Report No.
DR11003

London Borough of Bromley

Agenda
Item No.

PART 1 - PUBLIC

<Please select>

Decision Maker:	**Executive**
Date:	**2nd February 2011**
Decision Type:	Non-Urgent Executive Key
Title:	**CAPITAL PROGRAMME REVIEW 2010**
Contact Officer:	Martin Reeves, Group Accountant (Technical) Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk
Chief Officer:	Director of Resources
Ward:	All

---

1. Reason for report

At the January meeting, the Director of Resources submitted a report on the new capital schemes supported by Chief Officers in the annual capital review process. The main focus is on the continuation of existing essential programmes and on externally funded schemes, with only a limited new spending programme being put forward at this stage. It was agreed that these schemes, covering the years 2011/12 to 2014/15, would be considered further at this meeting and they are now presented for approval in Appendix 1. The report also includes estimates of capital financing and revenue and capital balances based on the revised programme included in the Capital Monitoring report elsewhere on the agenda and the new schemes put forward for approval in this report.

---

2. RECOMMENDATION(S)

The Executive is asked to:

2.1 Recommend to Council that the new proposals listed in Appendix 1 be included in the Capital Programme, subject to fully costed feasibility studies being approved by Portfolio Holders.

Corporate Policy

1. Policy Status: Existing policy. Capital Programme monitoring and review is part of the planning and review process for all services. The capital review process requires Chief Officers to ensure that bids for capital investment provide value for money and match Council plans and priorities.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: Estimated cost Recommended new schemes £29.2m over 4 years 2011/12 to 2014/15 (£3.6m from Council resources)

2. Ongoing costs: Non-recurring cost.

3. Budget head/performance centre: N/A (Capital Programme)

4. Total current budget for this head: £Total £114.7m over 4 years 2011/12 to 2014/15

5. Source of funding: Capital grants, capital receipts and revenue contributions

---

Staff

1. Number of staff (current and additional): N/A

2. If from existing staff resources, number of staff hours: N/A

Legal

1. Legal Requirement: No statutory requirement or Government guidance.

2. Call-in: Call-in is not applicable.

Customer Impact

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

Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 Previous reports have advised that, in recent years, we have steadily scaled down new capital expenditure plans and have transferred all of the rolling maintenance programmes to the revenue budget. Our reserves, established from the disposal of our housing stock and the Glades Site, have been gradually spent and have fallen from £131m in 1997 to £65m (including unapplied capital receipts) as at 31st March 2010. Our current asset disposal programme is diminishing and any new capital spending will effectively have to be met from our remaining revenue reserves.

3.2 In November, the Executive agreed a revised Capital Programme following the 2nd quarter capital monitoring report. At that time, it was estimated that available resources would reduce to £53.8m by the end of 2019/20. This assumed the continuation of the agreed strategy of no General Fund support to the revenue budget and an estimated £1.25m pa for new capital schemes from 2011/12 (broadly in line with the average cost to the Council of additional schemes approved in recent years' annual reviews). These estimates made no additional allowance (other than a total of £3m for service investment priorities, including Orpington Town Centre, and £4m for flexible working) for any new capital spending priorities. They also assumed that a total of £20.1m of capital receipts from asset disposals would be realised between 2010/11 and 2013/14, in line with the latest Property Division forecasts. This did not include any of the large receipts previously anticipated in respect of the Town Hall, Westmoreland Road Car Park and Opportunity Site B.

Proposed New Schemes

3.3 The report to the January meeting advised that Chief Officers had only been able to support the continuation of existing programmes, externally funded schemes and only a limited number of new schemes requiring Council funding. Schemes now requiring Executive and Council approval are shown in Lists A and B (Invest to Save) in Appendix 1 (unchanged since the last meeting). The Council's own resources would only be required to contribute a total of £3.6m over the four year period, which is broadly in line with the assumptions previously made. The cost to the Council of all schemes is shown in Appendix 2, with the following schemes requiring funding from Council resources:

- Bromley North Village public realm improvements (£1.5m Council contribution after assumed Transport for London funding of £3.4m);
- Essential IT schemes (£1.0m for the replacement of storage area network and rollout of Windows7/Office2010);
- Bromley Museum at The Priory (£0.3m Council contribution after assumed Heritage Lottery Fund contribution of £2.7m);
- Essential drainage/water works at Star Lane Traveller Site (£0.25m) to enable the Council to meet its statutory obligations (the Water Supply Regulations);
- Winter maintenance equipment (£0.25m); and
- An Invest to Save scheme to reduce out-borough placements for children with social, emotional and behavioural difficulties (£0.25m).

Further reports will be brought to Members before schemes are progressed if the assumed level of external funding on the Bromley North Village and Bromley Museum at the Priory does not materialise.

3.4 Other urgent schemes were put forward in the review but have not been recommended by Chief Officers at this stage, mainly because of lack of evidence/justification in the bid and because they do not meet key Council priorities. These comprise works to primary schools to increase capacity (£5.6m over the 4 years) and refurbishment works to the Council Chamber (£0.1m). These are shown in List C in Appendix 1.

Capital Receipts

3.5 With regard to asset disposals, the Council is still feeling the effect of the "credit crunch" in 2008. This precipitated a down turn in the housing market and, although reasonable prices are still being offered for some land sales, completion of deals continues to be problematic. As a result, many receipts have slipped and/or it has proven difficult to obtain planning permission at a level of development that purchasers feel to be economic. In addition, the prices offered for sales may deteriorate further in the future. Details of actual and anticipated capital receipts between 2009 and 2016 are included in a Part 2 appendix to the Capital Monitoring report elsewhere on the agenda.

3.6 The asset disposal programme is currently expected to deliver capital receipts totalling around £30m in the five years 2010/11 to 2014/15. Some £10.6m of this relates to 3 major town centre sites: Tweedy Road, the Old Town Hall and Westmoreland Road Car Park, and the financing projections currently model two main scenarios; firstly that we fail to achieve these three disposals (which still represents a realistic assumption in the current economic climate) and, secondly, that we achieve all planned receipts. Model 3, for illustrative purposes, shows the effect of re-instating an annual General Fund contribution of £3.5m pa from 2011/12 to support the revenue budget (i.e. a reversal of the current strategy) and shows that this would be unsustainable. A summary of the estimated impact of the three models is shown in paragraph 5.4 and the potential impact of failing to achieve the planned level of receipts is briefly discussed in paragraph 5.3.

Summary of proposed expenditure

3.7 The table below summarises the revised programme put forward for approval in the Capital Monitoring report elsewhere on this agenda, together with the recommended new schemes.

Capital Expenditure	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Revised approved programme	73.4	51.4	16.7	8.8	-
Proposed new schemes (Appx 1)	-	1.1	3.2	10.3	14.6
Proposed programme	73.4	52.5	19.9	19.1	14.6
Add: investment priorities, etc	-	2.5	4.5	-	-
Add: allowance for new schemes	-	-	1.25	1.25	1.25
Less: Estimated slippage	-2.0	-5.0	1.0	1.0	1.0
Estimated expenditure	71.4	50.0	26.65	21.35	16.85

4. POLICY IMPLICATIONS

4.1 Capital Programme monitoring and review is part of the planning and review process for all services. The capital review process requires Chief Officers to ensure that bids for capital investment provide value for money and match Council plans and priorities.

5. FINANCIAL IMPLICATIONS

5.1 Financing the proposed Capital Programme

A summary financing statement is included in Appendix 3, which shows for the "core" scenario (Model 1) the anticipated effect on the Council's reserves if the Executive approves the schemes in Appendix 1 and agrees amendments to the current programme included in the capital monitoring report elsewhere on the agenda. The core statement (Model 1) includes a prudent allowance for the potential cost of priority service investment projects. A number of planning assumptions have been made in the long-term financing model to 2019/20, many of which are referred to in the Council Tax (Revenue Budget) report elsewhere on the agenda. The base assumptions include:

- No further General Fund contribution to support the revenue budget.
- New capital spending in future years – £1.25m pa from 2011/12 for the Council's contribution to new schemes coming forward in future years.
- Transfer of rolling programmes to revenue – this was completed in 2009/10.
- Capital expenditure slippage – a further £2m is assumed from 2010/11 into 2011/12 and £5m from 2011/12 into 2012/13 and later years, based on experience in recent years.
- Service investment priorities and potential liabilities – a prudent total figure of £7.0m is assumed.
- Capital receipts – a prudent approach has been taken in assumptions made on the level of capital receipts likely to be received.

5.2 The proposed programme represents the maximum that could realistically be delivered within the available resources and the forecast level of capital receipts. If the schemes in Appendix 1 were approved (based on the assumptions listed above and taking a pessimistic view on the larger capital receipts we are hoping to achieve – Model 1), the Council would be required to contribute a total of £27.2m from its own resources (capital receipts) in the four-year period 2011/12 to 2014/15. It is estimated that no contributions would be required from the General Fund to finance the capital programme in that period and that the Council would be able to finance all expenditure not met by grants and other contributions from capital receipts. This is partly still due to the large capital receipt in 2006 from the sale of Station Road Car Park, but also due to the disposal programme detailed in the Part 2 Appendix to the capital monitoring report elsewhere on the agenda. The estimated effect on Council resources of this scenario is summarised in the following table.

Council resources required to finance capital expenditure	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Usable Receipts	5.1	12.4	7.4	5.0	2.4
General Fund	-	-	-	-	-
Total Capital Resources Required	5.1	12.4	7.4	5.0	2.4

5.3 The core financing model (Model 1) projects a General Fund balance of £49.8m at the end of the current financial year and estimates that this will remain at that figure at the end of 2014/15 (the medium term plan). In the longer term, it is estimated that the General Fund balance will reduce to £48.0m by the end of 2019/20. Appendix 3 gives more details. It should be noted, however, that failure to achieve the projected level of receipts by £4.5m in 2011/12 and a further

£4.7m in 2012/13 would result in a need to make a General Fund contribution to finance capital expenditure in both those years and also in all subsequent years.

5.4 Other scenarios and the implications of abandoning current strategy on General Fund support for the revenue budget.

The following table shows the consequences of the three scenarios, which are outlined in paragraph 3.6. Model 1 assumes that we fail to achieve the three large disposals (which still represents a realistic assumption in the current economic climate) and Model 2 assumes that we achieve all planned receipts (which is probably unrealistic). Model 3, for illustrative purposes, shows the estimated impact of abandoning the agreed strategy of reducing General Fund support for the revenue budget (i.e. reinstating the contribution of £3.5m pa from 2011/12). If we abandoned the strategy (Model 3 below), General Fund reserves would reduce to £16.5m by the end of 2019/20. This confirms the need to continue with the existing strategy.

Revised approved programme	Balance @ 31/3/11 £m	Balance @ 31/3/15 £m	Balance @ 31/3/20 £m
Model 1 – "feasible" assumption including no large receipts (paras 5.1 and 5.2)			
General Fund	49.8	49.8	48.0
Capital Receipts	13.3	3.5	-
TOTAL	63.1	53.3	48.0
Model 2 – including all anticipated receipts			
General Fund	49.8	49.8	49.8
Capital Receipts	13.3	11.9	6.6
TOTAL	63.1	61.7	56.4
Model 3 – Abandon current agreed GF strategy			
General Fund	49.8	35.8	16.5
Capital Receipts	13.3	3.5	-
TOTAL	63.1	39.3	16.5

5.5 The table illustrates the impact of continuing with the strategy of not using balances to support the revenue budget, which provides a significant improvement in the Council's long-term financial position. The need to preserve the General Fund balance is covered in the 2011/12 Council Tax report elsewhere on the agenda. In the recession, it has been difficult to predict expenditure and receipts. This places greater emphasis on the need for ongoing review and quarterly updates and it is clear that there is still a significant amount of uncertainty at this time.

5.6 Revenue considerations

There are no additional running expenses arising from the proposed schemes and a full year revenue saving of £0.8m is estimated to come out of the Invest to Save scheme in List B of Appendix 1. The application of reserved receipts to finance capital expenditure generates a corresponding loss of interest earnings to the General Fund and will thus impact on the revenue budget. This is estimated at £182k in a full year.

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	Capital appraisal forms submitted by Chief Officers in August/September 2010. Report to Executive 12th January 2011.