
Decision Maker: **Executive Council**

Date: **Executive 9th February 2022**
Council 28th February 2022

Decision Type: Non-Urgent Executive Key

Title: **CAPITAL PROGRAMME MONITORING Q3 2021/22 & CAPITAL STRATEGY 2022 TO 2026**

Contact Officer: David Dobbs, Head of Corporate Finance & Accounting
Tel: 020 8313 4145 E-mail: david.dobbs@bromley.gov.uk

Chief Officer: Peter Turner, Director of Finance
Tel: 020 8313 4668 E-mail: peter.turner@bromley.gov.uk

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 2021/22 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 £849k from 2021/22 into future years, and agree a revised Capital Programme;**
- (b) **Recommend to Council:**
 - (i) **The inclusion of the new scheme proposals in the Capital Programme (paragraphs 3.15 to 3.22)**

2.2 **Council is requested to:**

- (a) **Agree the inclusion of the new scheme proposals in the Capital Programme (paragraphs 3.15 to 3.22)**

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 the Corporate Strategy.
 2. BBB Priority: Excellent Council
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Financial

1. Cost of proposal: Estimated Cost: Total net increase of £33.9m over the 5 years 2021/22 to 2025/26, 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 £180.4m over the period 2021/22 to 2025/26
 5. Source of funding: Capital grants, capital receipts and earmarked revenue contributions
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Staff

1. Number of staff (current and additional): 1 FTE
 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? N/A
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

Capital Expenditure

- 3.1 This report sets out proposed changes to the Capital Programme following a detailed monitoring exercise carried out after the 3rd quarter of 2021/22 and seeks approval for the new capital schemes submitted as part of the annual capital review process. The report includes the Q3 monitoring exercise and details of the capital strategy update and proposed new schemes.
- 3.2 Appendix A sets out proposed changes to the Capital Programme. The base position is the revised programme approved by the Leader on 24th November 2021, as amended by variations approved at subsequent meetings.
- 3.3 If all the changes proposed in this report are approved, the total Capital Programme 2021/22 to 2025/26 would increase by £33,896k, solely due to the inclusion of new capital bids. Planned capital expenditure of £849k will be re-phased from 2021/22 to 2022/23.
- 3.4 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.

	Revised 2021/22	Revised 2022/23	Revised 2023/24	Revised 2024/25	Revised 2025/26	TOTAL 2021/22 to 2025/26
Variations on individual schemes	£'000	£'000	£'000			£'000
Current Approved Capital Programme						
Programme approved by Executive 24/11/2021	74,492	50,487	5,748	3,341	0	153,813
Housing & Library Improvement in West Wickham	0	4,800	4,841	0	0	9,641
Depot Infrastructure Works - Budget Reduction	0	0	Cr 355	0	0	Cr 355
Additional Estimate: York Rise	0	3,174	0	0	0	3,174
Approved Programme prior to 3rd Quarter's Monitoring	74,492	58,461	10,234	3,341	0	146,528
Variations in the estimated cost of approved schemes						
(i) Variations requiring the approval of the Executive						
None this cycle	0	0	0	0	0	0
(ii) Variations not requiring approval						
Net rephasing from 2021/22 into future years	Cr 849	849				0
TOTAL AMENDMENT TO CAPITAL PROGRAMME	Cr 849	849	0	0	0	0
Add: Proposed new schemes						
Legal Case Management & Court Bundling System	0	355	0	0	0	355
Winter Maintenance Equipment Replacement	0	0	115	115	230	460
Operational Estate Maintenance	0	3,500	7,500	7,500	0	18,500
Health & Well Being Centre	0	767	12,365	1,135	314	14,581
New Schemes Total	0	4,622	19,980	8,750	544	33,896
TOTAL REVISED CAPITAL PROGRAMME	73,643	63,932	30,214	12,091	544	180,424
Less: Further slippage projection	Cr40,000	Cr10,000	15,000	15,000	15,000	Cr 5,000
Add: Estimate for further new schemes	0	3,500	3,500	3,500	3,500	14,000
TOTAL TO BE FINANCED	33,643	57,432	48,714	30,591	19,044	189,424

Variations approved by the Executive at subsequent meetings (£12,460k total net increase)

- 3.5 At its meeting on 24th November 2021, the Executive approved a scheme for Housing and Library Improvement in West Wickham for addition to the capital programme at a cost of £9,641k. At its November meeting, the Executive also agree to reduce the allocated capital programme on Depot Infrastructure Works by £355k. A Special Executive, held on 27th January 2022, agreed a supplementary capital estimate for the York Rise scheme, totalling £3,174k.

Scheme Re-Phasing

- 3.6 As part of the 3rd quarter monitoring exercise, a total of £849k has been re-phased from 2021/22 into 2022/23 to reflect revised estimates of when expenditure is likely to be incurred. This largely reflects delays that have occurred to schemes owing to the effects of the pandemic.

Capital Strategy update and Annual Capital Review – New Scheme proposals

- 3.7 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 its capital, investment (and any borrowing) are prudent and sustainable.
- 3.8 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.
- 3.9 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 its Corporate Strategy (Making Bromley Even Better), and with a four-year plan, assists the longer-term planning for capital expenditure and the use of resources to finance it.
- 3.10 In recent years, the Council has steadily scaled down new capital expenditure plans and has transferred all 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 £44.4m (including unapplied capital receipts) as at 31st March 2020. The Council's asset disposal programme has diminished, and as set out in paragraph 3.27, it is currently projected that these balances will be around £26m by 2027.
- 3.11 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.
- 3.12 The Council's policy for borrowing and the investment of balances is set out in the Treasury Management Strategy Statement which will be considered by Executive, Resources & Contracts PDS Committee on February 7th 2022, prior to submission for Council approval on February 28th 2022.
- 3.13 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.

- 3.14 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.

Annual Capital Review: new scheme proposals - (£33,896k total net addition)

- 3.15 As part of the normal annual review of the Capital Programme, Chief Officers were invited to present bids for new capital investment.
- 3.16 The bids listed below are for proposed inclusion in the capital programme. Costs for each scheme are based on officer estimates and, where possible, expert advice. For each scheme, the phasing of costs across years has also been completed on an indicative basis. These amounts are likely to vary as each scheme progresses and should the need arise, total budgeted costs and the phasing of expenditure will be amended as part of the quarterly monitoring process and review of capital financing.
- 3.17 A number of bids were received for capital funding in relation to Housing Schemes. These will be considered by Executive in a separate Housing Strategy report which will set out the future options for delivery of housing and the financial implications.
- 3.18 With regard to all major capital schemes, careful consideration will need to be given to the VAT partial exemption threshold. Capital expenditure represents a significant portion of the Council's VAT-exempt activity and accordingly poses the biggest risk to the partial exemption threshold. Given this, new projects incurring exempt VAT will need to be closely reviewed as there is only limited room in the future year's partial exemption forecasts. Therefore, new (or re-profiled projects) incurring exempt VAT will need to be agreed only following detailed consideration of profiled expenditure on the impact on the Council's partial exemption threshold.

Legal Case Management and Court Bundling System update (£355k)

- 3.19 The current case management system and bundling system is obsolete and not fit for purpose. The bundling system does not meet court requirements and a new system is required to produce electronic bundles which meet court requirements and are more efficient to produce. The case management system is not functioning properly following migration to Windows 10 and is not cloud based. In order to allow remote access, overcome issues with the system being locally hosted and allow more efficient working a new system is required. A cloud-based system will also save costs as it will not require to be hosted locally.

Winter Maintenance Service – Equipment Replacement (£460k)

- 3.20 This funding will continue the programmed replacement of gritting vehicles and various equipment used for winter service and snow clearance. The selection of suitable equipment will focus on replacing 4 front-line gritters that will further update the fleet, to become compliant for the London Low Emission Zone. This proposal underpins the provision of an effective response to winter weather conditions in the Borough in order to meet statutory duties.

Operational Estate Maintenance Programme (£18.5m)

- 3.21 This scheme will address the urgent backlog maintenance liability across the Council's operational estate following the condition survey. It will include the maintenance and remediation works necessary to address, for example, health and safety issues.

Health and Well-being Centre (£14.581m)

- 3.22 This scheme, which was the subject of a preliminary report to Executive in October 2021, concerns the redevelopment of the former Adventure Kingdom and Great Hall as a Health & Well Being Centre, together with a new community hall and 48 accommodation units.

Construction will be funded by the CCG and Council, with the CCG taking a lease on the Health & Well Being Centre. Based on projected revenues from lease income and the sale of units, a surplus of £1.54m is forecast.

Capital Receipts

- 3.23 Details of the receipts forecast in the years 2021/22 to 2024/25 are included in Appendix E to this report to be considered under part 2 proceedings of the meeting.
- 3.24 The latest estimates for 2021/22 and 2022/23 are unchanged from November 2021 (excluding “other” capital receipts). A total of £5m per annum is assumed for receipts yet to be identified in later years.
- 3.25 There are a number of sites (Burnt Ash Lane, Bushell Way, Anerley car park, York Rise, West Wickham car park & Chipperfield Road) that were previously assumed for disposal, but the intention is now to transfer these to the Housing Revenue Account and for them to be used for housing purposes. This will lead to additional headroom for capital expenditure in the General Fund, being equivalent to a capital receipt of that value.

Financing of the Capital Programme

- 3.26 A capital financing statement is attached at Appendix C and it 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. The capital financing statement indicates a shortfall of capital funding available for 2023/24 onwards, as shown in the table below:

	2023/24	2024/25	2025/26
	£'000	£'000	£'000
Financing Required	48,714	30,591	19,044
Financing Available	27,811	20,441	10,598
Shortfall	20,903	10,150	8,446

- 3.27 The capital financing statement also shows that total balances available to fund capital expenditure would increase from £45.3m (General Fund £20.0m and Capital Receipts £25.3m) at the end of 2021/22 to £54m by the end of 2023/24 and then reduce to £26m by the end of 2026/27.

	Balance 01/04/21	Estimated Balance 31/03/27
	£m	£m
General Fund	20.0	20.0
Capital Receipts	25.3	6.0
	45.3	26.0

- 3.28 Based on the above, it is therefore possible that funding of the capital programme from 2023/24 onwards will require substantial financial contributions from the Council’s revenue budget and/or financing from external borrowing. As already noted, these options will need detailed consideration as they will impact on the Council’s medium-term financial position; for example, in the case of external borrowing, by creating the statutory requirement for the Council to annually set aside money for debt repayment, known as the Minimum Revenue Provision.
- 3.29 Full details of how the capital programme will be financed are shown in Appendix C.

Section 106 Receipts

- 3.30 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 stood at £8,238k as at 31st December 2021, and will be used to future finance capital expenditure. The current position on capital Section 106 receipts (excluding commitments) is shown in the following table:

Specified Capital Works	Balance 31/03/21 £'000	Receipts 2021/22 £'000	Expenditure 2021/22 £'000	Transfers in	Balance 31/12/21 £'000
Housing	2,412	40	0	0	2,452
Education	4,145	89	0	844	5,078
Highways	0	20	0	0	20
Local Economy	686	0	0	0	686
Other	2	0	0	0	2
TOTAL	7,245	149	0	844	8,238

- 3.31 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.

Investment Fund and Growth Fund

- 3.32 To help support the achievement of sustainable savings and income, the Council has set aside funding in the Investment Fund earmarked reserve (formerly known as the Economic Development and Investment Fund) to contribute towards the Council's economic development and investment opportunities. To date, total funding of £84.50m has been placed in the Investment Fund earmarked reserve, with a further £20.3m of capital receipts earmarked to supplement this, and £39.2m placed in the Growth Fund earmarked reserve.
- 3.33 Appendix D provides a detailed analysis of the Funds dating back to their inception in September 2011. To date, schemes totalling £119.4m have been approved (£92.3m on the Investment Fund, and £27.1m on the Growth Fund), and the uncommitted balances as at the end of December 2021 stand at £12.5m for the Investment Fund and £12m for the Growth Fund.

Feasibility Works – Property Disposals

- 3.34 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.
- 3.35 Members requested that an update from Strategic Property be included in quarterly capital monitoring reports. This information, which remains unchanged from the November 2021 update, is provided in Appendix F.

Post-Completion Reports

- 3.36 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:

- 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
- Early Education for Two-Year-Olds
- 30 Hour Funded Childcare IT Solution
- Performance Management/Children's Services IT scheme

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 C 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.
- 5.2 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 2022/23 onwards. An allowance for slippage and re-phasing of capital expenditure is also included in the projections.
- 5.3 As noted in the main body of the report, the capital financing statement projects a capital financing shortfall for the period 2023/24 onwards. The shortfall is caused by the increased value of capital expenditure over this period, primarily driven by new schemes, coupled with the declining value of the Council's balance of usable capital receipts. Addressing this shortfall will require consideration of the use of revenue contributions and funding from external borrowing.

Non-Applicable Sections:	Legal, Personnel & Procurement Implications, Impact on Vulnerable Adults and Children
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Background Documents: (Access via Contact Officer)	Capital Programme Monitoring 2 nd Quarter (Executive 24/11/21) Treasury Management – Annual Investment Strategy 2022/23 (Executive and Resources PDS Committee 02/02/21) The Prudential Code for Capital Finance in Local Authorities (2017 edition) CIPFA publication
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