

## London Borough of Hammersmith & Fulham

**Report to:** Cabinet

**Date:** 04/01/2021

**Subject:** Capital Programme Monitor & Budget Variations, 2020/21 (Second Quarter)

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

**Responsible Director:** Emily Hill, Director of Finance

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### SUMMARY

This report provides a financial update on the council's capital programme and requests approval for budget variations to the capital programme.

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### RECOMMENDATIONS

1. To approve the proposed budget variations to the capital programme totalling £9.1m (summarised in Table 1 and detailed in Appendix 2).
2. To note the potential risks regarding the Housing Capital Programme, as summarised in paragraphs 26, 27 and 28.
3. To approve budget amendments of £1,016,000, funded from borrowing, to complete transport and parks schemes for which expected TfL grants and section 106 contributions are no longer available (see Appendix 2 for detail).
4. To approve funding from borrowing of £455,000 for previously approved transport schemes for which S106 and TfL funding contributions are no longer available.

**Wards Affected:** All

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### H&F Priorities

The capital programme contains schemes and projects which are directly linked to the Council's Business Plan 2018-22 and which deliver across the Council's priorities.

Our Priorities	Summary of how this report aligns to the H&F Priorities
<ul style="list-style-type: none"> <li>Being ruthlessly financially efficient</li> </ul>	<p>All capital investment decisions are required to be underpinned by a robust business plan that sets out any expected financial return alongside the broader outcomes including economic and social benefits.</p> <p>This report provides detailed analysis of the Council's capital programme financial position and highlights any potential risks and their impact on the Council's resources.</p>

## Financial Impact

1. This report is wholly of a financial nature. The headline movements are:
  - a net decrease in the 4-year capital programme of £26.6m to £495.2m.
  - a net decrease in forecast 2020-21 expenditure of £9.1m (8.3% of the approved budget) largely due to the rephasing of expenditure to future years. The variations are detailed in Appendix 2.
2. Covid-19 is impacting on the previously approved capital programme:
  - expected grant funding allocations of £25m from Transport for London (TfL) for future years are no longer assumed due to the impact of Covid-19 on TfL. TfL are expected to run a revised bidding process.
  - a number of schemes have experienced delays due to social distancing restrictions.
  - the pandemic, and the potential for an economic downturn, may affect the expected costs, market and viability of schemes – this will be kept under review and mitigating actions will be considered as necessary.
3. Headline General Fund (GF) borrowing is forecast to increase by £71.2m over the next four years to support capital investment. This would result in an estimated additional revenue budget outgoing of £4.2m per annum by 2024-25. General Fund capital receipts can reduce future borrowing and/or protect use of reserves. The council's property transformation strategy is reviewing all its assets in a systematic way as part of asset management best practice. As part of this review surplus assets may be identified for sale that can support the capital programme.
4. The Housing Revenue Account 2020-21 borrowing requirement (CFR) is forecast to increase by £14m to £229.7m. By the end of 2023-24 the HRA CFR is forecast to be £277m as detailed in paragraph 20 of the report.

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## Legal Implications

There are no direct legal implications in relation to this report. Legal advice will be sought for each Procurement within the programme and will comply with the Council's Contract Standing Orders and the Public Contract Regulations.

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## Background Papers Used in Preparing This Report

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report:

- Capital Programme 2020-24 (published February 2020)

## CAPITAL PROGRAMME 2020-21 – Q2 OVERVIEW

1. The Council's capital programme as at the end of Quarter 2 is summarised in Table 1. Budgeted expenditure on the four-year programme has decreased, since the first quarter, by £26.6m to £495.2m.

Table 1 – LBHF Capital Programme 2020-24 with proposed 2020-21 Q2 variations:

	Analysis of Movements (Q1 budget to Q2)					Revised Budget 2020/21 (Q2) £'000	Future years indicative budget £'000	Total Budget (All years) £'000
	Revised Budget 2020/21 (Q1) £'000	Slippages from/(to) future years £'000	Addition/(Reduction) £'000	Transfers £'000	Total Variations £'000			
<b>CAPITAL EXPENDITURE</b>								
Children's Services	4,091	(290)	(2,918)	-	(3,208)	883	4,966	5,849
Social Care	3,329	-	-	-	-	3,329	-	3,329
Environment Department	8,440	(392)	2,074	-	1,682	10,122	8,523	18,645
Finance	2,412	(800)	-	-	(800)	1,612	800	2,412
General Fund Schemes under the Economy Department	31,568	(1,268)	-	-	(1,268)	30,300	231,679	261,979
<b>Sub-total (General Fund)</b>	<b>49,840</b>	<b>(2,750)</b>	<b>(844)</b>	<b>-</b>	<b>(3,594)</b>	<b>46,246</b>	<b>245,968</b>	<b>292,214</b>
Economy Department-HRA Programme	59,918	(5,531)	-	-	(5,531)	54,387	148,638	203,025
<b>Sub-total Economy Department (HRA)</b>	<b>59,918</b>	<b>(5,531)</b>	<b>-</b>	<b>-</b>	<b>(5,531)</b>	<b>54,387</b>	<b>148,638</b>	<b>203,025</b>
<b>Total Expenditure</b>	<b>109,758</b>	<b>(8,281)</b>	<b>(844)</b>	<b>-</b>	<b>(9,125)</b>	<b>100,633</b>	<b>394,606</b>	<b>495,239</b>
<b>CAPITAL FINANCING</b>								
<b>Specific/External Financing:</b>								
Government/Public Body Grants	4,970	(290)	(897)	-	(1,187)	3,783	4,966	8,749
Grants and Contributions from Private Developers (includes S106/CIL)	12,236	(392)	(1,973)	763	(1,602)	10,634	46,351	56,985
Capital Grants/Contributions from Non-departmental public bodies	1,376	-	289	-	289	1,665	-	1,665
Capital Grants and Contributions from GLA Bodies	2,764	-	756	(438)	318	3,082	2,968	6,050
Leaseholder Contributions (Housing)	2,891	-	-	-	-	2,891	10,573	13,464
<b>Sub-total - Specific Financing</b>	<b>24,237</b>	<b>(682)</b>	<b>(1,825)</b>	<b>325</b>	<b>(2,182)</b>	<b>22,055</b>	<b>64,858</b>	<b>86,913</b>
<b>Mainstream Financing (Internal):</b>								
Capital Receipts - General Fund	2,412	(800)	-	-	(800)	1,612	4,256	5,868
Capital Receipts - HRA	9,075	(618)	-	(161)	(779)	8,296	21,514	29,810
Major Repairs Reserve (MRR)	23,802	-	-	2,621	2,621	26,423	49,963	76,386
Earmarked Reserves (Revenue)	915	-	-	-	-	915	45	960
<b>Sub-total - Mainstream Funding</b>	<b>36,204</b>	<b>(1,418)</b>	<b>-</b>	<b>2,460</b>	<b>1,042</b>	<b>37,246</b>	<b>75,778</b>	<b>113,024</b>
<b>Borrowing-General Fund</b>	<b>26,511</b>	<b>(1,268)</b>	<b>981</b>	<b>455</b>	<b>168</b>	<b>26,679</b>	<b>206,714</b>	<b>233,393</b>
<b>Borrowing -HRA</b>	<b>22,806</b>	<b>(4,913)</b>	<b>-</b>	<b>(3,240)</b>	<b>(8,153)</b>	<b>14,653</b>	<b>47,256</b>	<b>61,909</b>
<b>Total Capital Financing</b>	<b>109,758</b>	<b>(8,281)</b>	<b>(844)</b>	<b>-</b>	<b>(9,125)</b>	<b>100,633</b>	<b>394,606</b>	<b>495,239</b>

2. Forecast 2020-21 spend is £9.1m lower than last reported in the first quarter. The main adjustments are for the reprofiling of budgets to future years,

alignment of budgets with grant funding and new budgets approved in the last quarter. Full details are included in Appendix 2, the most significant changes being:

- budget reprofiling to future years for HRA Asset Management and Compliance Programme (£3.2m), White City Estate Regeneration scheme (£1.5m) and Corporate Planned Maintenance Programme (£1.3m)
  - budget reductions for Schools Organisational Strategy and Windows Replacement Schemes (£2.9m).
3. The 2020-21 capital programme includes a budget envelope of £50m, to provide operational flexibility, for taking forward major projects. Use of this budget is subject to relevant Member approval, agreement of funding sources and sign-off of an appropriate business case. Expenditure above the £50m envelope will require approval by Full Council. This remaining budget is not included in the current capital programme and the Capital Financing Requirement (CFR) forecast but will be added should its use be approved.

### GENERAL FUND – MAINSTREAM PROGRAMME AND CAPITAL RECEIPTS

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

**Table 2 – LBHF GF Mainstream Capital Programme 2020-24 with proposed 2020-21 Q2 variations:**

	Revised Budget 2020/21 (Q1)	Variations (Q2)	Revised Budget 2020/21 (Q2)	Indicative Budget 2021/22	Indicative Budget 2022/23	Indicative Budget 2023/24	Total Budget (All years)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Approved Expenditure</b>							
<b>Ad Hoc Schemes:</b>							
Social Care Capital projects [ASC]	129	-	129	-	-	-	129
Invest to Save-Flexible Use of Capital Receipts	2,412	(800)	1,612	800	-	-	2,412
Capital Investment in Street Lighting [ENV]	831	-	831	269	-	-	1,100
WMC JV Exit Costs [ECD]	3,491	-	3,491	-	-	-	3,491
Carnwath Road [ECD]	1,870	-	1,870	-	-	-	1,870
Hammersmith Bridge [ENV]	-	965	965	-	-	-	965
P&D Upgrade and Pay by Phone [ENV]	-	30	30	-	-	-	30
Other Highways Capital Schemes [ENV]	-	337	337	-	-	-	337
Hammersmith Town Hall Refurbishment* [ECD]	750	-	750	550	-	-	1,300
Hammersmith Town Hall Fit Out* [ECD]	-	-	-	9,444	537	-	9,981
Schools Regeneration Programme [ECD]	1,914	-	1,914	-	-	-	1,914
Education City regeneration [ECD]	429	-	429	9,985	10,751	12,791	33,956
Acquisition of Cinema Site [ECD]	72	-	72	-	-	-	72
Farm Lane/Mund Street [ECD]	-	-	-	2,004	-	-	2,004
<b>Rolling Programmes:</b>							
Planned Maintenance/DDA Programme [ECD]	5,056	(1,268)	3,788	5,268	2,400	2,400	13,856
Electric Vehicles [ENV]	-	-	-	549	-	-	549
Footways and Carriageways [ENV]	2,397	-	2,397	2,030	2,030	2,030	8,487
Column Replacement [ENV]	346	-	346	346	346	346	1,384
Parks Programme [ENV]	218	104	322	-	-	-	322
<b>Total Mainstream Programmes</b>	<b>19,915</b>	<b>(632)</b>	<b>19,283</b>	<b>31,245</b>	<b>16,064</b>	<b>17,567</b>	<b>84,159</b>
<b>Financing</b>							
Capital Receipts	2,412	(800)	1,612	800	3,456	-	5,868
Increase/(Decrease) in Borrowing	17,503	168	17,671	30,445	12,608	17,567	78,291
<b>Total Financing</b>	<b>19,915</b>	<b>(632)</b>	<b>19,283</b>	<b>31,245</b>	<b>16,064</b>	<b>17,567</b>	<b>84,159</b>

5. The 2020-21 Q2 mainstream programme has decreased by £0.6m in comparison to the first quarter. This is mainly due to budget reprofiling Corporate Planned Maintenance Programme (£1.3m) and Invest to Save schemes (£0.8m) to future years and additional budgets for Hammersmith Bridge Strengthening (£1m) and other highways and parks capital schemes (£0.4m).
6. The mainstream programme presented in Table 2 does not include self-financing schemes (where the net General Fund revenue borrowing costs are nil). Appendix 5 details the self-financing schemes and their borrowing requirement.
7. A key financial focus of the capital monitoring report is the potential impact of capital expenditure on future borrowing and its revenue affordability. The Council's underlying need to borrow for a capital purpose is measured through the CFR. The current forecast for the General Fund Headline CFR (excluding the self-financing schemes set out in Appendix 5) is £130.68m at the end of 2020-21, an in-year increase of £16.6m.
8. The amendments to the General Fund (GF) capital programme have affected the Council's forecast headline capital debt (CFR) as follows:

	<b>Last forecast (2020/21 Q1)</b>	<b>Current forecast (2020/21 Q2)</b>
<b>General Fund CFR</b>	<b>£m</b>	<b>£m</b>
2019/20 Closing CFR* (actual)	114.08	114.08
2020/21 Closing CFR *	130.51	130.68
2023/24 Closing CFR *	183.98	185.32

9. The underlying need to borrow is forecast to increase by £71.2m over the next four years to support capital programme. By 2024-25 this will increase annual revenue borrowing costs by an estimated £4.2m. This will need to be allowed for within future budget planning and the medium-term financial strategy process.
10. The borrowing requirement includes £12.8m regarding the Civic Campus programme and Hammersmith Town Hall refurbishment. The overall scheme also includes planned funding of £33.7m from the Community Infrastructure Levy (CIL). The borrowing forecast is sensitive to the timing and amount of CIL receipts.
11. At the end of 2019-20, £0.144m of deferred disposal costs were accrued in respect of the anticipated capital receipts. Should sale not proceed, these costs must be written back to revenue.
12. The General Fund capital programme includes budgets for several regeneration schemes that are at an early stage. These include £4.5m for Farm Lane and Mund Street developments, £1.9m for Schools Regeneration and £3.5m for Watermeadow Joint Venture exit costs. Should these schemes not fully progress there is a risk that some, or all, of the expenditure may need to be written off to revenue. In line with the arrangements agreed in the Building Homes and Communities Strategy, the Development Board is providing a gateway and governance process for these schemes before commitment of funds.

13. The £2m budget for TBAP Bridge Academy, funded from S106, has been removed from the capital programme following the recent review of the scheme. The schools' windows replacement scheme will now be incorporated in Schools Maintenance Programme resulting in budget reduction of £0.9m. The scheme will be funded from Schools Condition Allocation grant.
14. Due to the impact of Covid-19, previously anticipated TfL annual funding for various transport schemes has not been confirmed for 2020-21 and future years. As a result of this, £25m of TfL funded capital schemes including the Safer Cycling Pathway Scheme have been removed from the capital programme. Other schemes have already been committed, including essential works to Hammersmith Bridge and highways, for which expected TfL and section 106 contributions have not been confirmed. Budget and funding adjustments of £1.016m are proposed to fund such expenditure from borrowing and will be updated should alternative funding sources be identified. The increase in borrowing requirement of £1.016m will result in an estimated £56,000 of future annual borrowing costs.
15. In September 2020 an additional budget of £0.42m for Hammersmith Bridge, funded from borrowing, for the installation of a bespoke temperature control system was approved. This is included within the Quarter 2 update. The Council are currently working with the Government's Task Force to work up solutions for reopening the bridge.
16. The General Fund capital programme includes capital receipts of £2.4m carried forward to 2020-21. These will support invest to save expenditure and IT investment in order to protect use of the Council's reserves. Separate reports have identified concerns regarding the medium-term adequacy of the Council's reserves and future financial resilience which are exacerbated by the financial pressures as a result of the Council's Covid-19 response and loss of revenues. The identification of additional receipts will protect reserves by enabling, the flexible use of capital receipts to fund invest to save costs and potential capitalisation of other relevant costs in line with proper accounting or statutory practice. The use of capital receipts to fund new capital expenditure will also reduce the Council's need to borrow and therefore reduce the revenue costs of that borrowing. New borrowing comes at an estimated annual revenue cost of £55,000 per annum per £1m.
17. There are currently no new forecast capital receipts in 2020-21. However, the Council's Property Transformation Strategy is systematically reviewing all assets as part of asset management best practice. As part of this programme surplus assets may be identified that cannot be re-purposed for other uses and that could be sold for a capital receipt to support the capital programme. Any decisions on asset disposals will be the subject of a future report.

## **HOUSING CAPITAL PROGRAMME OVERVIEW**

18. Housing Capital expenditure for 2020-21 is forecast at £54.4m and for the four-year programme to 2023-24 spend is expected to be £203m. The expenditure and funding analysis of the Housing Programme is summarised in Table 3 below.

**Table 3 – Housing Capital Programme 2020-24 with proposed 2020-21 Q2 variations**

	Revised Budget 2020/21 (Q1)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Variations (Q2)	Revised Budget 2020/21 (Q2)	Indicative 2021/22 Budget	Indicative 2022/23 Budget	Indicative 2023/24 Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Approved Expenditure</b>									
HRA Asset Management and Compliance Programme	43,215	(3,248)	-	-	(3,248)	39,967	53,125	33,026	27,761
Building Homes and Communities Strategy	4,024	(1,543)	-	-	(1,543)	2,481	3,071	-	-
Other HRA Capital Schemes	12,679	(740)	-	-	(740)	11,939	8,913	14,086	8,656
<b>Total Housing Programme</b>	<b>59,918</b>	<b>(5,531)</b>	<b>-</b>	<b>-</b>	<b>(5,531)</b>	<b>54,387</b>	<b>65,109</b>	<b>47,112</b>	<b>36,417</b>
<b>Available and Approved Resource</b>									
Capital Receipts - Unrestricted	5,221	-	-	-	-	5,221	3,281	3,010	3,031
Capital Receipts - RTB (141)	3,854	(618)	-	(161)	(779)	3,075	3,418	4,704	2,892
Major Repairs Reserve (MRR)	23,802	-	-	2,621	2,621	26,423	16,245	16,651	17,067
Contributions Developers (S106)	725	-	-	-	-	725	5,403	9,343	5,764
Insurance claims	-	-	-	780	780	780	-	-	-
Contributions from leaseholders	2,891	-	-	-	-	2,891	5,380	3,791	1,402
Capital Grants/Contributions from Non-departmental public bodies	619	-	-	-	-	619	-	-	-
Borrowing	22,806	(4,913)	-	(3,240)	(8,153)	14,653	31,382	9,613	6,261
<b>Total Funding</b>	<b>59,918</b>	<b>(5,531)</b>	<b>-</b>	<b>-</b>	<b>(5,531)</b>	<b>54,387</b>	<b>65,109</b>	<b>47,112</b>	<b>36,417</b>

19. Within the Housing Capital Programme there has been a net budget decrease of £5.5m mainly due to reprofiling of Asset Management and Compliance Programme (£3.2m) and White City Estate Regeneration scheme (£1.5m) to future years. Detailed analysis of the budget variances is presented in Appendix 2. The risks associated with funding the future years' Housing Capital Programme are summarised in paragraphs 26-28.

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

**Table 4 – HRA CFR at Q2 2020-21 (including future years forecast):**

HRA CFR Forecast	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Closing Forecast HRA CFR	215.76	229.71	261.09	270.70	276.96

21. The Housing Revenue Account 2020-21 CFR has increased by £13.95m in comparison to 2019-20. This is mainly due to 2019-20 budgets being reprofiled to 2020-21. The HRA CFR is forecast to increase to £276.96m by the end of 2023-24.

22. The impact of an increase in HRA CFR on HRA revenue budgets is assessed in the HRA Business Plan and the Financial Plan for Council Homes (HRA

Financial Strategy) 2020-21 which was approved by the Cabinet in February 2020. The total borrowing costs affecting HRA revenue budgets will be affirmed once the factors such as interest rates and potential capitalisation of borrowing costs have been confirmed.

23. The HRA CFR presented in Table 4 does not include the proposed appropriation of Education City Affordable Housing units from General Fund on completion of the scheme (currently forecast for 2024/25). Once the appropriation is completed, the HRA CFR is expected to increase by £29.4m and the General Fund CFR will reduce accordingly.
24. On 1 July 2019 Cabinet approved the Council's new Asset Management and Compliance Programme which has a focus on health and safety works. 2020-21 forecast spend at Q2 includes £9.6m of expenditure related to Health & Safety, of which £6.4m is on specific fire safety capital works as detailed in table 5 below.

**Table 5 – Compliance and Health and Safety spend 2020-21**

HRA Capital Programme: Health & Safety budget and forecast as at Quarter 2 2020-21						
APPROVED SCHEMES	Total Approved Budget £'000	Total Spend Forecast £'000	Approved Budget 2020-21 £'000	2020-21 Forecast at Q2 £'000	2020-21 Forecast Variance £'000	2020-21 Actual Spend at Q2 £'000
Fire Safety Compliance Programme	24,425	25,350	7,367	5,068	(2,299)	1,572
Fire Safety Complex Schemes	26,816	29,315	890	1,322	432	1,103
Safety Works - Electrical	13,452	13,236	2,908	2,306	(602)	658
Safety Works - Other	6,077	6,077	1,016	946	(70)	553
<b>Total</b>	<b>70,770</b>	<b>73,978</b>	<b>12,181</b>	<b>9,642</b>	<b>429</b>	<b>3,886</b>

## HOUSING CAPITAL PROGRAMME RISKS

25. The following risks associated with funding of future years' expenditure have been identified within the Housing Capital programme:
26. **S106 Funding:** The proposed programme for 2020/21 – 2023/24 relies on £25m of S106 receipts for affordable housing, of which £17m has been received to date with the remainder dependent on the associated developments proceeding in a timely manner. The impact of Covid-19 on the progress of developments and related developer contributions is being monitored jointly with Finance and Planning and mitigating actions will be considered if necessary, such as substituting other funding in the Housing programme.
27. **Right to buy funding:** Right to Buy (RTB) one for one receipts need to be repaid with interest to Central Government where affordable housing schemes do not proceed to programme. These receipts are ringfenced to the provision of affordable housing within three years of receipt and the Council's agreement with the GLA, allows a further three years to use the receipts. As at 1 April 2020, the GLA held £23.9m of Hammersmith & Fulham RTB receipts from the last two financial years. This is the equivalent of £80m<sup>1</sup> of capital expenditure

<sup>1</sup> Under current MHCLG regulations, 1-4-1 receipts can fund only 30% of the total expenditure, with remaining 70% being funded from mixture of non-housing receipts, S106 and borrowing. Local Government is currently lobbying MHCLG for further flexibility with regards to use of these receipts in the light of the Covid-19 pandemic.



delivered by the Council (or Housing Associations, if grant funded by Council) over the next two financial years. The existing approved Housing Development schemes and the pipeline of yet to be approved schemes<sup>2</sup> is sufficient to make use of these receipts if delivered on time. The Council can request for an extension to the three years where an approved programme is in place.

28. **Building Safety and Fire Safety Bills:** The Building Safety and Fire Safety Bills are currently going through Parliamentary process. These will significantly impact on the Council, particularly in its role as landlord. Whilst the Council has already approved its current Asset Management and Compliance Programme, which is included in the Capital Programme, it is likely that there will be additional safety requirements and further, potentially significant capital requirements, that will need to be considered. As a result, the current programme needs to be reviewed. Work is being undertaken to assess the cost of expected additional work and update the programme. Further updates and details will be reported to Cabinet in due course and as the bills make their way into law.

## **REASONS FOR DECISION**

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

## **EQUALITY IMPLICATIONS**

30. There are no direct equalities implications in relation to this report. This paper is concerned entirely with financial management issues and, as such, the recommendations relating to an increase in capital allocations, will not impact directly on any group with protected characteristics, under the terms of the Equality Act 2010.
31. Implications verified by: Fawad Bhatti, Tel: 07500 103617.

## **IMPLICATIONS FOR BUSINESS**

32. 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.
33. 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.
34. Implications completed by: Nicki Burgess, Business and Enterprise Manager, Economic Development, Tel:07796610094.

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<sup>2</sup> The housing development pipeline was present to Cabinet on 3 March 2020 in the report "Financial Plan for Council Homes".

## RISK MANAGEMENT

35. In the initial stages of any development, major capital projects will have significant uncertainties. For example, these may relate to the planning process, the views and interest of residents and stakeholders who must be consulted, ground conditions, or the costs of rectifying or demolishing existing buildings (e.g. the cost of asbestos removal). Construction companies and developers contracting with the Council which experience financial instability may also pose a significant risk. They may not be able to raise sufficient finance to cash flow operations, any potential insolvency process could lead to a costly process of changing suppliers without any guarantee of remaining within overall budget, the Council could suffer direct financial loss and any defects or other issues may not be resolvable as anticipated. To mitigate the Council carefully considers the financial robustness of any contractor and requests appropriate financial standing assurance and support wherever possible.
36. Large scale capital projects can operate in environments which are complex, turbulent, and continually evolving. Effective risk identification and control within such a dynamic environment is more than just populating a project risk register or appointing a project risk officer. Amplifying the known risks so that they are not hidden or ignored, demystifying the complex risks into their more manageable sum of parts and anticipating the slow emerging risks which can escalate rapidly are all necessary components of good capital programme risk management.
37. The report identifies a number of risks which may impact on the future funding of the Housing Capital Programme. It is important that strong corporate and directorate oversight and monitoring of these risks is maintained and appropriate ongoing assurances provided to councillors on the management of these risks.
38. The impact to councils of the Grenfell Tower fire is yet to be fully established. It is certain that many councils are/ will be undertaking property reviews to determine the levels of improvements required to ensure fire safety arrangements within their buildings meet both the expectations of the residents and that they comply with building regulations and other statutory duties. The H&F Fire Safety Plus Programme is an excellent scheme that provides residents with assurance on safety. The Regulatory Reform (Fire Safety) Order 2005 places specific duties placed on the Council as the Responsible Person for its buildings to assess the risk from fire and put in measures to control those risks.
39. The Dame Judith Hackitt independent review of fire safety, following the Grenfell tragedy, recognises that High Rise Residential Buildings (10 Storeys and above) are a special risk where layers of fire protection must be put in place so as to reduce the risk to as low as reasonably possible, however reducing the risk for all residential accommodation is fundamental. This process is on-going and must be continually reviewed at least annually.
40. 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.

41. Proposals set out in this report seek to comply with the Council's legal duties.
42. Implications completed by: David Hughes, Director of Audit, Risk and Insurance, Tel: 020 7361 2389.

## **VAT IMPLICATIONS**

43. The Council needs to carefully consider its VAT partial exemption calculation and the risk of breaching the partial exemption threshold. Capital projects represent the bulk of this risk. A breach would likely cost the Council between £2-£3m per year whilst in breach. The Council remained below the threshold in 2018/19 however there remains a risk of breaching the threshold in future years if the position is not carefully managed on an ongoing basis, particularly in light of potentially significant capital schemes in the future. Finance are working closely with departments to ensure that partial exemption risks are considered as part of significant capital projects. Further detail on the Council's partial exemption is included in Appendix 4.
44. Implications verified by: Chris Harris, Chief Accountant, Corporate Finance, Tel: 020 8753 6440.

## **LIST OF APPENDICES:**

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

Appendix 2 – Analysis of budget variations

Appendix 3 – Capital receipts forecast

Appendix 4 – VAT partial exemption

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

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

### Children's Services

	Current Year Programme					Indicative Future Years Analysis				
	Analysis of Movements (Q1 budget to Q2)					Revised Budget 2020/21 (Q2)	2021/22 Budget	2022/23 Budget	2023/24 Budget	Total Budget (All years)
	Revised Budget 2020/21 (Q1)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements					
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Scheme Expenditure Summary</b>										
Schools Organisational Strategy	2,270	-	(2,021)	-	(2,021)	249	-	-	-	249
Schools Window Replacement Project	897	-	(897)	-	(897)	-	-	-	-	-
School Maintenance Programme	924	(290)		-	(290)	634	2,090	1,800	1,076	5,600
<b>Total Expenditure</b>	<b>4,091</b>	<b>(290)</b>	<b>(2,918)</b>	<b>-</b>	<b>(3,208)</b>	<b>883</b>	<b>2,090</b>	<b>1,800</b>	<b>1,076</b>	<b>5,849</b>
<b>Capital Financing Summary</b>										
<b>Specific/External or Other Financing</b>										
Capital Grants from Central Government	2,070	(290)	(897)	-	(1,187)	883	2,090	1,800	1,076	5,849
Grants and Contributions from Private Developers (includes S106)	2,021	-	(2,021)	-	(2,021)	-	-	-	-	-
<b>Sub-total - Specific or Other Financing</b>	<b>4,091</b>	<b>(290)</b>	<b>(2,918)</b>	<b>-</b>	<b>(3,208)</b>	<b>883</b>	<b>2,090</b>	<b>1,800</b>	<b>1,076</b>	<b>5,849</b>
<b>Total Capital Financing</b>	<b>4,091</b>	<b>(290)</b>	<b>(2,918)</b>	<b>-</b>	<b>(3,208)</b>	<b>883</b>	<b>2,090</b>	<b>1,800</b>	<b>1,076</b>	<b>5,849</b>

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

Social Care Services	Current Year Programme					Indicative Future Years Analysis				
	Analysis of Movements (Q1 budget to Q2)					Revised Budget 2020/21 (Q2)	2021/22 Budget	2022/23 Budget	2023/24 Budget	Total Budget (All years)
	Revised Budget 2020/21 (Q1)	Slippages from/(to) future years	Additions/(Reductions)	Transfers	Total Transfers/Virements					
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Scheme Expenditure Summary</b>										
Extra Care New Build project (Adults' Personal Social Services Grant)	957	-	-	-	-	957	-	-	-	957
Disabled Facilities Grant	1,185	-	-	-	-	1,185	-	-	-	1,185
Transforming Care (Winterbourne Grant)	300	-	-	-	-	300	-	-	-	300
Social Care Capital Projects	887	-	-	-	-	887	-	-	-	887
<b>Total Expenditure</b>	<b>3,329</b>	-	-	-	-	<b>3,329</b>	-	-	-	<b>3,329</b>
<b>Capital Financing Summary</b>										
<b>Specific/External or Other Financing</b>										
Capital Grants from Central Government	2,900	-	-	-	-	2,900	-	-	-	2,900
Capital Grants/Contributions from Non-departmental public bodies	300	-	-	-	-	300	-	-	-	300
<b>Sub-total - Specific or Other Financing</b>	<b>3,200</b>	-	-	-	-	<b>3,200</b>	-	-	-	<b>3,200</b>
<b>Borrowing</b>	<b>129</b>	-	-	-	-	<b>129</b>	-	-	-	<b>129</b>
<b>Total Capital Financing</b>	<b>3,329</b>	-	-	-	-	<b>3,329</b>	-	-	-	<b>3,329</b>

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

Environment Department	Current Year Programme					Indicative Future Years Analysis				
	Analysis of Movements (Q1 budget to Q2)					Revised Budget 2020/21 (Q2)	2021/22 Budget	2022/23 Budget	2023/24 Budget	Total Budget (All years)
	Revised Budget 2020/21 (Q1)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements					
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Scheme Expenditure Summary</b>										
Footways and Carriageways	2,397	-	-	-	-	2,397	2,030	2,030	2,030	8,487
Transport For London Schemes	323	-	438	11	449	772	-	-	-	772
Safer Cycle Pathway (TFL/S278 funded)	167	-	203	6	209	376	-	-	-	376
Hammersmith Bridge Strengthening (TFL Funded)	455	-	240	-	240	695	-	-	-	695
Hammersmith Bridge Strengthening (Council Funded)	-	-	420	-	420	420	-	-	-	420
Controlled Parking Zones	113	-	55	-	55	168	-	-	-	168
Column Replacement	323	-	-	-	-	323	346	346	346	1,361
LED Lighting Replacement Programme	23	-	-	-	-	23	-	-	-	23
P&D Upgrade and Pay by Phone	-	-	30	-	30	30	-	-	-	30
Other Highways Capital Schemes	1,285	-	422	(17)	405	1,690	-	-	-	1,690
Counters Creek (Thames Water funded)	167	-	-	-	-	167	-	-	-	167
Bloemfontein Road (Thames Water/Suds)	350	-	-	-	-	350	-	-	-	350
Capital Investment in Street Lighting	831	-	-	-	-	831	269	-	-	1,100
Parks Capital Rolling Programme	157	-	40	-	40	197	-	-	-	197
Other Parks Capital Schemes	303	-	(12)	-	(12)	291	-	-	-	291
Shepherds Bush Common Improvements	-	-	2	-	2	2	-	-	-	2
Fulham Football Club -Bishops Park	-	-	234	-	234	234	-	-	-	234
Containers (Recycling/Food)	199	-	-	-	-	199	-	-	-	199
Electric Vehicles	182	-	-	-	-	182	594	-	-	776
Other (Delivery, RFID, Charge Points)	208	-	-	-	-	208	-	-	-	208
Libraries Investment Programme	-	-	2	-	2	2	-	-	-	2
Leisure Centre Capital Investment	957	(392)	-	-	(392)	565	392	140	-	1,097
<b>Total Expenditure</b>	<b>8,440</b>	<b>(392)</b>	<b>2,074</b>	<b>-</b>	<b>1,682</b>	<b>10,122</b>	<b>3,631</b>	<b>2,516</b>	<b>2,376</b>	<b>18,645</b>

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

Environment Department	Current Year Programme					Indicative Future Years Analysis				
	Analysis of Movements (Q1 budget to Q2)					Revised Budget 2020/21 (Q2)	2021/22 Budget	2022/23 Budget	2023/24 Budget	Total Budget (All years)
	Revised Budget 2020/21 (Q1)	Slippages from/(to) future years	Additions/(Reductions)	Transfers	Total Transfers/Virements					
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Capital Financing Summary</b>										
<b>Specific/External or Other Financing</b>										
Grants and Contributions from Private Developers (includes S106/S278)	2,481	(392)	48	(17)	(361)	2,120	392	140	-	2,652
Capital Grants/Contributions from Non-departmental public bodies	308	-	289	-	289	597	-	-	-	597
Capital Grants and Contributions from GLA	945	-	756	(438)	318	1,263	-	-	-	1,263
<b>Sub-total - Specific or Other Financing</b>	<b>3,734</b>	<b>(392)</b>	<b>1,093</b>	<b>(455)</b>	<b>246</b>	<b>3,980</b>	<b>392</b>	<b>140</b>	<b>-</b>	<b>4,512</b>
<b>Mainstream Financing (Internal Council Resource)</b>										
Capital Receipts	-	-	-	-	-	-	-	1,056	-	1,056
Use of Reserves	915	-	-	-	-	915	45	-	-	960
<b>Sub-total - Mainstream Funding</b>	<b>915</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>915</b>	<b>45</b>	<b>1,056</b>	<b>-</b>	<b>2,016</b>
<b>Borrowing</b>	<b>3,791</b>	<b>-</b>	<b>981</b>	<b>455</b>	<b>1,436</b>	<b>5,227</b>	<b>3,194</b>	<b>1,320</b>	<b>2,376</b>	<b>12,117</b>
<b>Total Capital Financing</b>	<b>8,440</b>	<b>(392)</b>	<b>2,074</b>	<b>-</b>	<b>1,682</b>	<b>10,122</b>	<b>3,631</b>	<b>2,516</b>	<b>2,376</b>	<b>18,645</b>

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

Finance Department	Current Year Programme					Indicative Future Years Analysis				
	Analysis of Movements (Q1 budget to Q2)					Revised Budget 2020/21 (Q2)	2021/22 Budget	2022/23 Budget	2023/24 Budget	Total Budget (All years)
	Revised Budget 2020/21 (Q1)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements					
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Scheme Expenditure Summary</b>										
Invest to Save - Flexible Use of Capital Receipts	2,412	(800)	-	-	(800)	1,612	800	-	-	2,412
<b>Total Expenditure</b>	<b>2,412</b>	<b>(800)</b>	<b>-</b>	<b>-</b>	<b>(800)</b>	<b>1,612</b>	<b>800</b>	<b>-</b>	<b>-</b>	<b>2,412</b>
<b>Capital Financing Summary</b>										
<b>Mainstream Financing (Internal Council Resource)</b>										
Capital Receipts	2,412	(800)	-	-	(800)	1,612	800	-	-	2,412
<b>Sub-total - Mainstream Funding</b>	<b>2,412</b>	<b>(800)</b>	<b>-</b>	<b>-</b>	<b>(800)</b>	<b>1,612</b>	<b>800</b>	<b>-</b>	<b>-</b>	<b>2,412</b>
<b>Total Capital Financing</b>	<b>2,412</b>	<b>(800)</b>	<b>-</b>	<b>-</b>	<b>(800)</b>	<b>1,612</b>	<b>800</b>	<b>-</b>	<b>-</b>	<b>2,412</b>



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

Economy Department General Fund Managed Schemes	Current Year Programme					Indicative Future Years Analysis				
	Analysis of Movements (Q1 budget to Q2)					Revised Budget 2020/21 (Q1)	2021/22 Budget	2022/23 Budget	2023/24 Budget	Total Budget (All years)
	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements	Revised Budget 2020/21 (Q2)					
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Scheme Expenditure Summary</b>										
<b>Civic Campus</b>										
Acquisition of Land at 207 King St	72	-	-	-	72	-	-	-	72	
Hammersmith Town Hall Refurbishment *	7,405	-	-	-	7,405	20,549	3,164	-	31,118	
HTH Refurbishment -Fit Out	-	-	-	-	-	9,444	537	-	9,981	
Acquisition of commercial units	-	-	-	-	-	-	63,000	-	63,000	
Equity Loan (Civic Campus)	8,997	-	-	-	8,997	30,000	25,000	-	63,997	
<b>Subtotal Civic Campus</b>	<b>16,474</b>	-	-	-	<b>16,474</b>	<b>59,993</b>	<b>91,701</b>	-	<b>168,168</b>	
<b>Building Homes and Communities Strategy (GF sites)</b>										
Education City/Ark Swift redevelopment	1,629	-	-	-	1,629	9,985	13,335	14,353	39,302	
Education City Loan	12	-	-	-	12	13	11,682	16,399	28,106	
Schools Regeneration Programme	1,914	-	-	-	1,914	-	-	-	1,914	
Farm Lane	139	-	-	-	139	1,131	-	-	1,270	
Mund Street	215	-	-	-	215	3,019	-	-	3,234	
<b>Subtotal Building Homes and Communities Strategy (GF sites)</b>	<b>3,909</b>	-	-	-	<b>3,909</b>	<b>14,148</b>	<b>25,017</b>	<b>30,752</b>	<b>73,826</b>	
<b>Other GF Capital Schemes managed by the Economy</b>										
Sands End Community Centre	768	-	-	-	768	-	-	-	768	
Planned Maintenance/DDA Programme	5,056	(1,268)	-	-	3,788	5,268	2,400	2,400	13,856	
Carwath Road	1,870	-	-	-	1,870	-	-	-	1,870	
WMC JV Exit Costs	3,491	-	-	-	3,491	-	-	-	3,491	
<b>Subtotal Other GF Capital Schemes managed by the Economy</b>	<b>11,185</b>	<b>(1,268)</b>	-	-	<b>9,917</b>	<b>5,268</b>	<b>2,400</b>	<b>2,400</b>	<b>19,985</b>	
<b>Total Expenditure</b>	<b>31,568</b>	<b>(1,268)</b>	-	-	<b>30,300</b>	<b>79,409</b>	<b>119,118</b>	<b>33,152</b>	<b>261,979</b>	

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

Economy Department General Fund Managed Schemes	Current Year Programme					Indicative Future Years Analysis			Total Budget (All years)  £'000	
	Analysis of Movements (Q1 budget to Q2)					2021/22 Budget  £'000	2022/23 Budget  £'000	2023/24 Budget  £'000		
	Revised Budget 2020/21 (Q1)  £'000	Slippages from/(to) future years  £'000	Additions/ (Reductions)  £'000	Transfers  £'000	Total Transfers/ Virements  £'000					Revised Budget 2020/21 (Q2)  £'000
<b>Specific/External or Other Financing</b>										
Grants and Contributions from Private Developers (includes S106)	354	-	-	-	-	354	2,146	-	-	2,500
Community Infrastructure Levy (CIL)	6,655	-	-	-	-	6,655	20,000	3,163	-	29,818
Capital Grants/Contributions from Non-departmental public bodies	768	-	-	-	-	768	-	-	-	768
Capital Grants and Contributions from GLA Bodies	1,200	-	-	-	-	1,200	-	2,084	884	4,168
<b>Sub-total - Specific or Other Financing</b>	<b>8,977</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,977</b>	<b>22,146</b>	<b>5,247</b>	<b>884</b>	<b>37,254</b>
<b>Mainstream Financing (Internal Council Resource)</b>										
Capital Receipts (HRA)	-	-	-	-	-	-	-	500	678	1,178
Capital Receipts (GF)	-	-	-	-	-	-	-	2,400	-	2,400
<b>Sub-total - Mainstream Funding</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,900</b>	<b>678</b>	<b>3,578</b>
Borrowing (Borrowing-GF)	22,591	(1,268)	-	-	(1,268)	21,323	57,263	110,971	31,590	221,147
<b>Total Capital Financing</b>	<b>31,568</b>	<b>(1,268)</b>	<b>-</b>	<b>-</b>	<b>(1,268)</b>	<b>30,300</b>	<b>79,409</b>	<b>119,118</b>	<b>33,152</b>	<b>261,979</b>

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

Economy Department- HRA Capital Programme	Current Year Programme					Indicative Future Years Analysis				
	Analysis of Movements (Q1 budget to Q2)					Revised Budget 2020/21 (Q2)	2021/22 Budget	2022/23 Budget	2023/24 Budget	Total Budget (All years)
	Revised Budget 2020/21 (Q1)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements					
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Scheme Expenditure Summary</b>										
<b>HRA Asset Management and Compliance Programme</b>										
Pre Agreed Works	16,218	(284)	-	373	89	16,307	13,938	1,035	235	31,515
Fire Safety Compliance Programme	7,367	(3,224)	-	925	(2,299)	5,068	13,194	4,088	3,000	25,350
Fire Safety Complex Schemes	890	(2,067)	-	2,499	432	1,322	2,028	7,962	18,004	29,316
Pre Agreed Lift Scheme	3,383	(608)	-	1	(607)	2,776	2,679	3,230	-	8,685
Pre Agreed Boiler Scheme	1,395	400	-	-	400	1,795	1,400	1,400	1,503	6,098
Safety Works - Electrical	2,908	(386)	-	(216)	(602)	2,306	6,475	4,153	302	13,236
Safety Works	1,016	(70)	-	-	(70)	946	2,475	2,656	-	6,077
Void Works	2,265	(313)	-	-	(313)	1,952	2,286	2,000	1,500	7,738
Neighbourhood, parking & garage improvements	1,795	(278)	-	-	(278)	1,517	2,369	188	288	4,362
Surveying and fees	-	-	-	-	-	-	-	-	2,929	2,929
Capitalised salaries	2,714	-	-	-	-	2,714	2,952	2,918	-	8,584
Capitalised repairs	3,264	-	-	-	-	3,264	3,329	3,396	-	9,989
Unallocated budget - Priority schemes to be confirmed	-	3,582	-	(3,582)	-	-	-	-	-	-
<b>Subtotal HRA Asset Management and Compliance Programme</b>	<b>43,215</b>	<b>(3,248)</b>	<b>-</b>	<b>-</b>	<b>(3,248)</b>	<b>39,967</b>	<b>53,125</b>	<b>33,026</b>	<b>27,761</b>	<b>153,879</b>
<b>Building Homes and Communities Strategy (HRA sites)</b>										
Homes & Communities Strategy	856	(96)	-	-	(96)	760	724	-	-	1,484
White City Estate Regeneration	2,835	(1,447)	-	-	(1,447)	1,388	1,447	-	-	2,835
Old Laundry Yard	333	-	-	-	-	333	900	-	-	1,233
<b>Subtotal Building Homes and Communities Strategy (HRA sites)</b>	<b>4,024</b>	<b>(1,543)</b>	<b>-</b>	<b>-</b>	<b>(1,543)</b>	<b>2,481</b>	<b>3,071</b>	<b>-</b>	<b>-</b>	<b>5,552</b>
<b>Other HRA Capital Schemes</b>										
Housing Development Project	2,666	(312)	-	-	(312)	2,354	306	56	-	2,716
Stanhope Joint Venture	625	-	-	-	0	625	8,113	14,030	8,656	31,424
Affordable Housing Delivery Framework	2,271	(428)	-	-	(428)	1,843	428	-	-	2,271
Property Acquisition for Affordable Housing	1,513	-	-	-	-	1,513	-	-	-	1,513
Hartopp & Lannoy	4,425	-	-	-	-	4,425	66	-	-	4,491
Nourish Project (Good Growth Fund)	1,179	-	-	-	-	1,179	-	-	-	1,179
<b>Subtotal Other HRA Capital Schemes</b>	<b>12,679</b>	<b>(740)</b>	<b>-</b>	<b>-</b>	<b>(740)</b>	<b>11,939</b>	<b>8,913</b>	<b>14,086</b>	<b>8,656</b>	<b>43,594</b>
<b>Total Expenditure</b>	<b>59,918</b>	<b>(5,531)</b>	<b>-</b>	<b>-</b>	<b>(5,531)</b>	<b>54,387</b>	<b>65,109</b>	<b>47,112</b>	<b>36,417</b>	<b>203,025</b>

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

Economy Department- HRA Capital Programme	Current Year Programme					Indicative Future Years Analysis				
	Analysis of Movements (Q1 budget to Q2)					Revised Budget 2020/21 (Q2)	2021/22 Budget	2022/23 Budget	2023/24 Budget	Total Budget (All years)
	Revised Budget 2020/21 (Q1)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements					
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	

**Capital Financing Summary**

Specific/External or Other Financing	Revised Budget 2020/21 (Q1)	Slippages from/(to) future years	Additions/ (Reductions)	Transfers	Total Transfers/ Virements	Revised Budget 2020/21 (Q2)	2021/22 Budget	2022/23 Budget	2023/24 Budget	Total Budget (All years)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Contributions from leaseholders	2,891	-	-	-	-	2,891	5,380	3,791	1,402	13,464
Grants and Contributions from Private Developers (includes S106)	725	-	-	-	-	725	5,403	9,343	5,764	21,235
Insurance claims	-	-	-	780	780	780	-	-	-	780
Capital Grants and Contributions from GLA Bodies	619	-	-	-	-	619	-	-	-	619
<b>Sub-total - Specific or Other Financing</b>	<b>4,235</b>	<b>-</b>	<b>-</b>	<b>780</b>	<b>780</b>	<b>5,015</b>	<b>10,783</b>	<b>13,134</b>	<b>7,166</b>	<b>36,098</b>
<b>Mainstream Financing (Internal Council Resource)</b>										
Capital Receipts (HRA)	9,075	(618)	-	(161)	(779)	8,296	6,699	7,714	5,923	28,632
Major Repairs Reserve (MRR) / Major Repairs Allowance	23,802	-	-	2,621	2,621	26,423	16,245	16,651	17,067	76,386
<b>Sub-total - Mainstream Funding</b>	<b>32,877</b>	<b>(618)</b>	<b>-</b>	<b>2,460</b>	<b>1,842</b>	<b>34,719</b>	<b>22,944</b>	<b>24,365</b>	<b>22,990</b>	<b>105,018</b>
Borrowing(HRA)	22,806	(4,913)	-	(3,240)	(8,153)	14,653	31,382	9,613	6,261	61,909
<b>Total Capital Financing</b>	<b>59,918</b>	<b>(5,531)</b>	<b>-</b>	<b>-</b>	<b>(5,531)</b>	<b>54,387</b>	<b>65,109</b>	<b>47,112</b>	<b>36,417</b>	<b>203,025</b>

## Appendix 2 – Analysis of budget variations

Variation by department	Amount £000
<b>Children's Services</b>	
Schools Organisational Strategy - budget reduction for the TBAP (Bridge Academy) following recent review of the scheme	(2,021)
Schools' Windows Replacement Scheme - budget reduction following scheme review. This scheme will be now incorporated into the school maintenance programme.	(897)
Schools maintenance programme - budget reprofiling to future years to reflect current forecast	(290)
<b>Total Children's Services variations</b>	<b>(3,208)</b>
<b>Environment Department</b>	
Transport Schemes funded from TfL – additional budget to reflect funding received	438
Hammersmith Bride strengthening - additional budget approved by Cabinet September 2020	420
Hammersmith Bride strengthening - additional budget required for essential works, TfL funding was withdrawn due to Covid-19 impact on TfL finances	240
Safe Cycle Pathway - additional budget to reflect funding received from TfL/S278	203
Controlled Parking Zones - additional budget to reflect S106 funding received	55
P&D Upgrade and Pay by Phone - additional budget required to complete the scheme	30
Other Highways Capital Schemes additional budget required for essential work; TfL funding was withdrawn due to Covid-19 impact on TfL finances	422
Parks Capital Programme – additional budget required to complete essential parks improvements and schemes some of which commenced in 2019/20, no S106 funding confirmed	32
Fulham Football Club - Bishops Park - additional budget to reflect the funding received	234
Leisure Centre Capital Investment – budget reprofiled to future years due to Covid-19	(392)
<b>Total Environment Department variations</b>	<b>1,682</b>
<b>Finance Department</b>	
Reprofiling of Invest to Save schemes to future years	(800)
<b>Total Finance Department variations</b>	<b>(800)</b>
<b>General Fund schemes under Economy Department</b>	
Corporate Planned Maintenance Programme budget reprofiled to future years	(1,268)
<b>Total General Fund schemes under Economy Department variations</b>	<b>(1,268)</b>
<b>Economy Department (HRA) Schemes</b>	
Asset Management and Compliance Programme – budget reprofiling to future years to reflect updated spending profile for the number of schemes. The majority of capital works programmed for a 2020/21 start will now start in the new calendar year due to the delays as a result of Covid-19.	(3,248)
Housing Development Project - budget profiled to future years due to Covid-19 delays	(312)
White City Estate Regeneration - budget reprofiling to future years due to delay in start of the scheme	(1,447)
Homes & Communities Strategy - budget reprofiled to future years due to delays	(96)
Affordable Housing Delivery Framework – due to Covid-19 delays, Emlyn Gardens and Fulham North Office are now expected to complete in Q1 2021/22	(428)
<b>Total Economy Department (HRA) variations</b>	<b>(5,531)</b>
<b>Total 2020-21 Q2 variations</b>	<b>(9,125)</b>

### Appendix 3 – General Fund forecast capital receipts

Financial Year	Previous Forecast £'000s	Movement/ Slippage £'000s	Forecast as at Q2 2020-21 £'000s
<b>2020/21</b>			
Brought forward receipts from 2019/20	2,412	(800)	1,612
Forecast capital receipts for the year	-	-	-
<b>Total 2020/21</b>	<b>2,412</b>	<b>(800)</b>	<b>1,612</b>
<b>2021/22</b>			
Forecast capital receipts for the year	-	-	-
Carry forward receipts from 2020/21	-	800	800
<b>Total 2021/22</b>	<b>-</b>	<b>800</b>	<b>800</b>
<b>2022/23</b>			
Forecast capital receipts for the year	3,600	-	3,600
Cost of Sales (4%)	(144)	-	(144)
<b>Total 2022/23</b>	<b>3,456</b>	<b>-</b>	<b>3,456</b>
<b>2023/24</b>			
Forecast capital receipts for the year	-	-	-
<b>Total 2023/24</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total All Years</b>	<b>5,868</b>	<b>-</b>	<b>5,868</b>

## **Appendix 4 – VAT Partial Exemption**

### Partial exemption overview

In general, businesses cannot recover the VAT incurred on purchases made in connection with VAT exempt activities, for example, capital expenditure on properties which are let or leased are exempt from VAT. However, under Section 33 of the VAT Act 1994, local authorities are able to recover this VAT so long as it forms “an insignificant proportion” of the total VAT incurred (input tax) in any year, taken to be 5% or less. Crucially, the de minimis limit is not an allowance, if the 5% threshold is exceeded then all the exempt input tax is lost, not just the excess. The cost to the Council of a breach would be in excess of £2.7m.

### LBHF Partial Exemption

The Council’s actual input tax for 2019/20 (across all expenditure) was £54m. This results in a partial exemption threshold for the Council of £2.7m (being 5% of £54m). However, the input VAT reclaimed in 2019/20 is exceptionally high due to VAT of £14.9m being incurred on the purchase of Earl’s Court. The overall input tax incurred by the Council is projected to fall in the medium term due to factors such as the return of some of the previously outsourced services in-house. A reduction in the overall input tax incurred will, in turn, reduce the Council’s partial exemption threshold.

When calculating the exempt input tax annually, the Council considers its revenue and capital activities separately. Revenue activities are more constant, their contribution to exempt input tax is projected to remain at £2m (the impact on the threshold being the VAT incurred on this amount, i.e. £0.4m). Exempt input tax relating to capital activities is more volatile and each project must be considered and judged individually. The Council has a number of capital projects, both in progress and in the pipeline, which could have significant partial exemption implications and finance officers are working closely with colleagues working on these projects to ensure that these risks are identified and mitigated where possible.

Land and lease transactions can give rise to exempt supply. Capital projects involving these usually give rise to exempt input tax, although wherever possible the Council uses its VAT policy (see section 3) to mitigate this.

### VAT Policy

The following policy is in place to manage the partial exemption position:

- In all cases of new or reprofiled projects, the VAT team should be consulted in advance.
- Projects should be 'opted-to-tax' where this option is available and is of no financial disadvantage to the Council.

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

1. The Capital Finance Requirement (CFR) measures the Council's long-term indebtedness. The Table 1 below shows the Council's forecast total GF CFR for the period 2020/21-2023/24:

**Table 1 - Forecast General Fund CFR 2020/21-2023/24 (Quarter 2)**

<b>GENERAL FUND CFR ANALYSIS</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
<b>HEADLINE CFR EXCLUDING SELF FINANCING SCHEMES AND LOANS</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Opening Capital Finance Requirement (CFR)</b>	<b>70.85</b>	<b>114.08</b>	<b>130.68</b>	<b>159.65</b>	<b>170.00</b>
Revenue Repayment of Debt (MRP)	(0.32)	(1.07)	(1.48)	(2.25)	(2.24)
Mainstream Programme (Surplus)/Shortfall	43.55	17.67	30.45	12.61	17.57
<b>Closing Capital Finance Requirement (CFR)</b>	<b>114.08</b>	<b>130.68</b>	<b>159.65</b>	<b>170.00</b>	<b>185.32</b>
<b>SELF FINANCING SCHEMES AND LOANS</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Opening Capital Finance</b>	<b>7.32</b>	<b>11.84</b>	<b>20.62</b>	<b>50.41</b>	<b>149.87</b>
Equity loan repayment	-	-	-	-	(25.00)
Revenue Repayment of Debt (MRP)	(1.48)	(0.23)	(0.22)	(0.22)	(1.47)
In Year Borrowing	6.00	9.01	30.01	99.68	16.40
<b>Closing Capital Finance</b>	<b>11.84</b>	<b>20.62</b>	<b>50.41</b>	<b>149.87</b>	<b>139.81</b>
Finance leases/PFI/ Deferred costs of	9.19	8.49	7.79	7.09	6.39
<b>Total Closing GF CFR</b>	<b>135.11</b>	<b>159.79</b>	<b>217.84</b>	<b>326.96</b>	<b>331.52</b>

2. The current forecast for the General Fund Headline CFR is £130.68m at the end of 2020-21 and £185.32 by the end of 2023-24. The increase in GF Headline CFR puts additional pressures on revenue budgets.
3. The Headline CFR figures exclude:
  - £5.6m Schools Windows Replacement Programme
  - equity loan of £70m to the Civic Campus programme
  - £28.58m loan to the Education City Development project and
  - £63m investment in acquisition of Civic Campus commercial units

Whilst these will impact on the Council's CFR, it is assumed that all Minimum Revenue Payment (MRP) and interest costs will be fully reimbursed through grant contributions, the charging of a state-aid compliant interest rate, commercial income or reduction in revenue costs (e.g. lease rental payments).

4. CFR movements related to these schemes are presented under "Self-Financing Schemes and Loans" heading in the Table 1. CFR for these schemes is forecast to increase by £8.78m to £20.62m in 2020-21 and to £139.81m by the end of 2023-24. Table 2 details the CFR movements regarding these schemes:



**Table 2- Self -financing schemes and loans CFR movements 2020/21-2023/24**

	Revised Budget 2020/21 (Q1)	Variations (Q2)	Revised Budget 2020/21 (Q2)	Indicative Budget 2021/22	Indicative Budget 2022/23	Indicative Budget 2023/24	Total Budget (All years)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Approved Expenditure</b>							
<b>Ad Hoc Schemes:</b>							
JV loan - HTH	-		-	-	-	-	-
Acquisition of commercial units (Civic Campus)	-		-	-	63,000	-	63,000
Equity Loan (Civic Campus)	8,997		8,997	30,000	25,000	-	63,997
JV loan -Education City	12		12	13	11,682	16,399	28,106
<b>Total Mainstream Programmes</b>	<b>9,009</b>	<b>0</b>	<b>9,009</b>	<b>30,013</b>	<b>99,682</b>	<b>16,399</b>	<b>155,103</b>
<b>Financing</b>							
Increase/(Decrease) in Borrowing	9,009	-	9,009	30,013	99,682	16,399	155,103
<b>Total Financing</b>	<b>9,009</b>	<b>0</b>	<b>9,009</b>	<b>30,013</b>	<b>99,682</b>	<b>16,399</b>	<b>155,103</b>

5. The report regarding the expected investment in Civic Centre commercial units is also proposing one-off equity loan payment of £25m towards Civic Campus redevelopment scheme, currently forecast to be issued in 2022/23. The issue of the equity loan will result in an increase in GF CFR by the same amount. However, this loan is expected to be repaid in the following financial year and therefore it will not have any impact on the MRP. Repayment of the loan will result in a decrease in GF CFR in 2023/24 by £25m.
6. As the development site for Education City scheme is currently General Fund land, it is assumed that the total development costs will be charged to General Fund until the site completion. This will result in an increase in GF CFR. On completion, costs and debt associated with HRA element of the redevelopment (affordable housing units) will be appropriated to HRA. The appropriation will result in decrease in GF CFR and increase in HRA CFR by the same amount. Forecast expenditure for HRA affordable housing units is currently £29.4m. As any interest charges will be capitalised and MRP will not be charged until year after the completion, there will be no direct impact on general fund revenue budgets in respect to HRA costs. However, should the scheme be cancelled before the completion of HRA affordable homes, there is a risk that risks and costs associated with the termination could impact GF revenue budgets.
7. Minimum Revenue Provision (MRP) is the minimum amount which a Council must charge to its revenue budget each year, to set aside a provision for repaying external borrowing (loans). This is an annual revenue expense in a Council's budget. The MRP will, over time, reduce the CFR.
8. The statutory guidance issued by the Secretary of State (Ministry for Housing, Communities and Local Government) details the ways how MRP should be charged on various items of capital expenditure. MRP charges presented in the Table 1 follow this guidance and assume the following:

- MRP charges are deferred for development projects until year after their completion. The rate charged is based on the estimated life of an asset (50 years for new developments).
- MRP on rolling capital programmes and smaller scale ad hoc schemes is charged year after the expenditure incurs. The rate used is based on weighted average life of an assets (currently 3.01%).