

London Borough of Hammersmith & Fulham FULL COUNCIL 22 February 2017		 hammersmith & fulham
FOUR YEAR CAPITAL PROGRAMME 2017-21		
Report of the Leader of the Council – Councillor Stephen Cowan		
Open Report		
Classification: For decision Key Decision: Yes		
Wards Affected: ALL		
Accountable Director: Hitesh Jolapara, Strategic Finance Director		
Report Author: Christopher Harris, Head of Corporate Accountancy and Capital		Contact Details: Tel: 0208 753 6440 christopher.harris@lbhf.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. This report presents the Council's four-year Capital Programme for the period 2017-21. The programme for this period totals £253.2m.
- 1.2. The gross programme for 2017/18 totals £98.8m. This comprises the General Fund Programme of £45.6m and the Housing Programme of £53.2m.
- 1.3. The report sets out the Councils' Minimum Revenue Provision (MRP) policy and the Prudential Indicators.

2. RECOMMENDATIONS

- 2.1. To approve the General Fund Capital Programme budget at £45.6m for 2017/18 (paragraph 5.1, Table 2 and Appendix 1).
- 2.2. To approve the continuation of the Council's rolling programmes and the continued use of internal funding for 2017/18 General Fund 'Mainstream' Programme as set out in Table 3 (paragraph 5.2) and specifically as follows:

- Capital receipts and internal borrowing amounting to £5.48m to fund the Council's rolling programmes as follows:

	£m
Disabled Facilities Grant [ASC]	0.45
Planned Maintenance/DDA Programme [ENV]	2.50
Footways and Carriageways [ENV]	2.03
Parks Programme [ENV]	0.50
Total	5.48

- Contributions from revenue amounting to £0.544m to fund the Council's rolling programmes as follows:

	£m
Controlled Parking Zones [ENV]	0.275
Column Replacement [ENV]	0.269
Total	0.544

- 2.3. To note existing capital receipts funded schemes previously approved, but now scheduled for 2017/18 (paragraph 5.2, Table 3):

One off schemes:

- Schools' Organisation Strategy - £0.8m
- Carnwath Road - £ 3.07m

Rolling programmes:

- Parks Programme- £0.335m
- Planned Maintenance/DDA Programme (including Hammersmith Town Hall refurbishment) – £5.35m

- 2.4. To approve the Housing Programme at £53.2m for 2017/18 as set out in Table 5 (paragraph 7.3) and Appendix 1.

- 2.5. To approve the annual Minimum Revenue Provision policy statement for 2017/18 in Appendix 4.

- 2.6. To approve the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Indicators as set out in Appendix 5 to the report.

3. REASONS FOR DECISION

- 3.1. The reason for the recommendations is to comply with the Council's Financial Regulations which form part of the Council's Constitution. It is also necessary to comply with statutory accounting requirements and the CIPFA Prudential Code.

4. INTRODUCTION AND BACKGROUND

- 4.1. This report sets out an updated four-year capital expenditure and resource forecast and a capital programme for 2017/18 to 2020/21, as summarised in Table 1 below. A detailed analysis of specific schemes by service is included in Appendix 1.

Table 1 - Capital Programme 2017/18 to 2020/21

	Indicative Budgets				Total Budget (All years) £'000
	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	
CAPITAL EXPENDITURE					
Children's Services	28,258	7,334	-	-	35,592
Adult Social Care	865	450	1,387	450	3,152
Environmental Services	16,486	7,831	7,731	7,731	39,779
Sub-total (Non-Housing)	45,609	15,615	9,118	8,181	78,523
HRA Programme	33,523	29,634	28,826	32,475	124,458
Decent Neighbourhoods Programme	19,655	13,599	7,662	9,313	50,229
Sub-total (Housing)	53,178	43,233	36,488	41,788	174,687
Total Expenditure	98,787	58,848	45,606	49,969	253,210

CAPITAL FINANCING					
Specific/External Financing:					
Government/Public Body Grants	10,360	2,157	3,364	2,157	18,038
Developers Contributions (S106)	18,920	501	-	-	19,421
Leaseholder Contributions (Housing)	2,849	2,849	2,849	2,849	11,396
Sub-total - Specific Financing	32,129	5,507	6,213	5,006	48,855
Mainstream Financing (Internal):					
Capital Receipts - General Fund	14,790	3,840	3,840	3,840	26,310
Capital Receipts - Housing*	11,063	16,952	13,575	17,832	59,422
Revenue funding - General Fund	544	544	544	544	2,176
Revenue Funding - HRA	2,464	6,028	-	1,313	9,805
Major Repairs Reserve (MRR) [Housing]	18,174	17,404	19,794	19,794	75,166
Sub-total - Mainstream Funding	47,035	44,768	37,753	43,323	172,879
Internal Borrowing	19,623	8,573	1,640	1,640	31,476
Total Capital Financing	98,787	58,848	45,606	49,969	253,210

*Includes use of brought-forward receipts

- 4.2. The forecast above for specific and external resource is based on known allocations at December 2016. The resource forecasts for both external and internal financing will be updated over the forthcoming months in accordance with relevant government, and other public and private, spending announcements. This will include a review of Children's Services allocations. At present schools' funding is not confirmed beyond 17/18. Once this is confirmed by Government, General Fund capital expenditure is likely to increase. In addition the capital receipts figures will be updated as they become known.
- 4.3. The CIPFA Prudential Indicators have been updated to meet statutory requirements for 2017/18 and are detailed in Appendix 5.

5. THE GENERAL FUND CAPITAL PROGRAMME

5.1 The General Fund programme is summarised in Table 2, below. Detail for each service is included at Appendix 1. The programme includes:

- The continuation of the School's Organisation Strategy (within Children's Services) which is committed to increasing school places in the Borough;
- The continuation of the Council's rolling programmes for Disabled Facilities Grants, Planned Building Maintenance, Footways and Carriageways and Parks.
- The planned refurbishment of Hammersmith Town Hall (within existing resources from the Planned Building Maintenance programme). This project is designed to increase the usage and occupancy of the Town Hall, thereby allowing other corporate property to be vacated or let out at commercial rates, creating significant savings.

Table 2 – General Fund Capital Programme 2017-21

	Indicative Budgets				Total Budget (All years) £'000
	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	
CAPITAL EXPENDITURE					
Children's Services	28,258	7,334	-	-	35,592
Adult Social Care	865	450	1,387	450	3,152
Environmental Services	16,486	7,831	7,731	7,731	39,779
Total Expenditure	45,609	15,615	9,118	8,181	78,523
CAPITAL FINANCING					
Specific/External Financing:					
Government/Public Body Grants	10,090	2,157	3,094	2,157	17,498
Developers Contributions (S106)	10,749	501	-	-	11,250
Sub-total - Specific Financing	20,839	2,658	3,094	2,157	28,748
Mainstream Financing (Internal):					
Capital Receipts - General Fund	14,790	3,840	3,840	3,840	26,310
Revenue funding - General Fund	544	544	544	544	2,176
Sub-total - Mainstream Funding	15,334	4,384	4,384	4,384	28,486
Internal Borrowing	9,436	8,573	1,640	1,640	21,289
Total Capital Financing	45,609	15,615	9,118	8,181	78,523

5.2 Table 3 below shows the projects funded from internal resource and comprises the completion of existing schemes and the continuation of rolling programmes.

Table 3 – General Fund Mainstream Programme 2017-21

	Indicative Budgets				Total Budget (All years) £'000
	Budget 2017/18	Budget 2018/19	Budget 2019/20	Budget 2020/21	
	£'000	£'000	£'000	£'000	
Approved Expenditure					
Ad Hoc Schemes:					
Schools Organisation Strategy [CHS] (mainstream element)	807	-	-	-	807
Hammersmith Town Hall Refurbishment (Mainstream Element/CPMP) [ENV]	5,075	1,325	1,000	-	7,400
Carnwath Road [ENV]	3,070	-	-	-	3,070
Rolling Programmes:					
Disabled Facilities Grant [ASC]	450	450	450	450	1,800
Planned Maintenance/DDA Programme [ENV]	2,775	1,275	1,500	2,500	8,050
Footways and Carriageways [ENV]	2,030	2,030	2,030	2,030	8,120
Controlled Parking Zones [ENV]	275	275	275	275	1,100
Column Replacement [ENV]	269	269	269	269	1,076
Parks Programme [ENV]	835	500	500	500	2,335
Total Mainstream Programmes	15,586	6,124	6,024	6,024	33,758
Financing					
Capital Receipts	14,790	3,840	3,840	3,840	26,310
General Fund Revenue Account	544	544	544	544	2,176
Increase/(Decrease) in Internal Borrowing	252	1,740	1,640	1,640	5,272
Total Financing	15,586	6,124	6,024	6,024	33,758

5.3 The General Fund mainstream capital programme will, in the first instance, continue to be primarily funded from capital receipts. A summary of forecast General Fund capital receipts is included in Appendix 2. The actual level, and timing, of sales is subject to certain risks – most notably a dependence on the wider property market, appropriate consultation and planning considerations. Sales are also at risk of slipping or not being achieved. An additional risk is that significant cost of disposals of assets may be incurred, which can be difficult to predict in some cases. Where capital receipts are not available, the mainstream programme will be funded from temporary increases in internal borrowing.

6. GENERAL FUND CAPITAL FINANCE REQUIREMENT (CFR)

6.1 General Fund debt is measured by the Capital Finance Requirement (CFR). The Council is required to make an annual provision from revenue, known as the Minimum Revenue Provision (MRP), which set-asides resource to repay debt and in so doing reduces the CFR. The CFR and MRP are explained in more detail in Appendix 3 and the Council’s 2017/18 MRP policy is set-out in Appendix 4. The current forecast for the General Fund CFR is shown in Table 4 below.

6.2 The General Fund CFR is stated with and without schools’ windows in the table below. This is because the Dedicated Schools Grant (DSG) will compensate the Council for any cost of borrowing associated with the Schools’ Windows programme. The forecast General Fund

CFR excluding school windows at the end of 2017/18 is £45.59m. The CFR with the DSG-funded Schools Windows will be £58.56m.

Table 4 - Forecast General Fund Capital Financing Requirement (CFR)

General Fund CFR Forecast	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Closing CFR (Including DSG-funded Schools Windows borrowing)	58.56	66.52	67.23	67.91
Closing CFR (Excluding DSG-funded Schools Windows borrowing)	45.59	47.24	48.71	50.13

7. THE HOUSING CAPITAL PROGRAMME

- 7.1 The Housing Capital Programme is based on the Financial Plan for Council Homes which is being submitted to Cabinet for approval in February 2017. It includes £124m over four years for major works to be carried out on existing properties. It also includes approved plans to deliver new affordable homes as well as the costs relating to Earls Court.
- 7.2 The capital funding requirement for Council homes is derived from the current Housing Stock Condition Survey. As a result of the Government's 1% reduction to rents each year for the next four years, as set out in last year's report, we have planned to do some work slightly later than we would ideally like to. This is to ensure we stay within our debt cap. However, in the programme set out here, we have managed to pull forward £12m worth of this work.
- 7.3 The programme is primarily funded by Internal Borrowing, Revenue Contributions appropriated to the Major Repairs Reserve and capital receipts from both Right-to-Buy and sales of surplus non-dwelling sites. The overall Housing Programme expenditure and resource forecast is summarised in Table 5, below. The detailed programme is included at Appendix 1.

Table 5 – Housing Expenditure and Resource Forecast 2017-21

Housing Programme - Resource Summary

Indicative Budgets

	2017/18 Budget £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000
Approved Expenditure				
Decent Neighbourhood Schemes	21,061	18,129	10,423	13,672
HRA Debt Repayment	-	-	-	-
HRA Schemes	33,523	29,634	28,826	32,475
Total Housing Programme - Approved Expenditure	54,584	47,763	39,249	46,147
<i>Adjustment for deferred costs</i>	<i>(1,406)</i>	<i>(4,530)</i>	<i>(2,761)</i>	<i>(4,359)</i>
Total Expenditure after deferred costs	53,178	43,233	36,488	41,788

	2017/18 Budget £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000
Available and Approved Resource				
Capital Receipts - Unrestricted	8,455	372	9,115	5,448
Capital Receipts - RTB (141)	2,608	-	-	-
Capital Receipts - Sale of new build homes	-	-	-	-
Earls Court Receipts recognisable	-	16,581	4,460	12,384
Housing Revenue Account (revenue funding)	2,464	6,028	-	1,313
Major Repairs Reserve (MRR)	18,174	17,404	19,794	19,794
Contributions Developers (S106)	8,171	-	-	-
Repayment of NHHT loan	270	-	270	-
Contributions from leaseholders	2,849	2,849	2,849	2,849
Internal Borrowing	10,187	-	-	-
Total Funding	53,178	43,233	36,488	41,788

Housing Capital Resource Balances

Indicative Budgets

	2017/18 Budget £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000
Usable Capital Receipts				
Capital Receipts B/f	35,366	31,743	38,957	37,574
Generated in year	7,710	24,167	12,462	33,622
Used in Year	(11,333)	(16,953)	(13,845)	(17,832)
Capital Receipts C/f	31,743	38,957	37,574	53,364
<i>Of Which '141' Restricted</i>	<i>31,742</i>	<i>33,867</i>	<i>36,050</i>	<i>38,233</i>

<i>Associated deferred costs</i>	480	480	480	480
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	2017/18 Budget £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000
Deferred Capital Receipts				
Balance B/f	44,800	59,700	58,019	68,459
Receipts in Year	14,900	14,900	14,900	
Recognition Profile		(16,581)	(4,460)	(25,991)
Balance C/f	59,700	58,019	68,459	42,468

<i>Associated deferred costs</i>	6,790	11,218	13,917	18,179
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***Under the 1-4-1 scheme, Right to Buy (RTB) receipts can be retained by the authority on the proviso that they are recycled into the provision of a replacement dwelling. Accordingly, these receipts must be ring-fenced until they can be matched to qualifying expenditure.*

- 7.4 For the period 2017-21 the Housing programme will be borrowing against internal resources (as shown against 'internal borrowing' in Table 5). This is principally achieved through the use of cash associated with deferred capital receipts from land sales (capital receipts received in advance of the transfer of the land title). Use of this money is classed as borrowing as, although cash is received from the purchaser, the receipt is only deemed usable for funding purposes as land transfers to the purchaser.

This does not prevent the Council from spending the cash it receives. This borrowing unwinds when the receipt becomes usable (i.e. when land transfers). It should therefore be noted that the 'Earls Court Receipts recognisable' line in the Resources summary of Table 5 (above) represents timing of the transition of Earls Court deferred capital receipts from internal borrowing to usable capital receipts. It does not represent additional resource becoming available to fund capital spend. The total available to the HRA for the purposes of internal borrowing is shown in Table 6.

- 7.5 The forecast Housing Capital Finance Requirement (HRA CFR) is shown in Table 6, below.

Table 6 – Housing CFR Forecast 2017-21

HRA CFR Forecast	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Closing Forecast HRA CFR (excluding deferred costs of disposal)	213.47	213.47	213.47	213.47
Deferred Costs of Disposal	7.27	11.70	14.40	18.66
Closing Forecast HRA CFR (including deferred costs of disposal)	220.74	225.17	227.86	232.13

- 7.6 The HRA CFR is required to remain within a 'Debt Cap' which has been individually set for all housing authorities by the Department for Communities and Local Government. This cap was introduced as part of the transition to HRA self-financing. The Council's debt cap is currently set at £254.617m.

8. MAJOR PROJECTS

- 8.1 The Council is currently progressing a number of major projects that are likely to impact on the capital programme over the next four years. An update is provided in this section on current progress. As these projects are progressed, appropriate amendments will be made to capital and revenue estimates subject to member approval.

8.2 King Street Regeneration

The Council continues to work with its development partner, King Street Developments (Hammersmith) Ltd (KSD), a joint venture between Helical Bar plc and Grainger plc, to regenerate and redevelop area at the west end of King Street, around Hammersmith Town Hall. KSD have now acquired the former Cineworld cinema site where they have commenced demolition works.

8.3 Earl's Court

The Council entered into a Conditional Land Sale agreement, (CLSA) on 23rd January 2013, with the developer Capital & Counties Properties Plc (CapCo), to include Council owned land including the West Kensington and Gibbs Green Estates. Full details can be found in the 3 September 2012 Cabinet Report. The trigger notice for the CLSA was

served in November 2013 however, the administration continuous to work for a better deal for local residents.

8.4 Housing Development Programme

On 6th July 2015 Cabinet approved Phase 1 of the Housing Development Programme, to deliver 31 units of residential accommodation over 4 sites, financed by £10.8m Right-to-Buy and Section 106 receipts. The Phase 1 tendering process has been re-run as the originally selected bidder failed to meet contract performance standards. This has resulted in slippage of development expenditure from 2016-17 into 2017-18.

Feasibility studies for Phase 2 are ongoing, but as the Housing Revenue Account borrowing headroom is forecast to be fully utilised without consideration of further direct development, Phase 2, Phase 3 (for which feasibility work has recently begun) and beyond will need to compete with other finance intensive schemes (such as the redevelopment of Edith Summerskill House) for Section 106 resources.

8.5 Schools' Capital Programme

The Council continues to implement its Schools Organisation Strategy with the School's Capital programme expected to exceed £19m in 2017/18. The strategy continues to focus on expanding school places in light of increasing demand.

8.6 Old Oak and Park Royal Opportunity Area

As part of developing the business case for a High Speed 2 / Crossrail interchange at Old Oak Common the London Boroughs of Brent, Ealing and Hammersmith & Fulham and the GLA published a joint Vision for the Old Oak area to encourage appropriate development and to maximise regeneration benefits in the area. Since then the Old Oak and Park Royal Mayoral Development Corporation (OPDC) was established in April 2015 and is now the planning authority for the Old Oak and Park Royal Opportunity Area. The boundary of this area can be viewed on the OPDC's website at: https://www.london.gov.uk/sites/default/files/gla_migrate_files_destination/OPDC%20boundary%20-%2001_0.pdf

The council remains responsible for all other services such as waste collection, highways enforcement, car parking, parks management and maintenance etc. within the OPDC boundary.

8.7 The Hammersmith 'Flyunder'

Following on from the Council's work in 2013/14, Transport for London (TfL) have undertaken further feasibility work on the flyunder and other road tunnels in London.

Detailed business cases have been prepared and submitted to the Treasury and National Infrastructure Commission which identified a higher capital cost and a considerable funding shortfall. The Council is developing a Supplementary Planning Document (SPD) with the Hammersmith Residents Working party in order to establish a planning framework that would hopefully bring the Flyunder forward, along with significant improvements to the built environment in the town centre.

8.8 Shepherd's Bush Market

An appeal by the traders' association against the Shepherds Bush Market CPO was successful and the CPO was subsequently quashed. U+I have taken over from previous developers Orion. U+I have advised the Council that they will not be pursuing a new CPO or the current planning permission for the regeneration of the market and adjoining land. They will also not be pursuing the option agreement for the purchase of the council owned land (former Pennard Road laundry site). U+I are instead engaging with the Council and markets traders in improvements to the existing market and propose to seek a license and planning permission from the Council for use of the Council's land for market and other commercial, community and leisure users.

8.9 Hammersmith Bridge

The Council, in partnership with Transport for London (TfL), is currently looking at options to strengthen Hammersmith Bridge to allow double decker buses to use the bridge. The Council is undertaking an initial feasibility exercise with any final decision subject to a further Cabinet Decision and agreement with TfL. It is anticipated that any eventual project will be funded by TfL.

8.10 Community Infrastructure Levy (CIL)

The Council has adopted its own CIL, which took effect on the 1st September 2015. This is a levy that local authorities can choose to charge on new developments in their area and in part replaces the use of Section 106 Agreements to support the provision of infrastructure. The CIL money collected must be used in enabling development by funding, operating and maintaining infrastructure.

To date the Council has received £494,487.50 of Borough CIL, and it is projected that we will receive £800,000 in the next financial year.

The Council is also obliged to use 15% of the CIL funds to deliver projects agreed with community. Members have agreed to trial using Spacehive to manage the expenditure of these funds. The Council is also able to use up to 5% of the funds to pay for the administration of CIL.

8.11 Flexible Use of Capital Receipts

For the period 1 April 2016 to 31 March 2020, the Government has granted new powers to local authorities whereby capital receipts can be spent more flexibly. Previously,

capital receipts could only be spent on a narrow range of items such as capital expenditure or the repayment of debt. This flexibility enables local authorities to also apply capital receipts to the costs of service reform. This has been broadly defined, however the Government have specifically cited '*projects which are forecast to generate ongoing savings to an authority's, or several authorities', and/or to another public sector body's net service expenditure*'. This flexibility will only apply to capital receipts generated in the flexibility period (1 April 2016 to 31 March 2020).

9. EQUALITY IMPLICATIONS

- 9.1 The private sector disabled facilities scheme which comprises a Council funded contribution of £450K is unchanged from previous years and is forecast to remain unchanged in future years. This funding helps to facilitate disabled people's participation in public life. In addition to Council funding, a grant allocation is expected from government in support of this scheme for 2017/18.
- 9.2 It should be noted that there are some major projects, for example those discussed in section 8, which are subject to other decision making processes where due regard to the PSED (public sector equality duty) has been, and continues to be given (because it is a continuing duty) in order to determine the relevance to equality groups and any mitigating measures that are possible. This does not seek to change those decisions.

10. LEGAL IMPLICATIONS

- 10.1 There are no direct legal implications in relation to this report.
- 10.2 Implications verified/completed by: David Walker, Principal Solicitor, Commercial and Corporate Property 020 7361 2211.

11. FINANCIAL AND RESOURCES IMPLICATIONS

- 11.1 This report is of a wholly financial nature and financial and resource implications are considered throughout, however the following supplementary comments should also be noted:
- 11.2 The Council's mainstream capital programme is largely restricted to core rolling programmes but it is looking to regenerate a number of priority areas through a number of initiatives. These may have a major impact, both in terms of expenditure and resources, on the capital forecast over the next four years. Amendments will be made in line with Member approval.
- 11.3 In accordance with the requirements of the Prudential Code for Capital Finance local authorities are required to maintain a number of prudential indicators. These are set out in Appendix 5. The indicator used to reflect the underlying need of an authority to borrow for a capital purpose is the Capital Financing Requirement (CFR).
- 11.4 Each year local authorities are required to set aside some of their revenues as provision for debt repayment. This is commonly termed the Minimum Revenue Provision (MRP).

Before the start of each financial year full council is required to approve a statement of its policy on making MRP in respect of that financial year. Appendix 4 sets out the LBHF MRP Statement for 2017/18.

- 11.5 With regard to all major capital schemes and disposals, the council will need to give careful consideration to its VAT partial exemption threshold. Ordinarily, entities cannot reclaim VAT incurred in the provision of VAT exempt activities, however special provision for Local Authorities means that Council can reclaim such costs, providing these do not exceed 5% of the Council's overall VAT liability in any one year. If this threshold is breached without HMRC mitigation, then all VAT incurred in support of exempt activities, in that year, can no longer be reclaimed from HM Revenue and Customs (HMRC) and becomes payable by the Council. This would represent a cost of approximately £2m to £3m per year of breach.

Capital transactions represent a significant portion of the Council's VAT-exempt activity and accordingly pose the biggest risk to the partial exemption threshold. The Council monitors the partial exemption position closely; however unanticipated receipts, expense or slippages can frustrate this process. The Cabinet has adopted the following VAT policy to aid the management of the Partial Exemption position:

- Projects should be 'opted-to-tax' where this option is available and is of no financial disadvantage to the Council.
- If an option-to tax is unavailable it is advised that any avoidable, new projects incurring exempt VAT are deferred for the present time.
- In addition there is only limited room in the future years partial exemption forecasts. Therefore, new or re-profiled projects incurring exempt VAT will need to be agreed with the Corporate VAT team.
- In all cases the VAT team should be consulted in advance in order that the forecasts can be updated and re-checked against limits.

- 11.6 Implications verified/completed by: Christopher Harris, Head of Corporate Accountancy and Capital, telephone 0208 753 6440.

12. RISK MANAGEMENT

- 12.1 The report content presents a balanced and measured profile of the main aspects, risks and issues relating to the Capital Programme and its deliverables. The exposure to property market conditions, consultation requirements, potential delays due to legal challenge, gaining planning consent, protracted negotiations or exchange of contracts with potential purchasers are known risks and these are outlined in the report. Each may affect the likelihood or timeliness of meeting projected receipts. Mitigation is undertaken on a case by case basis and it is the responsibility of departments to capture risks that may affect the successful delivery of capital projects contained in their programme in their departmental registers. A number of significant opportunity risks to regenerate areas of the borough have previously been considered on the Councils Shared Services risk and assurance register which has been reviewed by the Strategic Leadership Team. These are covered in Section 8 of the report. Exposure to risks such as the potential for Fraud and Bribery in relation to its property and asset dealings are covered through the

councils existing Anti-Fraud and Bribery policies. The service maintains a register of key risks, where there may become significant they may be escalated onto the Shared Services risk register.

12.2 Implications verified/completed by: Michael Sloniowski, Shared Services Risk Manager, telephone 0208 753 2587.

13. COMMERCIAL IMPLICATIONS

13.1 There are no direct procurement implications in relation to this report. Advice in relation to procurement and commercial considerations will be given as and when projects start.

13.2 Implications verified/completed by: Alan Parry, Interim Head of Procurement (Job-share). Telephone 0208 753 2581

14. IMPLICATIONS FOR BUSINESS

14.1 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.

14.2 Implications completed by: Antonia Hollingsworth, Principal Business Investment Officer, Planning and Growth Dept. Tel: 020 8753 1698

LOCAL GOVERNMENT ACT 2000 **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

None.

LIST OF APPENDICES:

Capital Budget Monitoring and Financing Information:

Appendix 1 - Council Capital Programme by Service Area
Appendix 2 - General Fund Anticipated Capital Receipts

Appendix 3 - The Capital Financing Requirement (CFR)
Appendix 4 - Minimum Revenue Provision (MRP) Statement 2017/18
Appendix 5 - CIPFA Prudential Indicators 2017/18

APPENDIX 1 – Detailed Analysis by Service

Children's Services

Indicative Budgets

	2017/18 Budget £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000	Total Budget (All years) £'000
Scheme Expenditure Summary					
Schools Organisational Strategy	19,074	501	-	-	19,575
Schools Window Replacement Project	9,184	6,833	-	-	16,017
Total Expenditure	28,258	7,334	-	-	35,592
Capital Financing Summary					
Specific/External or Other Financing					
Capital Grants from Central Government	7,518	-	-	-	7,518
Grants and Contributions from Private Developers (includes S106)	10,749	501	-	-	11,250
Sub-total - Specific or Other Financing	18,267	501	-	-	18,768
Mainstream Financing (Internal Council Resource)					
Capital Receipts	807	-	-	-	807
Sub-total - Mainstream Funding	807	-	-	-	807
Borrowing	9,184	6,833	-	-	16,017
Total Capital Financing	28,258	7,334	-	-	35,592

Adult Social Care Services

Indicative Budgets

	2017/18 Budget £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000	Total Budget (All years) £'000
Scheme Expenditure Summary					
Extra Care New Build project (Adults' Personal Social Services Grant)	20	-	937	-	957
Community Capacity Grant	95	-	-	-	95
Transforming Care (Winterbourne Grant)	300	-	-	-	300
Disabled Facilities Grant	450	450	450	450	1,800
Total Expenditure	865	450	1,387	450	3,152
Capital Financing Summary					
Specific/External or Other Financing					
Capital Grants from Central Government	115	-	937	-	1,052
Capital Grants/Contributions from Non-departmental public bodies	300	-	-	-	300
Sub-total - Specific or Other Financing	415	-	937	-	1,352
Mainstream Financing (Internal Council Resource)					
Capital Receipts	450	450	450	450	1,800
Sub-total - Mainstream Funding	450	450	450	450	1,800
Borrowing	-	-	-	-	-
Total Capital Financing	865	450	1,387	450	3,152

APPENDIX 1 – Detailed Analysis by Service /cont.

Environmental Services

Indicative Budgets

2017/18 Budget £'000	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000	Total Budget (All years) £'000
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Scheme Expenditure Summary

Planned Maintenance/DDA Programme	2,775	1,275	1,500	2,500	8,050
King Street -Town Hall Redevelopment	5,075	1,325	1,000	-	7,400
Footways and Carriageways	2,030	2,030	2,030	2,030	8,120
Transport For London Schemes	2,157	2,157	2,157	2,157	8,628
Controlled Parking Zones	275	275	275	275	1,100
Column Replacement	269	269	269	269	1,076
Carnwath Road	3,070	-	-	-	3,070
Parks Expenditure	835	500	500	500	2,335
Total Expenditure	16,486	7,831	7,731	7,731	39,779

Capital Financing Summary

Specific/External or Other Financing					
Capital Grants and Contributions from GLA Bodies	2,157	2,157	2,157	2,157	8,628
Sub-total - Specific or Other Financing	2,157	2,157	2,157	2,157	8,628
Mainstream Financing (Internal Council Resource)					
Capital Receipts	13,533	3,390	3,390	3,390	23,703
General Fund Revenue Account (revenue funding)	544	544	544	544	2,176
Sub-total - Mainstream Funding	14,077	3,934	3,934	3,934	25,879
Borrowing	252	1,740	1,640	1,640	5,272
Total Capital Financing	16,486	7,831	7,731	7,731	39,779

APPENDIX 1 – Detailed Analysis by Service /cont.

Housing Capital Programme

Indicative Budgets

2017/18 Budget	2018/19 Budget	2019/20 Budget	2020/21 Budget	Total Budget (All years)
£'000	£'000	£'000	£'000	£'000

Scheme Expenditure Summary

HRA Schemes:

Supply Initiatives (Major Voids)	1,100	-	-	-	1,100
Energy Schemes	3,177	2,425	1,850	1,725	9,177
Lift Schemes	3,600	3,750	3,750	1,150	12,250
Internal Modernisation	250	250	500	1,750	2,750
Major Refurbishments	16,079	15,607	14,616	19,280	65,582
Planned Maintenance Framework	250	-	-	-	250
Minor Programmes	8,017	6,552	7,110	7,570	29,249
ASC/ELRS Managed	1,050	1,050	1,000	1,000	4,100
Subtotal HRA	33,523	29,634	28,826	32,475	124,458

Decent Neighbourhood Schemes:

Earls Court Buy Back Costs	7,005	13,084	7,662	9,313	37,064
Earls Court Project Team Costs	1,406	4,530	2,761	4,359	13,056
Housing Development Project	9,203	515	-	-	9,718
Other DNP projects	3,447	-	-	-	3,447
Subtotal Decent Neighbourhoods	21,061	18,129	10,423	13,672	63,285
Total Expenditure	54,584	47,763	39,249	46,147	187,743

Adjustment for deferred costs

(1,406)	(4,530)	(2,761)	(4,359)	(13,056)
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Total Net Expenditure

53,178	43,233	36,488	41,788	174,687
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Capital Financing Summary

Specific/External or Other Financing

Contributions from leaseholders	2,849	2,849	2,849	2,849	11,396
Grants and Contributions from Private Developers (includes S106)	8,171	-	-	-	8,171
Capital Grants/Contributions from Non-departmental public bodies	270	-	270	-	540
Sub-total - Specific or Other Financing	11,290	2,849	3,119	2,849	20,107

Mainstream Financing (Internal Council Resource)

Capital Receipts	11,063	16,952	13,575	17,832	59,422
Housing Revenue Account (revenue funding)	2,464	6,028	-	1,313	9,805
Major Repairs Reserve (MRR) / Major Repairs	18,174	17,404	19,794	19,794	75,166
Sub-total - Mainstream Funding	31,701	40,384	33,369	38,939	144,393

Borrowing (Internal Borrowing)

10,187	-	-	-	10,187
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Total Capital Financing

53,178	43,233	36,488	41,788	174,687
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APPENDIX 2 – Anticipated General Fund Capital Receipts

Year/Property	Forecast Receipts £'000s
2017/18	
Total 2017/18	14,790
2018/19	
Total 2018/19	3,840
2019/20	
Total 2019/20	3,840
2020/21	
Total 2020/21	3,840
Total All Years	26,310

APPENDIX 3 - THE CAPITAL FINANCING REQUIREMENT (CFR), MINIMUM REVENUE PROVISION (MRP) AND POOLING

The Capital Financing Requirement (CFR)

The CFR measures an authority's underlying need to borrow for a capital purpose. It is considered by the Chartered Institute of Public Finance Accountancy (CIPFA) as the best measure of Council debt as it reflects both external and internal borrowing.

It was introduced by the Government in 2004 and replaced the 'credit ceiling' as the Council's measure of debt.

The CFR is the difference between capital expenditure incurred and the resources set aside to pay for this expenditure. Put simply it can be thought of as capital expenditure incurred but not yet paid for in-full and serves as a measure of an authority's indebtedness.

An important caveat is that the CFR does not necessarily equal the outstanding loans of the authority. A council may be 'cash rich' and pay for a new asset in full without entering into new loans. However unless the council simultaneously sets aside reserves (either through recognising a revenue cost or transferring existing reserves from 'usable' to 'unusable' in the bottom half of the balance sheet) the CFR will increase. In this example the authority has effectively borrowed internally. **The CFR should therefore be thought of as the total of internal and external borrowing.**

The CFR presented in Table 4 excludes the CFR associated with Finance Leases and PFIs as the financing costs of these elements are fully funded through revenue budgets.

The Minimum Revenue Provision (MRP)

In order to keep the CFR 'in check', Local Authorities are required to recognise an annual revenue cost – known as the Minimum revenue Provision (MRP). The MRP will, over time, reduce the CFR. There are a number of options for selecting MRP, although traditionally this has been 4% of the CFR.

The MRP formula contains a 'floor' - known as 'Adjustment A' - which has been individually fixed for all authorities. When the CFR drops below this level, MRP is no longer payable. For Hammersmith and Fulham the floor has been set at £43.2m. In short, there is no revenue incentive to reduce the CFR below this level.

In addition to MRP, authorities are able to make voluntary provisions to reduce the CFR. These provisions can be made from capital or revenue resources. Voluntary reduction of the CFR delivers a benefit to revenue in the subsequent year as it reduces the mandatory MRP charge.

Pooling and Types of Receipt

The Council is required to hand-over a proportion of housing-related capital receipts to the Government.

1. Right to Buy (RTB) - 75% of capital receipts arising from the disposal of a dwelling through Right to Buy are paid over to the Government (pooled). This applies to disposals and to the principal element of repayments on loans (usually mortgages) granted by the authority for Right To Buy or other purchases of HRA properties.

A change in regulations now enables Council's to retain an RTB receipt where it is recycled into new social or affordable housing (known as the 1-4-1 scheme), once certain baselines have been met.

2. Non-RTB Disposals - these include non-dwellings (such as shops or bare land), non-RTB dwellings (for example vacant property) and other receipts, such as disposal of mortgage portfolios. These items do not need to be pooled but must be used for housing business purposes.

A recent change in regulations now also allows Councils to retain non-RTB receipts if they are directed to the reduction of Housing debt.

APPENDIX 4 - MINIMUM REVENUE PROVISION (MRP) STATEMENT 2017/18

1. This statement covers the minimum revenue provision (MRP) that Hammersmith and Fulham Council will set-aside from revenue to reduce borrowing and credit liabilities arising from capital expenditure.
2. Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146, as amended] require local authorities to make a prudent amount of minimum revenue provision (MRP). The Secretary of State (Department for Communities and Local Government) issued statutory guidance on determining the “prudent” level of MRP, to which this Council is required to have regard, in February 2012.
3. No MRP is required in respect of the Housing Revenue Account (HRA).

Annual MRP Statement – frequency of update and approval

4. The Secretary of State recommends that before the start of each financial year, H & F prepares a statement of its policy on making MRP in respect of that financial year and submits it to the full council. The statement should indicate how it is proposed to discharge the duty to make prudent MRP in the financial year. If it is ever proposed to vary the terms of the original statement during the year, a revised statement should be put to the council at that time.

Meaning of “Prudent Provision”

5. The broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

Supported Capital Expenditure or Capital Expenditure incurred before 1 April 2008:

6. For capital expenditure incurred before 1 April 2008, the policy is based on Capital Financing Requirement method (Option 2¹) – this is a continuation of current practice.

From 1 April 2008 for all unsupported borrowing (which does not form part of Supported Capital Expenditure):

7. Where capital expenditure is incurred from 1 April 2008 and on an asset financed wholly or partly by self-funded borrowing, the MRP is to be made in instalments over the life of the asset in accordance with Option 3 Asset Life Method – this method spreads the cost over the estimated life of an asset. Under this method LBHF may in any year make additional voluntary revenue provision, in which case they may make an appropriate reduction in later years’ levels of MRP.

¹ Options as given in the CLG statutory guidance

8. The guidance states for all capitalised expenditure incurred on or after 1 April 2008, which is (a) financed by borrowing or credit arrangements; and (b) treated as capital expenditure by virtue of either a direction under section 16(2)(b) of the 2003 Act or regulation 25(1) of the 2003 Regulations, the authority should make MRP in accordance with Option 3 Asset Life Method.
9. Asset life for MRP purposes shall be determined in the year that MRP commences and not be subsequently revised by the Strategic Finance Director.
10. The determination as to which scheme is funded from borrowing and which from other sources shall be made by the Strategic Finance Director. Where an asset is only temporarily funded from borrowing in any one financial year and it is intended that its funding be replaced with other sources by the following year, no MRP shall apply.
11. MRP commencement: When borrowing to provide an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. H&F's policy is to postpone beginning to make MRP until the financial year following the one in which the asset becomes operational. "Operational" here has its standard accounting definition. Investment properties should be regarded as becoming operational when they begin to generate revenues.
12. For any deferred costs of disposal debited to the Capital Adjustment Account, no MRP shall apply.
13. Capital Financing Requirement: Where the CFR was nil or negative on the last day of the preceding financial year, LBHF need not make any MRP in the current financial year.
14. Finance leases and PFI: In the case of finance leases and on-balance sheet PFI contracts, the MRP requirement would be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability. Where a lease (or part of a lease) or PFI contract is brought onto the balance sheet, having previously been accounted for off-balance sheet, the MRP requirement would be regarded as having been met by the inclusion in the charge, for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.
15. Housing assets: the duty to make MRP does not extend to cover borrowing or credit arrangements used to finance capital expenditure on housing assets.
16. The Strategic Finance Director is responsible for implementing the Annual Minimum Revenue Provision Statement and has managerial, operational and financial discretion necessary to ensure that MRP is calculated in accordance with regulatory and financial requirements and resolve any practical interpretation issues. The Strategic Finance Director may also make additional revenue provisions, over and above those set out in the statement, or set aside capital receipts to reduce debt liabilities should it be prudent for financial management of the HRA or the General Fund. In addition, the Strategic Finance Director, in consultation with the Cabinet Member for Finance, may re-phase MRP charges while continuing to ensure a prudent provision is made over the medium term.

APPENDIX 5 - PRUDENTIAL INDICATORS

CAPITAL EXPENDITURE

Estimate of total capital expenditure to be incurred in the current financial year and the forthcoming financial years built upon the assumed level of resources is as follows:

	Actual 2015/16 £'000	Forecast 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
General Fund	30,163	55,051	45,609	15,615	9,118
Housing	65,617	59,058	53,178	43,233	36,488
TOTAL	95,780	114,109	98,787	58,848	45,606

CAPITAL FINANCING REQUIREMENT (CFR)

The estimate of capital financing requirement at the end of each year will relate to all capital expenditure – i.e. it includes relevant capital expenditure incurred in previous years. The capital financing requirement will reflect the authority's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements.

In order to make these estimates, all of the financing options available are considered and estimated. The estimates will not commit the local authority to particular methods of financing. The Strategic Finance Director will determine the actual financing of capital expenditure incurred once a year, after the end of the financial year.

	Actual 2015/16 £'000	Forecast 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
General Fund	44,180	45,425	45,587	47,231	48,709
General Fund (DSG Funded School Windows)	1,116	3,945	12,972	19,285	18,514
Housing Revenue Account	210,132	209,175	220,737	225,165	227,864
TOTAL	255,428	258,545	279,296	291,681	295,087
Other Items – Leases etc*	12,148	12,000	11,800	11,600	11,400
TOTAL (inc. Leases etc.)	267,576	270,545	291,096	303,281	306,487

The GF CFR associated with the Schools' Windows Programme is shown separately because the Dedicated Schools Grant (DSG) will meet the borrowing costs associated with this programme. Other Items* includes the technical GF CFR associated with finance leases and PFI schemes which count as capital items however are fully funded through revenue budgets.

EXTERNAL DEBT AND THE CAPITAL FINANCING REQUIREMENT

The Prudential Code stipulates that, over the medium term, Gross Debt should not generally exceed the Capital Financing Requirement. This provides assurance that borrowing will only be incurred for capital purposes. This is demonstrated as follows:

	Actual 2015/16 £'000	Forecast 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
Borrowing	231,897	224,823	217,405	212,841	203,142
CFR*	255,428	258,545	279,296	291,681	295,087

*CFR used for comparison excludes Lease items etc. as these are fully funded through revenue budgets

RATIO OF FINANCING COSTS TO NET REVENUE STREAM

The Council has estimated the ratio of financing costs to net revenue stream. This prudential indicator is expressed in the following manner: Estimate of capital financing costs ÷ estimate of net revenue stream* x 100% for years 1, 2 and 3.

	Actual 2015/16 £'000	Forecast 2016/17 £'000	Estimate 2017/18 £'000	Estimate 2018/19 £'000	Estimate 2019/20 £'000
General Fund	1.4%	1.3%	1.3%	1.3%	1.3%
Housing Revenue Account	12.5%	12.5%	12.2%	11.3%	10.8%

*For the General Fund this is deemed to be the Net Budget Requirement; for the HRA this is deemed to be forecast gross income

INCREMENTAL IMPACT OF CAPITAL INVESTMENT DECISIONS ON COUNCIL TAX AND HRA RENTS

This indicator is represented as: The annual increase or decrease in the costs to service capital debt (internal and external charges) ÷ Taxbase (number of dwellings). This will not manifest itself as an increase or decrease in the Council Tax *per se*, but demonstrates the underlying impact of capital spending decisions.

	Estimate 2017/18 £	Estimate 2018/19 £	Estimate 2019/20 £
Council Tax Implication (£)	-1.09	-0.22	0.11

The impact on the Housing Revenue Account Rents is assessed as nil. It is anticipated that all the new HRA investment will be funded without the need for external borrowing. In addition, the recent Government ruling to reduce HRA Rents effectively prevents rents from increasing.

BORROWING – AUTHORISED LIMIT & OPERATIONAL BOUNDARY

The prudential indicators concerning the authorised limit and operational boundary for borrowing, and other treasury management activities, are set out in the Treasury Management Strategy report (presented separately from this report).