capital Strategy is linked to the Treasury Management Strategy which reports and monitors the Council’s Prudential Indicators. In addition the Director of Finance reports on affordability and risks in the annual budget setting reports.
- 3.4.3 An annual review of the Capital Programme is undertaken as outlined in section 3.5. The Council’s Capital Programme is intended to maintain and improve the quality of life in the borough and help meet its overall priorities as set out in “Building a Better Bromley”, and with a four year plan, assists the longer-term planning for capital expenditure and the use of resources to finance it.
- 3.4.4 In recent years, the Council has steadily scaled down new capital expenditure plans and has transferred all of the rolling maintenance programmes to the revenue budget. General (un-earmarked) reserves, established from the disposal of housing stock and the Glades Site, have been gradually spent and have fallen from £131m in 1997 to £49.3m (including unapplied capital receipts) as at 31st March 2019. The Council’s asset disposal programme has diminished, and as set out in section 3.7, it is currently projected that these balances will be around £14.2m by 2027.
- 3.4.5 It is therefore likely that any significant future capital schemes not funded by grants/contributions, future disposals or from revenue, may have to be funded from external borrowing. Prior to any consideration of external borrowing, the Council will review its assets to ensure all opportunities to generate capital receipts as alternative funding have been fully explored.
- 3.4.6 The Council’s policy for borrowing and the investment of balances are set out in the Treasury Management Strategy Statement which will be considered by Executive, Resources & Contracts PDS Committee on 5th February 2020, prior to submission for Council approval on 24th February 2020.
- 3.4.7 In addition to Treasury Management investments, the Council also has an alternative investment strategy for the acquisition of investment properties. To ensure that these investments are made prudently, and that the income generated remains sustainable, the Council has to date funded the property from its own resources rather than utilise any external borrowing.
- 3.4.8 This combination of lower risk Treasury Management investments and a separate longer-term investment strategy in the form of property acquisitions (generating higher yields and risks) provides a balanced investment strategy.
- 3.5 Annual Capital Review: new scheme proposals - (£5,320k total net addition)
- 3.5.1 As part of the normal annual review of the Capital Programme, Chief Officers were invited to present bids for new capital investment. Apart than the regular annual capital bids (TfL-funded Highway and Traffic schemes and Feasibility Studies) three other bids were submitted, which are summarised in paras 3.5.2 to 3.5.4 below, and outlined in Appendix C. The total amount of funding required from Council resources is £3,120k. New Invest to Save bids were particularly encouraged, but none were received and it is assumed that any such bids will be submitted in due course to be funded through the earmarked reserve that was created in 2011.

3.5.2 Future Proofing the Local Authority's six Children's Centres - £1,170k

This capital estimate will cover works to five of the six Children and Family Centres (Bleinheim, Cotmandene, Community Vision, Castlecombe & Biggin Hill) and will encompass internal building works, for example the re-configuration of the existing internal spaces in order to improve the space and increase the capacity, as well as works to improve and add to the external play areas. No external funding has been identified for this programme and therefore the Council's own resources will need to be used to finance the scheme. The provisional sum of £1,170k has been set aside in the capital programme for planning purposes, however the release of these monies will be subject to a future report to the Executive for approval of the final scheme.

3.5.3 Refurbishment of Orpington (Saxon) Family Contact Centre - £160k

This capital estimate will cover works to improve the current layout of the Saxon Family Contact Centre to make it Disability Discrimination Act (DDA) compliant. In addition to the DDA requirement, Bromley's aim is to become accredited under the National Association of Child Contact Centres scheme (NACCC). To enable Bromley to 'sell' this service, which will generate income to off-set a proportion of the cost of delivering the service to our own families, a planned programme of refurbishment work needs to be undertaken. No external funding has been identified for this programme, and therefore the Council's own resources will need to be used to finance the scheme.

3.5.4 Financial Systems Replacement - £1,750k

This scheme will procure and implement a new Financial System to replace the existing Oracle E-Business Suite R12, and in-house developed budget monitoring systems (EBM and FBM). As a result the Council will have a fully supported, more flexible financial system, increased resilience by removing the reliance on and risks of using the Council's on-premises data centre, support for a separate reporting entity for the Pension Fund, and the ability to accept and process electronic invoices from suppliers. No external funding has been identified for this programme, and therefore the Council's own resources will need to be used to finance the scheme.

3.6 Capital Receipts

- 3.6.1 Details of the receipts forecast in the years 2019/20 to 2022/23 are included in Appendix F to this report to be considered under Part 2 proceedings of the meeting. The latest estimate for 2019/20 has decreased by £6.5m compared to what was reported in November (excluding "other" capital receipts). The estimate for 2020/21 has increased by £7m in comparison to what was reported in November. This relates to the sale of a Council asset that was previously forecast for 2019/20 and now anticipated in 2020/21. A total of £1m per annum is assumed for receipts yet to be identified in later years. These projections, as detailed in Appendix F, reflect prudent assumptions for capital receipts, and do not include estimated disposal receipts from the review being undertaken by Cushman and Wakefield.

3.7 Financing of the Capital Programme

- 3.7.1 A capital financing statement is attached at Appendix D and the following table summarises the estimated impact on balances of the revised programme and revised capital receipt projections which, as noted above, reflect prudent assumptions on the level and timing of disposals. Total balances would reduce from £49.3m (General Fund £20.0m and capital receipts £29.3m) at the end of 2018/19 to £38.3m by the end of 2021/22 and then £14.2m by the end of 2026/27. It is therefore likely that any significant future capital schemes not funded by grants/contributions or revenue, may have to be funded from external borrowing.

	Balance 31/03/2019	Estimate Balance 31/03/2022	Estimate Balance 31/03/2027
	£m	£m	£m
General Fund	20.0	20.8	14.2
Capital Receipts	29.3	17.5	0.0
	49.3	38.3	14.2

3.7.2 A summary of how the capital programme will be financed is shown in the table below with further detail provided in Appendix D.

	2019/20	2020/21	2021/22	2022/23	2023/24	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Total Capital Expenditure	25,893	44,335	45,031	44,920	5,740	165,919
Financed by:						
Usable Receipts	909	9,182	38,608	25,996	3,211	77,905
Revenue Contributions	4,662	8,346	1,365	329	329	15,031
Government Grants	12,074	16,029	2,653	0	0	30,756
Other Contributions	8,248	10,779	2,406	2,200	2,200	25,832
Internal Borrowing	0	0	0	16,395	0	16,395
General Fund	0	0	0	0	0	0
Total	25,893	44,335	45,031	44,920	5,740	165,919

3.8 Section 106 Receipts

3.8.1 In addition to capital receipts from asset disposals, the Council is holding a number of Section 106 contributions received from developers. These are made to the Council as a result of the granting of planning permission and are restricted to being spent on capital works in accordance with the terms of agreements reached between the Council and the developers. These receipts are held as a receipt in advance on the Council's Balance Sheet, the balance of which stands at £10,637k as at 31st December 2019 as shown in the table below, and will be used to finance capital expenditure from 2019/20 onwards:

Specified Capital Works	Balance 31/03/2019	Receipts 2019/20	Expenditure 2019/20	Balance 31/12/2019
	£'000	£'000	£'000	£'000
Housing	3,510	0	67	3,443
Education	2,751	765	125	3,391
Local Economy	2,006	1,500	0	3,506
Community Facilities	0	0	0	0
Highways	83	0	83	0
Other	0	300	3	297
Total	8,350	2,565	278	10,637

- 3.8.2 The Council's budgets are limited and, where a developer contribution (S106) can be secured, this will be required as a contribution towards projects, notwithstanding any other allocation of resources contained in the Council's spending plans.
- 3.8.3 The Executive is asked to note that in December 2019 a sum of £1.5m was received in relation to s106 obligations on the Langley Court development. At its meeting on March 22nd 2016, the Executive agreed that if any of the £4m of s106 monies were received in relation to this site, that they would be used to fund the Bromley High Street Improvements capital scheme in place of funds that had initially been allocated from the Growth Fund. The Executive is asked to note that this funding switch will be applied.

3.9 Investment Fund and Growth Fund

- 3.9.1 To help support the achievement of sustainable savings and income, the Council has set aside funding in the Investment Fund and Growth Fund earmarked reserves to contribute towards the Council's economic development and investment opportunities. To date, total funding of £144.0m has been placed in the Investment Fund and Growth Fund earmarked reserves to contribute towards the Council's economic development and investment opportunities.
- 3.9.2 Appendix E provides a detailed analysis of the Funds dating back to their inception in September 2011. To date schemes totalling £121.5m have been approved (£92.3m on the Investment Fund, and £27.7m on the Growth Fund), and the uncommitted balances as at end of January 2020 stand at £12.5m for the Investment Fund and £11.5m for the Growth Fund.

3.10 Feasibility Works – Property Disposals

- 3.10.1 At its meeting on 24th May 2017, Executive agreed to the creation of a new Earmarked Reserve with an initial allocation of £250k to be funded from the Growth Fund to allow feasibility works to be commissioned against specific sites so as to inform the Executive of sites' viability for disposal or re-development and potential scheme optimisation together with an appraisal as to worth.
- 3.10.2 Members requested that an update from the Strategic Property Service be included in quarterly capital monitoring report, this is provided in Appendix G.

3.11 Post-Completion Reports

- 3.11.1 Under approved Capital Programme procedures, capital schemes should be subject to a post-completion review within one year of completion. These reviews should compare actual expenditure against budget and evaluate the achievement of the scheme's non-financial objectives. Post-completion reports on the following schemes are due to be submitted to the relevant PDS Committees:

- Banbury House Demolition/Site Prep
- Review of Corporate Customer Services IT System
- Upgrade of MS Dynamics CRM System
- Care Homes – improvements to environment for older people
- Performance Management/Children's Services IT scheme
- Beacon House Refurbishment
- Langley Park Boys School (BFS)
- The Highway Primary
- Suitability / Modernisation Issues in School
- Universal Free School Meals
- The Woodland Improvement Programme
- Upgrade of Core Network Hardware

- Replacement of Storage Area Network
- Rollout of Windows 7 and Office 2000
- Replacement of MD110 telephone switch
- Windows Server 2003 Replacement Programme

4. POLICY IMPLICATIONS

4.1 Capital Programme monitoring and review is part of the planning and review process for all services.

5. FINANCIAL IMPLICATIONS

5.1 These are contained in the main body of the report and in the appendices. Attached as Appendix D is a capital financing statement, which gives a long-term indication of how the revised Programme would be financed if all the proposed changes were approved and if all the planned receipts were achieved. The financing projections assume approval of the revised capital programme recommended in this report, together with an estimated £3.5m per annum for new capital schemes and service developments from 2021/22 onwards.

Non-Applicable Sections:	Legal, Personnel & Procurement Implications, Impact on Vulnerable Adults and Children
Background Documents: (Access via Contact Officer)	Approved Capital Programme (Executive 27/11/19) Treasury Management – Annual Investment Strategy 2020/21 (Executive and Resources PDS Committee 05/02/20) The Prudential Code for Capital Finance in Local Authorities (2017 edition) CIPFA publication List of potential capital receipts from strategic property as at 24.01.2020 List of Feasibility monies for property disposal from strategic property as at 24.01.2020