

## London Borough of Hammersmith & Fulham

**Report to:** Cabinet

**Date:** 03/02/2020

**Subject:** Capital Programme Monitor & Budget Variations, 2019/20 (Third Quarter)

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

**Responsible Director:** Hitesh Jolapara - Strategic Director of Finance and Governance

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### SUMMARY

1. This report provides a financial update on the council's capital programme at the end of the third quarter and requests approval for any budget variations. It includes the capital implications of the termination of the Earl's Court Conditional Land Sale Agreement.
2. The headline movements in budgeted spend are:
  - An increase, since the second quarter, in the four-year capital programme of £96.2m to £552.1m. The table below summarises key movements.

	£m
Acquisition of the former Gibbs Green school/Farm Lane sites	15.7
Additional transport schemes (S106/developer contributions)	5.3
Newly approved Parks budget (Fulham Football Club - Bishops Park)	0.7
Allocation of approved Schools Regeneration scheme budget	£2.0
Budget adjustments to Schools Organisational Strategy schemes	(4.2)
Removal of Earls Court buyback budgets	(12.4)
Expected acquisition of commercial units (Civic Campus)	63
Expected equity loan (Civic Campus)	25
Newly approved Street Lighting capital investment	1.1
<b>Total movements</b>	<b>96.2</b>

- A net decrease in forecast 2019/20 expenditure of £15.5m to £99.2m. This represents 13.5% 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 (GF) borrowing is forecast to increase by £50.9m over the next four years. This will add a revenue budget pressure, relating to borrowing costs (Minimum Revenue Provision plus interest), of £3m per annum by 2023/24. GF Capital Financing Requirement (CFR) movements have been detailed in Section 2 of the report and in Appendix 5.
  4. The report notes that no new General Fund 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 has previously been recommended that development of a disposals programme be considered and this should be developed during 2019.

5. The Housing Revenue Account 2019/20 borrowing requirement (CFR) is forecast to increase by £12.91m to £217.75m. By the end of 2022/23 the HRA CFR is forecast to be £278.47m. HRA CFR movements are detailed in Section 3 of the report.
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

1. To approve the proposed budget variations to the capital programme totalling £15.5m (summarised in Table 1 and detailed in Appendix 2).
2. 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"> <li>• Being ruthlessly financially efficient</li> </ul>	<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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### **Contact Officer(s):**

Name: Andrew Lord  
Position: Head of Strategic Planning and Monitoring  
Telephone: 020 8753 2531  
Email: Andrew.lord@lbhf.gov.uk

Name: Emily Hill  
Position: Assistant Director, Finance  
Telephone: 020 8753 3145  
Email: [Emily.Hill@lbhf.gov.uk](mailto:Emily.Hill@lbhf.gov.uk)

Name: Adesuwa Omoregie  
Position: Chief Solicitor (Planning and Property)  
Telephone: 02087532297  
Email: adesuwa.omoregie@lbhf.gov.uk

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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 –Q3 OVERVIEW

1.1. The Council's capital programme as at the end of Quarter 3 is summarised in Table 1. Budgeted expenditure on the four-year programme has increased, since the second quarter, by £95.1m to £552.1m.

**Table 1 – LBHF Capital Programme 2019-23 with proposed 2019-20 Q3 variations:**

	Analysis of Movements (Q2 to Q3)					Indicative Future Years Analysis				
	Revised Budget 2019/20 (Q2)	Slippages from/(to) future years	Addition/(Reduction)	Transfers	Total Variations	Revised Budget 2019/20 (Q3)	2020/21	2021/22	2022/23	Total Budget (All years)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>CAPITAL EXPENDITURE</b>										
Children's Services	10,121	(4,567)	(3,842)	-	(8,409)	1,712	7,372	2,238	2,238	13,560
Social Care	2,833	(1,257)	-	1,102	(155)	2,678	1,557	-	-	4,235
Environment Department	16,737	(4,505)	6,889	-	2,384	19,121	7,493	4,808	4,948	36,370
Finance & Governance	5,336	(1,726)	-	-	(1,726)	3,610	8,409	2,400	2,400	16,819
General Fund Schemes under the Economy Department	27,155	(17,061)	17,769	(1,102)	(394)	26,761	36,714	76,111	122,366	261,952
<b>Sub-total (General Fund)</b>	<b>62,182</b>	<b>(29,116)</b>	<b>20,816</b>	<b>-</b>	<b>(8,300)</b>	<b>53,882</b>	<b>61,545</b>	<b>85,557</b>	<b>131,952</b>	<b>332,936</b>
Economy Department-HRA Programme	52,471	(6,560)	(606)	-	(7,166)	45,305	79,882	52,198	41,780	219,165
<b>Sub-total Economy Department (HRA)</b>	<b>52,471</b>	<b>(6,560)</b>	<b>(606)</b>	<b>-</b>	<b>(7,166)</b>	<b>45,305</b>	<b>79,882</b>	<b>52,198</b>	<b>41,780</b>	<b>219,165</b>
<b>Total Expenditure</b>	<b>114,653</b>	<b>(35,676)</b>	<b>20,210</b>	<b>-</b>	<b>(15,466)</b>	<b>99,187</b>	<b>141,427</b>	<b>137,755</b>	<b>173,732</b>	<b>552,101</b>
<b>CAPITAL FINANCING</b>										
<b>Specific/External Financing:</b>										
Government/Public Body Grants	17,764	(3,837)	(3,469)	200	(7,106)	10,658	10,244	7,945	4,395	33,242
Grants and Contributions from Private Developers (includes Leaseholder Contributions)	14,808	(4,984)	5,396	1,876	2,288	17,096	15,597	30,835	12,136	75,664
<b>Sub-total - Specific Financing</b>	<b>38,779</b>	<b>(8,821)</b>	<b>1,261</b>	<b>2,076</b>	<b>(5,484)</b>	<b>33,295</b>	<b>28,732</b>	<b>44,567</b>	<b>20,730</b>	<b>127,324</b>
<b>Mainstream Financing (Internal):</b>										
Capital Receipts - General Fund	3,226	(1,726)	-	-	1,726	1,500	2,036	-	3,456	6,992
Capital Receipts - Housing*	13,020	(1,237)	(1,598)	(296)	(3,131)	9,889	10,623	7,013	5,796	33,321
Major Repairs Reserve (MRR) [Housing]	13,220	3,111	-	-	3,111	16,331	24,249	16,512	11,387	68,479
Earmarked Reserves (Revenue)	6,684	-	(5,137)	-	(5,137)	1,547	521	521	521	3,110
<b>Sub-total - Mainstream Funding</b>	<b>36,150</b>	<b>148</b>	<b>(6,735)</b>	<b>(296)</b>	<b>(6,883)</b>	<b>29,267</b>	<b>37,429</b>	<b>24,046</b>	<b>21,160</b>	<b>111,902</b>
<b>Borrowing</b>	<b>39,724</b>	<b>(27,003)</b>	<b>25,684</b>	<b>(1,780)</b>	<b>(3,099)</b>	<b>36,625</b>	<b>75,266</b>	<b>69,142</b>	<b>131,842</b>	<b>312,875</b>
<b>Total Capital Financing</b>	<b>114,653</b>	<b>(35,676)</b>	<b>20,210</b>	<b>-</b>	<b>(15,466)</b>	<b>99,187</b>	<b>141,427</b>	<b>137,755</b>	<b>173,732</b>	<b>552,101</b>

\*Capital Receipts include use of brought forward Housing receipts

1.2. The forecast in-year 2019/20 spend is £15.5m lower than at Quarter 2. The main adjustments are:

HRA Programme	£m
Budget reprofiling of various HRA capital schemes into future years	(2.4)
Reduction in Earls Court buyback budgets	(0.6)
Budget reprofiling of Building Homes and Communities Strategy schemes to future years	(1.5)
Budget reprofiling of HRA Asset Management and Compliance Programme schemes to future years	(2.7)
<b>Total HRA budget variations</b>	<b>(7.2)</b>
<b>General Fund Programme</b>	
Joint Venture loan (Civic Campus) reprofiled to future years	(15.0)
Additional approved budgets for transport schemes funded from S106/S278	5.3
Acquisition of the former Gibbs Green school /Farm Lane sites	15.7
Budget reprofiling to future years and budget reduction in respect to	(8.4)

School Organisational Strategy Schemes	
Adult Social Care capital schemes budget reprofiling to future years	(1.3)
Carnwath Road budget reprofiling to future years	(1.9)
Parks capital schemes budget reprofiling to future years	(1.0)
Corporate Planned Maintenance Programme budget reprofiling to future years	(1.7)
<b>Total GF budget variations</b>	<b>(8.3)</b>
<b>Total Q3 budget variations</b>	<b>(15.5)</b>

- 1.3. 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 be approved.

### **Termination of the Earl's Court Conditional Land Sale Agreement**

- 1.4. 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. 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 £15.74m (including SDLT)
- 1.5. Significant and growing costs of making the site vacant, including the costs of buying out leaseholders, are now avoided with the return of the estates. The HRA business plan has been updated to reflect the net capital cost avoidance of £63m, after the repayment of the capital receipt, as a result of the termination. These costs were based on estimates in December 2015 and therefore are likely to be understated due to increases in property and other costs since that time.
- 1.6. The acquisition of the former Gibbs Green School and Farm Lane sites has been included in Q3 capital programme forecast and it will result in increase in GF CFR and borrowing costs (estimated to be £946,000 per year). The current borrowing cost calculation assumes standard MRP rate of 3.01% and 3% interest rate. No decision has been made on the future use of these sites. If a future decision is made to use the sites to build new homes, the borrowing costs could be reduced as MRP rate for the development schemes could be charged at 2% and deferred until the scheme completion. Also, interest charges could be potentially capitalised for the duration of the development significantly reducing revenue pressures.

- 1.7. Following the decision, Earls Court buyback budget envelop has been reduced by £12.47m. This has decreased HRA borrowing and HRA CFR by the same amount. A residual budget of £0.6m will remain to cover this year's completed leaseholders' buyback costs.
- 1.8. As a result of the termination of the CLSA agreement, £5.6m of HRA and £0.2m of GF pre 2019/20 deferred costs of disposal will be written off to revenue. The write offs will be funded by earmarked reserves and will result in decrease of HRA and GF CFRs by the same amounts.
- 1.9. The implications of the termination will be included within the HRA Business Plan and the Financial Plan for Council Homes (HRA Financial Strategy) 2020/21 and future decision reports.

## 2. GENERAL FUND – MAINSTREAM PROGRAMME AND CAPITAL RECEIPTS

- 2.1. The General Fund mainstream programme cuts across the departments and represents schemes which are funded from Council resources (capital receipts or borrowing). It is the area of the programme where the Council has the greatest discretion. The mainstream programme is summarised in Table 2.

**Table 2 – LBHF GF Mainstream Capital Programme 2019-23 with proposed 2019-20 Q3 variations:**

	Revised Budget 2019/20 (Q2)	Variations (Q3)	Revised Budget 2019/20 (Q3)	Indicative Budget 2020/21	Indicative Budget 2021/22	Indicative Budget 2022/23	Total Budget (All years)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Approved Expenditure</b>							
<b>Ad Hoc Schemes:</b>							
Social Care Capital projects [ASC]	-	-	-	129	-	-	129
Invest to Save-Flexible Use of Capital Receipts	3,226	(1,726)	1,500	2,036	-	-	3,536
Acquisition of Gibbs Green/Farm Lane [ECD]	-	15,740	15,740	-	-	-	15,740
Desktop Strategy [F&G]	979	-	979	-	-	-	979
Leisure Centre Capital Investment [ENV]	1,380	(1,380)	-	-	-	-	-
Hammersmith Town Hall Refurbishment [ECD]	750	-	750	-	10,831	319	11,900
Education City regeneration (GF element) [ECD]	168	(75)	93	2,513	1,753	1,031	5,390
Capital Investment in Street Lighting [ENV]	-	-	-	1,100	-	-	1,100
Acquisition of Cinema Site [ECD]	72	-	72	-	-	-	72
Carnwath Road [ECD]	1,870	(1,870)	-	1,870	-	-	1,870
<b>Rolling Programmes:</b>							
Planned Maintenance/DDA Programme [F&G]	1,010	-	1,010	6,373	2,400	2,400	12,183
Footways and Carriageways [ENV]	2,790	1	2,791	2,030	2,030	2,030	8,881
Column Replacement [ENV]	100	-	100	100	100	100	400
Parks Programme [ENV]	282	-	282	-	-	-	282
<b>Total Mainstream Programmes</b>	<b>12,627</b>	<b>10,690</b>	<b>23,317</b>	<b>16,151</b>	<b>17,114</b>	<b>5,880</b>	<b>62,462</b>
<b>Financing</b>							
Capital Receipts	3,226	(1,726)	1,500	2,036	-	3,456	6,992
Increase/(Decrease) in Borrowing	9,401	12,416	21,817	14,115	17,114	2,424	55,470
<b>Total Financing</b>	<b>12,627</b>	<b>10,690</b>	<b>23,317</b>	<b>16,151</b>	<b>17,114</b>	<b>5,880</b>	<b>62,462</b>

- 2.2. The 2019/20 Q3 mainstream programme has increased by £10.7m in comparison to Q2 budget. This is mainly due to the newly approved budgets of £15.74m to acquire the former Gibbs Green school/ Farm Lane sites, budget reprofiling to future years for Carnwath Road (£1.9m) and Invest to Save (£1.7m) schemes. As S106 funding has been agreed for the Leisure Centre Capital Investment (previously funded from borrowing), approved budget of £1.38m for the scheme has also been removed from the mainstream programme.

- 2.3. The mainstream programme presented in Table 2 does not include self-financing schemes (where the net General Fund revenue borrowing costs are nil). Appendix 5 details the self-financing schemes and their borrowing requirement.
- 2.4. A key financial focus of the capital monitoring report is the potential impact that capital expenditure may have on future borrowing and its revenue affordability. The Council's underlying need to borrow for a capital purpose is measured through the Capital Financing Requirement (CFR). The current forecast for the General Fund Headline CFR (excluding the self-financing schemes set out in Appendix 5) is £92.32m at the end of 2019/20. The increase of £21.47m in CFR (£21.82m new in- year borrowing less MRP) in comparison to 2018/19 is detailed in Table 2.
- 2.5. The amendments to the General Fund (GF) capital programme have affected the Council's forecast headline capital debt (CFR) as follows:

	<b>Last forecast (2019/20 Q2)</b>	<b>Current forecast (2019/20 Q3)</b>
<b>General Fund CFR</b>	<b>£m</b>	<b>£m</b>
2018/19 Closing CFR* (actual)	70.85	70.85
2019/20 Closing CFR *	79.90	92.32
2022/23 Closing CFR *	108.68	121.78

The underlying need to borrow, for GF purposes, is forecast to increase by £50.9m over the next four years. By 2023/24 this will result in an estimated additional £3m 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.

- 2.6. The borrowing requirement for the Civic Campus programme and Hammersmith Town Hall Refurbishment is based on cash flow forecasts provided by the project team. This identifies project funding through use of the Community Infrastructure Levy (£33.7m) and borrowing (£11.9m). The borrowing forecast is sensitive to the timing and amount of the CIL receipt.
- 2.7. At the end of 2018/19 £0.144m of deferred disposal costs were accrued in respect of the anticipated capital receipts. Should this sale not proceed these costs must be written back to revenue.
- 2.8. In January 2020, the Cabinet approved £19.81m budget for acquisition of the leased office building at 145 King Street. The purchase has now been completed. This expenditure is not included in the current Q3 forecast and will be added to the future capital programme. The purchase will be funded by borrowing and result in additional revenue costs of an estimated £1.17m per year. In the short-term this cost will largely be off-set by savings in rental payments. Significant financial benefits will be realised over the longer-term.
- 2.9. Hammersmith Bridge repair works have commenced following the bridge closure in April 2019 due to structural damage. The first stage of repair works is estimated to cost £25m and will be fully funded by TfL. As the works are carried out directly by TfL contractors, there is no impact on the current Capital Programme.
- 2.10. The General Fund capital programme includes capital receipts of £3.5m carried forward to 2019/20. These will 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, the flexible use of capital receipts to fund invest to save costs and potential capitalisation of other relevant costs in line with proper accounting or statutory practice. 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. New borrowing comes at an annual revenue cost of £60,000 per annum per £1m. There are currently no forecast new capital receipts in 2019/20.

### 3. HOUSING CAPITAL PROGRAMME OVERVIEW

3.1. Housing Capital expenditure for 2019/20 is forecast at £45.45m and for the four-year programme to 2022/23 spend is expected to be £219.35m. The expenditure and resource analysis of the Housing Programme is summarised in Table 3 below.

**Table 3 – Housing Capital Programme 2019-23 with proposed 2019-20 Q3 variations**

	Revised Budget 2019/20 (Q2)	Total Variations (Q2)	Revised Budget 2019/20 (Q3)	Indicative 2020/21 Budget	Indicative 2021/22 Budget	Indicative 2022/23 Budget
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Approved Expenditure</b>						
HRA Asset Management and Compliance Programme	24,566	(2,694)	21,872	61,740	36,179	29,161
Building Homes and Communities Strategy	7,946	(1,531)	6,415	4,009	540	-
Other HRA Capital Schemes	21,167	(3,966)	17,201	14,133	15,479	12,619
<b>Total Housing Programme</b>	<b>53,679</b>	<b>(8,191)</b>	<b>45,488</b>	<b>79,882</b>	<b>52,198</b>	<b>41,780</b>
<b>Available and Approved Resource</b>						
Capital Receipts - Unrestricted	7,393	(433)	6,960	5,221	2,369	2,010
Capital Receipts - RTB (141)	5,627	(2,698)	2,929	5,402	4,644	3,786
Major Repairs Reserve (MRR)	13,220	3,111	16,331	24,249	16,512	11,387
Contributions Developers (S106)	1,845	(1,026)	819	5,017	10,835	8,833
Contributions from leaseholders	6,207	(666)	5,541	2,891	5,787	4,199
Use of reserves (Fire Safety EMR)	5,139	(5,139)	-	-	-	-
Borrowing	14,248	(1,340)	12,908	37,102	12,051	11,565
<b>Total Funding</b>	<b>53,679</b>	<b>(8,191)</b>	<b>45,488</b>	<b>79,882</b>	<b>52,198</b>	<b>41,780</b>

3.2. Within the Housing Capital Programme there has been a net budget decrease of £8.2m mainly due to reduction in Earls Court budgets (£0.6m) and reprofiling of Stanhope Joint Venture (£2.1m), Asset Management and Compliance Programme (£2.7m) and Building Homes and Community Strategy (£1.5m) budgets to future years. 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 4 of the report.

3.3. The HRA CFR is shown in Table 4 below:

**Table 4 – HRA CFR at Q3 2019-20 (including future years forecast):**

HRA CFR Forecast	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Closing Forecast HRA CFR	204.85	217.75	254.86	266.91	278.47

The Housing Revenue Account 2019/20 CFR has increased by £12.9m in comparison to 2018/19. This is due to borrowing required to finance additional approved budgets for Hartopp & Lannoy (£6.8m), White City (£2.7m) and Affordable Housing and Regeneration schemes (£3.1m). The HRA CFR is forecast to increase to £278.47m by the end of 2022/23.

- 3.4. The impact of an increase in HRA CFR on HRA revenue budgets is 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.
- 3.5. The HRA CFR presented in Table 4 does not include the proposed appropriation of Education City Affordable Housing units from General Fund on completion of the scheme (currently forecast for 2023/24). Once the appropriation is completed, the HRA CFR will increase by £23.3m.
- 3.6. 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 Q3 includes £13.7m of expenditure related to Health & Safety, of which £9.4m is on specific fire safety capital works as detailed in table 5 below.

**Table 5 - Compliance and Health and Safety spend 2019-20**

<b>HRA Capital Programme: Health &amp; Safety budget and forecast as at Q3 2019-20</b>						
<b>APPROVED SCHEMES</b>	<b>Total Approved Budget</b>	<b>Total Budget Spend Forecast</b>	<b>Approved Budget 2020</b>	<b>2019-20 Forecast as at Q3</b>	<b>2019-20 Forecast Variance</b>	<b>2019-20 Actual Spend as at P7</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fire Safety Compliance Programme	25,620	24,852	6,690	2,004	(4,686)	
Fire Safety Complex Schemes	31,130	27,630	2,689	1,279	(1,410)	96
Safety Works - Electrical	15,224	14,364	3,050	1,005	(2,045)	305
Safety Works - Other	6,011	5,691	1,250	1,175	(75)	868
<b>Total</b>	<b>77,985</b>	<b>72,537</b>	<b>13,679</b>	<b>5,463</b>	<b>(8,216)</b>	<b>1,269</b>

#### **4. HOUSING CAPITAL PROGRAMME RISKS**

- 4.1. The following risks associated with funding of future years' expenditure have been identified within the Housing Capital programme:
- 4.2. **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 by borrowing.
- 4.3. **Funding from leaseholder charges for future works:** Due to the new Asset Management Compliance Programme approved by Cabinet on 1 July 2019, an exercise was carried out to estimate the value, profiled billing and collection of these invoices. In the previous Quarter 2 Capital Monitor it was reported that there was a risk this could result in a reduction to the forecast collection. However,

based on the information available this has not transpired. However, as the values and profile will be subject to change as the programme progresses and individual schemes are confirmed, this funding will continue to be monitored with variances to the forecast reported in subsequent quarterly budget monitoring reports.

4.4. **Capitalisation write-off risk:** Most of the previously reported £8.37m earmarked reserve set aside for capital projects abortive costs has either been used or re-allocated. This is a result of two recent decisions:

- The decision on 15 November 2019 to terminate the Earl’s Court CLSA has resulted in £5.88m of this reserve being used to fund abortive costs incurred to 31 October 2019.
- As part of the 2020/21 HRA revenue budget estimates process, £2.02m of reserves earmarked for abortive costs for the Building Homes and Communities Strategy is proposed to be released into general reserves for use in 2020/21<sup>1</sup>.

As most of the reserve will be depleted, the proposed mitigation is for the 2020/21 budget to have an annual £0.5m contingency budget for development scheme abortive costs. Furthermore, the gateway process referred to in the Quarter 2 Monitor remains in place to ensure that approved budgets are allocated only when milestones are achieved and with sign off from the Strategic Director for the Economy and the Strategic Director of Finance and Governance to minimize the scope for abortive costs. The current schemes at risk are outlined below. Schemes that have started on site (such as Spring Vale) and risks that have materialised have been removed:

**Table 6 – Approved pre-development spend**

Scheme	Actual	Forecasted as per 2019-20 Q3				Total
	pre 2019/20	19/20	20/21	21/22	22/23	
	£'000	£'000	£'000	£'000	£'000	£'000
ESH capital - non decant	2,072	144				2,216
50 Commonwealth Avenue Capital	14					14
Education City Cost Agreement	767					767
White City		612	1,728	540		2,880
Old Laundry Yard		380	920			1,300
<b>Total</b>	<b>2,853</b>	<b>1,136</b>	<b>2,648</b>	<b>540</b>	<b>-</b>	<b>7,177</b>

ESH – Edith Summerskill House

4.5. **S106 funding:** The proposed programme for 2019/20-2022/23 relies on £25.5m of S106 receipts, of which £18m has been received to date with the remainder dependent on the associated developments proceeding in a timely manner. The current review of all S106 balances and commitments is expected to conclude by the end of the financial year. One of the purposes of this review is to ensure that funding is available for the Councils highest priorities. The review has confirmed that of the developments providing future S106 funds for affordable housing, a further £30.7m, have a realistic chance of crystallising. These funds are likely to be received over the medium to long term with some beyond the current 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.

<sup>1</sup> HRA 2020/21 Budget considered for approval in Financial Plan for Council Homes reports on 3 February 2020.

- 4.6. **Fire Safety Reserve:** Due to revenue budget pressures it is proposed in the Corporate Revenue Monitor 7<sup>2</sup> that the £10.04m Fire Safety Earmarked reserve is redirected from funding the capital programme to funding operational costs. As a result of this, additional borrowing will be required from 2020/21 onwards. Based on an interest rate of 3% this would be annual interest charges of £301,000.
- 4.7. **Future scheme approvals:** The HRA capital programme is subject to variation and potential growth during 2019/20. Any additional budget requirement, will in the absence of other identified funding, need to be funded by borrowing which could have an impact on revenue budgets due to the additional interest charges.
- 4.8. **RTB receipt funding:** The delivery of affordable rented housing must proceed sufficiently to make use of Right to Buy (RTB) One for One receipts. The Council has signed an agreement with the GLA, meaning that any receipts not spent within three years are transferred to it. The Council then has a further three years in which to spend the receipts. Without this agreement with the GLA they 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<sup>3</sup> of capital expenditure delivered by the Council (or Housing Associations if grant funded by Council RTB receipts). 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 7 displays the Right to Buy (RTB) receipts that need to be used for the remainder of 2019/20 (on a quarterly basis) 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 7 – Right-to Buy receipts and expenditure 2019-20**

	Q1	Q2	Q3	Q4
	£	£	£	£
RTB 1-4-1 receipts retained in 2016/17 (to be spent by 2019/20)	1,477,912	3,309,504	2,099,689	2,701,879
Receipts returned to GLA as unspent	1,477,912	3,309,504		
Interest paid on returned receipts	61,412	33,094		
Equivalent eligible expenditure needed to utilise retained receipts	-	-	6,998,963	9,006,263

## 5. REASONS FOR DECISION

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

<sup>2</sup> Corporate Revenue Monitor 7 is considered for approval by Cabinet on 3<sup>rd</sup> February 2020.

<sup>3</sup> Under current MHCLG regulations, 1-4-1 receipts can fund only 30% of the total expenditure, with remaining 70% being funded from mixture of non-housing receipts, S106 and borrowing.

## **6. EQUALITY IMPLICATIONS**

- 6.1. 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.
- 6.2. Implications verified by: Fawad Bhatti, Policy & Strategy Officer, Public Services Reform, Tel: 07500 103617.

## **7. IMPLICATIONS FOR BUSINESS**

- 7.1. 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.
- 7.2. 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.
- 7.3. Implications completed by: Albena Karameros, Economic Development Team, Tel:07739 316 957.

## **8. RISK MANAGEMENT**

- 8.1. 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.
- 8.2. 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.

- 8.3. The report identifies a number of risks which may impact on the future funding of the Housing Capital Programme, where in some cases (including billing to leaseholders for past and future works), 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.
- 8.4. 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.
- 8.5. 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.
- 8.6. 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.
- 8.7. Proposals set out in this report seek to comply with the Council's legal duties.
- 8.8. Implications completed by: David Hughes, Director of Audit, Risk and Insurance, Tel: 020 7361 2389.

## **9. VAT IMPLICATIONS**

- 9.1. 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.

9.2. 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 5 – Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP)

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

### Children's Services

	Current Year Programme					Indicative Future Years Analysis				
	Analysis of Movements (Q2 to Q3)					Revised Budget 2019/20 (Q3)	2020/21 Budget	2021/22 Budget	2022/23 Budget	Total Budget (All years)
	Revised Budget 2019/20 (Q2)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements					
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Scheme Expenditure Summary</b>										
Schools Organisational Strategy	9,151	(4,567)	(4,242)	-	(8,809)	342	4,734	-	-	5,076
Schools Window Replacement Project	200	-	400	-	400	600	400	-	-	1,000
School Maintenance Programme	770	-	-	-	-	770	2,238	2,238	2,238	7,484
<b>Total Expenditure</b>	<b>10,121</b>	<b>(4,567)</b>	<b>(3,842)</b>	<b>-</b>	<b>(8,409)</b>	<b>1,712</b>	<b>7,372</b>	<b>2,238</b>	<b>2,238</b>	<b>13,560</b>
<b>Capital Financing Summary</b>										
<b>Specific/External or Other Financing</b>										
Capital Grants from Central Government	7,900	(2,596)	(3,842)	200	(6,238)	1,662	5,401	2,238	2,238	11,539
Grants and Contributions from Private Developers (includes S106)	2,021	(1,971)	-	-	(1,971)	50	1,971	-	-	2,021
<b>Sub-total - Specific or Other Financing</b>	<b>9,921</b>	<b>(4,567)</b>	<b>(3,842)</b>	<b>200</b>	<b>(8,209)</b>	<b>1,712</b>	<b>7,372</b>	<b>2,238</b>	<b>2,238</b>	<b>13,560</b>
<b>Mainstream Financing (Internal Council Resource)</b>										
Use of Reserves	-	-	-	-	-	-	-	-	-	-
<b>Sub-total - Mainstream Funding</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Borrowing - school windows</b>	<b>200</b>	<b>-</b>	<b>-</b>	<b>(200)</b>	<b>(200)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Capital Financing</b>	<b>10,121</b>	<b>(4,567)</b>	<b>(3,842)</b>	<b>-</b>	<b>(8,409)</b>	<b>1,712</b>	<b>7,372</b>	<b>2,238</b>	<b>2,238</b>	<b>13,560</b>

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 (Q2 to Q3)					Revised Budget 2019/20 (Q3)	2020/21 Budget	2021/22 Budget	2022/23 Budget	Total Budget (All years)
	Revised Budget 2019/20 (Q2)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements					
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Scheme Expenditure Summary</b>										
Extra Care New Build project (Adults' Personal Social Services Grant)	957	(957)	-	-	(957)	-	957	-	-	957
Disabled Facilities Grant	-	-	-	1,102	1,102	1,102	-	-	-	1,102
Transforming Care (Winterbourne Grant)	300	(300)	-	-	(300)	-	300	-	-	300
Social Care Capital Grant	1,576	-	-	-	-	1,576	300	-	-	1,876
<b>Total Expenditure</b>	<b>2,833</b>	<b>(1,257)</b>	<b>-</b>	<b>1,102</b>	<b>(155)</b>	<b>2,678</b>	<b>1,557</b>	<b>-</b>	<b>-</b>	<b>4,235</b>
<b>Capital Financing Summary</b>										
<b>Specific/External or Other Financing</b>										
Capital Grants from Central Government	2,533	(957)	-	1,102	145	2,678	1,128	-	-	3,806
Capital Grants/Contributions from Non-departmental public bodies	300	(300)	-	-	(300)	-	300	-	-	300
<b>Sub-total - Specific or Other Financing</b>	<b>2,833</b>	<b>(1,257)</b>	<b>-</b>	<b>1,102</b>	<b>(155)</b>	<b>2,678</b>	<b>1,428</b>	<b>-</b>	<b>-</b>	<b>4,106</b>
<b>Borrowing</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>129</b>	<b>-</b>	<b>-</b>	<b>129</b>
<b>Total Capital Financing</b>	<b>2,833</b>	<b>(1,257)</b>	<b>-</b>	<b>1,102</b>	<b>(155)</b>	<b>2,678</b>	<b>1,557</b>	<b>-</b>	<b>-</b>	<b>4,235</b>

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 (Q2 to Q3)					2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000		
	Revised Budget 2019/20 (Q2) £'000	Slippages from/(to) future years £'000	Additions/(Reductions) £'000	Transfers 369	Total Transfers/Virements £'000					Revised Budget 2019/20 (Q3) £'000
<b>Scheme Expenditure Summary</b>										
Footways and Carriageways	2,790	-	1	-	1	2,791	2,030	2,030	2,030	8,881
Transport For London Schemes	3,859	-	371	-	371	4,230	2,157	2,157	2,157	10,701
Controlled Parking Zones	312	-	2	-	2	314	275	275	275	1,139
Column Replacement	498	-	-	-	-	498	346	346	346	1,536
Carnwath Road	1,870	(1,870)	-	-	(1,870)	-	-	-	-	-
LED Lighting Replacement Programme	77	-	-	-	-	77	-	-	-	77
P&D Upgrade and Pay by Phone	217	-	-	-	-	217	-	-	-	217
Other Highways Capital Schemes	2,823	-	4,908	-	4,908	7,731	-	-	-	7,731
Capital Investment in Street Lighting	-	(1,100)	1,100	-	-	-	1,100	-	-	1,100
Parks Capital Rolling Programme	1,138	(114)	-	-	(114)	1,024	164	-	-	1,188
Other Parks Capital Schemes	842	(330)	(153)	-	(483)	359	330	-	-	689
Shepherds Bush Common Improvements	481	(431)	-	-	(431)	50	431	-	-	481
Fulham Football Club -Bishops Park	-	(660)	660	-	-	-	660	-	-	660
Recycling	19	-	-	-	-	19	-	-	-	19
Libraries Investment Programme	150	-	-	-	-	150	-	-	-	150
Leisure Centre Capital Investment	1,380	-	-	-	-	1,380	-	-	140	1,520
CCTV	281	-	-	-	-	281	-	-	-	281
<b>Total Expenditure</b>	<b>16,737</b>	<b>(4,505)</b>	<b>6,889</b>	<b>-</b>	<b>2,384</b>	<b>19,121</b>	<b>7,493</b>	<b>4,808</b>	<b>4,948</b>	<b>36,370</b>
<b>Capital Financing Summary</b>										
<b>Specific/External or Other Financing</b>										
Grants and Contributions from Private Developers (includes S106)	5,539	(1,535)	5,413	1,380	5,258	10,797	1,585	-	140	12,522
Capital Grants and Contributions from GLA	3,857	-	373	-	373	4,230	2,157	2,157	2,157	10,701
<b>Sub-total - Specific or Other Financing</b>	<b>9,396</b>	<b>(1,535)</b>	<b>5,786</b>	<b>1,380</b>	<b>5,631</b>	<b>15,027</b>	<b>3,742</b>	<b>2,157</b>	<b>2,297</b>	<b>23,223</b>
<b>Mainstream Financing (Internal Council Resource)</b>										
Capital Receipts	-	-	-	-	-	-	-	-	1,056	1,056
Use of Reserves	918	-	2	-	2	920	521	521	521	2,483
<b>Sub-total - Mainstream Funding</b>	<b>918</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>2</b>	<b>920</b>	<b>521</b>	<b>521</b>	<b>1,577</b>	<b>3,539</b>
<b>Borrowing</b>	<b>6,423</b>	<b>(2,970)</b>	<b>1,101</b>	<b>(1,380)</b>	<b>(3,249)</b>	<b>3,174</b>	<b>3,230</b>	<b>2,130</b>	<b>1,074</b>	<b>9,608</b>
<b>Total Capital Financing</b>	<b>16,737</b>	<b>(4,505)</b>	<b>6,889</b>	<b>-</b>	<b>2,384</b>	<b>19,121</b>	<b>7,493</b>	<b>4,808</b>	<b>4,948</b>	<b>36,370</b>

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

**Finance & Governance**

**Current Year Programme**

**Indicative Future Years Analysis**

**Analysis of Movements (Q2 to Q3)**

	Revised Budget 2019/20 (Q2) £'000	Slippages from/(to) future years £'000	Additions/ (Reductions) £'000	Transfers £'000	Total Transfers/ Virements £'000	Revised Budget 2019/20 (Q3) £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000	Total Budget (All years) £'000
<b>Scheme Expenditure Summary</b>										
Invest to Save - Flexible Use of Capital Receipts	3,226	(1,726)	-	-	(1,726)	1,500	2,036	-	-	3,536
Planned Maintenance/DDA Programme	1,010	-	-	-	-	1,010	6,373	2,400	2,400	12,183
Desktop Strategy	1,100	-	-	-	-	1,100	-	-	-	1,100
<b>Total Expenditure</b>	<b>5,336</b>	<b>(1,726)</b>	<b>-</b>	<b>-</b>	<b>(1,726)</b>	<b>3,610</b>	<b>8,409</b>	<b>2,400</b>	<b>2,400</b>	<b>16,819</b>
<b>Capital Financing Summary</b>										
<b>Mainstream Financing (Internal Council Resource)</b>										
Use of Reserves (HRA Contribution)	121	-	-	-	-	121	-	-	-	121
Capital Receipts	3,226	(1,726)	-	-	(1,726)	1,500	2,036	-	2,400	5,936
<b>Sub-total - Mainstream Funding</b>	<b>3,347</b>	<b>(1,726)</b>	<b>-</b>	<b>-</b>	<b>(1,726)</b>	<b>1,621</b>	<b>2,036</b>	<b>-</b>	<b>2,400</b>	<b>6,057</b>
<b>Borrowing</b>	<b>1,989</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,989</b>	<b>6,373</b>	<b>2,400</b>	<b>-</b>	<b>10,762</b>
<b>Total Capital Financing</b>	<b>5,336</b>	<b>(1,726)</b>	<b>-</b>	<b>-</b>	<b>(1,726)</b>	<b>3,610</b>	<b>8,409</b>	<b>2,400</b>	<b>2,400</b>	<b>16,819</b>

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 (Q2 to Q3)					Revised Budget 2019/20 (Q3) £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000	Total Budget (All years) £'000
	Revised Budget 2019/20 (Q2) £'000	Slippages from/(to) future years £'000	Additions/ (Reductions) £'000	Transfers £'000	Total Transfers/ Virements £'000					
<b>Scheme Expenditure Summary</b>										
<b>Civic Campus</b>										
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
Acquisition of commercial units	-	-	-	-	-	-	-	-	63,000	63,000
Equity Loan (Civic Campus)	-	-	-	-	-	-	-	-	25,000	25,000
JV Partnership Loan	15,000	(15,000)	-	-	(15,000)	-	15,000	30,000	-	45,000
<b>Subtotal Civic Campus</b>	<b>19,393</b>	<b>(15,000)</b>	-	-	<b>(15,000)</b>	<b>4,393</b>	<b>21,966</b>	<b>60,831</b>	<b>91,482</b>	<b>178,672</b>
<b>Building Homes and Communities Strategy (GF sites)</b>										
Education City/Ark Swift redevelopment	1,376	(75)	-	-	(75)	1,301	10,658	8,943	13,730	34,632
Education City Loan	874	-	-	-	-	874	75	6,337	17,154	24,440
Schools Regeneration Programme	506	(2,029)	2,029	-	-	506	2,029	-	-	2,535
<b>Subtotal Building Homes and Communities Strategy (GF sites)</b>	<b>2,756</b>	<b>(2,104)</b>	<b>2,029</b>	-	<b>(75)</b>	<b>2,681</b>	<b>12,762</b>	<b>15,280</b>	<b>30,884</b>	<b>61,607</b>
<b>Other GF Capital Schemes managed by the Economy</b>										
Disabled Facilities Grant	1,102	-	-	(1,102)	(1,102)	-	-	-	-	-
Sands End Community Centre	2,807	43	-	-	43	2,850	116	-	-	2,966
Acquisition of Gibbs Green/Farm Lane	-	-	15,740	-	15,740	15,740	-	-	-	15,740
Carwath Road	-	-	-	-	-	-	1,870	-	-	1,870
Nourish Project (Good Growth Fund)	900	-	-	-	-	900	-	-	-	900
Macbeth Centre Arts Project	188	-	-	-	-	188	-	-	-	188
Macbeth Centre Kitchen Project	9	-	-	-	-	9	-	-	-	9
<b>Subtotal Other GF Capital Schemes managed by the Economy</b>	<b>5,006</b>	<b>43</b>	<b>15,740</b>	<b>(1,102)</b>	<b>14,681</b>	<b>19,687</b>	<b>1,986</b>	-	-	<b>21,673</b>
<b>Total Expenditure</b>	<b>27,155</b>	<b>(17,061)</b>	<b>17,769</b>	<b>(1,102)</b>	<b>(394)</b>	<b>26,761</b>	<b>36,714</b>	<b>76,111</b>	<b>122,366</b>	<b>261,952</b>

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			Total Budget (All years) £'000	
	Analysis of Movements (Q2 to Q3)					2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000		
	Revised Budget 2019/20 (Q2) £'000	Slippages from/(to) future years £'000	Additions/ (Reductions) £'000	Transfers £'000	Total Transfers/ Virements £'000					Revised Budget 2019/20 (Q3) £'000
<b>Specific/External or Other Financing</b>										
Capital Grants from Central Government	1,102	-	-	(1,102)	(1,102)	-	-	-	-	
Grants and Contributions from Private Developers (includes S106)	1,832	27	-	-	27	1,859	58	-	1,917	
Community Infrastructure Levy (CIL)	3,571	-	-	-	-	3,571	6,966	20,000	3,163	33,700
Capital Grants/Contributions from Non-departmental public bodies	1,074	16	-	-	16	1,090	58	-	-	1,148
Capital Grants and Contributions from GLA Bodies	998	-	-	-	-	998	1,200	3,550	-	5,748
<b>Sub-total - Specific or Other Financing</b>	<b>8,577</b>	<b>43</b>	<b>-</b>	<b>(1,102)</b>	<b>(1,059)</b>	<b>7,518</b>	<b>8,282</b>	<b>23,550</b>	<b>3,163</b>	<b>42,513</b>
<b>Mainstream Financing (Internal Council Resource)</b>										
Capital Receipts (HRA)	479	-	-	(296)	(296)	183	-	-	-	183
Use of Reserves (GF)	506	-	-	-	-	506	-	-	-	506
<b>Sub-total - Mainstream Funding</b>	<b>985</b>	<b>-</b>	<b>-</b>	<b>(296)</b>	<b>(296)</b>	<b>689</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>689</b>
Borrowing (Borrowing-HRA)	729	-	-	(729)	(729)	-	-	-	-	-
Borrowing (Borrowing-GF)	16,864	(17,104)	17,769	1,025	1,690	18,554	28,432	52,561	119,203	218,750
<b>Total Capital Financing</b>	<b>27,155</b>	<b>(17,061)</b>	<b>17,769</b>	<b>(1,102)</b>	<b>(394)</b>	<b>26,761</b>	<b>36,714</b>	<b>76,111</b>	<b>122,366</b>	<b>261,952</b>

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 (Q2 to Q3)						2020/21 Budget	2021/22 Budget	2022/23 Budget	Total Budget (All years)
	Revised Budget 2019/20 (Q2)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements	Revised Budget 2019/20 (Q3)				
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Scheme Expenditure Summary</b>										
<b>HRA Asset Management and Compliance Programme</b>										
Pre Agreed Works	3,327	(91)	-	124	33	3,360	22,814	500	-	26,674
Fire Safety Compliance Programme	4,024	(2,020)	-	-	(2,020)	2,004	13,431	6,877	2,540	24,852
Fire Safety Complex Schemes	1,115	164	-	-	164	1,279	6,014	10,337	10,000	27,630
Pre Agreed Lift Scheme	1,786	-	-	224	224	2,010	2,644	1,474	836	6,964
Pre Agreed Boiler Scheme	1,458	-	-	-	-	1,458	2,768	1,000	1,139	6,365
Safety Works - Electrical	2,500	(1,495)	-	-	(1,495)	1,005	3,922	5,406	4,031	14,364
Safety Works	1,175	-	-	-	-	1,175	1,175	1,961	1,380	5,691
Void Works	974	400	-	-	400	1,374	240	240	-	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	-	348	-	(348)	-	-	-	-	2,921	2,921
<b>Subtotal HRA Asset Management and Compliance Programme</b>	<b>24,566</b>	<b>(2,694)</b>	<b>-</b>	<b>-</b>	<b>(2,694)</b>	<b>21,872</b>	<b>61,740</b>	<b>36,179</b>	<b>29,161</b>	<b>148,952</b>
<b>Building Homes and Communities Strategy (HRA sites)</b>										
Homes & Communities Strategy	1,484	(1,361)	-	-	(1,361)	123	1,361	-	-	1,484
White City Estate Regeneration	5,912	-	-	-	-	5,912	1,728	540	-	8,180
Old Laundry Yard	550	(170)	-	-	(170)	380	920	-	-	1,300
<b>Subtotal Building Homes and Communities Strategy (HRA sites)</b>	<b>7,946</b>	<b>(1,531)</b>	<b>-</b>	<b>-</b>	<b>(1,531)</b>	<b>6,415</b>	<b>4,009</b>	<b>540</b>	<b>-</b>	<b>10,964</b>
<b>Other HRA Capital Schemes</b>										
Earls Court Buy Back Costs	1,186	-	(606)	-	(606)	580	-	-	-	580
Earls Court Project Team Costs	671	-	(671)	-	(671)	-	-	-	-	-
Housing Development Project	1,048	(14)	-	-	(14)	1,034	2,405	-	-	3,439
Stanhope Joint Venture	2,725	(2,137)	-	-	(2,137)	588	6,777	15,479	12,619	35,463
Affordable Housing Delivery Framework	2,113	(184)	-	-	(184)	1,929	1,751	-	-	3,680
Property Acquisition for Affordable Housing	1,547	-	-	-	-	1,547	-	-	-	1,547
Hartopp & Lannoy	11,340	-	-	-	-	11,340	3,200	-	-	14,540
<b>Subtotal Other HRA Capital Schemes</b>	<b>20,630</b>	<b>(2,335)</b>	<b>(1,277)</b>	<b>-</b>	<b>(3,612)</b>	<b>17,018</b>	<b>14,133</b>	<b>15,479</b>	<b>12,619</b>	<b>59,249</b>
<b>Total Expenditure</b>	<b>53,142</b>	<b>(6,560)</b>	<b>(1,277)</b>	<b>-</b>	<b>(7,837)</b>	<b>45,305</b>	<b>79,882</b>	<b>52,198</b>	<b>41,780</b>	<b>219,165</b>
<b>Adjustment for deferred costs</b>	<b>(671)</b>	<b>-</b>	<b>671</b>	<b>-</b>	<b>671</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Net Expenditure</b>	<b>52,471</b>	<b>(6,560)</b>	<b>(606)</b>	<b>-</b>	<b>(7,166)</b>	<b>45,305</b>	<b>79,882</b>	<b>52,198</b>	<b>41,780</b>	<b>219,165</b>

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 (Q2 to Q3)									
Revised Budget 2019/20 (Q2)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements	Revised Budget 2019/20 (Q3)	2020/21 Budget	2021/22 Budget	2022/23 Budget	Total Budget (All years)
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000

**Capital Financing Summary**

<b>Specific/External or Other Financing</b>										
Contributions from leaseholders	6,207		(666)	-	(666)	5,541	2,891	5,787	4,199	18,418
Grants and Contributions from Private Developers (includes S106)	1,845	(1,505)	(17)	496	(1,026)	819	5,017	10,835	8,833	25,504
<b>Sub-total - Specific or Other Financing</b>	<b>8,052</b>	<b>(1,505)</b>	<b>(683)</b>	<b>496</b>	<b>(1,692)</b>	<b>6,360</b>	<b>7,908</b>	<b>16,622</b>	<b>13,032</b>	<b>43,922</b>
<b>Mainstream Financing (Internal Council Resource)</b>										
Capital Receipts (HRA)	12,541	(1,237)	(1,598)	-	(2,835)	9,706	10,623	7,013	5,796	33,138
Major Repairs Reserve (MRR) / Major Repairs Allowance	13,220	3,111	-	-	3,111	16,331	24,249	16,512	11,387	68,479
Use of Reserves (Fire Safety EMR)	5,139	-	(5,139)	-	(5,139)	-	-	-	-	-
<b>Sub-total - Mainstream Funding</b>	<b>30,900</b>	<b>1,874</b>	<b>(6,737)</b>	<b>-</b>	<b>(4,863)</b>	<b>26,037</b>	<b>34,872</b>	<b>23,525</b>	<b>17,183</b>	<b>101,617</b>
Borrowing(HRA)	13,519	(6,929)	6,814	(496)	(611)	12,908	37,102	12,051	11,565	73,626
<b>Total Capital Financing</b>	<b>52,471</b>	<b>(6,560)</b>	<b>(606)</b>	<b>-</b>	<b>(7,166)</b>	<b>45,305</b>	<b>79,882</b>	<b>52,198</b>	<b>41,780</b>	<b>219,165</b>

## Appendix 2 – Analysis of budget variations

Variation by department	Amount £000
<b>Children's Services</b>	
Schools Organisational Strategy - budget reprofiling to future years for the following schemes: <ul style="list-style-type: none"> <li>• Bentworth School - Ark Transfer Works £(573)k</li> <li>• Pope John School - £(323)k</li> <li>• St Stephens - £(200)k</li> <li>• William Morris - £(400)k</li> <li>• Phoenix - £(1,100)k</li> <li>• Bridge Academy - £(1,971)k</li> </ul>	(4,567)
Bridge Academy – budget reduction to reflect future funding and contractual arrangements	(3,143)
Phoenix - budget reduction to reflect actual contractual commitment	(700)
Removal of Schools Organisational Strategy contingency budget	(399)
School Windows Replacement - additional budget (previously approved but reduced in Q2) to cover the costs of actual contractual commitment	400
<b>Total Children's Services variations</b>	<b>(8,409)</b>
<b>Environment Department</b>	
Transport Schemes – additional budgets to reflect new funding from S278 (£0.9m), TfL (£0.37m) and Thames Water (£4m - Counters Creek Project approved by the Cabinet in June 2019)	5,282
Carnwath Road - budget transferred to Economy Department and reprofiled to future years	(1,870)
Street Lighting Capital Investment - additional approved budget reprofiled to future years	0
Parks Capital Schemes - budget reprofiling to future years (£875,000) and budget reduction to reflect actual spend on completion (£153,000)	(1,028)
<b>Total Environment Department variations</b>	<b>2,384</b>
<b>Finance and Governance</b>	
Invest to Save schemes – budget reprofiling to future years	(1,726)
<b>Total Finance and Governance variations</b>	<b>(1,726)</b>
<b>Social Care</b>	
Transfer of Disabled Facilities Grant from the Economy Department	1,102
Extra Care New Build project - budget reprofiling to future years due to delays in the project	(957)
Transforming Care (Winterbourne Grant)	(300)
<b>Total Social Care variations</b>	<b>(155)</b>
<b>General Fund schemes under Economy Department</b>	
Transfer of Disabled Facilities Grant to Social Care	(1,102)
Sands End Community Centre - budget reprofiled from future years to reflect forecast spend for the year	43
Acquisition of Gibbs Green/Farm Lane - new budget approved via LUD in November 2019	15,740
Joint Venture loan (Civic Campus) – budget reprofiled to future years to reflect actual timing of the payment	(15,000)
Education City/Ark Swift redevelopment – budget reprofiled to future years due to delays in commencement of the project	(75)
Schools Regeneration - additional budget of £2.029m approved in March 2019 and reprofiled to future years	0
<b>Total General Fund schemes under Economy Department variations</b>	<b>(394)</b>

<b>Variation by department</b>	<b>Amount £000</b>
<b>Economy Department (HRA) Schemes</b>	
Asset Management and Compliance Programme – budget reprofiling from/(to) future years to reflect updated spending profile for the following schemes: <ul style="list-style-type: none"> <li>• Pre-agreed Works- £33,000</li> <li>• Fire Safety Compliance Programme- £(2,020,000)</li> <li>• Safety Works – Electrical - £(1,495,000)</li> <li>• Fire Safety Complex Schemes - £164,000</li> <li>• Void Works - £400,000</li> <li>• Pre-agreed Lift Scheme - £224,000</li> </ul> The majority of capital works programmed for a 2019/20 start will now start in the new calendar year as contracts are signed and contractor resources organised. It is forecast that the original spend will now be billed early in the next financial year with overall spend slipping to 2021/22.	(2,694)
Earls Court – reduction in budget due to termination of CLSA agreement	(606)
Housing Development projects – budget reprofiled to future years due to the delayed start on site for the Spring Vale project	(14)
Old Laundry Yard Redevelopment – budget reprofiled to future years due to delays in the project	(170)
Stanhope Joint Venture – budget reprofiling on Edith Summerskill House redevelopment due to delayed start on site now expected to commence in December 2019	(2,137)
Building Homes & Communities Strategy - budget reprofiled to future years	(1,361)
Affordable Housing Delivery Framework - budget reprofiled to future years due to project delays	(184)
<b>Total Economy Department (HRA) variations</b>	<b>(7,166)</b>
<b>Total 2019-20 Q3 variations</b>	<b>(15,466)</b>

### Appendix 3 – General Fund forecast capital receipts

Financial Year	Previous Forecast £'000s	Movement/ Slippage £'000s	2019/20 Forecast at Q3 £'000s
<b>2019/20</b>			
Brought forward receipts from 2018/19	3,536	(2,036)	1,500
<b>Total 2019/20</b>	<b>3,536</b>	<b>(2,036)</b>	<b>1,500</b>
<b>2020/21</b>			
Brought forward receipts from 2019/20	-	2,036	2,036
<b>Total 2020/21</b>	<b>-</b>	<b>2,036</b>	<b>2,036</b>
<b>2021/22</b>			
<b>Total 2021/22</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2022/23</b>			
Forecast capital receipts for the year	3,600	-	3,600
Cost of Sales (4%)	(144)	-	(144)
<b>Total 2022/23</b>	<b>3,456</b>	<b>-</b>	<b>3,456</b>
<b>Total All Years</b>	<b>6,992</b>	<b>-</b>	<b>6,992</b>

## **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.

## Appendix 5 - Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP)

1. The Capital Finance Requirement (CFR) measures the Council's long-term indebtedness. The Table 1 below shows the Council's forecast total GF CFR for the period 2019/20-2022/23:

Table 1 - Forecast General Fund CFR 2019/20-2022/23 (Quarter 3)

GENERAL FUND CFR ANALYSIS	2018/19	2019/20	2020/21	2021/22	2022/23
HEADLINE CFR EXCLUDING SELF FINANCING SCHEMES AND LOANS	£m	£m	£m	£m	£m
<b>Opening Capital Finance</b>	<b>50.47</b>	<b>70.85</b>	<b>92.32</b>	<b>105.47</b>	<b>121.29</b>
Revenue Repayment of Debt (MRP)	(0.21)	(0.35)	(0.97)	(1.29)	(1.94)
Mainstream Programme	20.59	21.82	14.12	17.11	2.42
<b>Closing Capital Finance</b>	<b>70.85</b>	<b>92.32</b>	<b>105.47</b>	<b>121.29</b>	<b>121.78</b>
SELF FINANCING SCHEMES AND LOANS	£m	£m	£m	£m	£m
<b>Opening Capital Finance</b>	<b>6.57</b>	<b>7.32</b>	<b>9.00</b>	<b>30.80</b>	<b>70.59</b>
Revenue Repayment of Debt (MRP)	(0.27)	(0.22)	(0.20)	(0.19)	(0.19)
In Year Borrowing	1.02	1.90	22.00	39.98	117.85
<b>Closing Capital Finance</b>	<b>7.32</b>	<b>9.00</b>	<b>30.80</b>	<b>70.59</b>	<b>188.25</b>
Finance leases/PFI/ Deferred costs of	9.84	8.73	7.93	7.13	6.33
<b>Total Closing CFR</b>	<b>88.01</b>	<b>110.05</b>	<b>144.20</b>	<b>199.01</b>	<b>316.36</b>

2. The current forecast for the General Fund Headline CFR is £92.32m at the end of 2019/20 and £121.78m by the end of 2022/23. The increase in GF Headline CFR puts additional pressures on revenue budgets.

3. The Headline CFR figures exclude:

- £7m Schools Windows Replacement Programme
- potential development (loan) funding of £45m to the Civic Campus programme
- potential £28.58m loan to the Education City Development project and
- expected £63m investment in acquisition of Civic Campus commercial units (decision due to go to the Cabinet in December 2019 and will be included in the Capital Programme 2020/21 due to go to the Full Council in February 2020).

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, commercial income or reduction in revenue costs (eg lease rental payments).

4. CFR movements related to these schemes are presented under "Self-Financing Schemes and Loans" heading in the Table 1. CFR for these schemes is forecast to increase by £1.7m to £9m in 2019/20 and to £188.25m by the end of 2022/23. Table 2 details the CFR movements regarding these schemes:

**Table 2- Self -financing schemes and loans CFR movements 2019/20-2022/23**

	Revised Budget 2019/20 (Q2) £'000	Variations (Q3) £'000	Revised Budget 2019/20 (Q3) £'000	Indicative Budget 2020/21 £'000	Indicative Budget 2021/22 £'000	Indicative Budget 2022/23 £'000	Total Budget (All years) £'000
<b>Approved Expenditure</b>							
<b>Ad Hoc Schemes:</b>							
JV loan - HTH	15,000	(15,000)	-	15,000	30,000	-	45,000
Acquisition of commercial units (Civic Campus)	-	-	-	-	-	63,000	63,000
Equity Loan (Civic Campus)	-	-	-	-	-	25,000	25,000
Education City regeneration (HRA element)	-	1,025	1,025	6,925	3,640	12,699	24,289
JV loan -Education City	72	802	874	75	6,337	17,154	24,440
<b>Total Mainstream Programmes</b>	<b>15,072</b>	<b>(13,173)</b>	<b>1,899</b>	<b>22,000</b>	<b>39,977</b>	<b>117,853</b>	<b>181,729</b>
<b>Financing</b>							
Increase/(Decrease) in Borrowing	15,072	(13,173)	1,899	22,000	39,977	117,853	181,729
<b>Total Financing</b>	<b>15,072</b>	<b>(13,173)</b>	<b>1,899</b>	<b>22,000</b>	<b>39,977</b>	<b>117,853</b>	<b>181,729</b>

5. The report regarding the expected investment in Civic Centre commercial units is also proposing one-off equity loan payment of £25m towards Civic Campus redevelopment scheme, currently forecast to be issued in 2022/23. The issue of the equity loan will result in an increase in GF CFR by the same amount. However, this loan is expected to be repaid in the following financial year and therefore it will not have any impact on the MRP. Repayment of the loan will result in a decrease in GF CFR in 2023/24 by £25m.
6. As the development site for Education City scheme is currently General Fund land, it is assumed that the total development costs will be charged to General Fund until the site completion. This will result in an increase in GF CFR. On completion, costs and debt associated with HRA element of the redevelopment (affordable housing units) will be appropriated to HRA. The appropriation will result in decrease in GF CFR and increase in HRA CFR by the same amount. Forecast expenditure for HRA affordable housing units is currently £24.29m. As any interest charges will be capitalised and MRP will not be charged until year after the completion, there will be no direct impact on general fund revenue budgets in respect to HRA costs. However, should the scheme be cancelled before the completion of HRA affordable homes, risks and costs associated with the termination could potentially impact GF revenue budgets.
7. Minimum Revenue Provision (MRP) is the minimum amount which a Council must charge to its revenue budget each year, to set aside a provision for repaying external borrowing (loans). This is an annual revenue expense in a Council's budget. The MRP will, over time, reduce the CFR.
8. The statutory guidance issued by the Secretary of State (Ministry for Housing, Communities and Local Government) details the ways how MRP should be charged on various items of capital expenditure. MRP charges presented in the Table 1 follow this guidance and assume the following:
  - MRP charges are deferred for development projects until year after their completion. The rate charged is based on the estimated life of an asset (50 years for new developments).

- MRP on rolling capital programmes and smaller scale ad hoc schemes is charged year after the expenditure incurs. The rate used is based on weighted average life of an assets (currently 3.01%).

