Report No.
FSD23001

London Borough of Bromley

PART ONE - PUBLIC

Decision Maker:	**EXECUTIVE** **COUNCIL**
Date:	**18th January 2023** **27th February 2023**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**CAPITAL STRATEGY 2023/24 TO 2026/27 & Q3 CAPITAL PROGRAMME MONITORING**
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Ward:	Borough Wide

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1. Reason for report

1.1 This report incorporates the Council's new Capital Strategy and Capital Programme for 2023/24 to 2026/27. It also summarises the current position on capital expenditure and receipts following the conclusion of the third quarter monitoring exercise.

1.2 The report includes details of the new schemes that will be added to the Capital Programme and information concerning the proposed asset disposals that will be used to generate capital receipts and ultimately contribute towards the funding of the Capital Programme.

1.3 Also included are details of the related Capital Financing implications, including proposals to refinance current housing schemes through borrowing, utilisation of revenue reserves to address the shortfall in capital resources for 2023/24 onwards and details of how these proposals will impact the Council's revenue budget.

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2. RECOMMENDATIONS

2.1 The Executive is requested to:

(a) Note the report, including a total rephasing of £565k from 2022/23 into future years, and agree a revised capital programme

(b) Approve the Capital Strategy for 2023/24 to 2026/27 including the following amendments to the capital programme:

(i) Adjustments identified as part of the capital monitoring process totalling a net reduction of £14,825k

(ii) An increase of £74,801k in relation to new schemes which will be added to the Capital Programme

(c) Approve the refinancing of the Council's existing Housing Schemes through external borrowing of £49.2M via the Public Works Loan Board.

(d) Approve the use of up to £10M from the Council's earmarked revenue reserves to support funding of the Council's capital programme.

(e) Agree that all new and existing Housing Schemes should be funded by long-term borrowing

2.2 Council is requested to:

(a) Approve the Capital Strategy for 2023/24 to 2026/27, including

(i) Approve the new schemes and other changes to the programme identified within this report

(ii) Approve the refinancing of the Council's existing Housing Schemes through long-term borrowing of £49.2M

(iii) Approve the use of up to £10M of earmarked revenue reserves to support funding of the Council's capital programme

(iv) Agree that all new and existing Housing Schemes should be funded by long-term borrowing

Impact on Vulnerable Adults and Children

1. Summary of Impact: Not applicable

Transformation Policy

1. Policy Status: Existing Policy

2. Making Bromley Even Better Priority:
   (Ambition 5) To manage our resources well, providing value for money, and efficient and effective services for Bromley's residents.

Financial

1. Cost of proposal: total net increase of £74.8M over the five years 2022/23 to 2026/27, due to the additional capital bids outlined in this report
2. Ongoing costs: As detailed above
3. Budget head/performance centre: Capital programme
4. Total current budget for this head: total £292.2M over the period 2022/23 to 2026/27
5. Source of funding: Capital grants, capital receipts and earmarked revenue reserves.

Personnel

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: Statutory Requirement
2. Call-in: Not applicable

Procurement

1. Summary of Procurement Implications: Not applicable

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Not applicable

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Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not applicable
2. Summary of Ward Councillors comments: Not applicable

3. COMMENTARY

Updated Capital Position

3.1 This report sets out proposed changes to the Capital Programme following a detailed monitoring exercise carried out after the 3rd quarter of 2022/23. It also sets out how the Capital Strategy for 2023/24 to 2026/27 was developed, including key considerations and planning assumptions. Consequently, the report seeks approval for the Strategy, including proposed new schemes and the related capital financing.

3.2 Appendix A summarises the proposed changes to the Capital Programme. The base position is the revised programme approved by the Executive on 30th November 2022, as amended by variations approved at subsequent meetings.

3.3 If all the changes proposed in this report are approved, the total Capital Programme 2022/23 to 2026/27 would increase by £74,801k, solely due to the inclusion of new capital bids. Planned capital expenditure of £565k will be re-phased from 2022/23 to 2023/24.

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.

	2022/23	2023/24	2024/25	2025/26	2026/27	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Programme approved by Executive 09/02/22	64,497	39,329	12,928	775	0	**117,529**
Net of changes approved in Q1	58,128	11,824	1,425	5,297	0	**76,675**
Net of changes approved in Q2	2,866	21,104	0	0	0	**23,970**
S/T - approved programme prior to Q3 monitoring	**125,491**	**72,257**	**14,353**	**6,072**	**0**	**218,174**
Variations requiring approval:						
Addition to DFC for energy efficiency grant (CEF)	121					**121**
Variations not requiring approval:						
Change in HWBC budget (RCCM)	Cr 1,157	Cr 11,537	Cr 1,972	Cr 545	0	**Cr 15,211**
LTA tennis renovation fund (ECS)	231					**231**
Non-material adj. to DFC (CEF)	1					**1**
Rephasing from 22/23 into future years (ACH and RCCM)	Cr 565	565				**0**
S/T - amendments to programme	**Cr 1,369**	**Cr 10,972**	**Cr 1,972**	**Cr 545**	**0**	**Cr 14,858**
Proposed new schemes						
Restructuring OPR (RCCM)	Cr 3,500	15,067	10,067	17,567	0	**39,201**
Leisure centres (RRH)	200	950	8,650	8,650	8,650	**27,100**
Kelsey Park lake (ECS)		2,000				**2,000**
IT infrastructure/digitisation (RCCM)	0	0	2,000	3,000	1,500	**6,500**
S/T - proposed new schemes	**Cr 3,300**	**18,017**	**20,717**	**29,217**	**10,150**	**74,801**
Total revised capital programme	**120,822**	**79,302**	**33,098**	**34,744**	**10,150**	**278,117**
Less: Further slippage projection	Cr 50,000	20,000	20,000	10,000	0	**0**
Provision for uncertainty e.g. building costs and changes in estimated disposal income	0	3,000	4,000	5,000	0	**12,000**
Assumed new schemes (TBA)	0	0	0	5,000	15,000	**20,000**
Projected programme for capital financing (Appx C)	**70,822**	**102,302**	**57,098**	**54,744**	**25,150**	**310,117**

Variations requiring approval by the Executive (£121k total net increase)

New grant funding for energy efficiency in schools (£121k)

3.5 The government has recently announced a total of £447M additional capital funding in schools for 2022/23 to improve energy efficiency. This funding is to be added to the Devolved Formula Capital allocation and Bromley will receive £121k (schools in Bromley will receive a total of £2,425k, but the majority of this money is passported directly to academies and so will not increase Bromley's capital programme.)

Variations approved by the Executive at subsequent meetings (£14,979k total net decrease)

The Health and Well Being Centre (net decrease of £15,211k)

3.6 A report was presented to Executive on 30 November 2022 outlining revised plans for the Health and Well-Being Centre to be developed on the site of what was formerly the Adventure Kingdom building. This scheme, which was the subject of a preliminary report to Executive in October 2021, was to be a joint venture between the Council and the South East London Clinical Commissioning Group (now NHS Bromley ICB.) The revised plan is now for the ICB to fund 50% of the Council's professional consultancy fees incurred up to the end of FY 2021/22, and an invoice has been submitted to that effect. Going forwards, the project will sit entirely with the ICB, funded by a central government grant - but, in order to comply with the terms of that grant, the Council will formally deliver the project, for the costs of which the ICB will indemnify the Council; and the Council will sell the site to the ICB at market value.

3.7 The costs of the remaining consultancy work are estimated at £545k; and the costs of the construction itself are estimated at £9,398k, including VAT. These costs are set to be covered in full by the ICB; but, because of the way the Council's capital programme is presented, they must be added to the capital programme in full, on the understanding that they will be wholly financed by the grant which the ICB will receive and passport to the Council.

3.8 This replaces the original, larger total budget of £25,330k (less expenditure incurred to date.) This project, like the current version, was effectively cost neutral, and so this has no impact on resourcing; but it does reduce the capital programme on the cost side by a net £15,211k.

LTA parks tennis renovation fund (£231k)

3.9 A report was presented to Executive on 30th November 2022 detailing a grant from the Lawn Tennis Association (LTA) that officers had successfully applied for, to be used in renovating public access tennis courts in several the Council's parks. The grant fully covers the cost of the proposed repairs and so the proposal has no impact on available Council resources.

UK Shared Prosperity Fund

3.10 A report to Executive on 30 November 2022 set out how Bromley would benefit from the new UK Shared Prosperity Fund (UKSPF) which supersedes the EU Structural and Investment Funds (ESIF). Bromley has been allocated, in principle, £2.39M, of which it can determine £1.63M. £1.23M, for "community and place", is to be used to help fund the existing project for the library at West Wickham. The effect of this will be to reduce pressure on Council resources, which can therefore be used to fund other projects.

Scheme re-phasing

3.11 As part of the Q3 monitoring exercise, a total of £565k has been specifically re-phased from 2022/23 into 2023/24 to reflect revised estimates of when expenditure is likely to be incurred. This largely reflects delays that have occurred to schemes owing to the pandemic and its aftermath.

Review of the Capital Programme

3.12 To inform the new Capital Strategy a fundamental review of the Council's Capital Programme was undertaken during 2022. This was driven by the following considerations:

- The capital programme, reported to Executive in February 2022 created a new financial challenge with a potential shortfall in capital funding of £39.4M in the period up to 2025/26. Following changes to the capital programme reported since then, the shortfall increased to an estimated figure £44.8M as reported to Executive at its November 2022 meeting. Members were advised of the need for a fundamental Operational Property Review (OPR) to assist in addressing the funding challenges and provide improved planning to meet future liabilities.
- The OPR identified that the maintenance liability, as identified from condition surveys, over the next 10 years amounts to £82.1M and that a further £82.3M would be required to refurbish the portfolio to a minimum standard, giving a total cost of £164.4M. The review examined ways to reduce that liability to a more financially sustainable level on an ongoing basis by:
  - Identifying and recommending properties that could be released for disposal.
  - Identifying and recommending properties that will be ringfenced for feasibility to deliver housing.
  - Identifying and make recommendations on properties that have significant maintenance liabilities or disposal values that warrant consideration of a range of options going forward, and what that might mean for service delivery.
  - Identifying and make recommendations on property opportunities for rationalisation.
  - Identifying the properties that should be retained and maintained and the associated costs of doing so
- Whilst an initial provision of £18.5M had been included in the capital programme to cover maintenance liabilities, more detailed consideration of the significant unfunded element was part of the Operational Property Review (OPR) – the OPR also considered whether assets should be considered for disposal to avoid high initial and potential longer term maintenance costs. Additionally, it recognised that disposals that could be progressed quickly may results in potential savings in the condition survey overall costs as well as an opportunity for a capital receipt to be generated to fund high priority schemes.
- Significant cost pressures from inflation, and supply chain issues which have impacted construction costs, and the price of labour and raw materials. Whilst these cost pressures can be partly attributed to the pandemic and therefore expected to diminish in the medium-term, the ongoing conflict in Ukraine presents a backdrop of continued uncertainty which is likely to have a broadly inflationary effect. Potential cost pressures, in some instances, are estimated to result in costs 20% to 25% higher than original estimates.
- To fully consider long-term capital financing options, including utilising the Council's earmarked revenue reserves to support capital expenditure, long-term borrowing on the external debt market and whether existing schemes could be refinanced.
- Individual consideration of the strategic importance of the Council's operational assets, including whether they are used in the ongoing delivery of the Council's statutory services and/or are important for other reasons, e.g. their specific location within the borough.
- The need to robustly review existing capital schemes for continued viability and value for money. Whilst this is undertaken on an ongoing basis, it was especially necessary in light of significant slippage in the capital programme owing to the pandemic.

- The requirement, set out in the CIPFA Financial Management Code, to align the Capital Strategy with the Council's Medium Term Financial Strategy and to enable the Section 151 Officer to report explicitly on affordability and risk.

Outcome of the Capital Programme Review

3.13 Following the review of the Capital Programme various proposals and schemes were reported to the Executive at its November 2022 and agreed for progression. These include:

3.13.1 Relocation of the Council's main operation base to the Direct Line site (opposite Bromley South Rail Station) and disposal of the Civic Centre and surrounding campus. This was incorporated into the existing Capital Programme following November's Executive meeting and therefore is *not* listed under new schemes in this report.

3.13.2 The allocation of an additional £3M to be spent on Depot Infrastructure Works taking the total budget to £6.107M. This was also reflected in existing Capital Programme following November's Executive meeting and therefore is *not* included under new schemes in this report.

3.13.3 A number of property disposals (12 in total) which it is estimated will generate capital receipts totalling £66.8M. This amount will be used to fund future capital expenditure. These estimated receipts (as shown below) have been incorporated into the Capital Financing Statement shown in Appendix C. They are expected to generate income of £23.3M in 2022/23 and £43.5M in 2023/24, though there is a related loss of rental income of £3M per annum which has been included in the Council's revenue budget for 2023/24

3.13.4 The updated proposals for a Health and Well-Being Centre on the site of the former Adventure Kingdom (as reported to Executive in November 2022). The capital expenditure and financing figures for this scheme have been adjusted in this report to reflect the changes made since the scheme was first included in the Capital Programme in February 2022.

3.13.5 In addition to the above, new capital schemes totalling £74.8M have been identified through the capital bidding process as detailed in the table below. The bulk of this expenditure relates to maintenance works proposed on individual assets as identified in the Operational Property Review (as reported to Executive in November 2022).

3.13.6 As indicated in the table below, the proposed OPR expenditure of £52.7M has been offset against the budgeted maintenance spend of £18.5M that was previously included in the capital programme. Additionally, OPR projected expenditure has been further increased by £5M in recognition of the urgent need for maintenance on the Churchill Theatre and Library – moreover it is understood that the condition of this asset is poor and the overall maintenance liability is likely to be much higher. Given the significant of this matter and likelihood of further capital expenditure being required on this asset, this matter will be the subject of a separate report in the near future.

3.13.7 Total estimated spend on the OPR at this stage is therefore £39.2M (i.e. £52.7M + £5M - £18.5M).

<u>New Capital Expenditure: 2022/23 to 2026/27</u>

	2022/23	2023/24	2024/25	2025/26	2026/27	TOTAL
OPR Capital		17,567	17,567	17,567		**52,701**
OPR Risk Provision (Churchill)		5,000				**5,000**
Adjust for OPR already in Capital Prog	-3,500	-7,500	-7,500			**-18,500**
Leisure Centres (Group 2)	200	950	8,650	8,650	8,650	**27,100**
Kelsey Park Works		2,000				**2,000**
IT Infrastructure and Digitisation			2,000	3,000	1,500	**6,500**
	-3,300	**18,017**	**20,717**	**29,217**	**10,150**	**74,801**

3.13.8 All of the schemes shown in the table above will be subject further review of business case submissions to ensure continued viability of each scheme and scrutiny of any variation in costs from those already provided. Similarly, capital schemes that are identified and proposed during the year will also be subject to review to ensure that they are of a viable standard and warrant inclusion in the capital programme.

3.13.9 Aside from the OPR related expenditure the other new schemes are as follows:

- Leisure Centres - £27.1M: This concerns the requirement for the urgent refurbishment (including heating, filtration and ventilation) of West Wickham and Walnuts Leisure Centres.
- Kelsey Park Works - £2M: This relates to the dredging of the lake in Kelsey Park which will alleviate the risk of localised and downstream flooding.
- IT Infrastructure and Digitisation: £6.5M: These are estimated costs to progress the Council's digitisation agenda and to provide for new IT hardware and related equipment to mitigate obsolescence.

3.13.10 It is anticipated that other schemes will be put forward during the year and on this basis the capital financing calculations include a provision of £5M in 2025/26 and a further £10M in 2026/27 for new schemes identified outside of the annual bidding cycle. Additionally, largely owing to the pandemic, there is significant slippage in the capital programme and this has resulted in £50M of budgeted expenditure being rephased into the period 2023/24 to 2025/26.

Housing Schemes

3.14 Six sites have been identified with potential for affordable housing delivery as listed below. These schemes will progress subject to member approval including a full business case and options appraisal on the grounds that they must be able to be self-financing to repay funding requirements plus all maintenance and running costs, and also deliver revenue savings in relation to temporary accommodation costs.

- Station Road (Bromley North) Car Park
- Spa Leisure Centre Car Park & Lewis House
- Belle Grove
- Manorfields
- Cornwall Drive
- Poverest Adult Education Centre

3.14.1 Moreover, owing to the projected shortfall in capital resources it is highly likely that borrowing would be required to provide capital finance for the above schemes, many of which could be managed through a ring-fenced Housing Revenue Account which could borrow externally in its own right at a lower rate [via the PWLB] than the General Fund.

3.14.2 The Council has a several existing/approved self-financing housing schemes, which are financed through GLA grants, s106 monies and Council funding coming from internal borrowing drawn from the earmarked revenue reserves – this includes schemes managed within the capital programme and the Meadowship Homes schemes. The use of internal borrowing was a solution that recognised that in the longer-term, housing financing would likely be converted to long-term external borrowing with the housing stock moved into the HRA.

3.14.3 The review of the Capital Programme identified that the retrospective refinancing of existing housing schemes (via long-term PWLB borrowing) would replenish reserves creating a balance which could be utilised in the short-term to mitigate the projected shortfall in capital resources. Based on refinancing the amount of housing funding that has been utilised to date and that remains committed from the Council's earmarked reserves, a total of £49.2M can be refinanced through long-term external debt, in turn creating a balance that can be utilised to address the projected shortfall in capital resources.

Capital Financing

3.15 Based on the new capital expenditure detailed in this report being approved, the projected underlying shortfall for 2023/24 to 2025/26 is £56.3M. This takes into account the estimated proceeds of asset disposals and other changes to the capital programme detailed in this report. The shortfall figure will be subject to fluctuation over time and will be affected by how outturn capital spending compares to budgets, the value of actual capital receipts compared to estimates, various cost pressures and subsequent decisions that are made concerning capital schemes.

3.16 In addition to the refinancing of £49.2M (refer paragraph 3.14.3) that will replenish reserves, further funding is required to absorb the full shortfall of £56.3M and ensure that the overall financing position is balanced. On this basis, the report recommends that a further balance of up to £10M is made available from the Council's earmarked revenue reserves. It should be noted that based on projections the Council's total of earmarked reserves is expected to decline to £114.8M by 31/3/26 – of this amount only £97M is available to support services and deal with future budget risks as well as income volatility. Moreover, once used for capital funding the earmarked reserves would no longer be available for the other purposes.

3.17 The recommendations contained within this report which concern refinancing the housing schemes through long-term borrowing, and also the utilisation of earmarked revenue reserves, as described above, have been incorporated into the Council's draft Revenue Budget for 2023/24. Based on the repayment of PWLB lending, income forgone from interest owing to the use of reserves, and the loss of rental income from assets earmarked for disposal an annual capital financing charge of £6.6M has been included in the 2023/24 budget.

3.18 The recommendations in this report recognise the need to fund the capital programme, coupled with need to safeguard adequate revenue reserves to support the Council's medium-term financial position. This also recognises the Council's restricted ability to increase reserves compared with previous years. It is therefore highly likely that borrowing will be required for any further capital expenditure that cannot funded by capital receipts or grants unless the financial position of the Council significantly improved in the medium and longer term.

Investment Fund and Growth Fund

3.19 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 £84.5M 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.

3.20 Appendix D provides a detailed analysis of the funds dating back to their inception in September 2011. To date, schemes totalling £126.1M have been approved (£98.3M on the Investment Fund, and £27.8M on the Growth Fund), and the uncommitted balances as at end December 2022 stand at £6.5M for the Investment Fund and £11.4M for the Growth Fund.

Post-completion reports

3.21 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 and the relevant budget holders have been notified directly.

- 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
- Bromley My Time Investment Fund
- Relocation of Exhibitions - Bromley Museum
- Norman Park Athletics Track

4. POLICY IMPLICATIONS

4.12 Capital Programme monitoring and review is part of the planning and review process for all services. The updated Capital Strategy is fundamental to the financial sustainability of the Council and a key part of the statutory annual budgeting cycle.

5. FINANCIAL IMPLICATIONS

5.12 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 Capital Programme financing position.

5.13 The financing projections assume approval of the revised capital programme recommended in this report, together with an allowance for new capital schemes in 2025/26 and 2026/27 and a further provision for uncertainty (e.g. inflation, costs pressures and variability in capital receipts) in 2023/24 to 2025/26. Slippage and re-phasing of capital expenditure is also included in the projections – this mainly relates to the delays in progressing schemes that were experienced during the pandemic. Consequently, the delayed capital expenditure has been phased into future years.

5.14 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 which are projected to be completely depleted during 2025/26.

5.15 The recommendations in this report recognise the need to fund the capital programme, coupled with need to safeguard adequate revenue reserves to support the Council's medium-term financial position.

5.16 It is highly likely that borrowing will be required for any further capital expenditure not funded by capital receipts or grants unless the financial position of the Council significantly improved in the medium and longer term. This also recognises the limited ability of the Council to increase its reserves compared with previous years.

Non-Applicable Sections:	Personnel Implications; Impact on Vulnerable Adults and Children;

	Legal Implications Procurement Implications.
Background Documents: (Access via Contact Officer)	Background documents and reports are available from the Head of Corporate Finance & Accounting.