

London Borough of Hammersmith & Fulham

Report to: Cabinet

Date: 6 January 2020

Subject: **CAPITAL PROGRAMME MONITOR & BUDGET VARIATIONS, 2019/20
(SECOND QUARTER)**

Report of: Cabinet Member for Finance and Commercial Services - Councillor Max Schmid

SUMMARY

1. This report provides a financial update on the council's capital programme at the end of the second quarter (September) and requests approval for any budget variations.
2. The headline movements in budgeted spend are:
 - A decrease, since the first quarter, in the 4-year capital programme of £3.5m to £455.9m. This is mainly due to a reduction in the Schools Windows Programme.
 - A net reduction in forecast 2019/20 expenditure of £12.45m to £114.65m. This represents 9.8% of the approved 2019/20 budget. The in-year variations are detailed in Appendix 2.
3. A key focus of the report is the impact that capital expenditure may have on future council borrowing. Headline General Fund borrowing is forecast to increase by £37.8m over the next 4 years. This will add a revenue budget pressure, regarding the borrowing costs, of £1.74m by 2023/24.
4. The revenue borrowing cost consists of an interest charge and a sum set aside for debt repayment (known as the minimum revenue provision (MRP)). All council borrowing is currently taken from the Government (Public Works Loan Board (PWLB)). HM Treasury have announced 1% increase in the PWLB interest rate which will potentially increase the Council's borrowing costs by £1.38m per year by 2022/23 and by £69m over a 50-year loan period and the council will explore other potential sources of borrowing. An update is also given in this report on the Council's MRP rate with a revenue saving of £0.2m forecast over the next 4 years.
5. The report notes that no new capital receipts are forecast for 2019/20 and £3.5m by 2022/23. Capital receipts can financially benefit the Council by reducing the future borrowing requirement and/or enabling reserves to be protected. It is recommended that development of a disposals programme be considered.
6. This report looks at the overall programme. An enhanced scrutiny of major schemes is separately reported to the Strategic Leadership Team and Political Cabinet.

RECOMMENDATIONS

7. To approve the proposed budget variations to the capital programme totalling £12.45m (summarised in Table 1 and detailed in Appendix 2).
8. To approve a budget virement of £100,000 from the Corporate Planned Maintenance Programme to the Column Replacement programme reported within the Environment Department.
9. To establish a disposals programme that will enable reserves to be maintained and reduce reliance on additional borrowing.
10. To note the proposed change in the Minimum Revenue Payment (MRP) rate from 3.24% to 3.01% and that this will reduce the charge against revenue budgets by approximately £200,000 over the next 4 years.
11. To note that the recent government decision to increase the PWLB rate (the rate at which local authorities can borrow from the government) by 1% will potentially increase the Council's borrowing costs by £1.38m per year by 2022/23 and by £69m over a 50-year loan period.
12. To note the potential risks regarding the Housing Capital Programme, as summarised in section 5.

Wards Affected: All

H&F Priorities

The capital programme contains schemes and projects which are directly linked to the Council's Business Plan 2018-22 and which deliver across the Council's priorities.

Our Priorities	Summary of how this report aligns to the H&F Priorities
<ul style="list-style-type: none"> • Being ruthlessly financially efficient 	<p>All capital investment decisions are required to be underpinned by a robust business plan that sets out any expected financial return alongside the broader outcomes including economic and social benefits. As part of being ruthlessly financially efficient the Council will reform the way capital and other major projects are managed and monitored to achieve greater efficiency and improve delivery.</p> <p>This report provides detailed analysis of the Council's capital programme financial position and highlights any potential risks and their impact on the Council's resources.</p>

Financial Impact

This report is wholly of a financial nature.

Legal Implications

There are no direct legal implications in relation to this report. Legal advice will be sought for each Procurement within the programme and will comply with the Council's Contract Standing Orders and the Public Contract Regulations.

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Background Papers Used in Preparing This Report

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report:

- Capital Programme 2019-23 (published February 2019)

1. CAPITAL PROGRAMME 2019-20 –Q2 OVERVIEW

- 1.1. The Council's capital programme as at the end of September (Quarter 2) is summarised in Table 1. Budgeted expenditure on the four-year programme has decreased, since the first quarter, by £3.5m to £455.9m. This is mainly due to a reduction in the Schools Windows Programme.

Table 1 – LBHF Capital Programme 2019-23 with proposed 2019-20 Q2 variations:

	Analysis of Movements (Q1 to Q2)					Indicative Future Years Analysis				
	Revised Budget 2019/20 (Q1)	Slippages from/(to) future years	Addition/ (Reduction)	Transfers	Total Variations	Revised Budget 2019/20 (Q2)	2020/21	2021/22	2022/23	Total Budget (All years)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CAPITAL EXPENDITURE										
Children's Services	14,144	-	(3,517)	(506)	(4,023)	10,121	2,405	2,238	2,238	17,002
Social Care	2,833	-	-	-	-	2,833	300	-	-	3,133
Environment Department	18,448	(251)	1,677	(3,137)	(1,711)	16,737	4,919	4,808	4,948	31,412
Finance & Governance	4,326	(2,127)	-	3,137	1,010	5,336	6,683	2,400	2,400	16,819
General Fund Schemes under the Economy Department	31,949	(5,198)	(102)	506	(4,794)	27,155	33,755	61,483	33,469	155,862
Sub-total (General Fund)	71,700	(7,576)	(1,942)	-	(9,518)	62,182	48,062	70,929	43,055	224,228
Economy Department-HRA Programme	34,940	(9,874)	-	(500)	(10,374)	24,566	62,322	32,310	29,754	148,952
Economy Department -Decent Neighbourhoods Programme	20,467	911	6,027	500	7,438	27,905	22,719	21,432	10,627	82,683
Sub-total Economy Department (HRA)	55,407	(8,963)	6,027	-	(2,936)	52,471	85,041	53,742	40,381	231,635
Total Expenditure	127,107	(16,539)	4,085	-	(12,454)	114,653	133,103	124,671	83,436	455,863
CAPITAL FINANCING										
Specific/External Financing:										
Government/Public Body Grants	16,834	(79)	1,009	-	930	17,764	4,812	4,395	4,395	31,366
Grants and Contributions from Private Developers (includes S106/CIL)	15,680	(1,349)	477	-	(872)	14,808	16,225	30,936	6,835	68,804
Leaseholder Contributions (Housing)	6,207	-	-	-	-	6,207	3,871	4,240	4,014	18,332
Sub-total - Specific Financing	38,721	(1,428)	1,486	-	58	38,779	24,908	39,571	15,244	118,502
Mainstream Financing (Internal):										
Capital Receipts - General Fund	3,226	-	-	-	-	3,226	310	-	3,456	6,992
Capital Receipts - Housing*	14,120	(2,260)	1,160	-	(1,100)	13,020	14,130	9,474	7,834	44,458
Revenue funding - General Fund	-	-	-	-	-	-	-	-	-	-
Major Repairs Reserve (MRR) [Housing]	19,356	(6,136)	-	-	(6,136)	13,220	22,057	16,668	17,008	68,953
Earmarked Reserves (Revenue)	10,724	(3,740)	200	(500)	(4,040)	6,684	5,441	521	521	13,167
Sub-total - Mainstream Funding	47,426	(12,136)	1,360	(500)	(11,276)	36,150	41,938	26,663	28,819	133,570
Borrowing	40,960	(2,975)	1,239	500	(1,236)	39,724	66,257	58,437	39,373	203,791
Total Capital Financing	127,107	(16,539)	4,085	-	(12,454)	114,653	133,103	124,671	83,436	455,863

*Capital Receipts include use of brought forward Housing receipts

- 1.2. The forecast in-year 2019/20 spend is £12.5m lower. The adjustments are:

HRA Programme	
Additional approved budget for Hartopp and Lannoy redevelopment	£1.4m
Additional approved budget for Homes and Community Strategy	£1.5m

Additional approved budget for White City Regeneration	£3.8m
Education City redevelopment budget reprofiling to future years	£(3.7)m
Budget reprofiling to future years in respect of HRA and Fire Safety	£(9.9)m
Total HRA budget variations	£(6.9)m
General Fund Programme	
Corporate Planned Maintenance Programme budget reprofiling	£(2.1)m
Additional budgets for transport schemes funded from S106/S278	£1.6m
Reduction in Schools Windows Replacement Programme	£(3.6)m
Education City redevelopment budget reprofiling to future years	£(1.5)m
Total GF budget variations	£(5.6)m
Total Q2 budget variations	£(12.5)m

- 1.3. A key financial focus of the capital monitoring report is the potential impact any increases in capital expenditure may have on future borrowing. The Council's underlying need to borrow for a capital purpose is measured through the Capital Financing Requirement (CFR).
- 1.4. The amendments to the General Fund (GF) capital programme have affected the Council's forecast headline capital debt (CFR) as follows:

	Last forecast (2019/20 Q1)	Current forecast (2019/20 Q2)
General Fund CFR	£m	£m
2018/19 Closing CFR* (actual)	70.85	70.85
2019/20 Closing CFR *	83.56	79.90
2022/23 Closing CFR *	108.02	108.68

* Headline CFR excludes Schools Windows, loans in relation to the Civic Campus programme and Education City redevelopment, PFI, leases and deferred costs of disposal

The Council's underlying need to borrow, for GF purposes, is forecast to increase by £37.8m over the next four years. By 2023-24 this will result in an estimated additional £1.74m of revenue borrowing costs (MRP plus interest) that will need to be allowed for within future budget planning and the medium-term financial strategy process. The headline CFR figures exclude potential development (loan) funding of £45m to the Civic Campus (formerly the West King Street Renewal) programme and £28.58m to the Education City Development project. Whilst these will impact on the Council's CFR it is assumed that all Minimum Revenue Payment (MRP) and interest costs will be fully reimbursed through the charging of a state-aid compliant interest rate.

- 1.5. The MRP charge is the amount the Council sets aside from revenue for debt repayment. The current MRP rate has been reviewed to reflect changes in 2018/19 assets' useful economic lives and valuations. As a result of the review, the MRP rate has been revised from 3.24% to 3.01%. The new rate has been applied in calculations presented in Table 2 - General Fund CFR. Revised rate will result in revenue savings of £200,000 over the next four years. The proposed MRP changes will be incorporated into the 2020/21 MRP policy.
- 1.6. In October 2019 HM Treasury announced an increase in Public Works Loan Board (PWLB) borrowing rate by 1% with an immediate effect for all new loans. With an assumption that all of forecast £138m borrowing for the period 2020/21-2022/23 will be external, this would increase the borrowing costs by £1.38m per annum (based on assumption loan taken over 50 years and the current PWLB rate of 2.93%). The

estimated increase in borrowing costs over 50 years would be £69m and the Council will consider alternative sources of borrowing.

- 1.7. The 2019/20 capital programme includes a budget envelope of £50m, to provide operational flexibility, for taking forward major projects. Use of this budget is subject to relevant Member approval, agreement of funding sources and sign-off of an appropriate business case. Expenditure above the £50m envelope will require approval by Full Council. To date £10,076,000 of this budget envelope has been approved by the Cabinet for urgent demolition works at Hartopp and Lannoy Points housing blocks, leaving £39,924,000 still available for operational flexibility on other major projects. This remaining budget is not included in the current capital programme and the CFR forecast but will be added should its use is approved.
- 1.8. The Corporate Planned Maintenance Programme (CPMP), which has recently moved from the Environment Department to Finance and Governance, contains £100,000 of budget for street lighting column replacement. It is proposed that this budget stays within the Environment Department which manages the scheme. This will result in CPMP annual rolling budget allocation being reduced to £2.4m. However, any potential underspend on column replacement scheme should be vired back to CPMP at the end of each financial year.
- 1.9. The General Fund capital programme includes capital receipts of £3.5m carried forward to 2019/20. These will be used to support invest to save expenditure and IT investment in order to protect the Council's reserves. Separate reports have identified concerns regarding the medium-term adequacy of the Council's reserves and future financial resilience. The identification of additional receipts will protect reserves by enabling, in line with proper accounting or statutory practice, the flexible use of capital receipts to fund invest to save costs and potential capitalisation of other relevant costs. The use of capital receipts to fund new capital expenditure will also reduce the Council's need to borrow and therefore reduce the revenue costs of that borrowing. The Council needs to consider a disposals programme to generate capital receipts and consider how such receipts can be best utilised. **There are currently no forecast new capital receipts in 2019-20.**
- 1.10. Within the Housing Capital Programme there has been a net budget decrease of £(2.9)m regarding the Housing Revenue Account (HRA). £(10.4)m of budget variance relates to HRA schemes being reprofiled to future years and £7.3m variance is mainly due to the inclusion of newly approved schemes within the Decent Neighbourhoods programme. Detailed analysis of the budget variances is presented in Appendix 2. The risks associated with funding the future years' Housing Capital Programme are summarised in section 8 of the report.
- 1.11. On 15 November 2019, the Leader made an urgent decision to enable the Council to terminate the Earl's Court Conditional Land Sale Agreement (CLSA). This happened concurrently with Delancey exchanging contracts with CapCo to acquire CapCo's interests in Earl's Court. The Leader's decision enabled the Council to enter into a conditional termination contract and can terminate the CLSA and return the money following completion of contracts between Delancey and CapCo, anticipated to happen by the end of November 2019. To terminate the CLSA the Council will return the money received under the CLSA amounting to £74.6m (plus VAT) for the West Kensington and Gibbs Green Estates, held as receipts in advance, and will also re-purchase the former Gibbs Green School site and 11 Farm Lane, for £15m (plus SDLT). The decision also has implications for capital

budgets for buy-backs and HRA borrowing. The Council was required under the CLSA to secure vacant possession of the Estates and therefore to acquire all leasehold and freehold properties on a phased basis.

- 1.12. This Q2 capital monitoring report presents the forecast capital programme at the end of quarter 2 (September 2019), prior to the above decision, and therefore includes the capital budgets and forecasts based on the Earl's Court CLSA in place at that time. Subject to completion, the capital monitor for quarter 3 (December 2019) will be updated to reflect the financial implications of the agreement.

2. CAPITAL FINANCE REQUIREMENT (CAPITAL DEBT)

- 2.1. The Capital Finance Requirement (CFR) measures the Council's long-term indebtedness. The current forecast for the General Fund Headline¹ CFR (excluding schools' windows borrowing and any potential on-lending to the Joint Venture in relation to the Civic Campus programme and Education City development) is £79.90m at the end of 2019/20. The increase of £9.05m in CFR in comparison to 2018/19 is summarised in Table 2 and detailed in Table 4.

Table 2 – General Fund CFR at Q2 2019-20 (including future years forecast)

GENERAL FUND CFR ANALYSIS	2018/19	2019/20	2020/21	2021/22	2022/23
CFR EXCLUDING SCHOOLS WINDOWS AND JOINT VENTURE LOAN	£m	£m	£m	£m	£m
Opening Capital Finance Requirement (CFR)	50.47	70.85	79.90	91.35	107.98
Revenue Repayment of Debt (MRP)	(0.21)	(0.35)	(0.59)	(0.86)	(0.97)
Mainstream Programme (Surplus)/Shortfall	20.59	9.40	12.04	17.49	1.67
Closing Capital Finance Requirement (CFR)	70.85	79.90	91.35	107.98	108.68
SCHOOLS WINDOWS	£m	£m	£m	£m	£m
Opening Capital Finance Requirement (CFR)	6.57	7.32	7.23	6.94	6.66
Revenue Repayment of Debt (MRP)	(0.27)	(0.29)	(0.29)	(0.28)	(0.27)
Internal Borrowing (Schools Window Replacement)	1.02	0.20	-	-	-
Closing Capital Finance Requirement (CFR)	7.32	7.23	6.94	6.66	6.40
JOINT VENTURE AND EDCITY LOANS	£m	£m	£m	£m	£m
Opening Capital Finance Requirement (CFR)	-	-	15.87	30.95	52.29
Revenue Repayment of Debt (MRP)	-	-	-	-	-
Borrowing	-	15.87	15.08	21.34	17.15
Closing Capital Finance Requirement (CFR)	-	15.87	30.95	52.29	69.44
Total Headline Capital Finance Requirement (CFR)	78.17	103.01	129.24	166.93	184.52
Finance leases/PFI/ Deferred costs of disposal	9.84	8.73	7.93	7.13	6.33
Total Closing CFR	88.01	111.74	137.17	174.06	190.85

- 2.2. The calculation of future CFR and MRP for expenditure in relation to the Civic Campus programme and Hammersmith Town Hall Refurbishment is based on the cash flow information provided by the project team. The identifies project funding through a combination of Community Infrastructure Levy (£33.7m) and borrowing (£11.9m). The CFR forecast is sensitive to the timing and amount of the CIL receipt. However, this is subject to legal confirmation that the CIL funds can be used for the proposed purchases.

- 2.3. The HRA CFR is shown in Table 3 below:

¹ Excludes items such as finance leases and PFIs, the MRP cost of which is funded through revenue budgets.

Table 3 – HRA CFR at Q2 2019-20 (including future years forecast)

HRA CFR Forecast	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Closing Forecast HRA CFR (excluding deferred costs of disposal)	204.85	219.57	258.71	278.33	298.88
Deferred Costs of Disposal	5.62	6.29	7.28	9.41	11.59
Closing Forecast HRA CFR (including deferred costs of disposal)	210.46	225.86	265.99	287.73	310.47

2.4. The Housing Revenue Account 2019/20 CFR (excluding accumulated deferred costs of disposals) has increased by £14.7m in comparison to 2018/19. This is due to borrowing required to finance additional approved budgets for Hartopp & Lannoy (£6.8m), Education City Redevelopment (£4.2m), White City (£2.7m) and Affordable Housing and Regeneration schemes (£1m). The HRA CFR is forecast to increase to £298.9m (excluding deferred costs of disposal) by the end of 2022/23. The impact of an increase in HRA CFR on HRA revenue budgets is currently being assessed in the HRA Business Plan and the Financial Plan for Council Homes (HRA Financial Strategy) 2020/21 which is due to go to the Cabinet in February 2020. The total borrowing costs affecting HRA revenue budgets will be affirmed once the factors such as interest rates and potential capitalisation of borrowing costs have been confirmed.

3. GENERAL FUND – MAINSTREAM PROGRAMME AND CAPITAL RECEIPTS

3.1. The General Fund mainstream programme cuts across the departmental programmes and represents schemes which are funded from Council resources. It is the area of the programme where the Council has the greatest discretion. The mainstream programme is summarised in Table 4.

3.2. The 2019/20 Q2 mainstream programme has decreased by £3.69m in comparison to Q1 budget. This is due to budget reprofiling to future years for Education City project (£1.42m), Leisure Centres Capital Investment (£0.14m) and Corporate Planned Maintenance Programme (£2.13m).

3.3. No General Fund capital receipts are forecast for the period 2019/20-2021/22.

3.4. £3.5m of receipts were brought forward from 2018/19. It is recommended that all of the receipts are applied to fund Invest to Save projects under Flexible Use of Capital Receipts dispensation. Using capital receipts for this purpose will protect Council reserves and help manage future pressures and priorities such as the Civic Campus programme and the High Needs Block Dedicated Schools Grant overspend.

3.5. The Council has prepared an action plan to ensure that reserves are maintained at an adequate level over the medium term. The action plan includes the potential identification of additional capital receipts. This would enable further capitalisation of invest to save and other relevant costs in accordance with accounting practice.

This may also reduce further reliance on additional borrowing. New borrowing comes at an annual revenue cost of £60,000 per annum per £1m. For these reasons it is recommended that a disposals programme be developed.

- 3.6. As at the end of 2018/19, £0.144m of deferred disposal costs have been accrued in respect of anticipated General Fund disposals. These costs are netted against the receipt when received (subject to certain restrictions). Should a sale not proceed these costs must be written back to revenue.

Table 4 – General Fund Mainstream Programme 2019-23 with proposed 2019-20 Q2 variations

	Revised Budget 2019/20 (Q1)	Variations (Q2)	Revised Budget 2019/20 (Q2)	Indicative Budget 2020/21	Indicative Budget 2021/22	Indicative Budget 2022/23	Total Budget (All years)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Approved Expenditure							
Ad Hoc Schemes:							
Hammersmith Town Hall Refurbishment* [ECD]	750	-	750	-	10,831	319	11,900
Social Care Capital projects [ASC]	-	-	-	129	-	-	129
EdCity regeneration [ECD]	1,588	(1,420)	168	3,410	2,125	134	5,837
Invest to Save-Flexible Use of Capital Receipts	3,226	-	3,226	310	-	-	3,536
Acquisition of Cinema Site [ECD]	72	-	72	-	-	-	72
Desktop Strategy [F&G]	979	-	979	-	-	-	979
Leisure Centre Capital Investment [ENV]	1,520	(140)	1,380	-	-	140	1,520
Carnwath Road [ENV]	1,870	-	1,870	-	-	-	1,870
Rolling Programmes:							
Planned Maintenance/DDA Programme [F&G]	3,237	(2,227)	1,010	6,373	2,400	2,400	12,183
Footways and Carriageways [ENV]	2,790	-	2,790	2,030	2,030	2,030	8,880
Column Replacement [ENV]	-	100	100	100	100	100	400
Parks Programme [ENV]	282	-	282	-	-	-	282
Total Mainstream Programmes	16,314	(3,687)	12,627	12,352	17,486	5,123	47,588
Financing							
Capital Receipts	3,226	-	3,226	310	-	3,456	6,992
Increase/(Decrease) in Borrowing	13,088	(3,687)	9,401	12,042	17,486	1,667	40,596
Total Financing	16,314	(3,687)	12,627	12,352	17,486	5,123	47,588

* Hammersmith Town Hall Refurbishment figure contains only mainstream element of funding (£11.9m). The remaining £33.7m of the total approved budget is funded from CIL and therefore has no impact on GF CFR.

- 3.7. The mainstream programme presented in table 4 does not include the £45m on-lending from the Council to the Civic Campus Joint Venture which is forecast to be paid over three years from 2019/20 or £28.58m loan in relation to Education City redevelopment project, however the CFR figures in table 2 do take into account the borrowing requirement in relation to the loans.

4. HOUSING CAPITAL PROGRAMME OVERVIEW

- 4.1. Housing Capital expenditure for 2019/20 is forecast at £53.68m and for the four-year programme to 2022/23 spend is expected to be £261m. The expenditure and resource analysis of the Housing Programme is summarised in Table 5 below.

Table 5 – Housing Capital Programme 2019-23 with proposed 2019-20 Q2 variations

	Revised Budget 2019/20 (Q1)	Total Variations (Q2)	Revised Budget 2019/20 (Q2)	Indicative 2020/21 Budget	Indicative 2021/22 Budget	Indicative 2022/23 Budget
	£'000	£'000	£'000	£'000	£'000	£'000
Approved Expenditure						
HRA Schemes	34,940	(10,374)	24,566	62,322	32,310	29,754
Decent Neighbourhood Schemes	20,467	7,438	27,905	22,719	21,432	10,627
EdCity (HRA element)	-	1,208	1,208	8,145	7,190	12,699
Total Housing Programme	55,407	(1,728)	53,679	93,186	60,932	53,080
Available and Approved Resource						
Capital Receipts - Unrestricted	7,538	(624)	6,914	5,340	2,468	2,450
Capital Receipts - RTB (141)	4,999	628	5,627	8,790	7,006	5,384
Major Repairs Reserve (MRR)	19,356	(6,136)	13,220	22,057	16,668	17,008
Contributions Developers (S106)	3,003	(1,158)	1,845	9,068	10,936	3,672
Contributions from leaseholders	6,207	-	6,207	3,871	4,240	4,014
Use of reserves (Fire Safety EMR)	9,379	(4,240)	5,139	4,920	-	-
Borrowing	4,925	9,802	14,727	39,140	19,614	20,552
Total Funding	55,407	(1,728)	53,679	93,186	60,932	53,080

- 4.2. The Decent Neighbourhoods programme contains the Council's Housing capital receipts and shows how the Council plans to reinvest those receipts in housing and regeneration.
- 4.3. On 1 July 2019 Cabinet approved the Council's new asset management compliance strategy which has a focus on health and safety works. 2019/20 forecast spend at Q2 includes £13.7m of expenditure related to Health & Safety, of which £9.4m is on specific fire safety capital works as detailed in table 6 below.

Table 6 - Compliance and Health and Safety spend 2019-20

HRA Capital Programme: Health & Safety budget and forecast as at Q2 2019-20						
APPROVED SCHEMES	Total Approved Budget	Total Budget Spend Forecast	Approved Budget 2019-20	2019/20 Forecast as at Q2	2019/20 Forecast Variance	2019/20 Actual spend as at P6
	£'000	£'000	£'000	£'000	£'000	£'000
Fire Safety Compliance Programme	25,620	25,232	6,690	4,024	(2,666)	
Fire Safety Complex Schemes	31,130	27,630	2,689	1,115	(1,574)	96
Safety Works - Electrical	15,224	15,224	3,050	2,500	(550)	305
Safety Works - Other	6,011	6,011	1,250	1,175	(75)	868
Total	77,985	74,097	13,679	8,814	(4,865)	1,268

5. HOUSING CAPITAL PROGRAMME RISKS

- 5.1. The following risks associated with funding of future years' expenditure have been identified within the Housing Capital programme:
- 5.2. **Funding from leaseholder charges from outstanding billing:** Over the course of this financial year all outstanding billing for major works is being brought up to date. It is anticipated that an element of the total works for some schemes will not be charged to leaseholders and recommended for write off. Shortfalls, in the absence of other funding will need to be met potentially by borrowing.
- 5.3. **Funding from leaseholder charges for future works:** Due to the new Asset Management Compliance Strategy approved by Cabinet on 1 July 2019, the value and profile of this funding needs to be re-estimated.

The new HRA Asset Management Compliance Strategy has proportionately more fire safety works planned (£53m compared to £19m previously). As the Council has, in the past, stated that leaseholders would not be charged for fire safety related works, there is a risk that the current estimated billing and collection profile has been overstated by several million pounds. Any shortfall will, unless other funding is identified, result in an increase in borrowing for HRA as measured by the Capital Financing Requirement (CFR).

- 5.4. **Capitalisation write-off risk:** The approval of pre-development budgets for White City, Old Laundry Yard and the Building Homes and Community Strategy has increased the risk of unbudgeted capital write-offs to revenue should the schemes not proceed. Mitigations are in place with £8.37m of earmarked reserves set aside and a gateway process in place that ensures that approved budgets are allocated on a milestone basis requiring sign off from the Strategic Director for the Economy and the Strategic Director of Finance and Governance. However, if any scheme proves to be unviable then it will likely result in a reduction in reserves and potentially an unbudgeted charge to revenue should earmarked reserves not be sufficient. Table 7 shows currently approved pre-development costs which could potentially be written off to revenue if the schemes do not go ahead. However, it is anticipated that as the schemes progress, these risks will reduce. For example, if construction phase reaches completion, then that risk will fall away.

Table 7 – Approved pre-development spend

Scheme	Actual	Forecast as per 2019-20 Q2				Total
	pre 2019/20	2019/20	2020/21	2021/22	2022/23	
	£'000	£'000	£'000	£'000	£'000	£'000
ESH capital - non decant	2,072	144				2,216
Spring Vale	561	1,039	2,372			3,972
Further phase 1 spend Contingency (10%)	56					56
50 Commonwealth Avenue Capital	14					14
Earls Court HRA deferred costs	5,618	671	990	2,126	2,184	11,589
Fulham North - Balance of £50k cost contribution from SBHG	24					24
Ed City Cost Agreement	767					767
White City		612	1,728	540		2,880
Old Laundry Yard		550	750			1,300
Total	9,112	3,016	5,840	2,666	2,184	22,818

ESH – Edith Summerskill House

- 5.5. **S106 funding:** The proposed programme for 2019/20-2022/23 relies on £25.5m of S106 receipts, some of which is yet to be received and is dependent on the relevant developments proceeding in a timely manner. A further £40m of s106 funds has been negotiated but this is entirely dependent on developments coming forward and not all are expected to do so. These funds are likely to be received over the medium to long term and beyond the proposed programme. Joint working with Finance and Planning is ongoing to monitor s106 receipts and consider mitigating actions if necessary, such as substituting other funding in the Housing programme which is eligible. A review of all s106 commitments is also underway.
- 5.6. **Future scheme approvals:** Both the HRA capital programme and Decent Neighbourhood programme are subject to variation and potential growth during 2019/20. Any additional budget requirement will likely need to be funded by borrowing which will have an impact on revenue budgets due to the additional interest charges.
- 5.7. **RTB receipt funding:** The delivery of affordable rented housing must proceed sufficiently to make use of Right to Buy (RTB) One for One receipts which would otherwise have to be repaid to the Ministry of Housing, Communities and Local Government (MHCLG). As at 1 April 2019, the GLA held £15.6m of RTB receipts that the Council transferred to it during 2018/19. This is the equivalent of £52m of capital expenditure delivered by the Council (or Housing Associations if grant funded by Council RTB receipts). Under the agreement between the Council and GLA this must be spent within three years, i.e. through to 2021/22. Whilst completely at the discretion of the GLA, the Council can request an extension to the three years which it would need to make a case for by having an approved and in progress programme in place.

Table 8 displays the Right to Buy (RTB) receipts that need to be used for the remainder of 2019/20 to avoid them being transferred to the GLA. RTB receipts can fund 30% of the total cost of eligible expenditure. The table below shows the transferred receipts and interest for quarters 1 and 2 and the eligible expenditure required for quarters 3 and 4 to use the RTB receipts and avoid the need to transfer these to the GLA with interest.

Table 8 – Right-to Buy receipts and expenditure 2019-20

Quarter end RTB 1-4-1 received	2016/17 – Q1	2016/17 - Q2	2016/17 - Q3	2016/17 - Q4
Quarter RTB 1-4-1 to be used by	2019/20 – Q1	2019/20 - Q2	2019/20 - Q3	2019/20 - Q4
	£	£	£	£
RTB 1-4-1 receipts to be spent 2019/20	1,477,912	3,309,504	2,099,689	2,701,879
Returned receipts plus interest 2019/20	1,539,324	3,342,598		
Equivalent eligible expenditure 2019/20			6,998,963	9,006,263

6. REASONS FOR DECISION

- 6.1. This report seeks revisions to the Capital Programme which require the approval of Cabinet in accordance with the Council's financial regulations.

7. EQUALITY IMPLICATIONS

- 7.1. There are no direct equalities implications in relation to this report. This paper is concerned entirely with financial management issues and, as such, the recommendations relating to an increase in capital allocations, will not impact directly on any group with protected characteristics, under the terms of the Equality Act 2010.
- 7.2. Implications verified by: Fawad Bhatti, Policy & Strategy Officer, Public Services Reform, Tel: 07500 103617.

8. IMPLICATIONS FOR BUSINESS

- 8.1. The Council's Capital programme represents significant expenditure within the Borough and consequently, where supplies are sourced locally, may impact either positively or negatively on local contractors and sub-contractors. Where capital expenditure increases, or is brought forward, this may have a beneficial impact on local businesses; conversely, where expenditure decreases, or is slipped, there may be an adverse impact on local businesses.
- 8.2. Projects contained in the capital programme are approved on individual basis and the business implications for each of them are considered in more detail in their specific reports.
- 8.3. Implications completed by: Alben Karameros, Economic Development Team, Tel:07739 316 957.

9. RISK MANAGEMENT

- 9.1. In the initial stages of any development, major capital projects will have significant uncertainties. For example, these may relate to the planning process, the views and interest of residents and stakeholders who must be consulted, ground conditions, or the costs of rectifying or demolishing existing buildings (e.g. the cost of asbestos removal). Construction companies and developers contracting with the Council which experience financial instability may also pose a significant risk. They may not be able to raise sufficient finance to cash flow operations, any potential insolvency process could lead to a costly process of changing suppliers without any guarantee of remaining within overall budget, the Council could suffer direct financial loss and any defects or other issues may not be resolvable as anticipated. To mitigate the Council carefully considers the financial robustness of any contractor and requests appropriate financial standing assurance and support wherever possible.
- 9.2. Large scale capital projects can operate in environments which are complex, turbulent, and continually evolving. Effective risk identification and control within such a dynamic environment is more than just populating a project risk register or appointing a project risk officer. Amplifying the known risks so that they are not hidden or ignored, demystifying the complex risks into their more manageable sum of parts and anticipating the slow emerging risks which can escalate rapidly are all necessary components of good capital programme risk management.

- 9.3. The report identifies a number of risks which may impact on the future funding of the Housing Capital Programme, where in some cases, mitigations have yet to be identified, increases in internal borrowing (and associated revenue financing implications) and the potential for the Council to breach the VAT partial exemption threshold arising from approval of further capital schemes. It is important that strong corporate and directorate oversight and monitoring of these risks is maintained and appropriate ongoing assurances provided to councillors on the management of these risks.
- 9.4. The impact to councils of the Grenfell Tower fire is yet to be fully established. It is certain that many councils are/ will be undertaking property reviews to determine the levels of improvements required to ensure fire safety arrangements within their buildings meet both the expectations of the residents and that they comply with building regulations and other statutory duties. The H&F Fire Safety Plus Programme is an excellent scheme that provides residents with assurance on safety. The Regulatory Reform (Fire Safety) Order 2005 places specific duties placed on the Council as the Responsible Person for its buildings to assess the risk from fire and put in measures to control those risks.
- 9.5. The Dame Judith Hackitt independent review of fire safety, following the Grenfell tragedy, recognises that High Rise Residential Buildings (10 Storeys and above) are a special risk where layers of fire protection must be put in place so as to reduce the risk to as low as reasonably possible, however reducing the risk for all residential accommodation is fundamental. This process is on-going and must be continually reviewed at least annually.
- 9.6. All works must comply with the Construction (Design and Management) Regulations. The Council must appoint a Principal Designer and Principal Contractor with the necessary and demonstrable expertise and competence.
- 9.7. Proposals set out in this report seek to comply with the Council's legal duties.
- 9.8. Implications completed by: David Hughes, Director of Audit, Risk and Insurance, Tel: 020 7361 2389 and Richard Buckley, Head of Environmental Health (Residential) & Corporate Safety Tel: 020 8753 3971.

10. VAT IMPLICATIONS

- 10.1. The Council needs to carefully consider its VAT partial exemption calculation and the risk of breaching the partial exemption threshold. Capital projects represent the bulk of this risk. A breach would likely cost the Council between £2-£3m per year whilst in breach. The Council remained below the threshold in 2018/19 however there remains a risk of breaching the threshold in future years if the position is not carefully managed on an ongoing basis, particularly in light of potentially significant capital schemes in the future. Finance are working closely with departments to ensure that partial exemption risks are considered as part of significant capital projects. Further detail on the Council's partial exemption is included in Appendix 4.
- 10.2. Implications verified by: Chris Harris, Chief Accountant, Corporate Finance, Tel: 020 8753 6440.

LIST OF APPENDICES:

Appendix 1 – Detailed capital budget, spend and variation analysis by department

Appendix 2 – Analysis of budget variations

Appendix 3 – Capital receipts forecast

Appendix 4 – VAT partial exemption

Appendix 1 – Detailed capital budget, spend and variation analysis by department

Children's Services

	Current Year Programme						Indicative Future Years Analysis			
	Analysis of Movements (Q1 to Q2)					Revised Budget 2019/20 (Q2)	2020/21 Budget	2021/22 Budget	2022/23 Budget	Total Budget (All years)
	Revised Budget 2019/20 (Q1)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements					
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Scheme Expenditure Summary										
Schools Organisational Strategy	9,151	-	-	-	-	9,151	167	-	-	9,318
Schools Window Replacement Project	3,717	-	(3,517)	-	(3,517)	200	-	-	-	200
Schools Regeneration Programme	506	-	-	(506)	(506)	-	-	-	-	-
School Maintenance Programme	770	-	-	-	-	770	2,238	2,238	2,238	7,484
Total Expenditure	14,144	-	(3,517)	(506)	(4,023)	10,121	2,405	2,238	2,238	17,002
Capital Financing Summary										
Specific/External or Other Financing										
Capital Grants from Central Government	7,900	-	-	-	-	7,900	2,405	2,238	2,238	14,781
Grants and Contributions from Private Developers (includes S106)	2,021	-	-	-	-	2,021	-	-	-	2,021
Sub-total - Specific or Other Financing	9,921	-	-	-	-	9,921	2,405	2,238	2,238	16,802
Mainstream Financing (Internal Council Resource)										
Use of Reserves	506	-	-	(506)	(506)	-	-	-	-	-
Sub-total - Mainstream Funding	506	-	-	(506)	(506)	-	-	-	-	-
Borrowing - school windows	3,717	-	(3,517)	-	(3,517)	200	-	-	-	200
Total Capital Financing	14,144	-	(3,517)	(506)	(4,023)	10,121	2,405	2,238	2,238	17,002

Appendix 1 – Detailed capital budget, spend and variation analysis by department/cont.

Social Care Services	Current Year Programme					Indicative Future Years Analysis				
	Analysis of Movements (Q1 to Q2)					Revised Budget 2019/20 (Q2)	2020/21 Budget	2021/22 Budget	2022/23 Budget	Total Budget (All years)
	Revised Budget 2019/20 (Q1)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements					
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Scheme Expenditure Summary										
Extra Care New Build project (Adults' Personal Social Services Grant)	957	-	-	-	-	957	-	-	-	957
Transforming Care (Winterbourne Grant)	300	-	-	-	-	300	-	-	-	300
Social Care Capital Grant	1,576	-	-	-	-	1,576	300	-	-	1,876
Total Expenditure	2,833	-	-	-	-	2,833	300	-	-	3,133
Capital Financing Summary										
Specific/External or Other Financing										
Capital Grants from Central Government	2,533	-	-	-	-	2,533	171	-	-	2,704
Capital Grants/Contributions from Non-departmental public bodies	300	-	-	-	-	300	-	-	-	300
Sub-total - Specific or Other Financing	2,833	-	-	-	-	2,833	171	-	-	3,004
Borrowing	-	-	-	-	-	-	129	-	-	129
Total Capital Financing	2,833	-	-	-	-	2,833	300	-	-	3,133

Appendix 1 – Detailed capital budget, spend and variation analysis by department/cont.

Environment Department	Current Year Programme					Indicative Future Years Analysis			Total Budget (All years) £'000	
	Analysis of Movements (Q1 to Q2)					Revised Budget 2019/20 (Q2) £'000	2020/21 Budget £'000	2021/22 Budget £'000		2022/23 Budget £'000
	Revised Budget 2019/20 (Q1) £'000	Slippage s from/(to) future years £'000	Additions/ (Reductions) £'000	Transfers £'000	Total Transfers/ Virements £'000					
Scheme Expenditure Summary										
Planned Maintenance/DDA Programme	3,237	-	-	(3,237)	(3,237)	-	-	-	-	
Footways and Carriageways	2,790	-	-	-	-	2,790	2,030	2,030	2,030	
Transport For London Schemes	2,854	-	1,005	-	1,005	3,859	2,157	2,157	2,157	
Controlled Parking Zones	312	-	-	-	-	312	275	275	275	
Column Replacement	398	-	-	100	100	498	346	346	346	
Carnwath Road	1,870	-	-	-	-	1,870	-	-	-	
LED Lighting Replacement Programme	77	-	-	-	-	77	-	-	-	
P&D Upgrade and Pay by Phone	217	-	-	-	-	217	-	-	-	
Other Capital Schemes	2,301	-	522	-	522	2,823	-	-	-	
Parks Expenditure	2,091	(111)	-	-	(111)	1,980	111	-	-	
Shepherds Bush Common Improvements	481	-	-	-	-	481	-	-	-	
Recycling	19	-	-	-	-	19	-	-	-	
Libraries Investment Programme	-	-	150	-	150	150	-	-	-	
Leisure Centre Capital Investment	1,520	(140)	-	-	(140)	1,380	-	-	140	
CCTV	281	-	-	-	-	281	-	-	-	
Total Expenditure	18,448	(251)	1,677	(3,137)	(1,711)	16,737	4,919	4,808	4,948	
Capital Financing Summary										
Specific/External or Other Financing										
Grants and Contributions from Private Developers (includes S106)	5,178	(111)	472	-	361	5,539	111	-	-	
Capital Grants and Contributions from GLA Bodies	2,852	-	1,005	-	1,005	3,857	2,157	2,157	2,157	
Sub-total - Specific or Other Financing	8,030	- 111	1,477	-	1,366	9,396	2,268	2,157	2,157	
Mainstream Financing (Internal Council Resource)										
Capital Receipts	-	-	-	-	-	-	-	-	1,056	
Use of Reserves	718	-	200	-	200	918	521	521	521	
Sub-total - Mainstream Funding	718	-	200	-	200	918	521	521	1,577	
Borrowing	9,700	(140)	-	(3,137)	(3,277)	6,423	2,130	2,130	1,214	
Total Capital Financing	18,448	(251)	1,677	(3,137)	(1,711)	16,737	4,919	4,808	4,948	

Appendix 1 – Detailed capital budget, spend and variation analysis by department/cont.

Finance & Governance	Current Year Programme					Indicative Future Years Analysis				
	Analysis of Movements (Q1 to Q2)					Revised Budget 2019/20 (Q2)	2020/21 Budget	2021/22 Budget	2022/23 Budget	Total Budget (All years)
	Revised Budget 2019/20 (Q1)	Slippages from/(to) future years	Additions/(Reductions)	Transfers	Total Transfers/Virements					
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Scheme Expenditure Summary										
Invest to Save - Flexible Use of Capital Receipts	3,226	-	-	-	-	3,226	310	-	-	3,536
Planned Maintenance/DDA Programme	-	(2,127)	-	3,137	1,010	1,010	6,373	2,400	2,400	12,183
Desktop Strategy	1,100	-	-	-	-	1,100	-	-	-	1,100
Total Expenditure	4,326	(2,127)	0	3,137	1,010	5,336	6,683	2,400	2,400	16,819
Capital Financing Summary										
Mainstream Financing (Internal Council Resource)										
Use of Reserves (HRA Contribution)	121	-	-	-	-	121	-	-	-	121
Capital Receipts	3,226	-	-	-	-	3,226	310	-	2,400	5,936
Sub-total - Mainstream Funding	3,347	-	-	-	-	3,347	310	-	2,400	6,057
Borrowing	979	(2,127)	-	3,137	1,010	1,989	6,373	2,400	-	10,762
Total Capital Financing	4,326	(2,127)	-	3,137	1,010	5,336	6,683	2,400	2,400	16,819

Appendix 1 – Detailed capital budget, spend and variation analysis by department/cont.

Economy Department General Fund Managed Schemes	Current Year Programme						Indicative Future Years Analysis			
	Analysis of Movements (Q1 to Q2)						2020/21 Budget	2021/22 Budget	2022/23 Budget	Total Budget (All years)
	Revised Budget 2019/20 (Q1)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements	Revised Budget 2019/20 (Q2)				
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Scheme Expenditure Summary										
Disabled Facilities Grant	1,102	-	-	-	-	1,102	-	-	-	1,102
Sands End Community Centre	2,966	(159)	-	-	(159)	2,807	159	-	-	2,966
Acquisition of Land at 207 King St	72	-	-	-	-	72	-	-	-	72
Hammersmith Town Hall Refurbishment *	4,321	-	-	-	-	4,321	6,966	20,549	3,164	35,000
HTH Refurbishment -Fit Out	-	-	-	-	-	-	-	10,282	318	10,600
West King Street Regeneration-JV Partnership Loan	15,000	-	-	-	-	15,000	15,000	15,000	-	45,000
EdCity/Ark Swift redevelopment	6,476	(4,989)	(111)	-	(5,100)	1,376	11,555	9,315	12,833	35,079
EdCity Loan	924	(50)	-	-	(50)	874	75	6,337	17,154	24,440
Nourish Project (Good Growth Fund)	900	-	-	-	-	900	-	-	-	900
Schools Regeneration Programme	-	-	-	506	506	506	-	-	-	506
Macbeth Centre Arts Project	188	-	-	-	-	188	-	-	-	188
Macbeth Centre Kitchen Project	-	-	9	-	9	9	-	-	-	9
Total Expenditure	31,949	(5,198)	(102)	506	(4,794)	27,155	33,755	61,483	33,469	155,862
Capital Financing Summary										
Specific/External or Other Financing										
Capital Grants from Central Government	1,102	-	-	-	-	1,102	-	-	-	1,102
Grants and Contributions from Private Developers (includes S106)	1,907	(80)	5	-	(75)	1,832	80	-	-	1,912
Community Infrastructure Levy (CIL)	3,571	-	-	-	-	3,571	6,966	20,000	3,163	33,700
Capital Grants/Contributions from Non-departmental public bodies	1,153	(79)	-	-	(79)	1,074	79	-	-	1,153
Capital Grants and Contributions from GLA Bodies	994	-	4	-	4	998	-	-	-	998
Sub-total - Specific or Other Financing	8,727	(159)	9	-	(150)	8,577	7,125	20,000	3,163	38,865
Mainstream Financing (Internal Council Resource)										
Capital Receipts (HRA)	1,583	(993)	(111)	-	(1,104)	479	2,443	2,157	3,810	8,889
Use of Reserves (GF)	-	-	-	506	506	506	-	-	-	506
Sub-total - Mainstream Funding	1,583	(993)	(111)	506	(598)	985	2,443	2,157	3,810	9,395
Borrowing (Borrowing-HRA)	3,305	(2,576)	-	-	(2,576)	729	5,702	5,033	8,889	20,353
Borrowing (Borrowing-GF)	18,334	(1,470)	-	-	(1,470)	16,864	18,485	34,293	17,607	87,249
Total Capital Financing	31,949	(5,198)	(102)	506	(4,794)	27,155	33,755	61,483	33,469	155,862

Appendix 1 – Detailed capital budget, spend and variation analysis by department/cont.

Economy Department- HRA Capital Programme

Current Year Programme

Indicative Future Years Analysis

Analysis of Movements (Q1 to Q2)

Revised Budget 2019/20 (Q1)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements	Revised Budget 2019/20 (Q2)	2020/21 Budget	2021/22 Budget	2022/23 Budget	Total Budget (All years)	
										£'000
Scheme Expenditure Summary										
<i>HRA Schemes:</i>										
Pre Agreed Works	8,278	(4,951)	-	-	(4,951)	3,327	17,377	500	-	21,204
Fire Safety Compliance Programme	6,690	(2,666)	-	-	(2,666)	4,024	14,031	5,777	1,400	25,232
Fire Safety Complex Schemes	2,689	(1,074)	-	(500)	(1,574)	1,115	8,178	8,337	10,000	27,630
Pre Agreed Lift Scheme	1,244	342	-	200	542	1,786	3,766	616	572	6,740
Pre Agreed Boiler Scheme	2,558	(1,100)	-	-	(1,100)	1,458	2,768	1,000	1,139	6,365
Safety Works - Electrical	3,050	(550)	-	-	(550)	2,500	4,775	4,975	2,974	15,224
Safety Works	1,250	(75)	-	-	(75)	1,175	2,255	2,281	300	6,011
Void Works	974	-	-	-	-	974	440	440	-	1,854
Neighbourhood, parking & garage improvements	1,057	-	-	-	-	1,057	1,163	694	-	2,914
Surveying and fees	1,200	-	-	-	-	1,200	1,500	1,500	-	4,200
Capitalised salaries	2,750	-	-	-	-	2,750	2,805	2,861	2,918	11,334
Capitalised repairs	3,200	-	-	-	-	3,200	3,264	3,329	3,396	13,189
Unallocated budget - Priority schemes to be confirmed	-	200	-	(200)	-	-	-	-	7,055	7,055
Subtotal HRA	34,940	(9,874)	-	(500)	(10,374)	24,566	62,322	32,310	29,754	148,952
<i>Decent Neighbourhood Schemes:</i>										
Homes & Communities Strategy	-	-	1,484	-	1,484	1,484	-	-	-	1,484
Earls Court Buy Back Costs	1,850	-	(664)	-	(664)	1,186	1,213	5,269	5,381	13,049
Earls Court Project Team Costs	848	-	(177)	-	(177)	671	990	2,126	2,186	5,973
Housing Development Project	2,296	(1,248)	-	-	(1,248)	1,048	2,391	-	-	3,439
Stanhope Joint Venture	4,008	(1,283)	-	-	(1,283)	2,725	11,869	15,623	5,246	35,463
Affordable Housing Delivery Framework	2,621	(508)	-	-	(508)	2,113	1,568	-	-	3,681
Property Acquisition for Affordable Housing	7,228	-	-	(5,681)	(5,681)	1,547	-	-	-	1,547
Hartopp & Lannoy	-	3,800	1,359	6,181	11,340	11,340	3,200	-	-	14,540
White City Estate Regeneration	2,064	-	3,848	-	3,848	5,912	1,728	540	-	8,180
Old Laundry Yard	400	150	-	-	150	550	750	-	-	1,300
Subtotal Decent Neighbourhoods	21,315	911	5,850	500	7,261	28,576	23,709	23,558	12,813	88,656
Total Expenditure	56,255	(8,963)	5,850	-	(3,113)	53,142	86,031	55,868	42,567	237,608
Adjustment for deferred costs	(848)	-	177	-	177	(671)	(990)	(2,126)	(2,186)	(5,973)
Total Net Expenditure	55,407	(8,963)	6,027	-	(2,936)	52,471	85,041	53,742	40,381	231,635

Appendix 1 – Detailed capital budget, spend and variation analysis by department/cont.

Economy Department- HRA Capital Programme

Current Year Programme						Indicative Future Years Analysis			
Analysis of Movements (Q1 to Q2)						2020/21 Budget	2021/22 Budget	2022/23 Budget	Total Budget (All years)
Revised Budget 2019/20 (Q1)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements	Revised Budget 2019/20 (Q2)				
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000

Capital Financing Summary

Specific/External or Other Financing

Contributions from leaseholders	6,207					
Grants and Contributions from Private Developers (includes S106)	3,003	(1,158)			(1,158)	1,845
Sub-total - Specific or Other Financing	9,480	(1,158)			(1,158)	8,052

Mainstream Financing (Internal Council Resource)

Capital Receipts (HRA)	12,537	(1,267)	1,271		4	12,541
Major Repairs Reserve (MRR) / Major Repairs Allowance	19,356	(6,136)			(6,136)	13,220
Use of Reserves (Fire Safety EMR)	9,379	(3,740)		(500)	(4,240)	5,139
Sub-total - Mainstream Funding	41,002	(11,143)	1,271	(500)	(10,372)	30,900

Borrowing(HRA)	4,925	3,338	4,756	500	8,594	13,519
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Total Capital Financing

	55,407	(8,963)	6,027		(2,936)	52,471
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	6,207		-	-	-	6,207	3,871	4,240	4,014	18,332
	3,003	(1,158)			(1,158)	1,845	9,068	10,936	3,672	25,521
	9,480	(1,158)			(1,158)	8,052	12,939	15,176	7,686	43,853
	12,537	(1,267)	1,271		4	12,541	11,687	7,317	4,024	35,569
	19,356	(6,136)			(6,136)	13,220	22,057	16,668	17,008	68,953
	9,379	(3,740)		(500)	(4,240)	5,139	4,920			10,059
	41,002	(11,143)	1,271	(500)	(10,372)	30,900	38,664	23,985	21,032	114,581
	4,925	3,338	4,756	500	8,594	13,519	33,438	14,581	11,663	73,201
	55,407	(8,963)	6,027		(2,936)	52,471	85,041	53,742	40,381	231,635

Appendix 2 – Analysis of budget variations

Variation by department	Amount £000
Children's Services	
Schools Regeneration programme – budget transferred to Economy Department	(506)
Schools Windows Replacement Programme – reduction in budget following scheme review	(3,517)
Total Children's Services variations	(4,023)
Environment Department	
Planned Maintenance/DDA Programme – budget transfer to Finance & Governance (£3,127,000) and Columns Replacement Scheme (£100,000)	(3,237)
Transport for London Schemes – additional budgets approved to reflect new S106/S278 funding received	1,005
Budget reprofiling on other schemes – additional budget funded from S106 for various transport schemes	522
Libraries Investment Programme – additional budget for Shepherds Bush Library refurbishment approved in January 2019	150
Leisure Centres Investment – budget reprofiled to future years	(140)
Parks Programme – budget reprofiled to future years due to project delays	(111)
Column Replacement – budget transfer from Planned Maintenance/DDA	100
Total Environment Department variations	(1,711)
Finance and Governance	
Planned Maintenance/DDA Programme – net variance consisting of budget transfer from Environment (£3,137k) and budget reprofiling to future years (£2,127k) due to the current programme review following change in contractual arrangements	1,010
Total Finance and Governance variations	1,010
General Fund schemes under Economy Department	
Education City/Ark swift redevelopment – budget reprofiled to future years due to eight-month project delay affecting all start dates	(5,150)
Schools Regeneration Programme – budget transfer from Children's Services	506
Sands End – budget reprofiled to future years to reflect current project cash flow forecast	(159)
Macbeth Centre Kitchen Project – budget adjustment to reflect amount of remaining funding available	9
Total General Fund schemes under Economy Department variations	(4,794)
Economy Department (HRA) Schemes	
HRA schemes – £9,874k budget reprofiling to future years due to project delays and re-phasing and £500k transfer to Hartopp & Lannoy Scheme	(10,374)
Property Acquisitions – budget virement to Hartopp and Lannoy scheme in order to separate acquisitions in relation to this specific project	(5,681)
White City Regeneration – additional budget approved by Full Council in July 2019	3,848
Earls Court – reduction due to actual number of buybacks being lower than forecast	(664)
Housing Development projects – budget reprofiled to future years due to further delays to start on site for Spring Vale project	(1,248)
Old Laundry Yard Redevelopment – budget brought forward from 2020/21 to reflect forecast cash flow	150
Stanhope Joint Venture – budget reprofiling on Edith Summerskill House redevelopment due to delayed start on site now expected to commence in December 2019	(1,283)
Affordable Housing Delivery Framework-budget reprofiled to future years due to project delays	(508)

Variation by department	Amount £000
Hartopp and Lannoy: <ul style="list-style-type: none"> • £5,681,000 budget virement from Property Acquisitions scheme to separate buybacks specifically related to this project • £3,500,000 budget transfer from other HRA Schemes (already approved demolition budget sitting within HRA Schemes) • £800,000 budget brought forward from 2020/21 to reflect forecast spend • £1,359,000 additional budget approved in September 2019 	11,340
Homes and Communities Strategy – additional budget approved in July 2019	1,484
Total Economy Department (HRA) variations	(2,936)
Total 2019-20 Q2 variations	(12,454)

Appendix 3 – General Fund forecast capital receipts

Financial Year	Previous Forecast £'000s	Movement/ Slippage £'000s	2019/20 Forecast at Q2 £'000s
2019/20			
Brought forward receipts from 2018/19	3,536		3,536
Forecast in-year receipts	700	(700)	-
Cost of Sales (4%)	(28)	28	-
Total 2019/20	4,208	(672)	3,536
2020/21			
Total 2020/21	-	-	-
2021/22			
Total 2021/22	-	-	-
2022/23			
Forecast in-year receipts	3,600	-	3,600
Cost of Sales (4%)	(144)	-	(144)
Total 2022/23	3,456	-	3,456
Total All Years	7,664	(672)	6,992

Appendix 4 – VAT Partial Exemption

1. Partial exemption overview

1.1. In general, businesses cannot recover the VAT incurred on purchases made in connection with VAT exempt activities, for example, capital expenditure on properties which are let or leased are exempt from VAT. However, under Section 33 of the VAT Act 1994, local authorities are able to recover this VAT so long as it forms “an insignificant proportion” of the total VAT incurred (input tax) in any year, taken to be 5% or less. Crucially, the de minimis limit is not an allowance, if the 5% threshold is exceeded then all the exempt input tax is lost, not just the excess. The cost to the Council of a breach would be in excess of £2m.

2. LBHF Partial Exemption

2.1 The Council’s input tax forecast for 2019-20 (across all expenditure) was £38m. This results in a partial exemption threshold for the Council of £1.9m (being 5% of £38m). The overall input tax incurred by the Council is projected to fall in the medium term due to factors such as the return of some of the previously outsourced services in-house. A reduction in the overall input tax incurred will, in turn, reduce the Council’s partial exemption threshold.

2.3 When calculating the exempt input tax annually, the Council considers its revenue and capital activities separately. Revenue activities are more constant, their contribution to exempt input tax is projected to remain at £2m (the impact on the threshold being the VAT incurred on this amount, i.e. £0.4m). Exempt input tax relating to capital activities is more volatile and each project must be considered and judged individually. The Council has a number of capital projects, both in train and in the pipeline, which could have significant partial exemption implications and finance officers are working closely with colleagues working on these projects to ensure that these risks are identified and mitigated where possible.

2.3 Land and lease transactions can give rise to exempt supply. Capital projects involving these usually give rise to exempt input tax, although wherever possible the Council uses its VAT policy (see section 3) to mitigate this.

3. VAT Policy

3.1 The following policy is in place to manage the partial exemption position:

- In all cases of new or reprofiled projects, the VAT team should be consulted in advance.
- Projects should be 'opted-to-tax' where this option is available and is of no financial disadvantage to the Council.