


<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">Cabinet</p> <p style="text-align: center;">9 JULY 2018</p>	
<p>CAPITAL PROGRAMME MONITOR & BUDGET VARIATIONS, 2017/18 (OUTTURN)</p>	
<p>Report of the Cabinet Member for Finance and Commercial Services – Councillor Max Schmid</p>	
<p>Open Report</p>	
<p>Classification: For Decision</p> <p>Key Decision: Yes</p>	
<p>Wards Affected: All</p>	
<p>Accountable Executive Director: Hitesh Jolapara, Strategic Director Finance and Governance</p>	
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1. EXECUTIVE SUMMARY

- 1.1. This report provides a summary of the Council's Capital Programme out-turn for the financial year 2017/18. Total capital expenditure for the year was £73.6m and headline General Fund debt at the year-end was £57.1m.
- 1.2. This report also seeks approval for fourth-quarter 2017/18 budget variations. A net decrease of £19.5m (£8.2m General Fund, £11.3m Housing) to the 2017/18 capital budget (as approved at the end of the third-quarter) is proposed, largely due to slippages and the setting aside of resource to future years.
- 1.3. The 2017/18 accounts, which underpin figures in this report, remain subject to audit. The audit is anticipated to be finalised in July 2018.
- 1.4. The Council needs to carefully consider its VAT partial exemption calculation and the risk of breaching the partial exemption threshold which would likely cost the Council between £2m-£3m. Capital projects represent the bulk of this risk. The Council remained below the threshold in 2017/18 however there remains a risk of breaching the threshold in future years if the position is not carefully managed on an ongoing basis.
- 1.5. The following risks associated with funding of future years' expenditure have been identified within the Housing Capital Programme:

- The proposed programme for 2018/19-2021/22 relies on £26.5m of S106 receipts of which £3.6m has been received to date, with the balance projected to be received as developments proceed.
- £14.5m of retained Right to Buy One for One receipts are required to be used in 2018/19 for provision of additional affordable social housing or be repaid to MHCLG. However, under the GLA's recent Homes for Londoners funding prospectus the Council can now opt for these receipts to be passed from MHCLG to the GLA and then ring fenced for use by the Council in the borough within three years.

These risks are explained in more detail in sections 7.6 and 7.7 of the report.

2. RECOMMENDATIONS

- 2.1. To note the capital out-turn for the year.
- 2.2. To approve proposed technical budget variations to the capital programme as summarised in Table 1 and detailed in Appendix 2.

3. REASONS FOR DECISION

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

4. CAPITAL PROGRAMME 2017-18 – OUTTURN AND Q4 VARIATIONS

- 4.1. Capital expenditure for 2017/18 totalled £73.6m. An analysis of spend by service is shown in Table 1 below with further detail available in Appendix 1. Table 1 also shows the proposed fourth-quarter budget variations. A full analysis of elements of the programme funded from internal Council resource is included in section 6.

Table 1 – LBHF Capital Programme 2017-22 with proposed 2017/18 Q4 Variations

	Proposed Variations: Q3 Budget to Q4					Next Year Programme			Indicative Future Years Analysis				
	Budget 2017/18 (Q3) £'000	Slippages from/(to) future years £'000	Addition/(Reduction) £'000	Transfers £'000	Total Variations (Q4) £'000	Outturn 2017/18 £'000	2018/19 Original Budget £'000	Slippages Additions and Reductions £'000	2018/19 Revised Budget £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total Budget (All years) £'000
CAPITAL EXPENDITURE													
Children's Services	21,458	(5,451)	1,400	-	(4,051)	17,407	19,800	4,351	24,151	331	-	-	41,889
Adult Social Care	1,762	(1,369)	-	-	(1,369)	393	20	1,369	1,389	937	-	-	2,719
Environmental Services	18,843	(9,389)	1,250	-	(8,139)	10,704	15,417	9,389	24,806	10,778	7,208	7,208	60,704
Finance & Corporate Services	-	-	5,790	-	5,790	5,790	-	930	930	-	-	-	6,720
General Fund Schemes under Housing management	1,782	(578)	140	-	(438)	1,344	2,050	1,098	3,148	830	450	450	6,222
Sub-total (Non-Housing)	43,845	(16,787)	8,580	-	(8,207)	35,638	37,287	17,137	54,424	12,876	7,658	7,658	118,254
HRA Programme	33,163	(9,322)	(75)	-	(9,397)	23,766	45,540	(17,540)	28,000	35,000	35,000	35,000	156,766
Decent Neighbourhoods Programme	16,101	(2,478)	525	-	(1,953)	14,148	30,583	(3,425)	27,158	25,574	22,306	13,079	102,265
Sub-total (Housing)	49,264	(11,800)	450	-	(11,350)	37,914	76,123	(20,965)	55,158	60,574	57,306	48,079	259,031
Total Expenditure	93,109	(28,587)	9,030	-	(19,557)	73,552	113,410	(3,828)	109,582	73,450	64,964	55,737	377,285
CAPITAL FINANCING													
Specific/External Financing:													
Government/Public Body Grants	14,662	(7,003)	1,884	906	(4,213)	10,449	8,061	6,035	14,096	3,464	2,157	2,157	32,323
Grants and Contributions from Private Developers (includes S106)	20,776	(7,357)	1,527	64	(5,766)	15,010	9,285	5,089	14,374	3,376	17,906	2,794	53,460
Leaseholder Contributions (Housing)	6,644	(4,091)	-	-	(4,091)	2,553	4,390	4,292	8,682	3,860	4,048	3,945	23,088
Sub-total - Specific Financing	42,082	(18,451)	3,411	970	(14,070)	28,012	21,736	15,416	37,152	10,700	24,111	8,896	108,871
Mainstream Financing (Internal):													
Capital Receipts - General Fund	7,017	(2,653)	5,790	(4,364)	(1,227)	5,790	1,920	829	2,749	7,539	3,501	1,920	21,499
Capital Receipts - Housing*	18,676	(6,923)	219	4,583	(2,121)	16,555	24,538	(3,285)	21,253	17,097	9,607	6,637	71,149
Revenue funding - General Fund	316	(316)	15	-	(301)	15	521	316	837	521	521	521	2,415
Revenue Funding - HRA	100	-	-	(64)	(64)	36	4,563	(4,563)	-	-	5,172	5,500	10,708
Major Repairs Reserve (MRR) [Housing]	21,530	-	(686)	(4,583)	(5,269)	16,261	16,165	48	16,213	15,926	15,921	16,668	80,989
Earmarked Reserves (Revenue)	89	(89)	281	52	244	333	-	3,089	3,089	9,845	-	-	13,267
Sub-total - Mainstream Funding	47,728	(9,981)	5,619	(4,376)	(8,738)	38,990	47,707	(3,566)	44,141	50,928	34,722	31,246	200,027
Internal Borrowing	3,299	(155)	-	3,406	3,251	6,550	43,967	(15,678)	28,289	11,822	6,131	15,595	68,387
Total Capital Financing	93,109	(28,587)	9,030	-	(19,557)	73,552	113,410	(3,828)	109,582	73,450	64,964	55,737	377,285

*Capital Receipts include use of brought forward Housing receipts

- 4.2. A net variation to the 2017/18 programme of **£(19.5)m** is proposed, decreasing total budgeted expenditure from £93.1m to £73.6m. Of the proposed net variation, £(28.5)m relates to slippages to future financial years. The remaining £9m variation relates primarily to growth in the programme where external funding sources have now been confirmed or associated forecast funding has increased. A detailed analysis of proposed variations for approval is included at Appendix 2.
- 4.3. A net variation to the 2018/19 programme of **£(3.8)m** is proposed. This is mainly attributable to £17.1m of slippages from 2017/18 for general fund schemes and £(20.9)m of budget re-profiling to future years for Housing capital programme.
- 4.4. The capital programme presented here for 2017/18 and 2018/19 is based on approved projects and known funding allocations. These currently exclude Hammersmith Town Hall refurbishment (except £7.5m previously approved as part of Corporate Planned Maintenance Programme budget) and any other large projects which might be approved in the future years. The 2018/19 budget will be further updated in the first quarter monitor for 2018/19. The indicative future years analysis (2019+) will be updated as pipeline schemes are 'firmed-up'; these future years remain subject to approval in future capital programmes. Departments such as Children's Services, whose capital programme has traditionally depended on external specific grants, will be updated as and when future grants are confirmed.
- 4.5. Future CFR and MRP values will be revised once the full costing and financing of the Hammersmith Town Hall refurbishment and any other future projects is known.

5. CAPITAL FINANCE REQUIREMENT (CAPITAL DEBT)

- 5.1. The Capital Finance Requirement (CFR) measures the Council's long-term indebtedness. The General Fund Headline¹ CFR (excluding schools' windows borrowing) was **£50.48m** at the end of 2017/18. The increase of £3.23m in CFR in comparison to 2016/17 is due to the decision to apply general fund capital receipts generated in 2017/18 to fund Invest to Save expenditure under Flexible Use of Capital Receipts dispensation, as approved by the Cabinet in February 2018. Table 2 below presents the forecast CFR position.

Table 2 – General Fund CFR at Q4 2017/18 (including future years forecast)

GENERAL FUND CFR ANALYSIS	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
CFR EXCLUDING SCHOOLS WINDOWS	£m	£m	£m	£m	£m	£m
Opening Capital Finance Requirement (CFR)	44.18	47.25	50.48	63.01	62.87	63.71
Revenue Repayment of Debt (MRP)	(0.06)	(0.17)	(0.28)	(0.64)	(0.64)	(0.67)
Mainstream Programme (Surplus)/Shortfall	3.13	3.41	12.80	0.51	1.48	3.06
Closing Capital Finance Requirement (CFR)	47.25	50.48	63.01	62.87	63.71	66.11
SCHOOLS WINDOWS						
Opening Capital Finance Requirement (CFR)	1.12	3.57	6.63	19.74	19.21	18.44
Revenue Repayment of Debt (MRP)	(0.04)	(0.09)	(0.13)	(0.53)	(0.77)	(0.74)
Internal Borrowing (Schools Window Replacement)	2.50	3.14	13.24	-	-	-
Closing Capital Finance Requirement (CFR)	3.57	6.63	19.74	19.21	18.44	17.70
Total Headline Capital Finance Requirement (CFR)	50.82	57.11	82.74	82.08	82.15	83.81
Finance leases/PFI/ Deferred costs of disposal	11.05	10.33	9.53	8.73	7.93	7.13
Total Closing CFR	61.87	67.44	92.27	90.81	90.08	90.94

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

5.2. The HRA CFR is shown in Table 3 below:

Table 3 – HRA CFR at Q4 2017/18 (including future years forecast)

HRA CFR Forecast	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Closing Forecast HRA CFR (excluding deferred costs of disposal)	204.84	204.85	207.09	218.40	223.06	235.59
Deferred Costs of Disposal	5.83	5.42	6.29	7.18	8.08	9.31
Closing Forecast HRA CFR (including deferred costs of disposal)	210.68	210.26	213.39	225.58	231.14	244.91

6. GENERAL FUND – MAINSTREAM PROGRAMME AND CAPITAL RECEIPTS

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

6.2. The 2017/18 mainstream programme has decreased by £2.9m in comparison to Q3 forecast budget of £12.1m. This is mainly due to slippages and re-profiling of the current capital schemes to future years.

6.3. General Fund Capital receipts for 2017/18 were £6.72m. A summary of actual and forecast receipts is included at Appendix 3.

6.4. As at the end of 2017/18, £0.5m of deferred disposal costs have been accrued in respect of anticipated General Fund disposals. These costs are netted against the receipt when received (subject to certain restrictions). In the event that a sale does not proceed these costs must be written back to revenue.

Table 4 – General Fund Mainstream Programme 2017-22 with proposed 2017/18 Q4 Variations

	Budget 2017/18 (Q3) £'000	Variations (Q4) £'000	Outturn 2017/18 £'000	2018/19 Original Budget £'000	Slippages £'000	2018/19 Revised Budget £'000	Indicative 2019/20 Budget £'000	Indicative 2020/21 Budget £'000	Indicative 2021/22 Budget £'000	Total Budget (All years) £'000
Approved Expenditure										
Ad Hoc Schemes:										
Schools Organisation Strategy [CHS] (mainstream element)*	765	(765)	-	25	(25)	-	-	-	-	-
Hammersmith Town Hall Refurbishment (Mainstream Element/CPMP) [ENV]	500	(228)	272	6,274	228	6,502	1,000	-	-	7,774
Other Capital Schemes [ENV]	4,658	(4,658)	-	-	-	-	-	-	-	-
Invest to Save-Flexible Use of Capital Receipts	-	5,790	5,790	-	930	930	-	-	-	6,720
Carnwath Road [ENV]	-	-	-	-	-	-	3,070	-	-	3,070
Rolling Programmes:										
Disabled Facilities Grant [ASC]	673	(673)	-	450	505	955	450	450	450	2,305
Planned Maintenance/DDA Programme [ENV]	1,685	(509)	1,176	3,190	509	3,699	1,500	2,500	2,500	11,375
Footways and Carriageways [ENV]	2,762	(1,024)	1,738	2,030	1,024	3,054	2,030	2,030	2,030	10,882
Controlled Parking Zones [ENV]	38	(34)	4	275	34	309	275	275	275	1,138
Column Replacement [ENV]	278	(278)	-	246	278	524	246	246	246	1,262
Parks Programme [ENV]	719	(499)	220	-	410	410	-	-	-	630
Total Mainstream Programmes	12,078	(2,878)	9,200	12,490	3,893	16,383	8,571	5,501	5,501	45,157
Financing										
Capital Receipts	7,069	(349)	6,720	1,920	(101)	1,819	7,539	3,501	1,920	21,500
General Fund Revenue Account	5,063	(5,059)	4	521	312	833	521	521	521	2,400
Capital Receipts Carried forward	-	(930)	(930)	-	930	930	-	-	-	-
Increase/(Decrease) in Internal Borrowing	(54)	3,460	3,406	10,049	2,752	12,801	511	1,479	3,060	21,257
Total Financing	12,078	(2,878)	9,200	12,490	3,893	16,383	8,571	5,501	5,501	45,157

7. Housing Capital Programme

7.1. Housing Capital Programme Overview

7.1.1 Housing Capital expenditure for 2017/18 totalled £37.9m. The expenditure and resource analysis of the Housing Programme is summarised in Table 5 below:

Table 5 – Housing Capital Programme 2017-22 with proposed 2017/18 Q4 Variations

	Budget 2017/18 (Q3)	Total Variations (Q4)	Outturn 2017/18	2018/19 Original Budget	Slippages, Additions and Reductions	2018/19 Revised Budget	Indicative 2019/20 Budget	Indicative 2020/21 Budget	Indicative 2021/22 Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Approved Expenditure									
Decent Neighbourhood Schemes	16,101	(1,953)	14,148	30,583	(3,425)	27,158	25,573	22,307	13,079
HRA Schemes	33,163	(9,397)	23,766	45,540	(17,540)	28,000	35,000	35,000	35,000
Total Housing Programme - Approved Expenditure	49,264	(11,350)	37,914	76,123	(20,965)	55,158	60,573	57,307	48,079
Available and Approved Resource									
Capital Receipts - Unrestricted	13,747	(1,538)	12,209	6,902	1,020	7,922	4,200	4,742	4,742
Capital Receipts - RTB (141)	4,263	(13)	4,250	17,635	(4,305)	13,330	12,896	4,865	1,895
Capital Receipts - Sale of new build homes	414	(318)	96	-	-	-	-	-	-
Housing Revenue Account (revenue funding)	4,635	(4,635)	-	4,563	(4,563)	-	-	5,172	5,500
Major Repairs Reserve (MRR)	16,947	(686)	16,261	16,165	48	16,213	15,926	15,921	16,668
Contributions Developers (S106)	1,993	(113)	1,880	5,634	(2,140)	3,494	2,265	17,906	2,794
Repayment of NHHT loan	270	(270)	-	-	270	270	270	-	-
Contributions from leaseholders	6,845	(4,292)	2,553	4,390	4,292	8,682	3,860	4,048	3,945
Insurance claims	150	515	665	-	-	-	-	-	-
Use of reserves (Fire Safety EMR)	-	-	-	-	3,000	3,000	9,845	-	-
Internal Borrowing	-	-	-	20,834	(18,587)	2,247	11,311	4,653	12,535
Total Funding	49,264	(11,350)	37,914	76,123	(20,965)	55,158	60,573	57,307	48,079

7.1.2 The Decent Neighbourhoods Fund contains the Council's Housing Capital Receipts which in accordance with the change in capital regulations, effective from 1 April 2013 must be used for Housing or Regeneration purposes and shows how the Council plans to reinvest those receipts in Housing and Regeneration.

7.1.3 The 2017/18 Decent Neighbourhoods Capital Programme has been fully funded.

7.2. HRA Capital Programme Outturn Position

7.2.1 Full year spend was £23.8m against the revised approved budget of £33.2m. The slippage of £9.4m was forecasted and reported in departmental budget monitoring reports and it was mainly due to delays in work starting because of the ongoing compliance checks on the planned programme.

7.2.2 The full year spend includes £2.1m of expenditure related to Health and Safety, of which £1.7m was on specific fire safety capital works. This is detailed in the table below:

Health and Safety related spend included in the minor works programme plus Estate CCTV	2017-18 Full Year Outturn			
	Original Full Year Budget £'000	2017/18 Q3 Revised Budget £'000	2017/18 Full year outturn at March -18 £'000	Variance to Q3 Revised Budget £'000
APPROVED SCHEMES				
Fire safety Improvements	1,500	1,330	538	(792)
Warden Call System Upgrade	1,032	150	14	(136)
Roseford, Woodford, Shepherds extract systems		26		(26)
Edward Woods communal extract system		100		(100)
Estate CCTV	250	350	352	2
Melrose Terrace controlled access		35	2	(33)
Controlled Access continuing programme	500	100	17	(83)
Fire Safety Plus Capital Works		5,000	1,144	(3,856)
Total	3,282	7,091	2,067	(5,024)

7.2.3 The Fire Safety Plus will progress once the specification of the programme is finalised (see 7.3.1 for further details). The Sheltered Housing Warden Call System upgrade has been delayed while the specification is refined. Controlled Access schemes have been held while the procurement strategy is reviewed. These schemes are expected to progress in 2018/19.

7.3 HRA Capital Programme Future Years Spend

7.3.1 The programme is indicatively forecasted to spend £133m in years 2018/19 – 2021/22. Contained within this is £18.9m on Fire Safety Plus which will fully utilise the £12.85m reserve set aside for these works by 2019/20. The forecasts will be refined over the first quarter of 2018/19 and over the longer term as the precise specification of the building regulations required for fire safety emerge. Presently these are unclear and will remain so until the public enquiry over Grenfell Tower is concluded. The Council is currently looking at procurement framework that will enable delivery of the revised programme.

7.4 Decent Neighbourhood Programme Outturn Position

7.4.1 Full year spend was £14.1m against the revised approved budget of £16.1m. Of the £1.95m variance, £1.02m of it related to Earls Court buybacks. This variance is because of the difficulty in accurately forecasting buybacks due to the variability in values and volumes of buybacks required. There was also some slippage on the Housing Direct Delivery programme and Stanhope Joint Venture both of which have put additional pressure on the risk of repaying RtB 1-4-1 receipts (expanded on in section 7.7.1).

7.5 Decent Neighbourhood Programme Future Years Spend

7.5.1 An estimated budget requirement of £88.1m for the years 2018/19 – 2021/22 has been forecasted. Large projects within this include Earls Court Buybacks (£20.5m), Edith Summerskill House via the Joint Venture (£35.4m) and the Affordable Housing Delivery Framework (£15.4m). For the latter only £3.2m of the forecast is on sites in progress. Therefore, additional sites are needed for this budget to be utilised on the delivery of additional affordable housing and the related use of Right to Buy 1-4-1 receipts.

7.6 S106 Receipts Risk

7.6.1 The proposed programme for 2018/19 - 2021/22 relies on £26.5m of s106 receipts. However, of this, only £3.6m is in hand. Whilst only receipts classified as low risk by Planning Officers were factored into the programme, the timing of these and risk rating can change. Forecasted CFR headroom within the HRA can meet temporary funding shortfalls of up to £9.8m until the end of 2021/22.

7.7 Right to Buy Receipt Risk

7.7.1 £14.5m of retained Right to Buy one for one receipts (RtB 1-4-1 receipts) must be used in 2018/19 or be repaid to the Ministry for Housing, Communities & Local Government. Of this only £1.94m is firmly committed. Continued careful management of this risk will be required, including ensuring that the Housing Development Programme, Property Acquisitions, Stanhope Joint Venture and Affordable Housing Delivery Framework all progressing as per the current forecast.

7.7.2 The GLA has recently made an offer to boroughs in its Homes for Londoners funding prospectus, whereby any RtB receipts and interest returned to MHCLG is passed to the GLA and held in a borough specific ring fenced account. The GLA

would hold the funding, with the Council directing how the funding would be spent against an agreed programme. This can be spent on Council projects or given to registered providers, which is the same as under current rules. This is considered as an effective mitigation for the RtB risk and at the time of writing officers are in the process of formalising the agreement with the GLA.

8. EQUALITY IMPLICATIONS

- 8.1. There are no direct equalities implications in relation to this report. This paper is concerned entirely with financial management issues and as such is not impacting directly on any protected group.

9. LEGAL IMPLICATIONS

- 9.1. There are no direct legal implications in relation to this report.
- 9.2. Implications completed by: Adesuwa Omoregie, Principal Solicitor, Planning and Highways, TBD Regeneration, tel. 020 8753 2297.

10. FINANCIAL IMPLICATIONS

- 10.1. This report is wholly of a finance nature.

11. IMPLICATIONS FOR BUSINESS

- 11.1. 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.
- 11.2. 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.
- 11.3. Implications completed by: Albena Karameros, Economic Development Team, tel. 07739 316 957.

12. RISK MANAGEMENT

- 12.1. 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 have the ability to escalate rapidly are all necessary components of good capital programme risk management.
- 12.2. The impact to councils of the Grenfell Tower fire is yet to be fully established. It is certain that many councils 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.

- 12.3. 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 reasonable possible, however reducing the risk for all residential accommodation is fundamental. This process is an on-going and must be continually reviewed but at least annually.
- 12.4. 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.
- 12.5. Proposals set out in this report seek to comply with the Council's legal duties.
- 12.6. Implications completed by: Michael Sloniowski, Risk Manager Tel: 020 8753 2587 and Richard Buckley, Head of Environmental Health (Residential) & Corporate Safety, tel: 020 8753 3971

13. PROCUREMENT AND IT STRATEGY IMPLICATIONS

- 13.1. There are no immediate procurement or IT implications arising from this report. The corporate Procurement team will advise and support service departments on their major capital procurements as and when such support is required, including consideration of whether and how any social value, local economic and community benefits might be obtained from these.
- 13.2. Implications completed by: Joanna Angelides on behalf of Simon Davis. Tel: 020 7361 2586.

14. VAT IMPLICATIONS

- 14.1. 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 £2m-£3m. The Council remained below the threshold in 2017/18 however there remains a risk of breaching the threshold in future years if the position is not carefully managed on an ongoing basis. Further detail on the Council's partial exemption is included in Appendix 4.
- 14.2. Implications verified/completed by: Chris Harris, Chief Accountant, Corporate Finance, Tel: 020 8753 6440.

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

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Capital Programme 2017-21 (Published Feb 2017)	Andrew Lord tel. 2531 Chris Harris tel. 6440	Finance Dept., Room10, Hammersmith Town Hall

LIST OF APPENDICES:

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Appendix 1 – Detailed Capital Budget, Spend and Variation Analysis by Service

Children's Services

	Current Year Programme					Next Year Programme			Indicative Future Years Analysis				
	Analysis of Movements (Q3 to Q4)					2018/19 Original Budget	Slippages, Additions and Reductions	2018/19 Revised Budget	2019/20 Budget	2020/21 Budget	2021/22 Budget	Total Budget (All years)	
	Budget 2017/18 (Q3)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements								Outturn 2017/18
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Scheme Expenditure Summary													
Lyric Theatre Development	600	(548)	-	-	(548)	52	1,100	(552)	548	-	-	-	600
Schools Organisational Strategy	17,181	(4,058)	745	-	(3,313)	13,868	5,615	4,058	9,673	331	-	-	23,872
Schools Window Replacement Project	3,299	(155)	-	-	(155)	3,144	13,085	155	13,240	-	-	-	16,384
Other Capital Schemes	378	(690)	655	-	(35)	343	-	690	690	-	-	-	1,033
Total Expenditure	21,458	(5,451)	1,400	-	(4,051)	17,407	19,800	4,351	24,151	331	-	-	41,889
Capital Financing Summary													
Specific/External or Other Financing													
Capital Grants from Central Government	8,621	(4,106)	900	790	(2,416)	6,205	4,184	4,238	8,422	-	-	-	14,627
Grants and Contributions from Private Developers (includes S106)	8,173	(667)	500	-	(167)	8,006	1,406	535	1,941	331	-	-	10,278
Capital Grants/Contributions from Non-departmental public bodies	600	(548)	-	(52)	600	-	1,100	(552)	548	-	-	-	548
Sub-total - Specific or Other Financing	17,394	(5,321)	1,400	738	(3,183)	14,211	6,690	4,221	10,911	331	-	-	25,453
Mainstream Financing (Internal Council Resource)													
Capital Receipts	765	25	-	(790)	(765)	-	25	(25)	-	-	-	-	-
Use of Reserves	-	-	-	52	52	52	-	-	-	-	-	-	52
Sub-total - Mainstream Funding	765	25	-	(738)	(713)	52	25	(25)	-	-	-	-	52
Borrowing - non school windows	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowing - school windows	3,299	(155)	-	-	(155)	3,144	13,085	155	13,240	-	-	-	16,384
Funding to be identified/agreed	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Capital Financing	21,458	(5,451)	1,400	-	(4,051)	17,407	19,800	4,351	24,151	331	-	-	41,889

Appendix 1 – Detailed Capital Budget, Spend and Variation Analysis by Service/cont.

Adult Social Care Services

	Current Year Programme						Next Year Programme			Indicative Future Years Analysis			
	Analysis of Movements (Q3 to Q4)					Outturn 2017/18 £'000	2018/19 Original Budget £'000	Slippages, Additions and Reductions £'000	2018/19 Revised Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000	Total Budget (All years) £'000
	Budget 2017/18 (Q3) £'000	Slippages from/(to) future years £'000	Additions/ (Reductions) £'000	Transfers £'000	Total Transfers/ Virements £'000								
Scheme Expenditure Summary													
Extra Care New Build project (Adults' Personal Social Services Grant)	-	-	-	-	-	-	20	-	20	937	-	-	957
Community Capacity Grant	2	(2)	-	-	(2)	-	-	2	2	-	-	-	2
Transforming Care (Winterbourne Grant)	300	(300)	-	-	(300)	-	-	300	300	-	-	-	300
Social Care Capital Grant	1,460	(1,067)	-	-	(1,067)	393	-	1,067	1,067	-	-	-	1,460
Total Expenditure	1,762	(1,369)	-	-	(1,369)	393	20	1,369	1,389	937	-	-	2,719
Capital Financing Summary													
Specific/External or Other Financing													
Capital Grants from Central Government	1,462	(1,069)	-	-	(1,069)	393	20	1,069	1,089	937	-	-	2,419
Capital Grants/Contributions from Non-departmental public bodies	300	(300)	-	-	(300)	-	-	300	300	-	-	-	300
Sub-total - Specific or Other Financing	1,762	(1,369)	-	-	(1,369)	393	20	1,369	1,389	937	-	-	2,719
Mainstream Financing (Internal Council Resource)													
Capital Receipts	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total - Mainstream Funding	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Capital Financing	1,762	(1,369)	-	-	(1,369)	393	20	1,369	1,389	937	-	-	2,719

Appendix 1 – Detailed Capital Budget, Spend and Variation Analysis by Service/cont.

Environmental Services

	Current Year Programme					Next Year Programme			Indicative Future Years Analysis				
	Budget 2017/18 (Q3) £'000	Analysis of Movements (Q3 to Q4)				Outturn 2017/18 £'000	2018/19 Original Budget £'000	Slippages, Additions and Reductions £'000	2018/19 Revised Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000	Total Budget (All years) £'000
		Slippages from/(to) future years £'000	Additions/ (Reductions) £'000	Transfers £'000	Total Transfers/ Virements £'000								
Scheme Expenditure Summary													
Planned Maintenance/DDA Programme	1,700	(509)	-	-	(509)	1,191	3,190	509	3,699	1,500	2,500	2,500	11,390
King Street-Town Hall Redevelopment	500	(228)	-	-	(228)	272	6,274	228	6,502	1,000	-	-	7,774
Footways and Carriageways	2,748	(1,024)	-	-	(1,024)	1,724	2,030	1,024	3,054	2,030	2,030	2,030	10,868
Transport For London Schemes	2,401	(832)	339	-	(493)	1,908	2,157	832	2,989	2,157	2,157	2,157	11,368
Controlled Parking Zones	38	(34)	-	-	(34)	4	275	34	309	275	275	275	1,138
Column Replacement	278	(278)	-	-	(278)	-	246	278	524	246	246	246	1,262
Carnwath Road	-	-	-	-	-	-	-	-	-	3,070	-	-	3,070
Hammersmith Bridge Strengthening	170	-	(170)	-	(170)	-	-	-	-	-	-	-	-
LED Lighting Replacement Programme	2,263	(1,019)	-	-	(1,019)	1,244	-	1,019	1,019	-	-	-	2,263
P&D Upgrade and Pay by Phone	2,393	(1,132)	-	-	(1,132)	1,261	-	1,132	1,132	-	-	-	2,393
Other Capital Schemes	3,579	(2,301)	696	-	(1,605)	1,974	-	2,301	2,301	-	-	-	4,275
Parks Expenditure	2,419	(1,770)	42	-	(1,728)	691	845	1,770	2,615	500	-	-	3,806
Alternative Weed Treatment	100	-	-	-	-	100	-	-	-	-	-	-	100
Shepherds Bush Common Improvements	183	(103)	-	-	(103)	80	400	103	503	-	-	-	583
Recycling	19	(19)	-	-	(19)	-	-	19	19	-	-	-	19
CCTV	52	(140)	343	-	203	255	-	140	140	-	-	-	395
Total Expenditure	18,843	(9,389)	1,250	-	(8,139)	10,704	15,417	9,389	24,806	10,778	7,208	7,208	60,704
Capital Financing Summary													
Specific/External or Other Financing													
Grants and Contributions from Private Developers (includes S106)	10,409	(6,007)	625	64	(5,318)	5,091	1,245	6,007	7,252	500	-	-	12,843
Capital Grants and Contributions from GLA Bodies	2,350	(804)	329	-	(475)	1,875	2,157	804	2,961	2,157	2,157	2,157	11,307
Sub-total - Specific or Other Financing	12,759	(6,811)	954	64	(5,793)	6,966	3,402	6,811	10,213	2,657	2,157	2,157	24,150
Mainstream Financing (Internal Council Resource)													
Capital Receipts	5,579	(2,173)	-	(3,406)	(5,579)	-	1,445	(581)	864	7,089	3,051	1,470	12,474
Housing Revenue Account (revenue funding)	100	-	-	(64)	(64)	36	-	-	-	-	-	-	36
General Fund Revenue Account (revenue funding)	316	(316)	15	-	(301)	15	521	316	837	521	521	521	2,415
Use of Reserves	89	(89)	281	-	192	281	-	89	89	-	-	-	370
Sub-total - Mainstream Funding	6,084	(2,578)	296	(3,470)	(5,752)	332	1,966	(176)	1,790	7,610	3,572	1,991	15,295
Borrowing	-	-	-	3,406	3,406	3,406	10,049	2,754	12,803	511	1,479	3,060	21,259
Total Capital Financing	18,843	(9,389)	1,250	-	(8,139)	10,704	15,417	9,389	24,806	10,778	7,208	7,208	60,704

Appendix 1 – Detailed Capital Budget, Spend and Variation Analysis by Service/cont.

Finance & Corporate Governance	Current Year Programme						Next Year Programme			Indicative Future Years Analysis			
	Budget 2017/18 (Q3)	Analysis of Movements (Q3 to Q4)				Outturn 2017/18	2018/19 Original Budget	Slippages, Additions and Reductions	2018/19 Revised Budget	2019/20 Budget	2020/21 Budget	2021/22 Budget	Total Budget (All years)
		Slippages from/(to) future years	Additions/(Reductions)	Transfers	Total Transfers/Virements								
Scheme Expenditure Summary													
Invest to Save - Flexible Use of Capital Receipts	-	-	5,790	-	5,790	5,790	-	930	930	-	-	-	6,720
Total Expenditure	-	-	5,790	-	5,790	5,790	-	930	930	-	-	-	6,720
Capital Financing Summary													
Mainstream Financing (Internal Council Resource)													
Capital Receipts	-	-	5,790	-	5,790	5,790	-	930	930	-	-	-	6,720
Sub-total - Mainstream Funding	-	-	5,790	-	5,790	5,790	-	930	930	-	-	-	6,720
Total Capital Financing	-	-	5,790	-	5,790	5,790	-	930	930	-	-	-	6,720

Appendix 1 – Detailed Capital Budget, Spend and Variation Analysis by Service/cont.

General Fund Schemes under Housing management	Current Year Programme						Next Year Programme			Indicative Future Years Analysis			
	Analysis of Movements (Q3 to Q4)						2018/19 Original Budget	Slippages, Additions and Reductions	2018/19 Revised Budget	2019/20 Budget	2020/21 Budget	2021/22 Budget	Total Budget (All years)
	Revised Budget 2017/18 (Q3)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements	Outturn 2017/18							
Scheme Expenditure Summary													
Disabled Facilities Grant	1,282	(505)	120	-	(385)	897	450	505	955	450	450	450	3,202
Sands End Community Centre	500	(73)	-	-	(73)	427	1,600	593	2,193	380	-	-	3,000
Macbeth Centre GLA Community Kitchen	-	-	20	-	20	20	-	-	-	-	-	-	20
Total Expenditure	1,782	(578)	140	-	(438)	1,344	2,050	1,098	3,148	830	450	450	6,222
Capital Financing Summary													
Specific/External or Other Financing													
Capital Grants from Central Government	609		120	168	288	897	-	-	-	-	-	-	897
Grants and Contributions from Private Developers (includes S106)	200	(167)	-	-	(167)	33	1,000	687	1,687	280	-	-	2,000
Capital Grants/Contributions from Non-departmental public bodies	300	94	-	-	94	394	600	(94)	506	100	-	-	1,000
Capital Grants and Contributions from GLA Bodies	-	-	20	-	20	20	-	-	-	-	-	-	20
Sub-total - Specific or Other Financing	1,109	(73)	140	168	235	1,344	1,600	593	2,193	380	-	-	3,917
Mainstream Financing (Internal Council Resource)													
Capital Receipts (GF)	673	(505)	-	(168)	(673)	-	450	505	955	450	450	450	2,305
Sub-total - Mainstream Funding	673	(505)	-	(168)	(673)	-	450	505	955	450	450	450	2,305
Borrowing (Internal Borrowing-GF)	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Capital Financing	1,782	(578)	140	-	(438)	1,344	2,050	1,098	3,148	830	450	450	6,222

Appendix 1 – Detailed Capital Budget, Spend and Variation Analysis by Service/cont.

Housing Capital Programme	Current Year Programme					Next Year Programme			Indicative Future Years Analysis				
	Analysis of Movements (Q3 to Q4)					2018/19 Original Budget	Slippages, Additions and Reductions	2018/19 Revised Budget	2019/20 Budget	2020/21 Budget	2021/22 Budget	Total Budget (All years)	
	Budget 2017/18 (Q3)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements								Outturn 2017/18
Scheme Expenditure Summary													
HRA Schemes:													
Other HRA Capital Schemes	28,163	(5,466)	(75)	-	(5,541)	22,622	30,540	(5,540)	25,000	24,000	30,144	35,000	136,766
Fire Safety Plus	5,000	(3,856)	-	-	(3,856)	1,144	15,000	(12,000)	3,000	11,000	4,856	-	20,000
Subtotal HRA	33,163	(9,322)	(75)	-	(9,397)	23,766	45,540	(17,540)	28,000	35,000	35,000	35,000	156,766
Decent Neighbourhood Schemes:													
Earls Court Buy Back Costs	6,138	(1,023)	-	-	(1,023)	5,115	4,062	867	4,929	2,415	6,357	6,762	25,578
Earls Court Project Team Costs	680	(104)	(87)	-	(191)	489	926	-	926	907	925	1,266	4,513
Housing Development Project	436	(292)	28	-	(264)	172	8,554	(1,083)	7,471	4,303	-	-	11,946
Stanhope Joint Venture	2,922	(392)	-	-	(392)	2,530	5,592	(3,723)	1,869	11,392	15,835	6,317	37,943
Other HRA	6,605	(820)	480	(81)	(421)	6,184	375	4,699	5,074	-	-	-	11,258
Affordable Housing Delivery Framework	-	49	17	81	147	147	12,000	(4,185)	7,815	7,464	114	-	15,540
Subtotal Decent Neighbourhoods	16,781	(2,582)	438	-	(2,144)	14,637	31,509	(3,425)	28,084	26,481	23,231	14,345	106,778
Total Expenditure	49,944	(11,904)	363	-	(11,541)	38,403	77,049	(20,965)	56,084	61,481	58,231	49,345	263,544
Adjustment for deferred costs	(680)	104	87	-	191	(489)	(926)	-	(926)	(907)	(925)	(1,266)	(4,513)
Total Net Expenditure	49,264	(11,800)	450	-	(11,350)	37,914	76,123	(20,965)	55,158	60,574	57,306	48,079	259,031
Capital Financing Summary													
Specific/External or Other Financing													
Contributions from leaseholders	6,644	(4,091)	-	-	(4,091)	2,553	4,390	4,292	8,682	3,860	4,048	3,945	23,088
Grants and Contributions from Private Developers (includes S106)	1,994	(516)	402	-	(114)	1,880	5,634	(2,140)	3,494	2,265	17,906	2,794	28,339
Capital Grants/Contributions from Non-departmental public bodies	270	(270)	-	-	(270)	-	-	270	270	270	-	-	540
Insurance claims	150	-	515	-	515	665	-	-	-	-	-	-	665
Sub-total - Specific or Other Financing	9,058	(4,877)	917	-	(3,960)	5,098	10,024	2,422	12,446	6,395	21,954	6,739	52,632
Mainstream Financing (Internal Council Resource)													
Capital Receipts (HRA)	18,676	(6,923)	219	4,583	(2,121)	16,555	24,538	(3,285)	21,253	17,097	9,607	6,637	71,149
Housing Revenue Account (revenue funding)	-	-	-	-	-	-	4,563	(4,563)	-	-	5,172	5,500	10,672
Major Repairs Reserve (MRR) / Major Repairs	21,530	-	(686)	(4,583)	(5,269)	16,261	16,165	48	16,213	15,926	15,921	16,668	80,989
Use of Reserves (Fire Safety EMR)	-	-	-	-	-	-	-	3,000	3,000	9,845	-	-	12,845
Sub-total - Mainstream Funding	40,206	(6,923)	(467)	-	(7,390)	32,816	45,266	(4,800)	40,466	42,868	30,700	28,805	175,655
Borrowing (Internal Borrowing)	-	-	-	-	-	-	20,833	(18,587)	2,246	11,311	4,652	12,535	30,744
Total Capital Financing	49,264	(11,800)	450	-	(11,350)	37,914	76,123	(20,965)	55,158	60,574	57,306	48,079	259,031

Appendix 2 – Analysis of Budget Variations

Variation by Service	Amount £'000
Children's Services (CHS)	
School's Organisation Strategy – Slippage to 2018/19 in respect of the following projects: Phoenix High School £1,800k Bridge Academy £786k Slippage on other external grant funded schemes £1,472k	(4,058)
Schools Windows Replacement Project – slippages due to project delays	(155)
Other Capital Schemes – slippages in respect of Short Breaks Grant (£42k) and EFA 2 year olds grant (£648k)	(690)
Lyric Theatre - the slippage represents retained amounts to be paid for completion of outstanding leases	(548)
Additional budgets approved: Queens Manor - £500k to adjust budget as approved by Cabinet on 04/07/16 and LUD in Oct 2017 and funded by S106 Holly Cross £114k and VA schools irrecoverable VAT payments £131k - approved by the Strategic Director of Finance in consultation with Cabinet Member for Finance as per delegated authority given by Cabinet on 05/03/18 in order to assist production of final accounts. Additional budgets funded by Basic Needs grant EFA Two-Year-old grant - £655k to adjust budget as approved by Cabinet on 04/07/16	1,400
Total CHS variations	(4,051)
Adult Social Care (ASC)	
Social Care Capital Grant - slippage due to the delay in projects	(1,069)
Transforming Care (Winterbourne Grant) - slippage due to the delay in projects	(300)
Total ASC variations	(1,369)
Environmental Services (ENV)	
Net reduction of £(493)k in TFL funded schemes consists of slippage of £(832)k due to project delays and budget addition of £339k to reflect additional funding received	(493)
King Street - Hammersmith Town Hall Redevelopment - slippage due to project delays	(228)
Footways and Carriageways - slippage due to delayed start of capital works	(1,024)
Controlled Parking Zones - slippage to future years	(34)
Planned Maintenance/DDA Programme-slippage due to delays in progressing a number of small projects carried out by the Council's contractors	(509)
Column Replacement - slippage to future years	(278)
Hammersmith Bridge Strengthening – reduction in budget of £(170)k	(170)
LED Replacement Programme - slippages to 2018/19 due to delays in installation of new equipment	(1,019)
Pay and Display Upgrade and Pay by Phone scheme - slippages to 2018/19 due to delays in installation of new equipment	(1,132)
Slippage on Other Capital Schemes - £(1.6)m net budget variance consists of £696k of additional budget mainly in relation to various S106 schemes and £(2.3)m slippages to future years	(1,605)
Recycling – slippages due to the project delays	(19)
Parks Programme – net variance comprising of slippages to future years due to phasing of works and project delays (£1,770)k and £42k of additional budget to reflect funding received during the year	(1,728)
Public CCTV - net variance of £203k which consists of slippages to next year of	203

£(140)k and £343k of additional S106 funded budget	
Shepherds Bush Common Improvements-slippage mainly due to old Ginglik Club works. Awaiting decision on the most appropriate course of action.	(103)
Total ENV variations	(8,139)
Finance and Corporate Services (FCS)	
Capitalisation of Invest to Save projects under Flexible Use of Capital Receipts dispensation – as approved by Cabinet on 05/02/18	5,790
Total FCS variations	5,790
General Fund Schemes under Housing management	
Disabled Facilities Grant - slippage due to delay in processing applications	(385)
Sands End Community Centre - slippage due to project delays	(73)
Macbeth Centre Community Kitchen development – new budget to reflect external funding received	20
Total GF Schemes under Housing management	(438)
Housing Capital Programme	
HRA schemes - slippage to future years due to the ongoing compliance checks on the planned programme.	(9,397)
Earls Court - slippage due to actual number of 2017/18 Earls Court buybacks being lower than forecasted in Q3.	(1,023)
Housing Development Project - slippages result of delay in start of the existing housing development schemes due to the procurement issues.	(264)
Other HRA projects- net variance consists of slippages (£820k) in relation to the Fulham Court Housing Estate Improvement Programme (HEIP) scheme and Shop Investment budget, additions to the budget of £758k mainly on property buybacks (part of Mar 18 approval of £4.9m), £278k reduction of budget for completed HEIP schemes (Becklow Gardens & Sullivan Court) and transfer of £81k of Emlyn Gardens budget to Affordable Housing Delivery Framework.	(421)
Stanhope Joint Venture - variance relates to slippages on the Edith Summerskill House demolition and pre-development costs	(392)
Affordable Housing Delivery Framework - net variance of £147k consists of £49k slippages from future years to cover the 17/18 accruals for RtB grant payments for Fulham North Housing office and Lavender Court developments, transfer of £81k budget for Emlyn Gardens Grant from SJV and additional budget of £17k for staffing capitalisation for these schemes.	147
Total Housing variations	(11,350)
Funding Variations	
The Mainstream Programme was in deficit at the end of 2017/18 due to the decision to apply in year generated capital receipts to fund Invest to Save schemes under flexible use of capital receipts dispensation. This has necessitated switching £3.4m of capital receipt financing to temporary internal borrowing for the 2017/18 programme. This funding variation does not impact the overall capital expenditure budget.	-
Grand Total 2017-18 Variations	(19,550)
2018-19 Variations	
Net Slippages from 2017-18 (covered by above variations)	28,587
Children's Services – reduction in Lyric project budget to reflect estimated residual costs	(1,100)
Sands End Community Centre – additional budget to reflect actual external funding received	520
Invest to Save - residual amount of 2017/18 capital receipts to finance 2018/19 ITS expenditure	930
Housing – Slippage to future years (2019+) of various existing schemes due to reprogramming and re-phasing	(25,109)
Grand Total 2018-19 Variations	(3,828)

Appendix 3 – General Fund – Forecast Capital Receipts

Year/Property	Previous Forecast £'000s	Movement/ Slippage £'000s	Forecast Outturn at Quarter 4 £'000s	Full sales proceeds @ Q4 £'000s	Deferred Costs of Disposal reserved £'000s
2017/18					
Total 2017/18	7,069	(349)	6,720	6,720	-
2018/19					
Total 2018/19	1,920	829	2,749	-	200
2019/20					
Total 2019/20	9,120	(1,581)	7,539	-	280
2020/21					
Total 2020/21	1,920	1,581	3,501	-	-
2021/22					
Total 2021/22	1,920	-	1,920	-	-
Total All Years	21,949	480	22,429	6,720	480

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. This insignificant proportion is taken to be 5% or less. Crucially however, the de minimis limit is not an allowance; if the 5% figure is exceeded then all the exempt input tax is lost, not just that which is in excess of the limit. The cost to the Council of non-allowable breach would therefore be in excess of £2m.

If councils breach their partial exemption limit in a single year, they can apply their 7-year average partial exemption calculation to be considered for that particular year for their calculation instead. Each ‘7-year average’ calculation is independent, ie the ‘7-year average’ can be relied upon even if already relied upon previously within 7 years (though clearly the ‘7-year average’ will then eventually be breached).

2. LBHF Partial Exemption

- 2.1 The Council’s input tax forecast for 2017/18 (across all expenditure) was £41m and it is projected to remain at a similar level in the medium term. This means it would likely cost the Council £2m (being 5% of £41m) of exempt input tax before it breaches its partial exemption limit.
- 2.2 When calculating the exempt input tax incurred 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. Exempt input tax relating to capital activities is more volatile as each project must be considered and judged individually and can have significant associated costs.
- 2.3 Land and lease transactions 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.
- 2.4 The Council has a number of capital projects, both in train and in the pipeline, which could have significant partial exemption implications.

3. VAT Policy

- 3.1 In order to manage the partial exemption position the following policy is in place:
- 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.
 - 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.