
Decision Maker: EXECUTIVE
COUNCIL

Date: 7th February 2024
26th February 2024

Decision Type: Non-Urgent Executive Key

Title: CAPITAL STRATEGY 2024/25 TO 2027/28 & Q3 CAPITAL PROGRAMME MONITORING

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Chief Officer: Director of Finance

Ward: All

1. Reason for report

- 1.1 This report incorporates the Council's new Capital Strategy and Capital Programme for 2024/25 to 2027/28. 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.

2. RECOMMENDATIONS

2.1 The Executive is requested to:

- (a) Note the report, including a total rephasing of £27m from 2023/24 into future years as detailed in section 3.7, and agree a revised capital programme;
- (b) Approve the Capital Strategy for 2024/25 to 2027/28 including the following amendments to the capital programme:

- (i) Adjustments identified as part of the capital monitoring process totalling a net reduction of £1,007k as detailed in sections 3.5 and 3.6; and**
- (ii) An increase of £2,477k in relation to new schemes to be added to the Capital Programme as detailed in section 3.11.**

2.2 Council is requested to:

- (i) Approve the Capital Strategy for 2024/25 to 2027/28, including an increase of £2,477k in relation to new schemes to be added to the Capital Programme as detailed in section 3.11.**

Impact on Vulnerable Adults and Children

1. Summary of Impact: Not applicable
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Transformation Policy

1. Policy Status: Existing Policy
 2. Making Bromley Even Better Priority:
To manage our resources well, providing value for money, and efficient and effective services for Bromley's residents.
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Financial

1. Cost of proposal: total net increase of £1.5m over the five years 2023/24 to 2027/28
 2. Ongoing costs: As detailed above
 3. Budget head/performance centre: Capital programme
 4. Total current budget for this head: total £306m over the period 2023/24 to 2027/28
 5. Source of funding: Capital grants, capital receipts, external borrowing and earmarked revenue reserves.
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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
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Procurement

1. Summary of Procurement Implications: Not applicable
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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 third quarter of 2023/24. It also sets out how the Capital Strategy for 2024/25 to 2027/28 was developed, including key considerations and planning assumptions. Consequently, the report seeks approval for the Capital Strategy for 2024/25, 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 29th November 2023, as amended by variations approved at subsequent meetings.
- 3.3 If all the changes proposed in this report are approved, the total Capital Programme 2023/24 to 2027/28 would increase by £1.5m, mainly due to the inclusion of new capital bids, partly offset by reductions to existing schemes and removal of completed schemes. Planned capital expenditure of £27.0m will be re-phased from 2023/24 into future years.
- 3.4 Details of the monitoring variations are included in Appendices A and B, and the proposed revised programme is summarised in the table below.

	2023/24	2024/25	2025/26	2026/27	2027/28	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Programme approved by Executive 18/01/23	79,302	33,098	34,744	10,150		157,294
Net underspend 22/23 rephased to 23/24	99,645					99,645
Net changes approved in Q1	Cr 56,982	52,454	38,336	6,112		39,920
Net changes approved in Q2	Cr 24,675	27,001	1,547	4,000		7,873
S/T - approved programme prior to Q3	97,290	112,553	74,627	20,262	0	304,732
Variations requiring approval:						
Removal of various complete overspent schemes	416					416
Variations not requiring approval:						
Rephasing from 23/24 into future years	Cr 26,982	16,728	10,029	225		0
Removal of various complete schemes	Cr 1,056	Cr 90				Cr 1,146
Reduction in Central Depot Wall scheme	Cr 77					Cr 77
Reduction in Financial Systems Replacement	Cr 200					Cr 200
S/T - amendments to programme	Cr 27,899	16,638	10,029	255	0	Cr 1,007
Proposed new schemes						
Kelsey Park Bridge	133	434				567
Public Switched Telephone Network (PSTN)		1,000				1,000
Local Highways Maintenance	455	455				910
S/T - proposed new schemes	588	1,889	0	0	0	2,477
Total revised capital programme	69,979	131,080	84,656	20,487	0	306,202
Less: Further slippage projection	Cr 10,000	10,000				0
Provision for uncertainty and new schemes			107	4,000	4,000	8,107
Projected programme for capital financing	59,979	141,080	84,763	24,487	4,000	314,309

3.5 Variations requiring approval by the Executive (£416k total net increase)

Removal of various complete schemes (increase of £416k)

3.5.1 As part of the third quarter monitoring exercise, a review was undertaken of schemes that are now complete and/or no longer required. This has identified a total of £416k of overspent schemes to be removed from the capital programme as set out in the table below. Further details will be provided in the post completion reports to be reported to the relevant PDS committees:

	2023/24
	£'000
Gateway Review of Housing I.T System	368
Crystal Palace Park Improvements	29
Norman Park Athletics Track	9
Crystal Palace Park - Alternative Management Options	10
	416

3.6 Variations not requiring approval of the Executive (£1,423k total decrease)

Reduction in existing schemes (decrease of £277k)

3.6.1 The review referred to in paragraph 3.5.1 above also identified that the Central Depot Wall and Financial Systems Replacement schemes could be reduced by £77k and £200k respectively based on revised estimates of total scheme expenditure.

Removal of various complete schemes (decrease of £1,146k)

3.6.2 In addition to the overspend schemes in paragraph 3.5 above, the review also identified a total of £1,146k of underspends on complete schemes as set out below. Further details will be provided in the post completion reports to be reported to the relevant PDS committees:

	2023/24	2024/25	Total
	£'000	£'000	£'000
Feasibility Studies	120	90	210
Supporting Independence - Extra Care Housing	13		13
Transforming Social care	10		10
Mobile technology to support children's social workers	18		18
Star Lane Traveller Site	29		29
Chipperfield Road Development	59		59
Betts Park Canal Bank Stabilisation Project	8		8
Biggin Hill Memorial Museum	111		111
Relocation of Exhibitions - Bromley Museum	2		2
Banbury House demolition/site preparation	2		2
West Wickham Leisure Centre	623		623
Bromley MyTime Investment Fund	3		3
Orpington Public Realm Improvements	34		34
Street Lighting Invest to Save Initiative	24		24
	1,056	90	1,146

3.7 Scheme re-phasing

3.7.1 As part of the Q3 monitoring exercise, a total of £27.0m has been specifically re-phased from 2023/24 into future years to reflect revised estimates of when expenditure is likely to be incurred. Details of the schemes and amounts being re-phased are shown in Appendix B.

3.8 **Capital Programme Review (2022/23)**

3.8.1 To inform the previous Capital Strategy reported in January 2023, a fundamental review of the Council's Capital Programme was undertaken during 2022. This was driven by the following considerations:

- The Operational Property Review (OPR), reported to Executive in November 2022, identified that the maintenance liability, as identified from condition surveys, over the next 10 years amounts to £82m and that a further £8m would be required to refurbish the portfolio to a minimum standard, giving a total cost of £164m.
- 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 result 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 partly attributed to the pandemic and 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.
- A capital financing shortfall of around £49m. 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.

3.9 Outcome of the Capital Programme Review (2022/23)

3.9.1 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 included:

- Relocation of the Council's main operation base to Churchill Court and disposal of the Civic Centre and surrounding campus.
- The allocation of an additional £3m to be spent on Depot Infrastructure Works.
- A number of property disposals (12 in total) which was estimated will generate capital receipts totalling £67m to be used to fund future capital expenditure.
- The addition of new capital schemes totalling £75m, the majority of which relates to maintenance works proposed on individual assets as identified in the Operational Property Review, and £27m for Leisure Centres, £2m for Kelsey Park Works and £6.5m for IT Infrastructure and Digitisation.

3.10 Capital Programme Review (2023/24)

- 3.10.1 As set out in sections 3.8 and 3.9 above, a comprehensive review of the capital programme was carried out during 2022/23. As a result, only a relatively small number of changes and new schemes have been identified in the review during 2023/24.
- 3.10.2 Details of the outcome of the review of existing schemes for those that are complete and can be removed from the programme, or where scheme estimates can be reduced are provided in sections 3.5 and 3.6 above.

3.11 New scheme proposals (£2,477k total)

- 3.11.1 The bids listed below are for proposed inclusion in the capital programme. Costs for each scheme are based on officer estimates. 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.

Kelsey Park Bridge (£567k)

- 3.11.2 The report attached at Appendix F requests the addition of £567k to the capital programme for the replacement of a footbridge in Kelsey Park, to be funded from the Infrastructure Investment Fund (£412k) and the Healthy Bromley (£155k) earmarked reserves.

Public Switched Telephone Network (PSTN) Switch Off (£1,000k)

- 3.11.3 The Public Switched Telephone Network (PSTN) is scheduled to be switched off on 31st December 2025. This means that all traditional landline connection will be replaced with Voice over Internet Protocol (VoIP). The PSTN lines are used to deliver various services i.e. Emergency Lines, old telephone lines, emergency lines in Lifts, TeleCare Service Lines etc. The PSTN is the analogue copper cable telephone network that has been in use since 1876. As well as landline services, the PSTN also provides standard ADSL and fibre-to-the-cabinet (FTTC) broadband services via fibre optic cables.
- 3.11.4 The replacement, VoIP, is entirely digital and uses an internet connection to transmit voice calls and data. It's the same technology that is used for messaging and video call services like Skype, Teams and WhatsApp.
- 3.11.5 This change impacts everyone in the UK, both home and business customers. The capital estimate of £1m will cover the cost of investigation of all PSTN lines that are used for the service delivered by the Council as well as the lines used by the services and support our residents. The estimate also includes the cost of resources for procurement, implementation, change management and support the program to change the technology to the supported services.

Local Highways Maintenance (£910k)

- 3.11.6 Approval is sought to add an additional £910k to the capital programme for the Highways Service, with £455k for 2024/25 and 2025/26. This is being funded by new monies from the DFT for Pothole repairs. The funding has been announced for the coming 10 years to the year 2033/34 with a minimum £14.2m confirmed. Currently only 2024/25 and 2025/26 allocations have been confirmed; future reports will request additions for later years once the subsequent allocations are received.

3.12 Housing Schemes

- 3.12.1 To date, seven housing development schemes have been added to the capital programme which should deliver 187 social/affordable homes in total. These sites are York Rise, Burnt Ash, Anerley, Bushell Way, West Wickham, Bromley North and Beckenham Car Park.
- 3.12.2 As agreed in February 2023, a total of around £49m that had been spent/committed from earmarked reserves to fund housing schemes could be refinanced through external borrowing from the Public Works Loan Board (PWLB), with a further £12m agreed in September 2023 for Bromley North and Beckenham.
- 3.12.3 Further feasibility/scoping work is being carried out for a three other potential schemes which could deliver around 147 further social housing units at Bellegrave, Manorfields and Poverest, as approved by Executive in September 2023. These schemes will progress subject to Member consideration of a full business case and financing implications on the basis that they should be broadly self-financing to repay capital funding plus all maintenance and running costs, and also deliver revenue savings in relation to temporary accommodation costs.

3.13 Capital Financing

- 3.13.1 Based on the new capital expenditure detailed in this report being approved, the projected capital financing requirement for 2023/24 to 2027/28 is £46.2m (total external borrowing in Appendix C). This takes into account the projected proceeds from 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, and the timing of the various capital related cashflows.
- 3.13.2 In addition to the refinancing described in paragraph 3.12.2, a balance of up to £10m was agreed in February 2023 from the Council's earmarked revenue reserves to meet the projected capital financing shortfall. Based on current projections the Council's total earmarked reserves is expected to reduce from £199m as at 31st March 2023 to £79m by 31st March 2027. Some of these balances have been set aside for specific purposes such as the Health and Social Care reserves, Insurance Fund and Schools balances. Further details are included in the 2024/25 Council Tax report elsewhere on the agenda.
- 3.13.3 The capital financing statement attached at Appendix C shows that the Council had £32m of capital receipts brought forward into 2023/24, and that even with the £146m of new receipts projected over the 2023/24 to 2026/27 financial years (detailed in Appendix E to be considered in part 2), capital receipts will have been fully exhausted by the end of 2025/26 in order to fund the current capital programme.
- 3.13.4 This demonstrates that there is no longer any flexibility to fund new capital schemes from within existing capital resources. Additionally, further use of earmarked reserves to fund capital schemes would not be prudent given the current projected budget gap of £39m as detailed in the 2024/25 Council Tax report. Any future new schemes capital schemes not funded from external grants or contributions will likely need to be financed through external borrowing unless further asset disposals are identified.
- 3.13.5 It should also be noted that unless schemes are broadly self-financing i.e. they generate net additional income to cover interest and the Minimum Revenue Provision/debt repayment, then further borrowing will also add to the Council's budget gap. £5.3m is currently included in the draft 2024/25 budget for the impact of capital financing, reflecting a reduction in income from interest on balances as well as reduced investment property income as a result of the disposal programme.

3.14 Investment Fund and Growth Fund

3.14.1 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.

3.14.2 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 (£98.0m on the Investment Fund, and £24.2m on the Growth Fund), and the uncommitted balances as at end December 2023 stand at £6.8m for the Investment Fund and £14.9m for the Growth Fund.

3.15 Post-completion reports

3.15.1 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 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
- Review of Corporate Customer Services I.T Systems
- Upgrade of MS Dynamics CRM System
- Windows Server 2003 Replacement Programme
- Glebe School Expansion
- Seed Challenge Fund/Schools Access Initiative/Security Works
- Performance Management/Children's Services IT scheme
- Bromley My Time Investment Fund
- Relocation of Exhibitions - Bromley Museum
- Norman Park Athletics Track
- Crystal Palace Park Improvements/Alternative Management Options
- Star Lane Traveller Site
- Betts Park Canal Bank Stabilisation Project
- Biggin Hill Memorial Museum
- Relocation of Exhibitions – Bromley Museum
- Orpington Public Realm Improvements
- Street Lighting Invest to Save Initiative

4. POLICY IMPLICATIONS

4.1 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

5.1 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 Capital Programme financing position.

- 5.2 The financing projections assume approval of the revised capital programme recommended in this report, together with an allowance for new capital schemes and service developments and/or increased costs of existing schemes from 2026/27 onwards. An allowance for slippage of capital expenditure is also included in the projections.
- 5.3 As noted in section 3.13, a capital financing shortfall is projected from 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 utilisation of the Council's balance of usable capital receipts.
- 5.4 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 need to safeguard adequate revenue reserves to support the Council's medium-term financial position.

Non-Applicable Sections:	Personnel Implications; Impact on Vulnerable Adults and Children; Legal Implications; Procurement Implications.
Background Documents: (Access via Contact Officer)	Capital programme monitoring Q1 23/24 (Executive 20/09/2023) Capital programme monitoring Q2 23/24 (Executive 29/11/2023) Capital programme monitoring Q3 22/23 (Executive 18/01/2023)