


<p>London Borough of Hammersmith & Fulham</p> <p>CABINET</p> <p>4 FEBRUARY 2019</p>	
<p>FOUR YEAR CAPITAL PROGRAMME 2019/20 AND CAPITAL STRATEGY 2019/20</p>	
<p>Report of the Cabinet Member for Finance and Commercial Services – Councillor Max Schmid</p>	
<p>Open Report</p>	
<p>Classification: FOR DECISION Key Decision: Yes</p>	
<p>Wards Affected: ALL</p>	
<p>Accountable Director: Hitesh Jolapara, Strategic Director, Finance and Governance</p>	
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1. EXECUTIVE SUMMARY

- 1.1. This report presents the Council's four-year Capital Programme for the period 2019-23. The programme for this period totals £408.8m. The gross programme for 2019/20 totals £121m. This comprises the General Fund Programme of £54.3m and the Housing Programme of £66.7m.
- 1.2. The Capital Programme now includes £43.6m budgets for West King Street Regeneration /Hammersmith Town Hall Refurbishment and £90m for Joint Venture Loan in relation to the scheme (both pending Full Council approval). The budget has been profiled based on the current estimated cash flow received from the project management for refurbishment costs and an estimate of loan cashflows pending detailed information from the joint venture partner. Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP) calculations in relation to borrowing required to fund the scheme are currently based on these estimates and will be updated and reported as part of capital quarterly monitoring process.
- 1.3. The report details some other changes to previously approved four-year programme. These include:
 - £7.6m of Department for Education grants in relation to School Maintenance Programme has been added to the capital programme as an overall budget

envelop and use of this budget will be subject to relevant Member approval and sign-off of an appropriate business case.

- The previously approved mainstream funding budget of £3.07m mainstream for Carnwath Road has been reduced to £1.87m to reflect current commitments.
- Capital investment in Parks from 2019/20 will be added to the programme once funding of new schemes has been approved, either from Section 106 (S106) or other external funding resources where available and in accordance with the Parks Capital Strategy. Such funding will still require approval in line with the Constitution and can only be utilised where an appropriate section 106 agreement permits the proposed use.
- Funding of adaptation works from 2019/20 will be funded through use of the increased Disabled Facilities Grant (DFG) allocations.

1.4. The Government's Flexible Use of Capital Receipts provisions allow the Council to use up to £5.39m of capital receipts to fund Invest to Save schemes. This comes at revenue cost of £57,400 per annum per £1m capitalised, but, by maintaining reserves, would contribute towards future financial resilience. A final decision on the use of this flexibility will be delegated to the Strategic Director, Finance and Governance, in consultation with the Cabinet Member for Finance and Commercial Services, as part of the closure of the 2018/19 Accounts.

1.5. The current general fund (GF) capital receipts forecast contained in this report assumes no receipts for financial years 2019/20-2021/22. Should capital receipts be identified, they will be added to the programme as an additional funding source available and will reduce current forecast CFR and MRP. They could also be used to fund any future Invest to Save schemes as set out above.

1.6. The Council is required by CIPFA Prudential Code 2017 and statutory guidance to prepare certain capital related strategies and policies. The Capital Strategy and Minimum Revenue Provision (MRP) Policy are included as Appendices to this report. The Treasury Management Strategy Statement 2019/20 will also be presented to Cabinet in February 2019 under a separate agenda item.

2. RECOMMENDATIONS

2.1. To approve the General Fund Capital Programme budget at £54.3m for 2019/20 (paragraph 5.1, Table 2 and Appendix 1).

2.2. To approve the Council's rolling programmes and the continued use of internal funding for 2019/20 General Fund 'Mainstream' Programme as set out in Table 3 (paragraph 5.2) and specifically as follows:

- Capital receipts and internal borrowing amounting to £4.53m to fund the Council's rolling programmes as follows:

	£m
Planned Maintenance/DDA Programme [RES]	2.50
Footways and Carriageways [RES]	2.03
Total	4.53

- Contributions from revenue amounting to £0.521m to fund the Council’s rolling programmes as follows:

	£m
Controlled Parking Zones [RES]	0.275
Column Replacement [RES]	0.246
Total	0.521

- 2.3. To note existing capital receipts funded schemes previously approved, but now scheduled for 2019/20 (paragraph 5.2, Table 3):
 - One off scheme: Carnwath Road - £1.87m (reduced from £3.07m)
 - Rolling programme: Planned Maintenance/DDA Programme - £3.57m
- 2.4. To approve the Housing Programme at £66.7m for 2019/20 as set out in Table 5 (paragraph 7.2) and Appendix 1.
- 2.5. To delegate the potential application of 2018/19 capital receipts (totalling £5.39m) under the Government’s Flexible Use of Capital Receipts provisions to fund Invest to Save schemes in 2018/19 and 2019/20 (as identified in Appendix 5) to the Strategic Director, Finance and Governance, in consultation with the Cabinet Member for Finance and Commercial Services, as part of the closure of the 2018/19 accounts.
- 2.6. To approve a change of funding of £0.45m of Disabled Facilities Grant (DFG) budget for 2019/20 and future years, to be funded from DFG grant instead of mainstream resources.
- 2.7. To approve an additional budget envelope of £50m, from 2019/20 onwards, to provide operational flexibility, for taking forward the major projects set out in Capital Strategy Report. Use of this budget will be subject to relevant Member approval, agreement of funding sources and sign-off of an appropriate business case.
- 2.8. To approve budget envelop of £7.6m for Schools Maintenance Programme funded from Department of Education external grants. Use of this budget will be subject to relevant Member approval and sign-off of an appropriate business case.
- 2.9. To approve Capital Strategy 2019/20, as set out in Appendix 4.
- 2.10. To approve annual Minimum Revenue Provision policy statement for 2019/20, as set out in Appendix 6.
- 2.11. To approve that the Parks Capital programme for 2019/20 and future years continues to be funded from S106 and other external funding sources where available. Schemes will be added when funding is confirmed and in line with the Parks Capital Strategy.

3. REASONS FOR DECISION

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

4. INTRODUCTION AND BACKGROUND

- 4.1. This report sets out an updated four-year capital expenditure and resource forecast and a capital programme for 2019/20 to 2022/23, as summarised in Table 1 below. A detailed analysis of specific schemes by service is included in Appendix 1.

Table 1 - Capital Programme 2019/20 to 2022/23

	Indicative Future Years				Total Budget (All years) £'000
	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	
CAPITAL EXPENDITURE					
Children's Services	6,833	3,738	2,238	2,238	15,047
Adult Social Care	1,922	300	-	-	2,222
Residents' Services	10,146	6,272	7,208	7,208	30,834
General Fund Schemes under Growth & Place management	35,434	40,051	48,642	12,759	136,886
Sub-total (Non-Housing)	54,335	50,361	58,088	22,205	184,989
HRA Programme	42,011	36,825	34,206	28,000	141,042
Decent Neighbourhoods Programme	24,701	25,670	18,499	13,897	82,767
Sub-total (Housing)	66,712	62,495	52,705	41,897	223,809
Total Expenditure	121,047	112,856	110,793	64,102	408,798
CAPITAL FINANCING					
Specific/External Financing:					
Government/Public Body Grants	8,873	4,695	4,685	4,395	22,648
Grants and Contributions from Private Developers (includes S106/CIL)	11,132	18,641	19,504	9,184	58,461
Leaseholder Contributions (Housing)	4,507	3,871	4,240	4,014	16,632
Sub-total - Specific Financing	24,512	27,207	28,429	17,593	97,741
Mainstream Financing (Internal):					
Capital Receipts - General Fund	-	-	-	3,456	3,456
Capital Receipts - Housing*	13,625	14,624	10,493	6,320	45,062
Revenue funding - General Fund	521	521	521	521	2,084
Revenue Funding - HRA	-	-	0	-	-
Major Repairs Reserve (MRR) [Housing]	23,354	16,415	17,234	17,546	74,549
Earmarked Reserves (Revenue)	6,443	242	-	-	6,685
Sub-total - Mainstream Funding	43,943	31,802	28,248	27,843	131,836
Internal Borrowing	52,592	53,847	54,116	18,666	179,221
Total Capital Financing	121,047	112,856	110,793	64,102	408,798

*Includes use of brought-forward receipts

- 4.2. The forecast is based on known allocations at December 2018 and will be updated in accordance with relevant government spending announcements. This will include a review of Children's Services and DFG allocations. At present schools' funding is not confirmed by Government beyond 2019/20. Once confirmed, General Fund capital expenditure is likely to increase. Capital receipts forecasts will be updated as they become known.

5. THE GENERAL FUND CAPITAL PROGRAMME

- 5.1. The General Fund programme is summarised in Table 2, below with details for each service at Appendix 1. The programme includes:
- The continuation of the School's Organisation Strategy (within Children's Services) which is committed to increasing school places in the Borough;

- The continuation of the Council's rolling programmes for Planned Building Maintenance and Footways and Carriageways;
- The planned West King Street Regeneration/Refurbishment of Hammersmith Town Hall; and
- The Schools Maintenance Programme.

Table 2 – General Fund Capital Programme 2019-23

	Indicative Future Years				Total Budget (All years) £'000
	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	
CAPITAL EXPENDITURE					
Children's Services	6,833	3,738	2,238	2,238	15,047
Adult Social Care	1,922	300	-	-	2,222
Residents' Services	10,146	6,272	7,208	7,208	30,834
General Fund Schemes under Growth & Place management	35,434	40,051	48,642	12,759	136,886
Total Expenditure	54,335	50,361	58,088	22,205	184,989
CAPITAL FINANCING					
Specific/External Financing:					
Government/Public Body Grants	8,603	4,695	4,395	4,395	22,088
Grants and Contributions from Private Developers (includes S106/CIL)	3,272	7,337	13,608	9,184	33,401
Sub-total - Specific Financing	11,875	12,032	18,003	13,579	55,489
Mainstream Financing (Internal):					
Capital Receipts - General Fund	-	-	-	3,456	3,456
Revenue funding - General Fund	521	521	521	521	2,084
Sub-total - Mainstream Funding	521	521	521	3,977	5,540
Internal Borrowing	41,939	37,808	39,564	4,649	123,960
Total Capital Financing	54,335	50,361	58,088	22,205	184,989

5.2. Table 3 below shows the projects funded from internal mainstream resource (internal borrowing or capital receipts) and comprises the completion of existing schemes and the continuation of rolling programmes.

Table 3 – General Fund Mainstream Programme 2019-23

	Budget 2019/20 £'000	Indicative Budget 2020/21 £'000	Indicative Budget 2021/22 £'000	Indicative Budget 2022/23 £'000	Total Budget (All years) £'000
Approved Expenditure					
Ad Hoc Schemes:					
Hammersmith Town Hall Refurbishment	577	2,714	5,034	3,575	11,900
Acquisition of Cinema Site	2	-	-	-	2
Carnwath Road [RES]	1,870	-	-	-	1,870
Rolling Programmes:					
Disabled Facilities Grant [ASC]	652	-	-	-	652
Planned Maintenance/DDA Programme [RES]	3,568	1,564	2,500	2,500	10,132
Footways and Carriageways [RES]	2,030	2,030	2,030	2,030	8,120
Total Mainstream Programmes	8,699	6,308	9,564	8,105	32,676
Financing					
Capital Receipts	-	-	-	3,456	3,456
Increase/(Decrease) in Internal Borrowing	8,699	6,308	9,564	4,649	29,220
Total Financing	8,699	6,308	9,564	8,105	32,676

5.3. A summary of forecast General Fund capital receipts is included in Appendix 2. The level, and timing, of sales is subject to risks – most notably a dependence on the wider property market, appropriate consultation, planning considerations and slippage. An additional risk is that significant costs of disposals of assets may be incurred, and may be difficult to predict. Where capital receipts are not available, the mainstream programme will be funded from internal borrowing.

6. GENERAL FUND CAPITAL FINANCE REQUIREMENT (CFR) AND MRP

6.1. General Fund debt is measured by the Capital Finance Requirement (CFR). The Council is required to make an annual provision from revenue, known as the Minimum Revenue Provision (MRP), which set-asides resource to repay debt and in so doing reduces the CFR. The CFR is explained in more detail in Appendix 3 and the Council's 2019/20 MRP policy is set-out in the Appendix 6.

6.2. The forecast for the General Fund (GF) CFR is shown in Table 4 below. The GF headline CFR is stated with and without Schools' Windows because the Dedicated Schools Grant (DSG) will compensate the Council for any cost of borrowing associated with the Schools' Windows programme.

6.3 The GF CFR excludes the Joint Venture loan which is expected to be funded by interest charged to the Joint Venture. The forecast General Fund CFR excluding school windows and Joint Venture loan at the end of 2019/20 is £88.1m. This increase is due to the need to fund the mainstream programme of £8.1m and Hammersmith Town Hall refurbishment of £0.6m from internal borrowing, as set out in Table 3, less the in-year MRP payment.

6.3 The calculation of the gross CFR also requires adjustments to be made regarding Finance Lease and PFI liabilities.

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

GENERAL FUND CFR ANALYSIS	2019/20	2020/21	2021/22	2022/23
CFR EXCLUDING SCHOOLS WINDOWS	£m	£m	£m	£m
Opening Capital Finance Requirement (CFR)	79.91	88.06	93.58	102.26
Revenue Repayment of Debt (MRP)	(0.55)	(0.79)	(0.88)	(1.00)
Mainstream Programme (Surplus)/Shortfall	8.70	6.31	9.56	4.65
Closing Capital Finance Requirement (CFR)	88.06	93.58	102.26	105.91
SCHOOLS WINDOWS	£m	£m	£m	£m
Opening Capital Finance Requirement (CFR)	8.00	10.92	11.98	11.50
Revenue Repayment of Debt (MRP)	(0.32)	(0.44)	(0.48)	(0.46)
Internal Borrowing (Schools Window Replacement)	3.24	1.50	-	-
Closing Capital Finance Requirement (CFR)	10.92	11.98	11.50	11.04
JOINT VENTURE	£m	£m	£m	£m
Opening Capital Finance Requirement (CFR)	-	30.00	59.40	88.21
Revenue Repayment of Debt (MRP)	-	(0.60)	(1.19)	(1.76)
Borrowing	30.00	30.00	30.00	-
Closing Capital Finance Requirement (CFR)	30.00	59.40	88.21	86.45
Total Headline Capital Finance Requirement (CFR)	128.98	164.96	201.98	203.40
Finance leases/PFI/ Deferred costs of disposal	8.73	7.93	7.13	6.33
Total Closing CFR	137.71	172.89	209.11	209.73

6.4. Any capital receipts received during the year may be applied to lower the closing CFR. In addition, the Council may opt to apply additional Section 106 or CIL identified during the year to fund elements of the capital programme to reduce the closing CFR.

- 6.5 The calculation of CFR and Minimum Revenue Provision for the expenditure in relation to West King Street Regeneration and Hammersmith Town Hall Refurbishment is based on the latest cash flow information provided by the project management team. The project funding which is combination of Community Infrastructure Levy (£33.7m) and borrowing (£11.9m), has been apportioned from 2019 onwards based on CIL/borrowing ratio of 76:24 until further work is completed on forecasting CIL receipts. It is assumed that 2018/19 expenditure related to Hammersmith Town Hall Refurbishment project will be funded from CIL as sufficient balances are in hand. However, this is subject to confirmation that the CIL funds can be used for the proposed purchases.
- 6.6 The calculation of Minimum Revenue Provision (MRP) assumes that 207 King Street and Edith Summerskill sites were acquired/appropriated to GF in 2018/19 for development purposes. In line with the policy and statutory guidance charging MRP will be deferred until the year after completion. MRP will be also deferred for the borrowing in relation to Hammersmith Town Hall refurbishment and it will start being charged a year after the completion of refurbishment works (currently estimated to be 2022/23).
- 6.7 Statutory Guidance on Minimum Revenue Provision requires that the loans issued to the third party should be charged over the life of asset to which the third-party expenditure is incurred. Therefore, MRP on the Joint Venture loan will be charged a year after the first loan payment is made at the rate of 2% assuming the useful economic life of new assets is 50 years. MRP on the Joint Venture loan is expected to be fully funded by interest charged to the Joint Venture. Further information on detailed cashflows is awaited from the Joint Venture partner, in the interim, the maximum loan value has been profiled equally over three years from 2019/20.

7. THE HOUSING CAPITAL PROGRAMME

- 7.1. The Housing Capital Programme is funded by internal borrowing, revenue contributions appropriated to the Major Repairs Reserve, S106, capital receipts from both Right-to-Buy (RTB) and sales of surplus non-dwelling sites and revenue contributions to capital from general Housing Revenue Account reserves. The overall Housing Capital Programme expenditure and resource forecast is summarised in Table 5, below. The detailed programme is included at Appendix 1.

Table 5 – Housing Expenditure and Resource Forecast 2019-23

	2019/20 Budget £'000	Indicative 2020/21 Budget £'000	Indicative 2021/22 Budget £'000	Indicative 2022/23 Budget £'000
Approved Expenditure				
Decent Neighbourhood Schemes	24,701	25,670	18,499	13,897
HRA Schemes	42,011	36,825	34,206	28,000
Total Housing Programme - Approved Expenditure	66,712	62,495	52,705	41,897
Available and Approved Resource				
Capital Receipts - Unrestricted	3,099	5,817	3,978	6,320
Capital Receipts - RTB (141)	10,526	8,807	6,515	-
Major Repairs Reserve (MRR)	23,354	16,415	17,234	17,546
Contributions Developers (S106)	7,860	11,304	5,896	-
Repayment of NHHT loan	270	-	290	-
Contributions from leaseholders	4,507	3,871	4,240	4,014
Use of reserves (Fire Safety EMR)	6,443	242	-	-
Internal Borrowing	10,653	16,039	14,552	14,017
Total Funding	66,712	62,495	52,705	41,897

Under the 1-4-1 scheme, Right to Buy (RTB) receipts can be retained by the authority on the proviso that they are recycled into the provision of a replacement dwelling. Accordingly, these receipts must be ring-fenced until they can be matched to qualifying expenditure.

7.3. For the period 2019-23 the Housing Capital Programme will be borrowing against internal resources ('internal borrowing' in Table 5). This is principally achieved through the use of cash associated with Earls Court land sales received in advance of the transfer of the land title. Use of this money is classed as borrowing as, although cash is in hand, the receipt is only deemed usable for capital funding as land transfers to the purchaser. This does not prevent the Council from spending the cash it receives. This borrowing unwinds when the receipt becomes usable (when land transfers).

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

Table 6 – Housing CFR Forecast 2019-23

HRA CFR Forecast	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
Closing Forecast HRA CFR (excluding deferred costs of disposal)	215.50	231.54	246.09	260.11
Deferred Costs of Disposal	6.83	7.82	9.96	0.02
Closing Forecast HRA CFR (including deferred costs of disposal)	222.33	239.36	256.05	260.13

7.5. The Growth and Place restructure is being addressed in the Financial Plan for Council Homes report being considered by Cabinet in February 2019. If approved the restructure will require growth to the HRA revenue budget which consequently reduces the revenue available to fund the programme in future years and therefore increases the CFR. The current CFR figures presented in this report have factored in this assumption.

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, the recommendations relating to increase in capital allocations will not impact directly on any group with protected characteristics, under the terms of the Equality Act 2010

8.2. Implications verified and completed by: Peter Smith, Head of Policy & Strategy, Tel: 020 8753 2206

9. LEGAL IMPLICATIONS

9.1. There are no direct legal implications in relation to this report.

9.2. Implications completed by: Rhian Davies, Assistant Director of Legal and Democratic Services, Tel: 020 8753 2729.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. This report is of a wholly financial nature and financial and resource implications are considered throughout, however the following supplementary comments should be noted.

- 10.2. The Council's mainstream capital programme is largely restricted to core rolling programmes but it is looking to invest in a number of priority areas. These may have a major impact, both in terms of expenditure and resources, on the capital forecast over the next four years. Amendments will be made in line with Member approval, amendments over £5m requiring approval by Full Council. The Council will also explore use of capital investments to manage demand and secure future income and/or efficiencies.
- 10.3. In accordance with the requirements of the Prudential Code for Capital Finance, local authorities are required to maintain a number of prudential indicators. These are set out in the Treasury Management Strategy Statement 2019/20. The indicator used to reflect the underlying need of an authority to borrow for a capital purpose is the Capital Financing Requirement (CFR).
- 10.4. From 2019/20 onwards the Prudential Code obliges local authorities to approve a capital strategy. This is a new requirement and is included in Appendix 4.
- 10.5. Each year local authorities are required to set aside some of their revenues as provision for debt repayment. This is commonly termed the Minimum Revenue Provision (MRP). Before the start of each financial year, Full Council is required to approve a statement of its policy on making MRP in respect of that financial year. The Council's MRP Statement for 2019/20 is set out in Appendix 6.
- 10.6. With regard to all major capital schemes and disposals, the Council will need to give careful consideration to its VAT partial exemption threshold. Ordinarily, entities cannot reclaim VAT incurred in the provision of VAT exempt activities, however special provision for Local Authorities means that Council can reclaim such costs, providing these do not exceed 5% of the Council's overall VAT liability in any one year. If this threshold is breached without HMRC mitigation, then all VAT incurred in support of exempt activities, in that year, can no longer be reclaimed from HM Revenue and Customs (HMRC) and becomes payable by the Council. This would represent a cost of approximately £2m to £3m per year of breach.

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

- Projects should be 'opted-to-tax' where this option is available and is of no financial disadvantage to the Council.
- If an option-to tax is unavailable it is advised that any avoidable, new projects incurring exempt VAT are deferred for the present time.
- 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.

- 10.7. VAT Implications completed by: Christopher Harris, Chief Accountant, Corporate Finance, Tel: 020 8753 6440.

11. RISK MANAGEMENT

- 11.1. The report content presents a balanced and measured profile of the main aspects, risks and issues relating to the Capital Programme and its deliverables. The exposure to property market conditions, consultation requirements, potential delays due to legal challenge, gaining planning consent, protracted negotiations, or exchange of contracts with potential purchasers are known risks and these are outlined in the report. Each may affect the likelihood or timeliness of expenditure meeting projected receipts. Mitigation is undertaken on a case by case basis and it is the responsibility of departments to capture risks that may affect the successful delivery of capital projects contained in their programme in their departmental registers. A number of significant opportunity risks to regenerate areas of the borough have previously been considered on the Council's risk and register which has been reviewed by the Strategic Leadership Team. Exposure to risks such as the potential for Fraud and Bribery in relation to its property and asset dealings are covered through the councils existing Anti-Fraud and Bribery policies. The service maintains a register of key risks, where there may become significant they may be escalated onto the Corporate risk register.
- 11.2. Implications verified/completed by: Michael Sloniowski, Risk Manager, Tel: 020 8753 2587 and Richard Buckley, Head of Environmental Health (Residential) & Corporate Safety, Tel: 020 8753 3971.

12. PROCUREMENT IMPLICATIONS

- 12.1. 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.
- 12.2. Implications completed by: Joanna Angelides on behalf of Simon Davis, Tel: 020 7361 2586.

13. IMPLICATIONS FOR BUSINESS

- 13.1. 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.
- 13.2. 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.
- 13.3. Implications completed by: Albena Karameros, Economic Development Team, Tel 07739 316 957

14. IT IMPLICATIONS

- 14.1. There are no IT implications for this report.

14.2. Implications completed by: Veronica Barella, Chief Information Officer, Tel: 020 8753 2927

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.	None.		

LIST OF APPENDICES:

Capital Budget Monitoring and Financing Information:

- Appendix 1 - Council Capital Programme by Service Area
- Appendix 2 - General Fund Anticipated Capital Receipts
- Appendix 3 - The Capital Financing Requirement (CFR) and Pooling of Housing Capital Receipts
- Appendix 4 - Capital Strategy 2019/20
- Appendix 5 - Flexible Use of Capital Receipts Guidance and Proposed Application
- Appendix 6 - Minimum Revenue Provision (MRP) Statement 2019/20

Appendix 1 – Detailed Analysis by Service

Children's Services

Indicative Budgets

	2019/20 Budget	2020/21 Budget	2021/22 Budget	2022/23 Budget	Total Budget (All years)
	£'000	£'000	£'000	£'000	£'000
Scheme Expenditure Summary					
Schools Organisational Strategy	2,704	-	-	-	2,704
Schools Window Replacement Project	3,240	1,500	-	-	4,740
School Maintenance Programme	889	2,238	2,238	2,238	7,603
Total Expenditure	6,833	3,738	2,238	2,238	15,047

Capital Financing Summary

Specific/External or Other Financing					
Capital Grants from Central Government	3,262	2,238	2,238	2,238	9,976
Grants and Contributions from Private Developers (includes S106)	331	-	-	-	331
Sub-total - Specific or Other Financing	3,593	2,238	2,238	2,238	10,307
Borrowing - school windows	3,240	1,500	-	-	4,740
Total Capital Financing	6,833	3,738	2,238	2,238	15,047

Adult Social Care Services

Indicative Budgets

	2019/20 Budget	2020/21 Budget	2021/22 Budget	2022/23 Budget	Total Budget (All years)
	£'000	£'000	£'000	£'000	£'000
Scheme Expenditure Summary					
Extra Care New Build project (Adults' Personal Social Services Grant)	957	-	-	-	957
Transforming Care (Winterbourne Grant)	300	-	-	-	300
Social Care Capital Grant	665	300	-	-	965
Total Expenditure	1,922	300	-	-	2,222
Capital Financing Summary					
Specific/External or Other Financing					
Capital Grants from Central Government	1,622	300	-	-	1,922
Capital Grants/Contributions from Non- departmental public bodies	300	-	-	-	300
Sub-total - Specific or Other Financing	1,922	300	-	-	2,222
Total Capital Financing	1,922	300	-	-	2,222

APPENDIX 1 – Detailed Analysis by Service

Residents' Services

Indicative Budgets

2019/20 Budget	2020/21 Budget	2021/22 Budget	2022/23 Budget	Total Budget (All years)
£'000	£'000	£'000	£'000	£'000

Scheme Expenditure Summary

Planned Maintenance/DDA Programme	3,568	1,564	2,500	2,500	10,132
Footways and Carriageways	2,030	2,030	2,030	2,030	8,120
Transport For London Schemes	2,157	2,157	2,157	2,157	8,628
Controlled Parking Zones	275	275	275	275	1,100
Column Replacement	246	246	246	246	984
Carnwath Road	1,870	-	-	-	1,870
Parks Expenditure	-	-	-	-	0
Total Expenditure	10,146	6,272	7,208	7,208	30,834

Capital Financing Summary

Specific/External or Other Financing					
Capital Grants and Contributions from GLA Bodies	2,157	2,157	2,157	2,157	8,628
Sub-total - Specific or Other Financing	2,157	2,157	2,157	2,157	8,628
Mainstream Financing (Internal Council Resource)					
Capital Receipts	-	-	-	3,456	3,456
General Fund Revenue Account (revenue funding)	521	521	521	521	2,084
Sub-total - Mainstream Funding	521	521	521	3,977	5,540
Borrowing	7,468	3,594	4,530	1,074	16,666
Total Capital Financing	10,146	6,272	7,208	7,208	30,834

APPENDIX 1 – Detailed Analysis by Service

Growth and Place General Fund Managed Schemes

Indicative Budgets

2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000	Total Budget (All years) £'000
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Scheme Expenditure Summary

Disabled Facilities Grant	1,102	-	-	-	1,102
Sands End Community Centre	1,925	-	-	-	1,925
Acquisition of Land at 207 King St	2	-	-	-	2
Hammersmith Town Hall Refurbishment	2,137	10,051	18,642	2,159	32,989
HTH Refurbishment -Fit Out	-	-	-	10,600	10,600
West King Street Regeneration-JV Partnership Loan	30,000	30,000	30,000	-	90,000
Macbeth Centre Arts Project	268	-	-	-	268
Total Expenditure	35,434	40,051	48,642	12,759	136,886

Capital Financing Summary

Specific/External or Other Financing					
Capital Grants from Central Government	450	-	-	-	450
Grants and Contributions from Private Developers (includes S106)	1,381	-	-	-	1,381
Community Infrastructure Levy (CIL)	1,560	7,337	13,608	9,184	31,689
Capital Grants/Contributions from Non-departmental public bodies	812	-	-	-	812
Sub-total - Specific or Other Financing	4,203	7,337	13,608	9,184	34,332
Borrowing (Internal Borrowing-GF)	31,231	32,714	35,034	3,575	102,554
Total Capital Financing	35,434	40,051	48,642	12,759	136,886

APPENDIX 1 – Detailed Analysis by Service /cont.

Growth and Place (HRA) Capital Programme

Indicative Budgets

2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000	2021/22 Budget £'000	Total Budget (All years) £'000
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Scheme Expenditure Summary

HRA Schemes:

Other HRA Capital Schemes	35,568	30,109	34,206	28,000	127,883
Fire Safety Plus	6,443	6,716	-	-	13,159
Subtotal HRA	42,011	36,825	34,206	28,000	141,042

Decent Neighbourhood Schemes:

Earls Court Buy Back Costs	2,424	5,543	6,086	13,897	27,950
Earls Court Project Team Costs	835	1,016	2,191	4,438	8,480
Housing Development Project	2,549	-	-	-	2,549
Stanhope Joint Venture	10,352	16,148	8,423	-	34,923
Affordable Housing Delivery Framework	4,476	3,979	3,990	-	12,445
Property Acquisition (Other Buybacks)	4,900	-	-	-	4,900
Subtotal Decent Neighbourhoods	25,536	26,686	20,690	18,335	91,247
Total Expenditure	67,547	63,511	54,896	46,335	232,289

Adjustment for deferred costs

(835)	(1,016)	(2,191)	(4,438)	(8,480)
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Total Net Expenditure

66,712	62,495	52,705	41,897	223,809
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Capital Financing Summary

Specific/External or Other Financing

Contributions from leaseholders	4,507	3,871	4,240	4,014	16,632
Grants and Contributions from Private Developers (includes S106)	7,860	11,304	5,896	-	25,060
Capital Grants/Contributions from Non-departmental public bodies	270	-	290	-	560
Sub-total - Specific or Other Financing	12,637	15,175	10,426	4,014	42,252

Mainstream Financing (Internal Council Resource)

Capital Receipts (HRA)	13,625	14,624	10,493	6,320	45,062
Major Repairs Reserve (MRR) / Major Repairs Allowance	23,354	16,415	17,234	17,546	74,549
Use of Reserves (Fire Safety EMR)	6,443	242	-	-	6,685
Sub-total - Mainstream Funding	43,422	31,281	27,727	23,866	126,296

Borrowing (Internal Borrowing-HRA)

10,653	16,039	14,552	14,017	55,261
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Total Capital Financing

66,712	62,495	52,705	41,897	223,809
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APPENDIX 2 – Anticipated General Fund Capital Receipts

Financial Year	Forecast Receipts £'000s
2019/20	
Total 2019/20	-
2020/21	
Total 2020/21	-
2021/22	
Total 2021/22	-
2022/23	
Watermeadow	3,600
Cost of Sales (4%)	(144)
Total 2022/23	3,456
Total All Years	3,456

APPENDIX 3 - THE CAPITAL FINANCING REQUIREMENT (CFR) AND POOLING OF HOUSING CAPITAL RECEIPTS

The Capital Financing Requirement (CFR)

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

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

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

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

Pooling and Types of Receipt

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

1. Right to Buy (RTB) – Up to 75% of capital receipts arising from the disposal of a dwelling through Right to Buy are paid over to the Government (pooled), the exact proportion paid over depends on the volume of and type of properties sold. This applies to disposals and to the principal element of repayments on loans (usually mortgages) granted by the authority for RTB or other purchases of HRA properties. The Council can retain an RTB receipt where it is recycled into new social or affordable housing (known as the 1-4-1 scheme) once certain baselines have been met.

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

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

APPENDIX 4 – CAPITAL STRATEGY 2019/20

1. From 2019/20 onwards, the Prudential Code¹ obliges local authorities to approve a capital strategy. This is a new requirement.
2. The Hammersmith and Fulham capital strategy sets out the long-term context in which capital investment decisions are made and the governance for those decisions. It supports the development of a capital programme that is affordable, prudent, and sustainable whilst giving due consideration to risk and reward and delivery of the Council's business plan.
3. The Council's priorities include being ruthlessly financial efficient. The capital strategy sets out the way capital projects are managed to improve delivery and achieve greater efficiency.
4. A key focus of the capital strategy is future finance resilience. Capital investment can enable the delivery of invest to save projects and grow future income and resources.

Strategic Context

5. The Council's Business Plan 2018-22 sets out the Council's main priorities for the next four years. From a capital investment perspective these include:

Building shared prosperity

- The Council has pledged to build at least 1,500 genuinely affordable homes, of which 500 will be affordable part-ownership homes to buy, prioritising local residents. This will be achievable through development of a new partnership strategy with housing association partners
- Speed up Aids and Adaptations services for Disabled people
- Providing affordable office space
- Work with Old Oak Regeneration Corporation to deliver thousands of new affordable homes to rent and buy for H&F residents by May 2019
- Review all small sites that could be used to increase the number of affordable homes on every possible spare piece of land
- Deliver new affordable space through planning agreements with developers to support small businesses by May 2022

Doing things with residents, not to them

- The Council is also seeking to invest in a community-led redesign of the North End Road providing a long-term enhancement of the market and supporting the growth of existing and new businesses
- Delivering the fire safety plus programme

Taking pride in Hammersmith & Fulham

- Hammersmith and Fulham is aiming to be the greenest Borough in Britain
- The Council is seeking to put together scheme that works with private investors and TFL to build a Hammersmith Flyunder
- Continuing to invest in CCTV so that residents feel secure in their homes and on the streets

¹ The CIPFA Prudential Code for Capital Finance in Local Authorities – by regulation local authorities are required to pay regard to the code when carrying out their duties.

Creating a compassionate council

- The Council will support their outstanding special schools and will continue to ensure that services are designed to meet the additional needs of disabled children and their families
- The Council has a plan to develop a running track at Hurlingham Park for use by schools, and safer, pollution- free opportunity for recreational jogging for all ages by May 2019. There are also plans to develop more physical education, sport and youth facilities by May 2020.
- Reintroduce convalescent homes

Being ruthlessly financially efficient

- Hammersmith & Fulham will continue to be the best value council in the country
- The Capital Strategy is identified as a key document for delivering ruthless financial efficiency. We are reforming the way capital projects are managed to achieve greater efficiency and improve delivery. We are also improving the management of capital projects and introducing new reporting systems to tighten up oversight.
- Capital investment is an enabler of more efficient working and can enhance future financial resilience through growing income and other resources.

6. The Council's current four- year capital programme already contains schemes which address some of the above mentioned priorities. The Council is developing its Asset and Growth Strategic and Asset Management Plans. The programme will continue to be developed in line with the Council's priorities and new schemes will be added as and when they are identified and approved. A brief overview of the current and planned major schemes is provided in the Major Projects section of the report.

MAJOR PROJECTS

King Street Regeneration/Hammersmith Town Hall Refurbishment

7. On 3 December 2018, the Cabinet approved plans for major regeneration of the King Street area which will also include redevelopment of Hammersmith Town Hall. This will be considered by Full Council in January 2019. The Council's development partner is not-for-profit housing provider A2 Dominion.
8. Proposals have been developed to regenerate and energise the western part of King Street, which will deliver more affordable housing, a new four-screen cinema, and good quality flexible staff accommodation. The new proposals, with a mix of office, retail and restaurant uses and a high -quality design for the Town Hall, will regenerate this part of King Street and create an iconic destination for the borough. A separate part of the scheme will see the existing Town Hall fully refurbished and heritage elements restored. The proposed West King Street Renewal Programme will act as a catalyst for change, with the inclusion of open public realm to create public space, and shared spaces within the Town Hall to be utilised by the neighbourhood as a multi-purpose mixed use development, serving the greater community. The proposal will also attract more diversity of shops which will improve the retail offer on the High Street. This will create the opportunity for associated economic benefits, including increased footfall for local businesses, as well as wider commercial opportunities for businesses in the borough, with c.£140m of commercial contracts expected to be available because of the scheme.

9. The budget for the scheme has been included in the Council's 2019/20-2022/23 Capital Programme.

Earl's Court

9. The Council entered into the Conditional Land Sale agreement (CLSA), on 23 January 2013, of Council owned land including the West Kensington and Gibbs Green Estates to the developer Capital & Counties Properties Plc (CapCo). Full details can be found in the 3 September 2012 Cabinet Report. The trigger notice for the CLSA was served in November 2013 however, the administration continues to work for a better deal for local residents as such there are currently on-going negotiations with the developer and there has been a delay to the project as a result. The delay means that the valuations of and number of properties needed to be bought-back to enable the regeneration scheme and phasing plans for the scheme are likely to change. The variability of these factors could have a significant impact on the project finances.
10. Property valuations: The current financial model is based on a valuation done in December 2015. As property prices have changed since 2015, and are likely to change, estimating long -term buyback costs difficult. Due to the cost involved in updating the valuation the project team are waiting to conclude on-going negotiations prior to engaging with a refreshed valuation.
11. Variability in number of buybacks: The total number of buybacks required is uncertain. The current offer gives resident home owners the option to stay and receive a replacement home or to sell their property to the Council. At present there is no information residents' preferences. Non-resident owners will have their properties purchased by the council. As residential status is subject to change the total required number of buybacks are expected to change over time.
12. Phasing: The current phasing plan was submitted by the developer to the Council in March 2016 and rejected. If the scheme proceeds there is a chance it will be with a different phasing plan.

Housing Development Programme

13. The April 2017 Leaders Urgency Report (LUR) revised Phase 1 of Housing Development Programme to deliver 43 units of affordable housing over 2 sites financed by £4.7m of Right-to-Buy and Section 106 receipts. The LUR also approved abandoning Barclay Close and put a hold on Becklow Gardens schemes originally approved under cabinet report on 6th July 2015. Of the 2 remaining approved schemes, a contractor has been chosen for Spring Vale and will be appointed subject to Cabinet approval on 14th January 2019. Start on site is expected during Q4 2018/19 and will deliver 10 genuinely affordable homes. The other scheme, Jepson House / Pearscroft Road is being considered via the Affordable Housing Delivery Framework rather than direct delivery, along with Becklow Gardens. This will release the budget currently allocated to these to schemes. The proposal was formalised in the Quarter 2 Capital Budget report which was approved by the Cabinet in January 2019.
14. The Council's retained Right-to-Buy receipts must be spent within a specified period and can only fund up to 30% of the costs of developing or acquiring properties. To ensure the Council does not have to return these receipts to MHCLG, but uses those to enable the

delivery of affordable rented housing in the borough, future housing programmes will be delivered via the Affordable Housing Framework approved by Cabinet on 6 February 2017. Although the Affordable Housing Framework does not specify the cost of the scheme, a £15m provision has been made in the Capital Programme. Full financial appraisals and appropriate Cabinet reports and decisions will need to be completed for each individual site as it comes forward.

15. Fulham North Office Redevelopment: This scheme is being delivered by Shepherds Bush Housing and will provide 30 residential units, 18 of which are affordable rented homes. The costs and details of the scheme are being finalised and start on site is expected to follow the signing of the grant funding agreement and delegated officer decision on formalising the disposal early in 2019.
16. Lavender Court: This scheme is being delivered by A2 Dominion and is for 45 units to replace the hostel previously on the site, 24 of the new units will be genuinely affordable rented homes. Works have begun and the first grant claim has recently been received, payment is pending subject to checks being completed in January 2019.
17. In addition a separate approval has been agreed to grant fund the delivery of 6 affordable housing units at Emlyn Gardens by Shepherds Bush Housing. The site has been disposed of to Shepherds Bush and the funding agreement signed. This will be funded by Right-to-Buy receipts up to £522,000. The start on site for this scheme is expected to be end of Q4 2018/19 or early 2019/20.

Old Oak and Park Royal Opportunity Area

18. As part of developing the business case for a High Speed 2 / Crossrail interchange at Old Oak Common the London Boroughs of Brent, Ealing and Hammersmith & Fulham and the GLA published a joint Vision for the Old Oak area to encourage appropriate development and to maximise regeneration benefits in the area. Since then the Old Oak and Park Royal Mayoral Development Corporation (OPDC) was established in April 2015 and is now the planning authority for the Old Oak and Park Royal Opportunity Area. More detailed information about the project can be found on the OPDC's website at:
<https://www.london.gov.uk/about-us/organisations-we-work/old-oak-and-park-royal-development-corporation-opdc>

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

ARK Swift (EdCity)

19. The Council is in discussions with ARK schools' charity, who lease the ARK Swift primary school in White City from the Council, over proposals for the redevelopment of the site to include improved replacement facilities and new homes. The Council is considering its role in the ownership and management of the homes. A Leaders Urgency report requesting project enabling budgets and a cost sharing agreement with ARK is currently being considered.

Community Infrastructure Levy (CIL)

20. The Council has adopted its own CIL, which took effect on 1 September 2015. This is a levy that local authorities can choose to charge on new developments in their area and in part replaces the use of Section 106 agreements to support the provision of infrastructure.
21. To date the Council has received £3.69m of Borough CIL. Due to the current economic circumstances, it is harder to predict the future CIL receipts, however, based on current performance, it is considered prudent to assume that increasing sums will be received in following years.
22. Council CIL can be used for the delivery, operation, maintenance and repair of infrastructure to support development in the borough. There are obligations to spend 15% on projects agreed with the community (or 25% where there is a neighbourhood plan in place). There is no legislative framework to define how this is done. To achieve this agreement, the Council has implemented a CIL page on Spacehive to enable community groups to put forward projects and the members of the public to contribute to, as a mechanism of achieving agreement.

Support of Invest to Save Projects

23. The Council has a number of Invest to Save projects which will deliver future revenue savings. The Council reserves the right to capitalise and fund some of this expenditure from available general fund capital receipts under Flexible Use of Capital Receipts dispensation. This enables the Council to preserve its reserves and free them up to meet pressures or to invest in priorities. More detailed guidance on Flexible Use of Capital Receipts as well as a summary of the current Invest to Save projects to be capitalised under this dispensation in 2018/19 and 2019/20 can be found in Appendix 5 of this report.

Health and Safety

24. In October 2017, Full Council approved £20m budget for the Fire Safety Plus Programme to make fire safety improvements to the Council's housing stock above and beyond current legal minimum standards. It is designed to improve the safety of Council Homes, both tenanted and leasehold. Out of the originally approved budget of £20m, £3.6m of budget relating to the cost of employing fire wardens has been reclassified to revenue, resulting in a total capital budget of £16.4m. The first major contract likely to be funded by this budget is the one for the Fire Doors replacement scheme.

The Fire Safety Plus work is in addition to the existing Housing Capital programme that funds essential Health and Safety works. There are also a number of projects related to Health & Safety capital works within the Council's mainstream funded Corporate Planned Maintenance Programme.

Other Schemes

25. The Council's Capital Programme contains a number of schemes which are necessary investments in the Council's assets to ensure their sustainability, to address health and safety and legislative requirements and to provide future revenue savings. Examples of such schemes are:

- Schools Organisation Strategy within the Schools' Capital programme expected to exceed £2.7m in 2019/20. The strategy continues to focus on expanding school places in light of increasing demand.
 - Schools Maintenance Programme of £7.6m
 - Schemes funded from ring-fenced resources within the Housing Revenue Account (HRA) such as major refurbishments, heating works, lift works, garage improvements, electrical installations, estate roads, disabled adaptations, etc
 - Required investment from Council resources, including capital receipts, to support strategic priorities such as investment in the highways infrastructure, ICT, asset management and parks.
26. The Council has recently set out its strategic ambition around specialist housing (short and long-term care and accommodation for groups such as care leavers, rough sleepers etc) through a report to Cabinet in December 2018. This provided an anchor for future investment decisions and strategic commissioning around these key preventative services. There are issues with supply of this type of housing, and the suitability of the borough's current stock to meet changing needs, much of which is owned and operated by housing associations. Over the course of the next six to nine months, the Council will do further work to understand the type of capital investment required and the levers for renewing this portfolio of assets which can help to reduce current and future pressures on the Council's revenue budget. This work will help define future calls on the Council's capital programme.
27. All capital investment decisions will be underpinned by a robust business plan that set out any expected financial return alongside the broader outcomes including economic and social benefits.

Governance

28. As part of being ruthlessly financially efficient the Council is reforming the way capital and other major projects are managed to achieve greater efficiency and improve delivery.
29. The Council is also improving the management of capital projects and introducing new reporting systems to tighten up oversight. The reforms include:
- Capital project audit - An audit of all major schemes and projects has been commissioned to assess governance and financial controls.
 - Capital project management - Directors must involve finance at the inception of significant capital projects to consider business cases (including affordability, best value, funding and ongoing revenue costs and savings).
 - For all large capital spend schemes - detailed reporting arrangements will be in place for all relevant service management teams, strategic leadership groups, the political administration and Cabinet.
 - Finance Board - Finance Board will be chaired by the Strategic Director of Finance and Governance. In addition to revenue budgets, S106, commercial income and audit issues, its remit will extend to large capital schemes. Capital expenditure governance, monitoring, controls, and slippage will be a standard item.

30. Finance Board will:
- consider the funding and feasibility of new large schemes
 - review business cases, approvals, and variations, signing off draft reports to Cabinet
 - oversee the procurement and delivery of capital works
 - monitor actual spend and forecast against budgets.

Decision making

31. Council investments should be made in line with the Capital Strategy priorities which are set out in this document. Capital expenditure is spent on the purchase or improvement of assets that have a long-term value to the Council, such as land and buildings. It is the Council's policy to capitalise any expenditure, over a total value of £10,000, which fulfils this criterion.
32. The capital expenditure and investment decision making process is the governance framework used by the Council when making decisions relating to the capital programme. The Council has recently tightened up the processes for formally authorising Council's expenditure, to ensure funding is in place and clearly understood, before any spending decisions are taken. Financial regulations and the scheme of delegation must be adhered to. The rules below cover amendments to capital and revenue budgets approved by the Council:

Finance Limits – Scheme of Delegation

Limit	Authorisation
Up to £24,999	Director's Delegated Authority counter-signed the Chief Executive or the Strategic Director, Finance and Governance
Between £25,000 and £99,999	Cabinet Member Decision
Between £100,000 and £5,000,000	Cabinet
Above £5,000,000	Full Council

33. Other relevant financial controls are:
- Any call on corporate or departmental reserves will need to be signed off first by the Strategic Director, Finance and Governance and the Chief Executive before progressing to Cabinet Members/Cabinet
 - Loans cannot be made to any external organisation without agreement from Full Council
 - All decisions reports will only be progressed if they are fully funded before any spend is incurred
 - All Cabinet Member Decisions, Cabinet, and Policy and Accountability Committee (PAC) reports must include full and transparent financial implications prepared by finance officers (with final sign off by Strategic Director, Finance and Governance).
 - Leader's Urgency reports will only be used in exceptional circumstances and these must be cleared in advance by the Chief Executive. The Strategic Director, Finance and Governance must fully consider the financial implications.

- Committee services will ensure that the correct review and sign off requirements have been followed before any papers are dispatched.

34. The Council's annual Capital Programme is approved by the Cabinet and Full Council. The Strategic Leadership Team and Cabinet receive quarterly updates on the programme detailing financial forecasts, risks, and expected outcomes. Variances to the Capital Programme are approved quarterly by Cabinet.
35. Detailed monitoring is also undertaken of significant projects and reported to Finance Board, Strategic Leadership Team and the Cabinet Member for Revenue and Commercial Service's Board.

Finance Strategy

36. The Capital Strategy is an integral part of the Council's wider finance strategy. As well as informing the capital programme it links directly to the Treasury Management Strategy and revenue budget. The revenue consequences of the programme are also allowed for within the Revenue Budget.
37. The Business Plan has a strong emphasis on growth and affordable housing and the use of capital to generate revenue. The Council is developing an **Asset and Growth Strategy** which will look at increasing the supply of housing, create income to close the budget gap and manage future demand and rising costs. This will entail a review of the Council's general fund and HRA assets to identify opportunities for development, with decisions on the early stages of a programme likely to be brought forth in early 2019/20. The Council will need to consider its approach to development and risk and reward to capture some of the potential benefits, including income from private sale and market rent to support its revenue position and subsidise the creation of new affordable housing.
38. Alongside the Asset and Growth Strategy, work has also begun to develop a more strategic approach to asset management. This will consider the Council's long-term accommodation requirements, greater corporate oversight of operational asset management, and investment in our data to ensure we are getting value from our property and land holdings. As initiatives are brought forward they will inform, and be considered as part of, the overall Capital Strategy

APPENDIX 5 - FLEXIBLE USE OF CAPITAL RECEIPTS GUIDANCE AND PROPOSED APPLICATION (2019/20)

The Secretary of State for Communities and Local Government issued guidance in March 2016, giving local authorities a greater freedom with how capital receipts can be used to finance expenditure. This Direction allows for the following expenditure to be treated as capital:

“Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide if a project qualifies for the flexibility.”

There is a wide range of projects that could generate qualifying expenditure and the list below is not prescriptive. Examples of projects include:

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others).

Expenditure is only eligible if it has been incurred in the period between 01 April 2016 - 31 March 2022 and it can be funded from capital receipts generated only during this period.

In order to comply with this Direction, the Council must consider the Statutory Guidance issued by the Secretary of State. This requires authorities to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy with the initial strategy being effective from 1st April 2016 with future Strategies included within future Annual Budget documents.

There is no prescribed format for the Strategy, the underlying principle is to support local authorities to deliver more efficient and sustainable services by extending the use of capital receipts to support the revenue costs of reform projects

The Statutory Guidance for the Flexible Use of Capital Receipts states that the Strategy should include a list of each project which plans to make use of the capital receipts flexibility, together with the expected savings that the project will realise. The Strategy should also include the impact of this flexibility on the affordability of borrowing by including updated Prudential Indicators.

The Council has reviewed the Flexible Use of Capital Receipts guidance and identified the following schemes as meeting the eligibility criteria laid out in the guidance document,

in that they are forecast to generate on-going revenue savings through reducing costs of service delivery:

Efficiency Projects Delivery Savings that may be capitalised.			
	£000's	£000's	
Business Case	2018-19 Forecast Spend Amount	Annual Savings when fully Implemented	Notes
ICT Transition - Assuring Service Continuity Phase 3 - Transformation of Telephony and Network Services	449	4,700	Contributes to overall ICT savings of £4.7m
IT Transition phase 4 assuring service continuity – Desktop strategy and solution options	1,784		Contributes to overall ICT savings of £4.7m
DESKTOP STRATEGY: CHANGE MANAGEMENT RESOURCE	150		Contributes to overall ICT savings of £4.7m
MOBILE TELEPHONY STRATEGY AUGUST 2018	342		Contributes to overall ICT savings of £4.7m
Integrated Family Support Service (IFSS)	759	1,500	The Integrated Family Service is expected to deliver a savings of £1.5M. Business case approved by Cabinet on 10th Oct 2010.
Maximising Children's Social Care Effectiveness	669	1,500	The Maximising Children's Social Care Effectiveness is expected to deliver a savings of £1.5M. Business case approved by Cabinet on 7th Nov 2016.
Approval of Business Case 4: Transforming Services for Children and Young People with Special Educational Needs (SEN) & Disabilities	502	224	The business forecast is to deliver a savings of £1.5m in 18/19. Business Case approved by Cabinet on 7th Nov 2016.
Creation of H&F Social Letting Agency	133	180	Creation Of Social Lettings expected to deliver a savings of £180k. Business Case approved by Cabinet on 7th Nov 2016.
Funding Of Commercial Management Initiative	434	3,600	Implementation Of Commercial Initiative expected to deliver Savings of £13M expected by end 2022/23. Business case approved by Cabinet on 4th Nov 2017.
Draw down from Efficiency Reserve to fund new Landlord Licensing schemes as part of Decent Homes Smarter Budgeting savings Plan.	330	300	Business Case approved by Cabinet on 5th March 2018.
Total Funding Required For Saving Project	5,552	12,004	

In 2017/18 the Council applied £5.7m of capital receipts to fund various Invest to Save projects identified and approved in the last year's Capital Programme. Majority of the schemes are on-going and not yet fully implemented therefore their annual revenue savings targets have not been fully achieved so far. Of £22.7m identified savings, £5.45m have been achieved to date.

The capital programme is reviewed annually and approved by Full Council in the budget setting cycle in February each year. Any new eligible schemes will be included in this report, with clear indication that they will be fully or part-funded by the flexible use of eligible capital receipts.

Any changes to this programme during the year will be presented back to Cabinet, and notified to the MHCLG, as per the requirements of the guidance.

APPENDIX 6 - MINIMUM REVENUE PROVISION (MRP) STATEMENT 2019/20

1. This statement covers the minimum revenue provision (MRP) that Hammersmith and Fulham Council will set-aside from revenue to reduce borrowing and credit liabilities arising from capital expenditure.
2. Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI3146, as amended] require local authorities to make a prudent amount of minimum revenue provision (MRP). The Secretary of State (Department for Communities and Local Government) issued statutory guidance on determining the “prudent” level of MRP, to which this Council is required to have regard, in February 2012. There is a consultation on the statutory guidance to be applied in 2018/19. The MRP will, over time, reduce the CFR.
2. The statutory guidance lists a number of options for calculating MRP. In addition to MRP, authorities are able to make voluntary provisions to reduce the CFR. These provisions can be made from capital or revenue resources. Voluntary reduction of the CFR delivers a benefit to revenue in the subsequent year as it reduces the mandatory MRP charge.
4. No MRP is required in respect of the Housing Revenue Account (HRA).

Annual MRP Statement – frequency of update and approval

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

Meaning of “Prudent Provision”

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

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

7. MRP is calculated using Option 1 - Regulatory Method. The MRP formula contains a ‘floor’ - known as ‘Adjustment A’ - which has been individually fixed for all authorities. When the CFR drops below this level, MRP is no longer payable. For Hammersmith and Fulham, the floor has been set at £43.2m. In short, there is no revenue incentive to reduce the CFR below this level. For the expenditure above Adjustment A, the MRP rate will be calculated based on useful asset lives.

Capital Expenditure incurred after 1 April 2008 (unsupported borrowing):

8. The guidance states for all capitalised expenditure incurred on or after 1 April 2008, which is (a) financed by borrowing or credit arrangements; and (b) treated as

capital expenditure by virtue of either a direction under section 16(2)(b) of the 2003 Act or regulation 25(1) of the 2003 Regulations, the authority should make MRP in accordance with Option 3 Asset Life Method. This method spreads the cost over the estimated life of an asset.

9. The determination as to which scheme is funded from borrowing and which from other sources shall be made by the Strategic Director, Finance and Governance. Where an asset is only temporarily funded from borrowing in any one financial year and it is intended that its funding be replaced with other sources by the following year, no MRP shall apply.
10. MRP commencement: When borrowing to provide an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. The Council's policy is to postpone beginning to make MRP until the financial year following the one in which the asset becomes operational. "Operational" here has its standard accounting definition. Investment properties should be regarded as becoming operational when they begin to generate revenues.
11. Loans and grants towards capital expenditure by third parties: MRP should be charged using useful economic life of the assets for in relation to which the third-party expenditure is incurred.
12. Finance leases and PFI: In the case of finance leases and on-balance sheet PFI contracts, the MRP requirement would be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability. Where a lease (or part of a lease) or PFI contract is brought onto the balance sheet, having previously been accounted for off-balance sheet, the MRP requirement would be regarded as having been met by the inclusion in the charge, for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.
13. The Strategic Director, Finance and Governance is responsible for implementing the Minimum Revenue Provision Statement and has managerial, operational and financial discretion necessary to ensure that MRP is calculated in accordance with this Statement and with regulatory and financial requirements and resolve any practical interpretation issues.