

## London Borough of Hammersmith & Fulham

**Report to:** Cabinet

**Date:** 01/02/2021

**Subject:** Four Year Capital Programme 2021/22 And Capital Strategy 2021/22

**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 presents the Council's four-year Capital Programme for the period 2021 to 2025.

The Council is required by the CIPFA Prudential Code for Capital Finance (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 2021/22 will also be presented to Cabinet in February 2021 under a separate agenda item.

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 2021/22. The indicator used to reflect the underlying need of an authority to borrow for a capital purpose is the Capital Financing Requirement (CFR) and the forecast CFR is set out within this report.

### RECOMMENDATIONS

1. To approve the four-year General Fund Capital Programme budget at £158.1m for the period 2021/22-2024/25 (presented in Table 2 and Appendix 1).
2. To approve the continuation of rolling programmes for 2021/22 funded from the Council's mainstream resources. For financial modelling purposes, these programmes are assumed to continue at the same level until 2024/25:

	<b>£m</b>
Planned Maintenance/DDA Programme [ECD]	2.400
Footways and Carriageways [ENV]	2.030
Column Replacement [ENV]	0.346
Controlled Parking Zones [ENV]	0.275
<b>Total</b>	<b>5.051</b>

3. To delegate approval of the detailed programmes for use of the rolling programmes to the relevant SLT Director in consultation with the Director of Finance and relevant Lead Cabinet Member.
4. To note the existing mainstream funded schemes previously approved, but now reprofiled to 2021/22 and future years as detailed in Table 3.
5. To approve the four-year Housing (HRA) Capital Programme at £247.6m for the period 2021/22-2024/25 as set out in Table 5 and Appendix 1.
6. To delegate the potential application of capital receipts (up to £4.4m) under the Government's Flexible Use of Capital Receipts provisions to fund Invest to Save schemes in 2020/21 and 2021/22 (as identified in Appendix 5) and to support potential match-funding opportunities, to the Director of Finance in consultation with the Cabinet Member for Finance and Commercial Services.
7. To approve an additional budget envelope of £50m, from 2021/22 onwards, to provide operational flexibility, for taking forward the major projects set out in Capital Strategy. Use of this budget will be subject to Cabinet approval, agreement of funding sources and sign-off of an appropriate business case.
8. To approve the Capital Strategy 2021/22, as set out in Appendix 4.
9. To approve the annual Minimum Revenue Provision policy statement for 2021/22, as set out in Appendix 6.

**Wards Affected:** None

## H&F Priorities

The Council's Capital Programme contains a number of schemes and projects which are directly linked to the Council's Business Plan 2018-22 and which will deliver the Council's priorities, as set out in the plan. The Capital Strategy set out in Appendix 4 provides more detailed information on how these projects link to the Council's objectives.

Our Priorities	Summary of how this report aligns to the H&F Priorities
Being ruthlessly financially efficient	<p>All capital investment decisions are required to be underpinned by a robust business case that sets out the full costs, funding and risks and 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 potential risks and their impact on the Council's resources.</p>

## **Financial Impact**

This report is of a wholly financial nature.

## **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: None**

## CAPITAL PROGRAMME 2021/22-2024/25- OVERVIEW

1. This report sets out an updated four-year capital expenditure and resource forecast and a capital programme for 2021/22 to 2024/25, as summarised in Table 1 below. A detailed analysis of specific schemes by service is included in Appendix 1.

**Table 1 - Capital Programme 2021/22 to 2024/25**

	Indicative Future Years Analysis				Total Budget (All years) £'000
	2021/22	2022/23	2023/24	2024/25	
	£'000	£'000	£'000	£'000	
<b>CAPITAL EXPENDITURE</b>					
Children's Services	2,090	1,800	1,076	-	4,966
Social Care	957	-	-	-	957
Environment Department	3,648	2,516	2,376	2,376	10,916
Finance	4,430	-	-	-	4,430
General Fund Schemes under the Economy Department	76,748	53,753	3,894	2,400	136,795
<b>Sub-total (General Fund)</b>	<b>87,873</b>	<b>58,069</b>	<b>7,346</b>	<b>4,776</b>	<b>158,064</b>
Economy Department-HRA Programme	74,244	66,298	74,534	32,569	247,645
<b>Sub-total Economy Department (HRA)</b>	<b>74,244</b>	<b>66,298</b>	<b>74,534</b>	<b>32,569</b>	<b>247,645</b>
<b>Total Expenditure</b>	<b>162,117</b>	<b>124,367</b>	<b>81,880</b>	<b>37,345</b>	<b>405,709</b>
<b>CAPITAL FINANCING</b>					
<b>Specific/External Financing:</b>					
Government/Public Body Grants	3,047	1,800	1,076	-	5,923
Grants and Contributions from Private Developers (includes S106/CIL)	27,169	14,789	7,422	-	49,380
Capital Grants and Contributions from GLA Bodies	632	392	-	2,100	3,124
Leaseholder Contributions (Housing)	5,380	3,791	1,402	-	10,573
<b>Sub-total - Specific Financing</b>	<b>36,228</b>	<b>20,772</b>	<b>9,900</b>	<b>2,100</b>	<b>69,000</b>
<b>Mainstream Financing (Internal):</b>					
Capital Receipts - General Fund	12,706	-	-	-	12,706
Capital Receipts - HRA	5,880	11,042	6,754	12,370	36,046
Major Repairs Reserve (MRR)	16,245	16,651	17,067	17,067	67,030
Earmarked Reserves (Revenue)	45	-	-	-	45
<b>Sub-total - Mainstream Funding</b>	<b>34,876</b>	<b>27,693</b>	<b>23,821</b>	<b>29,437</b>	<b>115,827</b>
<b>Borrowing-General Fund</b>	<b>14,743</b>	<b>11,426</b>	<b>4,776</b>	<b>4,776</b>	<b>35,721</b>
<b>Borrowing-General Fund (Self -financing)</b>	<b>33,632</b>	<b>39,157</b>	<b>1,494</b>	<b>-</b>	<b>74,283</b>
<b>Borrowing -HRA</b>	<b>42,638</b>	<b>25,319</b>	<b>41,889</b>	<b>1,032</b>	<b>110,878</b>
<b>Total Capital Financing</b>	<b>162,117</b>	<b>124,367</b>	<b>81,880</b>	<b>37,345</b>	<b>405,709</b>

2. The programme for this period totals £405.7m. The gross programme for 2021/22 totals £162.1m. This comprises the General Fund (GF) Programme of £87.9m and the Housing Revenue Account (HRA) Programme of £74.2m

3. The forecast is based on known funding allocations at December 2020 and will be updated in accordance with relevant government spending announcements. This will include a review of Children's Services and Disabled Facilities Grant (DFG) allocations. At present schools' funding is not confirmed by Government beyond 2020/21. As additional grants and contributions are confirmed, the General Fund capital programme will increase.

## THE GENERAL FUND CAPITAL PROGRAMME

4. The General Fund programme is summarised in Table 2, below with details for each service at Appendix 1. The programme includes:
- Civic Campus Programme/ Refurbishment of Hammersmith Town Hall
  - Schools Maintenance Programme
  - Council's rolling programmes for Planned Building Maintenance and Footways and Carriageways
  - Social Care capital projects.
5. The capital programme approves a funding envelope for the rolling programmes. It does not approve how such funding is utilised. It is the responsibility of Lead Directors to agree a planned programme of reports in consultation with the Director of Finance and Lead Cabinet Member.

**Table 2 – General Fund Capital Programme 2021-25**

	Indicative Future Years Analysis				Total Budget (All years) £'000
	2021/22	2022/23	2023/24	2024/25	
	£'000	£'000	£'000	£'000	
<b>CAPITAL EXPENDITURE</b>					
Children's Services	2,090	1,800	1,076	-	4,966
Social Care	957	-	-	-	957
Environment Department	3,648	2,516	2,376	2,376	10,916
Finance	4,430	-	-	-	4,430
General Fund Schemes under the Economy Department	76,748	53,753	3,894	2,400	136,795
<b>Total Expenditure</b>	<b>87,873</b>	<b>58,069</b>	<b>7,346</b>	<b>4,776</b>	<b>158,064</b>
<b>CAPITAL FINANCING</b>					
<b>Specific/External Financing:</b>					
Government/Public Body Grants	3,047	1,800	1,076	-	5,923
Grants and Contributions from Private Developers (includes S106/CIL)	23,184	5,686	-	-	28,870
Capital Grants and Contributions from GLA Bodies	625	-	-	-	625
<b>Sub-total - Specific Financing</b>	<b>26,856</b>	<b>7,486</b>	<b>1,076</b>	<b>-</b>	<b>35,418</b>
<b>Mainstream Financing (Internal):</b>					
Capital Receipts - General Fund	12,597	-	-	-	12,597
Earmarked Reserves (Revenue)	45	-	-	-	45
<b>Sub-total - Mainstream Funding</b>	<b>12,642</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,642</b>
<b>Borrowing-General Fund</b>	<b>14,743</b>	<b>11,426</b>	<b>4,776</b>	<b>4,776</b>	<b>35,721</b>
<b>Borrowing-General Fund (Self-financing)</b>	<b>33,632</b>	<b>39,157</b>	<b>1,494</b>	<b>-</b>	<b>74,283</b>
<b>Total Capital Financing</b>	<b>87,873</b>	<b>58,069</b>	<b>7,346</b>	<b>4,776</b>	<b>158,064</b>

6. Table 3 below shows the projects funded from mainstream resource (borrowing or capital receipts) and comprises the progression and completion of existing schemes and the continuation of rolling programmes. It incorporates expenditure slippage from the 2020/21 programme as detailed in the 2020/21 quarter 3 capital monitoring report.

**Table 3 – General Fund Mainstream Programme 2021-25**

	Budget 2021/22 £'000	Indicative Budget 2022/23 £'000	Indicative Budget 2023/24 £'000	Indicative Budget 2024/25 £'000	Total Budget (All years) £'000
<b>Approved Expenditure</b>					
<b>Ad Hoc Schemes:</b>					
Invest to Save-Flexible Use of Capital Receipts	4,430	-	-	-	4,430
Capital Investment in Street Lighting [ENV]	269	-	-	-	269
Carnwath Road [ECD]	1,870	-	-	-	1,870
Other Highways Capital Schemes [ENV]	17	-	-	-	17
North End Road - Good Growth Fund [ECD]	610	-	-	-	610
HRA Watermeadow adjustment [ECD]	109	-	-	-	109
Hammersmith Town Hall Refurbishment* [ECD]	-	1,300	-	-	1,300
Hammersmith Town Hall Fit Out* [ECD]	7,256	2,725	-	-	9,981
Schools Regeneration Programme [ECD]	89	-	-	-	89
Farm Lane/Mund Street [ECD]	2,004	-	-	-	2,004
Investment in Affordable Housing-Lillie Road Site [ECD]	1,727	-	-	-	1,727
Education City regeneration- Youth Facility [ECD]	875	2,625	-	-	3,500
Planned Maintenance/DDA Programme [ECD]	5,268	2,400	2,400	2,400	12,468
Electric Vehicles [ENV]	549	-	-	-	549
Footways and Carriageways [ENV]	2,030	2,030	2,030	2,030	8,120
Column Replacement [ENV]	346	346	346	346	1,384
<b>Total Mainstream Programmes</b>	<b>27,449</b>	<b>11,426</b>	<b>4,776</b>	<b>4,776</b>	<b>48,427</b>
<b>Financing</b>					
Capital Receipts	12,706	-	-	-	12,706
Increase/(Decrease) in Borrowing	14,743	11,426	4,776	4,776	35,721
<b>Total Financing</b>	<b>27,449</b>	<b>11,426</b>	<b>4,776</b>	<b>4,776</b>	<b>48,427</b>

\*Hammersmith Town Hall Refurbishment figure contains only mainstream element of funding (£11.3m), the remaining approved budget is expected to be funded from CIL which is not included in the mainstream programme.

7. The mainstream programme presented in Table 3 does not include self-financing schemes (where the net General Fund revenue borrowing costs are nil). Appendix 3 details the self-financing schemes and their borrowing requirement. Such self-financing borrowing is forecast to increase by £74m over the next 4 years and mainly relates to the Civic Campus development. The full financial implications of the scheme have been reported to Full Council in January 2019 as amended by subsequent decision reports of Full Council report in January 2020 and Cabinet in July 2020. Detailed programme management and officer and member governance arrangements are in place to ensure that this programme is delivered to time and budget. It is essential that Officers and Members understand the key financial assumptions and risks associated with the self-financing schemes and that they are subject to regular monitoring and scrutiny.
8. The Grade II\* Listed 134-year-old Hammersmith Bridge has been closed to all traffic since 13 August 2020. Previously it was closed on 10 April 2019 to motor vehicles. These actions were taken because there was a high risk of catastrophic failure which occurred because of decades of unchecked corrosion in the suspension structure which stretched back to the 1950s. On 9 September 2020 the Secretary of State for Transport announced that the Government would “effectively take over this project”.

The Government's Hammersmith Bridge Taskforce has been meeting since 16 September 2020. It is yet to bring forward any funded proposals for the full restoration of Hammersmith Bridge and has taken no action on the letting of contracts that would have seen the next stage of stabilisation works completed by the summer of 2021. A draft business case for full restoration of the bridge has been developed by TfL, following close working with the London Borough of Hammersmith and Fulham. The Council has also commissioned Foster + Partners and COWI to develop proposals. The Secretary of State has agreed that his officials and legal colleagues will be made available to work closely to develop the final business case which will set out all the elements needed for successful project delivery, including legislation, procurement approach, governance arrangements, affordability, funding profile and contributions, and individuals' responsibilities. By the end of 2021, The Council will have spent a total of £8.6m in identifying structural failures, developing engineering solutions, and maintaining the safety of the suspension bridge. The capital programme will be updated in accordance with the decisions made regarding the bridge.

9. This level of spending on the maintenance and repair of the bridge is unprecedented for a London council. To put it into context, the Royal Borough of Kensington and Chelsea contributed £2.6m towards the repair of Albert Bridge and the London Borough of Wandsworth is spending just £6m for the full repair of Wandsworth Bridge. Figures published by the Ministry of Housing, Communities and Local Governments show that only £100m has been spent in total by London boroughs on road and river bridges since 2010—equivalent to less than £400,000 per year for each borough. The vast majority of that was funded by Transport for London (TfL), under the auspices of the Mayor. TfL and government have traditionally paid for the majority of structural work for London's bridges. The Council therefore expects the Government to either fund the remainder of the repair cost or to allow a private financing option. Further financial demands on the council towards the repair of the bridge would result in higher council tax, which the administration does not support and will resist.
10. Covid-19 has had a significant impact on the current and future funding of various transport schemes which are mainly financed by TfL grants. There is uncertainty over the level and timing of future funding and as a result of this, the Council's transport schemes have been scaled down. TfL are expected to run a revised bidding process and schemes will be added to the programme when the funding has been confirmed.
11. The Government's Flexible Use of Capital Receipts provisions allow the Council to use available General Fund capital receipts to fund Invest to Save schemes. This comes at an estimated revenue cost of £60,000 per annum per £1m capitalised, as there is a lost opportunity cost of applying these to other capital schemes funded through borrowing. However, this use enables the Council to maintain reserves which would contribute towards future financial resilience. It is also proposed that such funding be made available to support potential match funding opportunities. In order to bid for external funding, the council is sometimes required to confirm the availability of match-funding. This pot will provide headroom for such bids to be made and maximise the resources available to the Council. The final decision on the use of this flexibility is delegated to the Director of Finance, in consultation with the Cabinet Member for Finance and Commercial Services. The current programme provides for use of £4.4m of capital receipts for these purposes.

12. The current General Fund capital receipts forecast contained in this report assumes no new receipts for financial years 2022/23 to 2024/25. Should capital receipts be identified, they will be added to the programme as an additional funding source available and will reduce current forecast Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP).
13. General Fund debt is measured by the Capital Finance Requirement (CFR). The Council is required to make an annual provision from revenue, known as the Minimum Revenue Provision (MRP), which set-asides resource to repay debt and in so doing reduces the CFR. The CFR and MRP are explained in more detail in Appendix 3 and the Council's 2021/22 MRP policy is set out in Appendix 6.
14. Headline General Fund borrowing (excluding self-financing schemes) is forecast to increase by £35.7m over the next four years. This will add a revenue budget pressure, relating to the borrowing costs (MRP plus interest), of £2.1m per annum by the end of 2024/25.
15. The forecast for the headline General Fund CFR is shown in Table 4 below. The General Fund headline CFR excludes self-financing schemes detailed in Appendix 3.

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

<b>GENERAL FUND CFR ANALYSIS</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</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>114.08</b>	<b>128.66</b>	<b>141.79</b>	<b>151.56</b>	<b>154.01</b>
Revenue Repayment of Debt (MRP)	(1.07)	(1.61)	(1.65)	(2.33)	(2.42)
Mainstream Programme (Surplus)/Shortfall	15.65	14.74	11.43	4.78	4.78
<b>Closing Capital Finance Requirement (CFR)</b>	<b>128.66</b>	<b>141.79</b>	<b>151.56</b>	<b>154.01</b>	<b>156.36</b>

16. The forecast General Fund Headline CFR at the end of 2021/22 is £141.79m and is expected to increase to £156.36m by the end of 2024/25. The movements in the headline GF CFR are detailed in Table 3.
17. 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.

## **THE HOUSING CAPITAL PROGRAMME**

18. The overall Housing Capital Programme expenditure and resource forecast is summarised in Table 5, below. Key areas of spend include the approved Asset Management Compliance Strategy and Capital Programme, the Building Homes and Communities Strategy and other Housing schemes. The detailed programme is included at Appendix 1.



**Table 5 – Housing Expenditure and Resource Forecast 2021-25**

<b>Housing Programme - Resource Summary</b>	Indicative Future Years			
	<b>2021/22 Budget £'000</b>	<b>2022/23 Budget £'000</b>	<b>2023/24 Budget £'000</b>	<b>2024/25 Budget £'000</b>
<b>Approved Expenditure</b>				
HRA Asset Management and Compliance Programme	53,570	33,689	27,023	28,015
Building Homes and Communities Strategy	13,511	18,883	36,366	4,554
Other HRA Capital Schemes	7,163	13,726	11,145	-
<b>Total Housing Programme</b>	<b>74,244</b>	<b>66,298</b>	<b>74,534</b>	<b>32,569</b>
<b>Available and Approved Resource</b>				
Capital Receipts - Unrestricted	3,172	3,280	3,031	10,948
Capital Receipts - RTB (141)	2,708	7,762	3,723	1,422
Capital Receipts - GF	109	-	-	-
Major Repairs Reserve (MRR)	16,245	16,651	17,067	17,067
Contributions Developers (S106)	3,985	9,103	7,422	-
Contributions from leaseholders	5,380	3,791	1,402	-
Capital Grants and Contributions from GLA Bodies	7	392	-	2,100
Borrowing	42,638	25,319	41,889	1,032
<b>Total Funding</b>	<b>74,244</b>	<b>66,298</b>	<b>74,534</b>	<b>32,569</b>

*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.*

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

**Table 6 – Housing CFR Forecast 2021-25**

<b>HRA CFR Forecast</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>
Closing Forecast HRA CFR	228.67	271.31	296.63	338.52	329.95

20. The Housing Revenue Account CFR is forecast to be £271.31m by the end of 2021/22 and £329.95m by 2024/25. The impact of an increase in HRA CFR on HRA revenue budgets is regularly assessed in the HRA Business Plan and is reflected in the Housing Revenue Account budget 2021/22 which is due to go to the Cabinet in February 2021. Borrowing costs affecting HRA revenue budgets are sensitive to interest rates and capitalisation of borrowing costs where relevant.

21. The Building Homes and Communities Strategy included in the current capital programme includes several schemes that are at an early stage of development. As further phases are brought forward and approved, subject to agreement of the business case and confirmation of viability, significant additional borrowing will potentially be incurred by the Council. The capital programme will be updated as and

when further phases are approved and sufficient headroom will need to be allowed for to meet the revenue costs within the HRA business plan.

22. The table below shows the projected expenditure, financing and borrowing required for the proposed new development schemes over the next four years. The amounts shown in the approved columns are reported in the Capital Programme. The amounts that are shown as 'indicative further approvals' are derived from the individual preliminary scheme viability models and represent the balance of expenditure for the schemes. The amounts shown as 'financing' in the table relate to grants, CIL, RTB receipts, S106 and income from anticipated sales of completed properties. The schemes which are to be delivered on a partnership basis are not included in the below attached summary.

**Table 7 – Building Homes and Communities Strategy pipeline proposals**

<b>Development of new homes expenditure to 2024/25</b>	<b>Approved £000</b>	<b>Indicative Further Approvals £000</b>	<b>Total £000</b>
<b>Scheme</b>			
Barclay Close	-	4,784	4,784
Becklow Gardens	-	8,031	8,031
Commonwealth Avenue	-	14,539	14,539
Hartopp & Lannoy	4,491	62,955	67,446
Old Laundry Yard	1,233	25,575	26,808
White City	2,835	51,125	53,960
Schools Regeneration Programme	1,914	94,923	96,837
Farm Lane	1,270	10,283	11,553
Lillie Road	1,802	17,200	19,002
Mund Street	3,234	32,564	35,798
Education City	77,804	-	77,804
<b>Total Development Programme</b>	<b>94,583</b>	<b>321,979</b>	<b>416,562</b>
<b>Financed by:</b>			
Capital receipts (including RTB), grants, S106	15,089	118,061	133,150
Borrowing	79,494	203,918	283,412
<b>Total Financing</b>	<b>94,583</b>	<b>321,979</b>	<b>416,562</b>

23. The majority of the indicative further approvals of £322m relate to potential expenditure in 2023/24 and 2024/25. The expected total expenditure (approved and indicative) profile is expected to be as follows:

	<b>£m</b>
2020/21	14
2021/22	23
2022/23	83
2023/24	190
2024/25	106

24. The above schemes are planned to deliver 1,069 units as follows:

Total New Homes	
Affordable Rent	422
Shared Ownership	123
Rent to Buy	102
Market Sale	421
Market Rent	1
<b>Total</b>	<b>1,069</b>

25. £16.8m of the above approved schemes are at an early development stage. 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.

26. 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 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.

27. 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.

28. The proposed HRA programme 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.

## EQUALITY IMPLICATIONS

<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.

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

29. 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.

## **VAT IMPLICATIONS**

30. 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 total VAT reclaimed in any one year. This threshold is known as the Council's Partial Exemption Limit. 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 per year of breach.

31. 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:

- 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.

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

## **RISK MANAGEMENT**

33. 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. Furthermore, are the longer-term impacts of the Covid19 pandemic on the economy coupled with the end of the EU Transition and cost uncertainty should a trade agreement not be reached by HM Government. There is also the prospect of additional years of austerity due to the severe impact on the national economy. 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 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 to the Corporate level.

34. Implications completed by: Michael Sloniowski, Risk Manager Tel: 020 8753 2587.

## **IMPLICATIONS FOR BUSINESS**

35. 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.

36. 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.

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

## **LIST OF APPENDICES:**

Appendix 1 – Council Capital Programme by Service Area

Appendix 2 – Anticipated General Fund capital receipts

Appendix 3 – The Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP)

Appendix 4 – Capital Strategy 2021/22

Appendix 5 – Flexible Use of Capital Receipts Guidance and Proposed Application

Appendix 6 – Minimum Revenue Provision (MRP) Statement 2021/22

## APPENDIX 1 – Detailed Analysis by Service

### Children's Services

#### Indicative Future Years Analysis

	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	Total Budget (All years) £'000
<b>Scheme Expenditure Summary</b>					
School Maintenance Programme	2,090	1,800	1,076	-	4,966
<b>Total Expenditure</b>	<b>2,090</b>	<b>1,800</b>	<b>1,076</b>	<b>-</b>	<b>4,966</b>
<b>Capital Financing Summary</b>					
<b>Specific/External or Other Financing</b>					
Capital Grants from Central Government	2,090	1,800	1,076	-	4,966
<b>Sub-total - Specific or Other Financing</b>	<b>2,090</b>	<b>1,800</b>	<b>1,076</b>	<b>-</b>	<b>4,966</b>
<b>Total Capital Financing</b>	<b>2,090</b>	<b>1,800</b>	<b>1,076</b>	<b>-</b>	<b>4,966</b>

### Social Care Services

#### Indicative Future Years Analysis

	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	Total Budget (All years) £'000
<b>Scheme Expenditure Summary</b>					
Extra Care New Build project (Adults' Personal Social Services Grant)	957	-	-	-	957
<b>Total Expenditure</b>	<b>957</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>957</b>
<b>Capital Financing Summary</b>					
<b>Specific/External or Other Financing</b>					
Capital Grants from Central Government	957	-	-	-	957
<b>Sub-total - Specific or Other Financing</b>	<b>957</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>957</b>
<b>Total Capital Financing</b>	<b>957</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>957</b>

## APPENDIX 1 – Detailed Analysis by Service

### Finance Department

#### Indicative Future Years Analysis

	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	Total Budget (All years) £'000
<b>Scheme Expenditure Summary</b>					
Invest to Save - Flexible Use of Capital Receipts	4,430	-	-	-	4,430
<b>Total Expenditure</b>	<b>4,430</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,430</b>
<b>Capital Financing Summary</b>					
<b>Mainstream Financing (Internal Council Resource)</b>					
Capital Receipts	4,430	-	-	-	4,430
<b>Sub-total - Mainstream Funding</b>	<b>4,430</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,430</b>
<b>Total Capital Financing</b>	<b>4,430</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,430</b>

### Environment Department

#### Indicative Future Years Analysis

	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	Total Budget (All years) £'000
<b>Scheme Expenditure Summary</b>					
Footways and Carriageways	2,030	2,030	2,030	2,030	8,120
Column Replacement	346	346	346	346	1,384
Other Highways Capital Schemes	17	-	-	-	17
Capital Investment in Street Lighting	269	-	-	-	269
Electric Vehicles	594	-	-	-	594
Leisure Centre Capital Investment	392	140	-	-	532
<b>Total Expenditure</b>	<b>3,648</b>	<b>2,516</b>	<b>2,376</b>	<b>2,376</b>	<b>10,916</b>
<b>Capital Financing Summary</b>					
<b>Specific/External or Other Financing</b>					
Grants and Contributions from Private Developers (includes S106/S278)	392	140	-	-	532
<b>Sub-total - Specific or Other Financing</b>	<b>392</b>	<b>140</b>	<b>-</b>	<b>-</b>	<b>532</b>
<b>Mainstream Financing (Internal Council Resource)</b>					
Capital Receipts	1,056	-	-	-	1,056
Use of Reserves	45	-	-	-	45
<b>Sub-total - Mainstream Funding</b>	<b>1,101</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,101</b>
<b>Borrowing</b>	<b>2,155</b>	<b>2,376</b>	<b>2,376</b>	<b>2,376</b>	<b>9,283</b>
<b>Total Capital Financing</b>	<b>3,648</b>	<b>2,516</b>	<b>2,376</b>	<b>2,376</b>	<b>10,916</b>

## APPENDIX 1 – Detailed Analysis by Service

### Economy Department General Fund Managed Schemes

### Indicative Future Years Analysis

2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	Total Budget (All years)
£'000	£'000	£'000	£'000	£'000

### Scheme Expenditure Summary

#### Civic Campus

Hammersmith Town Hall Refurbishment *	18,708	6,846	-	-	25,554
HTH Refurbishment -Fit Out	7,256	2,725	-	-	9,981
Acquisition of commercial units	17,793	33,603	1,494	-	52,890
Equity Loan (Civic Campus)	15,839	5,554	-	-	21,393
<b>Subtotal Civic Campus</b>	<b>59,596</b>	<b>48,728</b>	<b>1,494</b>	<b>-</b>	<b>109,818</b>

#### Building Homes and Communities Strategy (GF sites)

Education City -GF element	2,625	2,625	-	-	5,250
Schools Regeneration Programme	89	-	-	-	89
Farm Lane	1,145	-	-	-	1,145
Mund Street	3,109	-	-	-	3,109
Investment in Affordable Housing-Lillie Road Site	1,727	-	-	-	1,727
<b>Subtotal Building Homes and Communities Strategy (GF sites)</b>	<b>8,695</b>	<b>2,625</b>	<b>-</b>	<b>-</b>	<b>11,320</b>

#### Other GF Capital Schemes managed by the Economy

Sands End Community Centre	84	-	-	-	84
Planned Maintenance/DDA Programme	5,268	2,400	2,400	2,400	12,468
Carnwath Road	1,870	-	-	-	1,870
North End Road - Business Low Emissions Neighbourhood	125	-	-	-	125
North End Road - Good Growth Fund	1,110	-	-	-	1,110
<b>Subtotal Other GF Capital Schemes managed by the Economy</b>	<b>8,457</b>	<b>2,400</b>	<b>2,400</b>	<b>2,400</b>	<b>15,657</b>
<b>Total Expenditure</b>	<b>76,748</b>	<b>53,753</b>	<b>3,894</b>	<b>2,400</b>	<b>136,795</b>

### Capital Financing Summary

#### Specific/External or Other Financing

Grants and Contributions from Private Developers (includes S106)	4,084	-	-	-	4,084
Community Infrastructure Levy (CIL)	18,708	5,546	-	-	24,254
Capital Grants and Contributions from GLA Bodies	625	-	-	-	625
<b>Sub-total - Specific or Other Financing</b>	<b>23,417</b>	<b>5,546</b>	<b>-</b>	<b>-</b>	<b>28,963</b>

#### Mainstream Financing (Internal Council Resource)

Capital Receipts (GF)	7,111	-	-	-	7,111
<b>Sub-total - Mainstream Funding</b>	<b>7,111</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,111</b>

GF Borrowing	46,220	48,207	3,894	2,400	100,721
<b>Total Borrowing</b>	<b>46,220</b>	<b>48,207</b>	<b>3,894</b>	<b>2,400</b>	<b>100,721</b>

<b>Total Capital Financing</b>	<b>76,748</b>	<b>53,753</b>	<b>3,894</b>	<b>2,400</b>	<b>136,795</b>
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## APPENDIX 1 – Detailed Analysis by Service /cont.

### Economy Department- HRA Capital Programme

### Indicative Future Years Analysis

2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	Total Budget (All years)
£'000	£'000	£'000	£'000	£'000

### Scheme Expenditure Summary

#### HRA Asset Management and Compliance Programme

Pre Agreed Works	13,775	1,038	215		15,028
Fire Safety Compliance Programme	13,194	4,688	3,000		20,882
Fire Safety Complex Schemes	2,433	7,962	17,474		27,869
Pre Agreed Lift Scheme	2,679	3,230	-		5,909
Pre Agreed Boiler Scheme	1,400	1,400	1,503		4,303
Safety Works - Electrical	6,475	4,353	302		11,130
Safety Works	2,615	2,516	-		5,131
Void Works	2,249	2,000	1,500		5,749
Neighbourhood, parking & garage improvements	2,469	188	288		2,945
Surveying and fees	-	-	2,741		2,741
Capitalised salaries	2,952	2,918	-		5,870
Capitalised repairs	3,329	3,396	-		6,725
Unallocated budget - Priority schemes to be confirmed	-	-	-	28,015	28,015
<b>Subtotal HRA Asset Management and Compliance Programme</b>	<b>53,570</b>	<b>33,689</b>	<b>27,023</b>	<b>28,015</b>	<b>142,297</b>

#### Building Homes and Communities Strategy (HRA sites)

Homes & Communities Strategy	1,384	-	-	-	1,384
White City Estate Regeneration	2,059	-	-	-	2,059
Old Laundry Yard	1,076	-	-	-	1,076
Education City- HRA element	8,992	18,883	36,366	4,554	68,795
<b>Subtotal Building Homes and Communities Strategy (HRA sites)</b>	<b>13,511</b>	<b>18,883</b>	<b>36,366</b>	<b>4,554</b>	<b>73,314</b>

#### Other HRA Capital Schemes

Housing Development Project	306	56	-	-	362
Stanhope Joint Venture	5,985	13,670	11,145	-	30,800
Affordable Housing Delivery Framework	428	-	-	-	428
Hartopp & Lannoy	415	-	-	-	415
Nourish Project (Good Growth Fund)	29	-	-	-	29
<b>Subtotal Other HRA Capital Schemes</b>	<b>7,163</b>	<b>13,726</b>	<b>11,145</b>	<b>-</b>	<b>32,034</b>
<b>Total Expenditure</b>	<b>74,244</b>	<b>66,298</b>	<b>74,534</b>	<b>32,569</b>	<b>247,645</b>

## APPENDIX 1 – Detailed Analysis by Service /cont.

### Economy Department- HRA Capital Programme

### Indicative Future Years Analysis

2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	Total Budget (All years) £'000
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### Capital Financing Summary

<b>Specific/External or Other Financing</b>					
Contributions from leaseholders	5,380	3,791	1,402	-	10,573
Grants and Contributions from Private Developers (includes S106)	3,985	9,103	7,422	-	20,510
Capital Grants and Contributions from GLA Bodies	7	392	-	2,100	2,499
<b>Sub-total - Specific or Other Financing</b>	<b>9,372</b>	<b>13,286</b>	<b>8,824</b>	<b>2,100</b>	<b>33,582</b>
<b>Mainstream Financing (Internal Council Resource)</b>					
Capital Receipts (HRA)	5,880	11,042	6,754	12,370	36,046
Major Repairs Reserve (MRR) / Major Repairs Allowance	16,245	16,651	17,067	17,067	67,030
Capital Receipts (GF)	109				109
<b>Sub-total - Mainstream Funding</b>	<b>22,234</b>	<b>27,693</b>	<b>23,821</b>	<b>29,437</b>	<b>103,185</b>
Borrowing(HRA)	42,638	25,319	41,889	1,032	110,878
<b>Total Capital Financing</b>	<b>74,244</b>	<b>66,298</b>	<b>74,534</b>	<b>32,569</b>	<b>247,645</b>

## APPENDIX 2 – Anticipated General Fund capital receipts

Financial Year	Forecast future receipts £'000s
<b>2021/22</b>	
Carry forward receipts from 2020/21	800
Forecast capital receipts for the year	12,402
Cost of Sales (4%)	(496)
<b>Total 2021/22</b>	<b>12,706</b>
<b>2022/23</b>	
Forecast capital receipts for the year	-
Cost of Sales (4%)	-
<b>Total 2022/23</b>	<b>-</b>
<b>2023/24</b>	
Forecast capital receipts for the year	-
<b>Total 2023/24</b>	<b>-</b>
<b>2024/25</b>	
Forecast capital receipts for the year	-
<b>Total 2024/25</b>	<b>-</b>
<b>Total All Years</b>	<b>12,706</b>

## APPENDIX 3 - THE CAPITAL FINANCING REQUIREMENT (CFR) AND MINIMUM REVENUE PROVISION

1. 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.
2. 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.
3. 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.
4. The Table 1 below shows the Council's forecast total General Fund CFR for the period 2020/21-2024/25:

**Table 1- Forecast General Fund CFR 2020/21-2024/25**

<b>GENERAL FUND CFR ANALYSIS</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</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>114.08</b>	<b>128.66</b>	<b>141.79</b>	<b>151.56</b>	<b>154.01</b>
Revenue Repayment of Debt (MRP)	(1.07)	(1.61)	(1.65)	(2.33)	(2.42)
Mainstream Programme (Surplus)/Shortfall	15.65	14.74	11.43	4.78	4.78
<b>Closing Capital Finance Requirement (CFR)</b>	<b>128.66</b>	<b>141.79</b>	<b>151.56</b>	<b>154.01</b>	<b>156.36</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>11.84</b>	<b>26.28</b>	<b>59.69</b>	<b>98.63</b>	<b>72.61</b>
Equity loan repayment	-	-	-	(25.95)	-
Revenue Repayment of Debt (MRP)	(0.23)	(0.22)	(0.22)	(1.56)	(1.58)
In Year Borrowing	14.67	33.63	39.16	1.49	-
<b>Closing Capital Finance</b>	<b>26.28</b>	<b>59.69</b>	<b>98.63</b>	<b>72.61</b>	<b>71.04</b>
Finance leases/PFI/ Deferred costs of	8.49	7.79	7.09	6.39	5.69
<b>Total Closing GF CFR</b>	<b>163.42</b>	<b>209.26</b>	<b>257.28</b>	<b>233.01</b>	<b>233.09</b>

5. The current forecast for the General Fund Headline CFR (excluding self-financing schemes and loans) is £141.79m at the end of 2021/22 and £156.36m by the end of 2024/25. The increase in General Fund Headline CFR puts additional pressures on revenue budgets.

6. The headline CFR figures exclude:

- £5.6m Schools Windows Replacement Programme
- £63m investment in acquisition of Civic Campus commercial units.
- £32m equity loan to the Civic Campus programme

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 the charging of a state-aid compliant interest rate, loan repayment and commercial income.

7. 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 to £59.69m in 2021/22 and to £71.04m by the end of 2024/25. Table 2 details the CFR movements regarding these schemes:

**Table 2 - Self -financing schemes and loans CFR movements 2021/22-2024/25**

	Indicative Budget 2021/22 £'000	Indicative Budget 2022/23 £'000	Indicative Budget 2023/24 £'000	Indicative Budget 2024/25 £'000	Total Budget (All years) £'000
<b>Approved Expenditure</b>					
<b>Ad Hoc Schemes:</b>					
Acquisition of commercial units (Civic Campus) [ECD]	17,793	33,603	1,494	-	52,890
Equity Loan (Civic Campus) [ECD]	15,839	5,554	-	-	21,393
<b>Total Mainstream Programmes</b>	<b>33,632</b>	<b>39,157</b>	<b>1,494</b>	<b>-</b>	<b>74,283</b>
<b>Financing</b>					
Increase/(Decrease) in Borrowing	33,632	39,157	1,494	-	74,283
<b>Total Financing</b>	<b>33,632</b>	<b>39,157</b>	<b>1,494</b>	<b>-</b>	<b>74,283</b>

8. The previously approved budget for Education City is in the Council's general fund capital programme. However, as per the Cabinet report which reviewed the scheme in November 2020, as the residential part of the scheme is now all affordable housing, the cost of the residential development will be reported in the HRA capital programme. This includes the Adult Education and Nursery which are to be built underneath the residential buildings. The General Fund programme will still contain £5.25m grant to Ark for development of Youth Facility, funded from borrowing (£3.5m) and S106 (£1.75m).

9. The timing of the actual appropriation (which transfers the land from the General Fund to the HRA) is to be confirmed but is expected to be prior to build completion and will be reported through the Council's quarterly capital budget monitoring process. Such an appropriation would trigger a transfer of debt from the General Fund to the HRA equal to an appropriate valuation of the site. The legal and financial details of this will be set out in a future decision. For monitoring purposes, current capital programme assumes the split between General Fund and HRA, as per Cabinet recommendation. However, should the

scheme be cancelled before the completion of HRA affordable homes, there is a risk that costs associated with the termination could impact GF revenue budgets.

10. 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.
11. 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 3.34%).

## **APPENDIX 4 – CAPITAL STRATEGY 2021/22**

1. The Prudential Code<sup>3</sup> obliges local authorities to approve a capital strategy.
2. The Hammersmith & 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 and provide regeneration opportunities within the borough.

### **Strategic Context**

5. The Council's Business Plan 2018-22 set out the Council's main priorities. These are underpinned by an underlying target date of 2030 for the whole of the Borough of Hammersmith & Fulham to be carbon neutral. From a capital investment perspective, the values 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.
- 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
- 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 workspace 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 Asset Management and Compliance Programme

#### ***Taking pride in Hammersmith & Fulham***

- Hammersmith and Fulham is aiming to be the greenest Borough in Britain including investment in green fleet
- Continuing to invest in CCTV so that residents feel secure in their homes and on the streets

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<sup>3</sup> The CIPFA Prudential Code for Capital Finance in Local Authorities (2017) – by regulation local authorities are required to have 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. There are also plans to develop more physical education, sport and youth facilities
- Reintroduce convalescent homes and develop extra care homes

### ***Being ruthlessly financially efficient***

- Hammersmith & Fulham will continue to be the best value council in the country
- The flexible use of capital receipts allows investment in schemes that will deliver service transformation and savings to the Council
- Capital investment is an enabler of more efficient working and can enhance future financial resilience through growing income and other resources.

### ***Rising to the challenge of the climate and ecological emergency***

In July 2020, the Cabinet approved new transport policies, traffic control measures and initiatives that support H&F to be one of the greenest councils in the UK and carbon neutral by 2030 The recommended measures include:

- The use of transport controls for the reduction in carbon emissions, the improvement of air quality and the improvement of public safety through low traffic neighbourhoods
- The development of a programme of healthier streets in conjunction with the schools
- Consultation on the introduction of Emission Based Parking Controls and diesel surcharging and to decide upon, and implement, the most appropriate option once the consultation is concluded.

6. The Council's capital programme supports the delivery of the above-mentioned priorities. It is underpinned by two further key strategies, the Housing Asset Management Compliance Strategy and Capital Programme and the Building Homes and Communities Strategy.
7. The Covid-19 pandemic has resulted in unprecedented risk and uncertainty regarding local authority funding and the wider economy. The potential for an economic downturn, may affect the expected costs, market and viability of schemes whilst funding from partners, such as Transport for London, will be under pressure. As part of the capital strategy the impact of the pandemic will be kept under review and mitigating actions taken as necessary.
8. Learning the lessons from working from home during the pandemic, and in preparation for the workforces return to the new Civic Campus in 2022, a review of Council accommodation is being undertaken. This might result in consolidation of office accommodation, the identification of assets for alternative use/ redevelopment or disposal and review of the rolling planned maintenance programme. Any plans will be incorporated into the capital programme as the relevant business cases are prepared and the subject of separate decision reports.



9. The capital 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. Where budgets have been approved for these schemes, these are included in the Capital Programme.

## **MAJOR PROJECTS**

### **Civic Campus Programme**

10. In January 2019, the Full Council approved plans for major regeneration of the King Street area which will also include redevelopment of Hammersmith Town Hall, creating a Civic Campus. This involves entering into a joint venture with not-for-profit housing provider, A2 Dominion, for the delivery of the scheme, conditional land sale agreement from the Council to the JV, and the associated funding for the Civic Campus. Planning consent for the project has been achieved and subsequent detailed design development concluded.
- The development will create a new civic and community campus, including new fit-for-purpose, inclusively designed office accommodation for the Council and act as a catalyst for change, with the inclusion of open public realm and shared spaces within the Town Hall used by the neighbourhood as well as the greater community. The Civic Campus Programme will: provide urgent intervention in the failing existing Town Hall office buildings, refurbishing and restoring the heritage elements of the Town Hall, whilst creating an opportunity for improved ways of working in order to be ruthlessly financially efficient and address the financial challenges faced by the Council;
  - contribute to the borough's housing ambitions by increasing the supply of good quality, genuinely affordable housing for local residents to meet local housing need;
  - create pride in H&F by transforming King Street into a new civic and cultural destination; improving the public realm and Grade II listed Town Hall, providing new local amenities for residents, including a new four screen cinema, café/restaurant, retail and public event spaces; and
  - promote economic growth in line with the H&F Industrial Strategy, Economic Growth for Everyone, through the creation of new retail and commercial space, including affordable space for start-up businesses to combat High Street decline.
11. The budget for the scheme is included in the Council's Capital Programme. The demolition of the former Town Hall Extension is now complete and a contract has now been awarded for the refurbishment and fit out works to the Town Hall. A capital budget of £64m has also been approved for the acquisition of commercial units that will be constructed by the King Street Joint Venture as part of the Civic Campus Programme. For each of the buildings, the Council will then secure lessees paying rent to the Council, covering the cost of the acquisition over 45 years. Negotiations have already begun with potential occupiers. Investment in these units can allow the Council to benefit from the regeneration opportunity that they present.

### **Education City**

12. In the absence of a national programme for capital investment in existing schools, the Council and Absolute Return for Kids (ARK) have been working together to plan and co-fund a new Education City, to create a new mixed used education hub on the site of the ARK Swift Primary School including:
- A high-quality primary school
  - New and expanded nursery for 75 children
  - New adult education facilities
  - New youth facilities
  - An office for educational charities
  - 132 new homes, 100% of which will be affordable housing
13. The funding for the school will be provided by ARK. The Council will fund the residential, the nursery and adult education facilities and will provide a capital grant for the provision of the youth facility. The Council budgets for the scheme were updated by Cabinet on 2 November 2020 and have been included in the Capital Programme.
14. The Council are also considering a potential loan of up to £35 million to ARK for the construction of the office block. Such a loan would be subject to receipt of satisfactory legal, financial and state aid advice, and require approval by Full Council. If approved, it would add to the Council's programme of self-financing borrowing.

### **Housing Asset Management Compliance Strategy and Capital Programme**

15. The Council is the responsible landlord for over 17,000 homes across Hammersmith and Fulham. Housing Asset Management and Compliance Strategy was agreed by Cabinet in December 2018 and the Capital Programme agreed in July 2019. The programme prioritises work to deliver Fire Safety Plus, other health and safety compliance works and other pre-agreed works to ensure the safety and welfare of all residents through investment decisions about the housing stock.
16. Included within the Housing Asset Management Compliance Strategy and Capital Programme was the demolition of **Hartopp and Lannoy Points**. This was necessary to address the serious health and safety concerns following detailed investigatory work and consultation with residents. Demolition works are in progress and site is due to be cleared in Spring 2021. Budget provision is included within the capital programme for feasibility work on delivering between 150 and 175 new homes on the cleared site.

### **Building Homes and Communities Strategy**

17. The Building Homes and Communities Strategy sets out a self-funding programme of investment in homes and community assets where the Council will utilise its land and property assets to meet key administration priorities to deliver affordable housing and support the Council's financial challenge it aims to:
- build new, genuinely affordable housing which will help maintain the borough's vibrant social mix
  - support the Council's Business Plan priority of 'Building Shared Prosperity'
  - renew key community assets, including schools and leisure centres
  - generate income to reinvest in frontline services
18. The approach would see the Council directly deliver housing from Council-owned land enabling the Council to deliver a substantial number of private and affordable homes

which would not otherwise be delivered by the market. It would also allow the Council to benefit directly from the revenue generated from market and social rent housing as well as accruing long-term assets.

19. Recent schemes that have been approved within the strategy include sites at **Farm Lane** and **Mund Street**, as well as early design and resident consultation regarding **White City**, **Old Laundry Yard** and **Lille Road**.

### **Schools Renewal Programme**

20. Now also included within the Building Homes and Communities Strategy is the Council's commitment to a Schools Renewal programme, agreed by Cabinet in March 2019. The programme is intended to:
- to re-provide modern, fit for purpose schools to support the borough's ambition to give children the best start in life
  - to support the funding of education in Hammersmith & Fulham including the future repair and planned maintenance requirements across the school community
  - to fund school development through the creation of badly needed affordable housing which will help maintain the borough's vibrant social mix.
21. The work is currently underway to assess viability, produce a detailed business case and proceed to planning application stage as appropriate.

### **Other Housing projects**

22. In addition to the Housing Asset Management Compliance Strategy and Building Homes and Communities Strategy the Council is progressing a number of housing projects in relation to the provision of affordable housing these include the following schemes.
23. Affordable Housing at **Spring Vale Estate**: A contractor is currently on site and is expected to complete the development of ten affordable homes on the Estate by Summer 2021.
24. **Affordable Housing Delivery Framework**: This framework is made up of Housing Associations who can offer to acquire and build additional affordable housing on former Council owned sites. In order to maximise affordable housing provision on these sites the Council can elect to use its right to buy receipts as passported grant funding to the developing housing associations. The current sites in progress are the former hostel at **Lavender Court**, the former housing office at **Fulham North** and **Emlyn Gardens Estate**. Emlyn Gardens is due for section completion in January 2021 and whole project completion in May 2021.
25. The redevelopment of the **Edith Summerskill House** site is being taken forward in conjunction with Peabody Housing Trust. It is expected to deliver 133 affordable homes. Demolition is complete and Peabody Housing Trust will develop the new scheme with the Council transferring the land and providing a grant towards construction costs.

### **Old Oak and Park Royal Opportunity Area**

26. 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>.

27. 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.

### **Community Infrastructure Levy (CIL)**

28. 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.

29. As of 3 December 2020, the Council holds £24.5m of Borough CIL, currently committed towards financing of Civic Campus. 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.

30. 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.

31. In August 2020 the Government launched Planning for the Future consultation on reforms to modernise and speed up the current planning system. Amongst the proposals is an introduction of new simpler national levy to replace the current system of developer contributions. Section 106 agreements and the Community Infrastructure Levy will be replaced with a new Infrastructure Levy that will be a fixed proportion of the value of the development, above a set threshold. The implications of this change, should it be taken forward, will need to be allowed for within the future capital strategy.

### **Becoming Carbon Neutral**

32. The capital strategy requires the alignment of the capital programme with the underlying target of the borough becoming carbon neutral by 2030.

33. This will require the development of a sustainable financial model that secures the necessary investment in the services the Council provides or commissions. The Council must also influence, convince, incentivise and support government and private

sector investment across local businesses and households to tackle emissions from transport and buildings outside our direct control

34. Existing investment programmes, such as in housing or transport, need to be brought into line with the carbon neutral target. A key enabler is maximising external funding opportunities. Current schemes include carrying out energy efficiency and low-carbon retrofits for low-income households in the private sector through the green homes programme, investment in a green fleet for waste collection, recycling and street cleansing services and setting aside match funding to become a social housing Decarbonisation Fund demonstrator.

### **Invest to Save Projects**

35. The Council has a number of Invest to Save projects, both in train and planned, which will deliver future revenue savings. This expenditure can be funded 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 expenditure 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 2020/21 and 2021/22 can be found in Appendix 5 of this report.

### **Health and Safety**

36. Health and Safety works have been included within the Housing Asset Management Compliance Strategy and Capital Programme, which gives priority to fire and other health and safety works in the Council's housing stock. The Council's is committed to the safety and welfare of all residents and other capital projects and budgets including the School's Maintenance and Corporate Planned Maintenance Programme include Health and Safety related works.

### **Other schemes**

37. 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 Maintenance Programme of £5m
  - 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.
38. The Council 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. The Council continues work on understanding 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.

39. 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**

40. As part of being ruthlessly financially efficient the Council has arrangement in place to ensure capital and other major projects are managed to achieve greater efficiency and improve delivery, improving the management of capital projects and introducing new reporting systems to tighten up oversight. The reforms include:

- A monthly Finance Strategic Leadership Team (SLT) is chaired by the Director of Finance. In addition to revenue budgets, S106, commercial income and audit issues, its remit includes major programmes, including large capital schemes. Programme highlight reports and gateway reviews, capital and monitoring are routinely discussed.
- Capital project management – SLT 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).
- Departments with significant capital spend have their own Capital Boards, attended by Finance
- Specific decision making, governance and oversight arrangements are in place for significant projects such as the Civic Campus (Executive and Member Oversight Boards) and the Development Board for the Building Homes and Communities Strategy.

41. Through the gateway and highlight/ exception report process for major programmes, Finance SLT (or a board reporting to Finance SLT) will:

- consider the funding and feasibility of new large schemes
- review business cases, approvals, and variations, signing off draft reports to Cabinet
- monitor process in the procurement and delivery of capital works to programme
- monitor actual spend and forecast against budgets.

42. Programme Management Office (PMO) has been set up to help people who deliver programme and projects across the Council. It will also provide the SLT with improved oversight and confidence around our major projects and programmes. The main objectives of PMO are to ensure the strategic alignment of projects and programmes, provide expert advice and support to directorates and bring all projects and programmes under one umbrella.

## **Decision making**

43. Council capital 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.

44. The capital expenditure and investment decision making process is the governance framework used by the Council when making decisions relating to the capital programme. All expenditure must be formally authorised, 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. Other relevant financial controls are:

- Any call on corporate or departmental reserves will need to be signed off first by the Director for Finance and the Chief Executive before progressing to Cabinet Members/Cabinet
- Loans to any external organisation or investments in any company cannot be made 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 Director of Finance).
- Leader's Urgency reports will only be used in exceptional circumstances and these must be cleared in advance by the Chief Executive. The Director of Finance must fully consider the financial implications. A new Cabinet Urgency Committee has also been established to ensure decisions can be made quickly where these are urgent.
- Committee services will ensure that the correct review and sign off requirements have been followed before any papers are dispatched.

45. 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.

46. Detailed monitoring is also undertaken of significant projects and reported to Finance Strategic Leadership Team and the Cabinet Member for Finance and Commercial Services.

### **Finance Strategy**

47. 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, Medium Term Financial Strategy and annual revenue budget. The revenue consequences of the programme are also allowed for within the revenue budget.

48. The Business Plan has a strong emphasis on growth and affordable housing and the use of capital to generate revenue. The Council's Building Homes and Communities Strategy, above, sets out a self-funding programme of investment in homes and community assets where the Council will utilise its land and property assets to meet key priorities to deliver affordable housing and support the Council's financial challenge. The Council is considering 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. A Development Board is in place to oversee the progress of projects or schemes within the Building Homes and Communities Strategy and manage risk.

49. Alongside the Building Homes and Communities Strategy, work has also begun to develop a more strategic approach to its role as a Corporate Landlord and Corporate Accommodation. 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. The Council is also developing options for Growth and Investment and an Investment Fund to support Council's investment in the borough to support the boroughs economic recovery from Covid-19 and generate a financial return. Options, governance and appraisal arrangements will be developed over the next financial year. 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 (2021/22)**

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 to 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:

- Resident Experience and Access Programme (REAP)- expenditure up to £4m (as approved by Cabinet in October 2020)-expected to deliver an estimated cumulative saving of £9.3m by the end of 2024/25
- Workforce Efficiency Programme- expenditure up to £2m

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 as per the requirements of the guidance.

## **APPENDIX 6 - MINIMUM REVENUE PROVISION (MRP) STATEMENT 2021/22**

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 (Ministry for Housing, Communities and Local Government) issued statutory guidance on determining the “prudent” level of MRP, to which this Council is required to have regard, in 2018. This Guidance applies for accounting periods starting on or after 1 April 2019. The MRP will, over time, reduce the CFR.
3. 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 Director of Finance. 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 and similarly will be charged once assets are operational.
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 Director of Finance 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.