


London Borough of Hammersmith & Fulham CABINET 8 OCTOBER 2018		 hammersmith & fulham
CAPITAL PROGRAMME MONITOR & BUDGET VARIATIONS, 2018/19 (FIRST QUARTER)		
Report of the Cabinet Member for Finance and Commercial Services – Councillor Max Schmid		
Open Report		
Classification: FOR DECISION Key Decision: Yes		
Wards Affected: ALL		
Accountable Executive Director: Hitesh Jolapara, Strategic Director of Finance and Governance		
Report Author: Emily Hill, Assistant Director, Corporate Finance Andrew Lord, Head of Strategic Planning and Monitoring Ariana Murdock, Principal Accountant		Contact Details: Tel: 0208 753 2531 Email: andrew.lord@lbhf.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. This report provides a financial update on the Council's Capital Programme and seeks approval for budget variations, as at the end of the first quarter, amounting to a net decrease in 2018/19 of £35.2m. This decrease is primarily due to expenditure slippage to future years and represents 32.1% of the agreed 2018/19 capital programme. This report sets out the overall position of the capital programme.
- 1.2. Forecast General Fund capital receipts for the period 2018/19-2021/22 have reduced by £5.1m in comparison to forecast £15.7m at 2017/18 Outturn.
- 1.3. The amendments to the capital programme have impacted on the Council's forecast capital debt (Capital Financing Requirement (CFR)). The updated General Fund figures are set out below. The expenditure slippage will result in a lower 2018/19 CFR. However, by 2021/22, the forecast CFR is higher due to the reduction in anticipated receipts. The impact of the CFR changes on the revenue budget will continue to be monitored and provided for within the Council's financial strategy.

	Last forecast (2017/18 Outturn)	Current forecast
General Fund CFR	£m	£m
2018/19 Closing CFR *	63.01	54.65
2021/22 Closing CFR *	66.11	71.14

* Headline CFR excludes Schools Windows, PFI, leases and deferred costs of disposal

The proposals for King Street West and Hammersmith Town Hall refurbishment continue to be taken forward. The approved capital programme includes a budget envelope of £50m, to provide operational flexibility, for taking forward major projects (which include King Street West and Hammersmith Town Hall). Use of this budget is subject to relevant Member approval, agreement of funding sources and sign-off of an appropriate business case. Expenditure above the £50m envelope will require approval by Full Council. The current CFR forecast excludes the above budget except for £7.4m for previously approved as part of Corporate Planned Maintenance Programme budget.

- 1.4. Within the overall capital programme there has been slippage of £15.7m regarding the Housing Revenue Account. £4.7m of slippage relates to HRA schemes and £11m to Decent Neighbourhoods. 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 £20.3m of S106 receipts of which £3.3m has been received to date, with the balance projected to be received as developments proceed.
 - Following the recent signing of an agreement with the GLA the council must pass its unspent 1-4-1 receipts to the GLA but has a further three years to draw down on these to fund the delivery of affordable housing specifically in the borough.

These risks are explained in more detail in section 7 of the report.

- 1.5 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 £2-£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 2018/19 and future years if the position is not carefully managed on an ongoing basis.

2. RECOMMENDATIONS

- 2.1 To approve the proposed budget variations to the capital programme totalling £35.2m (summarised in Table 1 and detailed in Appendix 2).
- 2.2 To add a further £1.02m to the Capital Programme regarding the Disabled Facilities Grant allocation with the decision on how it is spent delegated to the Strategic Director of Adult Social Care and Public Service Reform in consultation with the Strategic Director of Finance and Governance and the Cabinet Member for Health and Adult Social Care and Cabinet Member for Finance and Commercial Services.
- 2.3 To approve the write-off of £180k of General Fund deferred costs of disposals, in relation to the reduced forecast capital receipts, from the earmarked Corporate Property Reserve. Further details are provided in section 6.3 of the report.
- 2.4 To note the issues regarding General Fund Capital Programme described in sections 5 and 6 of the report.

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 2018-19 –Q1 OVERVIEW

4.1. The Council's capital programme as at the end of the first quarter 2018/19 – including proposed variations – is summarised in Table 1 below. A full analysis of elements of the programme funded from internal Council resource is included in section 6.

Table 1 – LBHF Capital Programme 2018-22 with proposed 2018/19 Q1 Variations

	Analysis of Movements (Revised budget to Q1)						Indicative Future Years Analysis				
	2018/19 Budget (Full Council Feb '18) £'000	2018/19 Revised Budget as @ 2017/18 Outturn £'000	Slippages from/(to) future years £'000	Addition/(Reduction) £'000	Transfers £'000	Total Variations (Q1) £'000	Revised Budget 2018/19 (Q1) £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total Budget (All years) £'000
CAPITAL EXPENDITURE											
Children's Services	19,800	24,151	(11,740)	-	(548)	(12,288)	11,863	12,071	-	-	23,934
Adult Social Care	20	1,389	-	-	-	-	1,389	937	-	-	2,326
Residents' Services	15,417	24,806	(7,701)	(78)	-	(7,779)	17,027	18,479	7,208	7,208	49,922
Finance & Governance	-	930	-	-	-	-	930	-	-	-	930
General Fund Schemes under Housing management	2,050	3,148	(755)	711	548	504	3,652	2,055	450	450	6,607
Sub-total (Non-Housing)	37,287	54,424	(20,196)	633	-	(19,563)	34,861	33,542	7,658	7,658	83,719
HRA Programme	45,540	28,000	(5,293)	628	-	(4,665)	23,335	39,045	36,249	35,000	133,629
Decent Neighbourhoods Programme	30,583	27,158	(11,131)	135	-	(10,996)	16,162	27,917	26,650	16,556	87,285
Sub-total (Housing)	76,123	55,158	(16,424)	763	-	(15,661)	39,497	66,962	62,899	51,556	220,914
Total Expenditure	113,410	109,582	(36,620)	1,396	-	(35,224)	74,358	100,504	70,557	59,214	304,633
CAPITAL FINANCING											
Specific/External Financing:											
Government/Public Body Grants	8,061	14,096	(106)	711	(548)	57	14,153	4,040	2,157	2,447	22,797
Grants and Contributions from Private Developers (includes S106)	9,285	14,374	(1,907)	177	548	(1,182)	13,192	2,811	17,026	-	33,029
Leaseholder Contributions (Housing)	4,390	8,682	-	(3,642)	-	(3,642)	5,040	3,891	4,543	4,485	17,959
Sub-total - Specific Financing	21,736	37,152	(2,013)	(2,754)	-	(4,767)	32,385	10,742	23,726	6,932	73,785
Mainstream Financing (Internal):											
Capital Receipts - General Fund	1,920	2,749	(652)	-	652	-	2,749	2,027	3,201	2,590	10,567
Capital Receipts - Housing*	24,538	21,253	(11,268)	4,405	-	(6,863)	14,390	16,906	13,095	9,969	54,360
Revenue funding - General Fund	521	837	-	(255)	-	(255)	582	521	521	521	2,145
Revenue Funding - HRA	4,563	-	-	-	-	-	-	0	5,172	5,500	10,672
Major Repairs Reserve (MRR) [Housing]	16,165	16,213	-	-	-	-	16,213	15,926	15,921	16,668	64,728
Earmarked Reserves (Revenue)	-	3,089	- 1,000	-	-	- 1,000	2,089	10,000	850	-	12,939
Sub-total - Mainstream Funding	47,707	44,141	(12,920)	4,150	652	(8,118)	36,023	45,380	38,760	35,248	155,411
Internal Borrowing	43,967	28,289	(21,687)	0	(652)	(22,339)	5,950	44,382	8,071	17,034	75,437
Total Capital Financing	113,410	109,582	(36,620)	1,396	-	(35,224)	74,358	100,504	70,557	59,214	304,633

*Capital Receipts include use of brought forward Housing receipts

4.2. A net variation to the 2018/19 programme of **£(35.2)m** is proposed, decreasing total budgeted expenditure from £109.6m to £74.4m. Of the proposed net variation, £(36.6)m relates to slippages to future financial years (largest schemes being Corporate Planned Maintenance budget set aside for Hammersmith Town Hall Refurbishment £5.8m, School Windows Programme £11.7m and Housing Schemes £16.4m). The remaining £1.4m variation relates primarily to growth in the programme where new schemes have been approved, 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. The capital programme presented here for 2018/19 and future years is based on approved projects and known funding allocations. These currently exclude Hammersmith Town Hall refurbishment (except £7.4m previously approved as part of Corporate Planned Maintenance Programme budget) and any other large projects which might be approved in the future years. The indicative future years analysis (2019 onwards) 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.

- 4.4. Future Capital Financing Requirement (CFR) and Minimum Revenue Provision (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 current forecast for General Fund Headline¹ CFR (excluding schools' windows borrowing) is **£54.65m** at the end of 2018/19. The increase of £4.17m in CFR in comparison to 2017/18 year-end position is mainly due to slippages in mainstream programme from 2017/18. Table 2 below presents the forecast CFR position.

Table 2 – General Fund CFR at Q1 2018/19 (including future years forecast)

GENERAL FUND CFR ANALYSIS	2017/18	2018/19	2019/20	2020/21	2021/22
CFR EXCLUDING SCHOOLS WINDOWS	£m	£m	£m	£m	£m
Opening Capital Finance Requirement (CFR)	47.25	50.48	54.65	68.66	69.61
Revenue Repayment of Debt (MRP)	(0.17)	(0.28)	(0.37)	(0.83)	(0.86)
Mainstream Programme (Surplus)/Shortfall	3.41	4.45	14.38	1.78	2.39
Closing Capital Finance Requirement (CFR)	50.48	54.65	68.66	69.61	71.14
SCHOOLS WINDOWS					
Opening Capital Finance Requirement (CFR)	3.57	6.63	8.00	19.42	18.64
Revenue Repayment of Debt (MRP)	(0.09)	(0.13)	(0.32)	(0.78)	(0.75)
Internal Borrowing (Schools Window Replacement)	3.14	1.50	11.74	-	-
Closing Capital Finance Requirement (CFR)	6.63	8.00	19.42	18.64	17.90
Total Headline Capital Finance Requirement (CFR)	57.11	62.65	88.07	88.25	89.04
Finance leases/PFI/ Deferred costs of disposal	10.33	9.53	8.73	7.93	7.13
Total Closing CFR	67.44	72.18	96.80	96.18	96.17

- 5.2. The Housing Revenue Account (HRA) CFR is shown in Table 3 below:

Table 3 – HRA CFR at Q1 2018/19 (including future years forecast)

HRA CFR Forecast	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Closing Forecast HRA CFR (excluding deferred costs of disposal)	204.85	204.85	223.11	229.41	244.05
Deferred Costs of Disposal	5.42	6.02	7.19	8.39	9.78
Closing Forecast HRA CFR (including deferred costs of disposal)	210.26	210.86	230.30	237.79	253.83

- 5.3. The General Fund CFR remains heavily dependent on the timing and certainty of capital receipts forecasts. Where receipts are not available to fund mainstream expenditure, and no other sources of funding can be found, internal borrowing will increase. This will increase the CFR.
- 5.4. The CFR is furthermore sensitive to any transfer of assets between the HRA and the General Fund (a process known as 'appropriation').
- 5.5. The Council is also reviewing how it can most effectively deliver the future efficiency programme. This may require additional capital investment.
- 5.6. These combined issues may result in further general fund revenue pressures.

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

5.7. Housing CFR contains deferred costs of disposals mainly related to the Earls Court project. If the project does not proceed, these costs will become a revenue risk for both the HRA and to lesser extent the General Fund. The forecast amount of these costs by the end of 2021/22 is £9.8m.

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.

Table 4 – General Fund Mainstream Programme 2018-22 with proposed 2018/19 Q1 variations

	Revised Budget 2018/19 £'000	Variations (Q1) £'000	Revised Budget 2018/19 (Q1) £'000	Indicative Budget 2019/20 £'000	Indicative Budget 2020/21 £'000	Indicative Budget 2021/22 £'000	Total Budget (All years) £'000
Approved Expenditure							
Ad Hoc Schemes:							
Hammersmith Town Hall Refurbishment (Mainstream Element/CPMP) [RES]	6,502	(5,908)	594	5,833	936	-	7,363
Invest to Save-Flexible Use of Capital Receipts	930	-	930	-	-	-	930
Carnwath Road [RES]	-	-	-	3,070	-	-	3,070
Rolling Programmes:							
Disabled Facilities Grant [ASC]	955	(652)	303	1,102	450	450	2,305
Planned Maintenance/DDA Programme [RES]	3,699	(1,793)	1,906	4,368	1,564	2,500	10,338
Footways and Carriageways [RES]	3,054	-	3,054	2,030	2,030	2,030	9,144
Parks Programme [RES]	410	-	410	-	-	-	410
Total Mainstream Programmes	15,550	(8,353)	7,197	16,403	4,980	4,980	33,559
Financing							
Capital Receipts	2,749	-	2,749	2,027	3,201	2,590	10,567
Increase/(Decrease) in Internal Borrowing	12,801	(8,353)	4,448	14,376	1,780	2,390	22,993
Total Financing	15,550	(8,353)	7,197	16,403	4,980	4,980	33,559

6.2. The 2018/19 mainstream programme has decreased by £8.4m in comparison to previously forecast budget of £15.5m. This is mainly due to slippages and re-profiling of the current capital schemes to future years.

6.3. Forecast General Fund capital receipts for 2018/19 are currently £2.7m. £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.

6.4. £2.4m of Disabled Facilities Grant was received in 2017/18 and 2018/19, of which £1.38m has been allocated to fund adaptation works for residents. It is recommended that the balance of grant (£1.02m) be included within the capital programme with a decision on how it is applied delegated to the Strategic Director of Social Care and Public Service Reform in consultation with the Strategic Director of Finance and Governance and the Cabinet Members for Health and Adult Social Care and Finance and Commercial Services.

6.5. Cabinet received an update on the King Street Renewal scheme on 9th July. The approved capital programme includes a budget envelope of £50m, to provide operational flexibility, for taking forward major projects (which include King Street West and Hammersmith Town Hall). Use of this budget is subject to relevant Member

approval, agreement of funding sources and sign-off of an appropriate business case. Expenditure above the £50m envelope will require approval by Full Council.

7. HOUSING CAPITAL PROGRAMME

7.1. Housing Capital expenditure for 2018/19 is forecast to outturn at £39.5m and for the four-year programme to 2021/22 spend is to be £220.9m. The expenditure and resource analysis of the Housing Programme is summarised in Table 5 below:

Table 5 – Housing Capital Programme 2018-22 with proposed 2018/19 Q1 Variations

	2018/19 Revised Budget £'000	Total Variations (Q1) £'000	2018/19 Revised Budget (Q1) £'000	Indicative 2019/20 Budget £'000	Indicative 2020/21 Budget £'000	Indicative 2021/22 Budget £'000
Approved Expenditure						
Decent Neighbourhood Schemes	27,158	(10,996)	16,162	27,917	26,651	16,556
HRA Schemes	28,000	(4,665)	23,335	39,045	36,249	35,000
Total Housing Programme - Approved Expenditure	55,158	(15,661)	39,497	66,962	62,900	51,556
Available and Approved Resource						
Capital Receipts - Unrestricted	7,922	(376)	7,546	5,547	4,090	4,090
Capital Receipts - RTB (141)	13,330	(6,486)	6,844	11,359	9,005	5,879
Housing Revenue Account (revenue funding)	-	-	-	-	5,172	5,500
Major Repairs Reserve (MRR)	16,213	-	16,213	15,926	15,921	16,668
Contributions Developers (S106)	3,494	(1,910)	1,584	1,703	17,026	-
Repayment of NHHT loan	270	-	270	270	-	290
Contributions from leaseholders	8,682	(3,642)	5,040	3,891	4,543	4,485
Use of reserves (Fire Safety EMR)	3,000	(1,000)	2,000	10,000	850	-
Internal Borrowing	2,247	(2,247)	-	18,267	6,293	14,644
Total Funding	55,158	(15,661)	39,497	66,962	62,900	51,556

- 7.2 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.
- 7.3 The 2018/19 – 2021/22 Housing Capital Programmes are fully funded however the capital financing requirement (CFR) is expected to rise to £253.8m which is within £0.8m of the Housing Revenue Account (HRA) debt cap.
- 7.4 Forecast spend for 2018/19 Housing HRA Schemes is £23.3m, £4.7m below the revised approved budget of £28m. This is due to:
- Slippage to future years because of delays in work starting while ongoing compliance checks happen on the planned programme
 - A £0.6m addition to the CCTV Programme driven by an expanded CCTV delivery schedule
- 7.5 The forecasts will be further refined 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.

7.6 Included in the HRA schemes are the following Health & Safety related works:

Health and Safety related spend included in the minor works programme plus Estate CCTV	Original Full Year Budget	Revised Budget at previous year outturn	Full year forecast at June 2018	Forecasted variance to original budget	Actual Spend to June 2018
	£'000	£'000	£'000	£'000	£'000
APPROVED SCHEMES					
Fire safety Improvements	1,700	2,462	1,111	(589)	
Fire Safety Plus Capital Works	15,000	3,000	2,000	(13,000)	174
Warden Call System Upgrade	882	1,018	414	(468)	4
Roseford, Woodford, Shepherds extract systems		26	26	26	
Edward Woods communal extract system	200	300	200		
Estate CCTV	180	470	1,098	918	
Melrose Terrace controlled access		33			
Controlled Access continuing programme	750	833	249	(501)	
Total	18,712	8,141	5,097	(13,615)	178

Decent Neighbourhoods Programme Capital Monitoring - 2018/19					
HRA Capital Programme: Health & Safety Related Spend in other sections of the HRA Capital Programme					
2018-19 budget, latest forecast and spend at P-3 (June 2018)					
	Original Full Year Budget	Revised Budget at previous year outturn	Full year forecast at June 2018	Forecasted variance to original budget	Actual Spend to June 2018
	£'000	£'000	£'000	£'000	£'000
APPROVED SCHEMES					
Kitchen and Bathroom modernisation	250	480	477	227	208
Planned individual boiler replacement programme	1,075	1,219	1,209	134	208
Banim Street, Munden St, Swanbank Ct boilers	280	291	400	120	
Farm Lane & Wheatshaf, Malabar Ct boilers	342	342	342		
Water Supply/continuing programme	100	150		(100)	
Landlord's electrical installations	750	931	494	(256)	
Estate Lighting	150	282	252	102	
Total	2,947	3,696	3,174	227	208

7.7 The Decent Neighbourhood Schemes forecast spend for 2018/19 is £11m less than the revised approved budget. £6.5m of this relates to reprofiling on the Housing Direct Delivery Project while projects are reviewed² and £4.6m to reprofiling on the Affordable Housing Delivery Framework, with the balance of £0.1m being small movements elsewhere on the programme.

7.8 The following risks in relation to funding of the current capital schemes have been identified:

- Uncertainty over securing S106 receipts to fund the Housing Development Programme and Edith Summerskill redevelopment schemes - £20.3m of S106 funding has been forecast to fund capital expenditure in the period 2018/19-2020/21. £3.3m of this is currently in hand and there are two large receipts from the M&S White City Site for £9.6m and £7.3m that are expected and needed by 2021/22 to fund the programme.
- Following the recent signing of an agreement with the GLA the council must pass its unspent 1-4-1 receipts to the GLA but has a further three years to draw down on these to fund the delivery of affordable housing specifically in the Borough. The current forecast assumes the use of retained receipts will be maximised on the existing programme, with any receipts passed to the GLA being utilised by the unallocated Affordable Housing Delivery Framework budget. Future reports will show the forecasted use of the receipts passed to the GLA as well as the Council's own RTB 141 money.

² Moving schemes from directly delivery to the affordable housing framework has the potential to free up HRA, however this would mean writing off to revenue some or all the costs incurred to date.

- 7.9 We continue to carefully manage the risks to ensure that the HRA can meet the Council's obligations to residents of Council Homes while not breaching the debt cap or going into deficit position.

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 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 £2-£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 2018-22 (Published Feb 2018)	Andrew Lord tel. 2531 Chris Harris tel. 6440	Finance Dept., Room10, Hammersmith Town Hall

LIST OF APPENDICES:

Appendix 1 – Detailed Capital Budgets, Spend and Variation analysis by Service

Appendix 2 – Analysis of Budget Variations

Appendix 3 – Capital Receipts Forecast

Appendix 4 – VAT Partial Exemption

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

Children's Services	Current Year Programme						Indicative Future Years Analysis				
	Analysis of Movements (Revised budget to Q1)						Revised Budget 2018/19 (Q1)	2019/20 Budget	2020/21 Budget	2021/22 Budget	Total Budget (All years)
	2018/19 Budget (Full Council Feb '18)	2018/19 Revised Budget as @ 2017/18 Outturn	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements					
Scheme Expenditure Summary											
Lyric Theatre Development	1,100	548	-	-	(548)	(548)	-	-	-	-	-
Schools Organisational Strategy	5,615	9,673	-	-	-	-	9,673	331	-	-	10,004
Schools Window Replacement Project	13,085	13,240	(11,740)	-	-	(11,740)	1,500	11,740	-	-	13,240
Other Capital Schemes	-	690	-	-	-	-	690	-	-	-	690
Total Expenditure	19,800	24,151	(11,740)	-	(548)	(12,288)	11,863	12,071	-	-	23,934
Capital Financing Summary											
Specific/External or Other Financing											
Capital Grants from Central Government	4,184	8,422	-	-	-	-	8,422	-	-	-	8,422
Grants and Contributions from Private Developers (includes S106)	1,406	1,941	-	-	-	-	1,941	331	-	-	2,272
Capital Grants/Contributions from Non-departmental public bodies	1,100	548	-	-	(548)	(548)	-	-	-	-	-
Sub-total - Specific or Other Financing	6,690	10,911	-	-	(548)	(548)	10,363	331	-	-	10,694
Mainstream Financing (Internal Council Resource)											
Capital Receipts	25	-	-	-	-	-	-	-	-	-	-
Sub-total - Mainstream Funding	25	-	-	-	-	-	-	-	-	-	-
Borrowing - non school windows	-	-	-	-	-	-	-	-	-	-	-
Borrowing - school windows	13,085	13,240	(11,740)	-	-	(11,740)	1,500	11,740	-	-	13,240
Total Capital Financing	19,800	24,151	(11,740)	-	(548)	(12,288)	11,863	12,071	-	-	23,934

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

Adult Social Care Services	Current Year Programme							Indicative Future Years Analysis			
	Analysis of Movements (Revised budget to Q1)							2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000	Total Budget (All years) £'000
	2018/19 Budget (Full Council Feb '18) £'000	2018/19 Revised Budget as @ 2017/18 Outturn £'000	Slippages from/(to) future years £'000	Additions/ (Reductions) £'000	Transfers £'000	Total Transfers/ Virements £'000	Revised Budget 2018/19 (Q1) £'000				
Scheme Expenditure Summary											
Extra Care New Build project (Adults' Personal Social Services Grant)	20	20	-	-	-	-	20	937	-	-	957
Community Capacity Grant	-	2	-	-	-	-	2	-	-	-	2
Transforming Care (Winterbourne Grant)	-	300	-	-	-	-	300	-	-	-	300
Social Care Capital Grant	-	1,067	-	-	-	-	1,067	-	-	-	1,067
Total Expenditure	20	1,389	-	-	-	-	1,389	937	-	-	2,326
Capital Financing Summary											
Specific/External or Other Financing											
Capital Grants from Central Government	20	1,089	-	-	-	-	1,089	937	-	-	2,026
Capital Grants/Contributions from Non-departmental public bodies	-	300	-	-	-	-	300	-	-	-	300
Sub-total - Specific or Other Financing	20	1,389	-	-	-	-	1,389	937	-	-	2,326
Mainstream Financing (Internal Council Resource)											
Capital Receipts	-	-	-	-	-	-	-	-	-	-	-
Sub-total - Mainstream Funding	-	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-	-	-
Total Capital Financing	20	1,389	-	-	-	-	1,389	937	-	-	2,326

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

Residents' Services	Current Year Programme							Indicative Future Years Analysis			
	2018/19 Budget (Full Council Feb '18)	2018/19 Revised Budget as @ 2017/18 Outturn	Analysis of Movements (Revised budget to Q1)				Revised Budget 2018/19 (Q1)	2019/20 Budget	2020/21 Budget	2021/22 Budget	Total Budget (All years)
			Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements					
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Scheme Expenditure Summary											
Planned Maintenance/DDA Programme (CPMP agreed)	3,190	3,699	-	-	(1,793)	(1,793)	1,906	1,688	1,564	-	5,158
Planned Maintenance/DDA Programme (CPMP reserved)	-	-	(1,932)	-	1,932	-	-	2,680	-	2,500	5,180
King Street-Town Hall Redevelopment	6,274	6,502	(5,769)	-	(139)	(5,908)	594	5,833	936	-	7,363
Footways and Carriageways	2,030	3,054	-	-	-	-	3,054	2,030	2,030	2,030	9,144
Transport For London Schemes	2,157	2,989	-	-	-	-	2,989	2,157	2,157	2,157	9,460
Controlled Parking Zones	275	309	-	(255)	-	(255)	54	275	275	275	879
Column Replacement	246	524	-	-	-	-	524	246	246	246	1,262
Carnwath Road	-	-	-	-	-	-	-	3,070	-	-	3,070
Hammersmith Bridge Strengthening	-	-	-	-	-	-	-	-	-	-	-
LED Lighting Replacement Programme	-	1,019	-	-	-	-	1,019	-	-	-	1,019
P&D Upgrade and Pay by Phone	-	1,132	-	-	-	-	1,132	-	-	-	1,132
Other Capital Schemes	-	2,301	-	-	-	-	2,301	-	-	-	2,301
Parks Expenditure	845	2,615	-	177	-	177	2,792	500	-	-	3,292
Shepherds Bush Common Improvements	400	503	-	-	-	-	503	-	-	-	503
Recycling	-	19	-	-	-	-	19	-	-	-	19
CCTV	-	140	-	-	-	-	140	-	-	-	140
Total Expenditure	15,417	24,806	(7,701)	(78)	-	(7,779)	17,027	18,479	7,208	7,208	49,922
Capital Financing Summary											
Specific/External or Other Financing											
Grants and Contributions from Private Developers (includes S106)	1,245	7,252	-	177	-	177	7,429	500	-	-	7,929
Capital Grants and Contributions from GLA Bodies	2,157	2,961	-	-	-	-	2,961	2,157	2,157	2,157	9,432
Sub-total - Specific or Other Financing	3,402	10,213	-	177	-	177	10,390	2,657	2,157	2,157	17,361
Mainstream Financing (Internal Council Resource)											
Capital Receipts	1,445	864	-	-	652	652	1,516	925	2,751	2,140	7,332
General Fund Revenue Account (revenue funding)	521	837	-	(255)	-	(255)	582	521	521	521	2,145
Use of Reserves	-	89	-	-	-	-	89	-	-	-	89
Sub-total - Mainstream Funding	1,966	1,790	-	(255)	652	397	2,187	1,446	3,272	2,661	9,566
Borrowing	10,049	12,803	(7,701)	-	(652)	(8,353)	4,450	14,376	1,779	2,390	22,995
Total Capital Financing	15,417	24,806	(7,701)	(78)	-	(7,779)	17,027	18,479	7,208	7,208	49,922

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

Finance & Governance	Current Year Programme							Indicative Future Years Analysis			
	Analysis of Movements (Revised budget to Q1)							2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000	Total Budget (All years) £'000
	2018/19 Budget (Full Council Feb '18) £'000	2018/19 Revised Budget as @ 2017/18 £'000	Slippages from/(to) future years £'000	Additions/ (Reductions) £'000	Transfers £'000	Total Transfers/ Virements £'000	Revised Budget 2018/19 (Q1) £'000				
Scheme Expenditure Summary											
Invest to Save - Flexible Use of Capital Receipts	-	930	-	-	-	-	930	-	-	-	930
Desktop Strategy	-	-	-	-	-	-	-	-	-	-	-
Total Expenditure	-	930	-	-	-	-	930	-	-	-	930
Capital Financing Summary											
Mainstream Financing (Internal Council Resource)											
Capital Receipts	-	930	-	-	-	-	930	-	-	-	930
Sub-total - Mainstream Funding	-	930	-	-	-	-	930	-	-	-	930
Borrowing	-	-	-	-	-	-	-	-	-	-	-
Total Capital Financing	-	930	-	-	-	-	930	-	-	-	930

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

General Fund Schemes under Housing management	Current Year Programme							Indicative Future Years Analysis				
	Analysis of Movements (Revised budget to Q1)							2019/20 Budget	2020/21 Budget	2021/22 Budget	Total Budget (All years)	
	2018/19 Budget (Full Council Feb '18)	2018/19 Revised Budget as @ 2017/18 Outturn	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements	Revised Budget 2018/19 (Q1)					£'000
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Scheme Expenditure Summary												
Disabled Facilities Grant	450	955	(652)	711	-	59	1,014	1,102	450	450	3,016	
Sands End Community Centre	1,600	2,193	(103)	-	-	(103)	2,090	953	-	-	3,043	
Lyric Theatre Development	-	-	-	-	548	548	548	-	-	-	548	
Total Expenditure	2,050	3,148	(755)	711	548	504	3,652	2,055	450	450	6,607	
Capital Financing Summary												
Specific/External or Other Financing												
Capital Grants from Central Government	-	-	-	711	-	711	711	-	-	-	711	
Grants and Contributions from Private Developers (includes S106)	1,000	1,687	3	-	548	551	2,238	277	-	-	2,515	
Capital Grants/Contributions from Non-departmental public bodies	600	506	(106)	-	-	(106)	400	676	-	-	1,076	
Sub-total - Specific or Other Financing	1,600	2,193	(103)	711	548	1,156	3,349	953	-	-	4,302	
Mainstream Financing (Internal Council Resource)												
Capital Receipts (GF)	450	955	(652)	-	-	(652)	303	1,102	450	450	2,305	
Sub-total - Mainstream Funding	450	955	(652)	-	-	(652)	303	1,102	450	450	2,305	
Borrowing (Internal Borrowing-GF)	-	-	-	-	-	-	-	-	-	-	-	
Total Capital Financing	2,050	3,148	(755)	711	548	504	3,652	2,055	450	450	6,607	

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

Housing Capital Programme	Current Year Programme							Indicative Future Years Analysis			
	Analysis of Movements (Revised budget to Q1)							2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000	Total Budget (All years) £'000
	2018/19 Budget (Full Council Feb '18) £'000	2018/19 Revised Budget as @ 2017/18 Outturn £'000	Slippages from/(to) future years £'000	Additions/ (Reductions) £'000	Transfers £'000	Total Transfers/ Virements £'000	Revised Budget 2018/19 (Q1) £'000				
Scheme Expenditure Summary											
HRA Schemes:											
Other HRA Capital Schemes	30,540	25,000	(4,293)	628	-	(3,665)	21,335	29,045	29,393	35,000	114,773
Fire Safety Plus	15,000	3,000	(1,000)	-	-	(1,000)	2,000	10,000	6,856	-	18,856
Subtotal HRA	45,540	28,000	(5,293)	628	-	(4,665)	23,335	39,045	36,249	35,000	133,629
Decent Neighbourhood Schemes:											
Earls Court Buy Back Costs	4,062	4,929	-	308	-	308	5,237	2,446	5,866	6,255	19,804
Earls Court Project Team Costs	926	926	-	(325)	-	(325)	601	1,170	1,198	1,390	4,359
Housing Development Project	8,554	7,471	(6,506)	(10)	-	(6,516)	955	9,816	993	-	11,764
Stanhope Joint Venture	5,592	1,869	-	650	-	650	2,519	11,392	15,835	6,317	36,063
Other HRA	375	5,074	-	(813)	(4,152)	(4,965)	109	-	-	-	109
Affordable Housing Delivery Framework	12,000	7,815	(4,625)	-	-	(4,625)	3,190	4,263	3,956	3,984	15,393
Property Acquisition (Other Buybacks)	-	-	-	-	4,152	4,152	4,152	-	-	-	4,152
Subtotal Decent Neighbourhoods	31,509	28,084	(11,131)	(190)	-	(11,321)	16,763	29,087	27,848	17,946	91,644
Total Expenditure	77,049	56,084	(16,424)	438	-	(15,986)	40,098	68,132	64,097	52,946	225,273
Adjustment for deferred costs	(926)	(926)	-	325	-	325	(601)	(1,170)	(1,198)	(1,390)	(4,359)
Total Net Expenditure	76,123	55,158	(16,424)	763	-	(15,661)	39,497	66,962	62,899	51,556	220,914
Capital Financing Summary											
Specific/External or Other Financing											
Contributions from leaseholders	4,390	8,682	-	(3,642)	-	(3,642)	5,040	3,891	4,543	4,485	17,959
Grants and Contributions from Private Developers (includes S106)	5,634	3,494	(1,910)	-	-	(1,910)	1,584	1,703	17,026	-	20,313
Capital Grants/Contributions from Non-departmental public bodies	-	270	-	-	-	-	270	270	-	290	830
Sub-total - Specific or Other Financing	10,024	12,446	(1,910)	(3,642)	-	(5,552)	6,894	5,864	21,569	4,775	39,102
Mainstream Financing (Internal Council Resource)											
Capital Receipts (HRA)	24,538	21,253	(11,268)	4,405	-	(6,863)	14,390	16,906	13,095	9,969	54,360
Housing Revenue Account (revenue funding)	4,563	-	-	-	-	-	-	-	5,172	5,500	10,672
Major Repairs Reserve (MRR) / Major Repairs	16,165	16,213	-	-	-	-	16,213	15,926	15,921	16,668	64,728
Use of Reserves (Fire Safety EMR)	-	3,000	(1,000)	-	-	(1,000)	2,000	10,000	850	-	12,850
Sub-total - Mainstream Funding	45,266	40,466	(12,268)	4,405	-	(7,863)	32,603	42,832	35,038	32,137	142,610
Borrowing (Internal Borrowing-HRA)	20,833	2,246	(2,246)	-	-	(2,246)	-	18,266	6,292	14,644	39,202
Total Capital Financing	76,123	55,158	(16,424)	763	-	(15,661)	39,497	66,962	62,899	51,556	220,914

Appendix 2 – Analysis of Budget Variations

Variation by Service	Amount £'000
Children's Services (CHS)	
Schools Windows Replacement Project – slippages due to project delays as scheme is currently under review	(11,740)
Lyric Theatre – project transferred to Planning and Growth (Housing)	(548)
Total CHS variations	(12,288)
Residents' Services (RES)	
King Street - Hammersmith Town Hall Redevelopment - slippage due to project delays	(5,908)
Controlled Parking Zones – reduction in budget to reflect forecast spend	(255)
Parks Programme – additional budget to reflect increase in S106 funding	177
Planned Maintenance (CPMP) – slippage due to delays in Amey contract works and budget re-profiling	(1,793)
Total RES variations	(7,779)
General Fund Schemes under Housing management	
Disabled Facilities Grant – net variance of £59k due to £711k of additional funding received in 2018/19 and £(652)k slippage to 2018/19	59
Sands End Community Centre – slippage due to project delays	(103)
Lyric Theatre – scheme transferred from Children's Services	548
Total GF Schemes under Housing management	504
Housing Capital Programme	
HRA schemes – £5.3m slippage to future years because of delays in work starting while ongoing compliance checks happen on the planned programme and £0.6m addition to the CCTV Programme driven by an expanded CCTV delivery schedule	(4,665)
Earls Court Buy back Costs – additional budget to reflect forecast expenditure	308
Housing Development Project - £6.5m slippages due to delays on procurement in relation to Spring Vale and Pearscroft Rd schemes, with expected start moved for Pearscroft Road from Jul 18 to Apr 19 and for Spring Vale from Sep 18 to Jan 19. Verulam House project completed with £10k underspent variance.	(6,516)
Other HRA projects – net variance due to budget transfer of £4.152m to new scheme – Property Acquisitions (Other Buybacks) – and reduction of £813k	(4,965)
Stanhope Joint Venture – additional budget for Watermeadow Court demolition approved by Cabinet in June 2018	650
Affordable Housing Delivery Framework – slippage to align the forecast for unidentified affordable housing delivery schemes	(4,625)
Property Acquisition – Other Buybacks – budget transferred from Other HRA projects to create a new scheme	4,152
Total Housing variations	(15,661)
Total 2018-19 Q1 variations	(35,224)

Appendix 3 – General Fund – Forecast Capital Receipts

Year/Property	Previous Forecast £'000s	Movement/ Slippage £'000s	2018/19 Forecast at Quarter 1 £'000s	Deferred Costs of Disposal reserved £'000s
2018/19				
Total 2018/19	2,749	-	2,749	200
2019/20				
Total 2019/20	7,539	(5,512)	2,027	-
2020/21				
Total 2020/21	3,501	(301)	3,201	280
2021/22				
Total 2021/22	1,920	670	2,590	-
Total All Years	15,710	(5,143)	10,567	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, i.e. 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.

