London Borough of Hammersmith & Fulham

Report to: Full Council

Date: 24/02/2022

Subject: Four Year Capital Programme 2022-26 and Capital Strategy 2022/23

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

Responsible Director: Emily Hill, Director of Finance

SUMMARY

This report presents the Council's four-year Capital Programme for the period 2022 to 2026.

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 2022/23 will also be presented to Cabinet in February 2022 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 2022/23. The indicator used to reflect the underlying need of an authority to borrow for a capital purpose is the Capital Financing Requirement (CFR) which is set out within this report.

RECOMMENDATIONS

1. To approve the four-year General Fund Capital Programme budget at £187.6m for the period 2022/23-2025/26 (presented in Table 2 and Appendix 1).

2. To approve the continuation of rolling programmes for 2022/23 funded from the Council's mainstream resources. For financial modelling purposes, these programmes are assumed to continue at the same level until 2025/26:

	£m
Corporate Planned Maintenance	2.400
Footways and Carriageways	2.030
Column Replacement	0.346
Controlled Parking Zones	0.275
Total	**5.051**

3. To delegate approval of the detailed programmes for use of the rolling programmes, in recommendation 2, to the relevant SLT Director in consultation with the Director of Finance and relevant Lead Cabinet Member.

4. To approve the four-year Housing (HRA) Capital Programme at £389.6m for the period 2022/23-2025/26 as set out in Table 5 and Appendix 1.

5. To delegate authority to the Director of Finance in consultation with the Cabinet Member for Finance and Commercial Services to approve the potential use of up to £4.3m of capital receipts under the Government's Flexible Use of Capital Receipts provisions for funding of Invest to Save schemes in 2022/23 and 2023/24 (as identified in Appendix 5) and potential match-funding opportunities.

6. To approve the Capital Strategy 2022/23, as set out in Appendix 4.

7. To approve the annual Minimum Revenue Provision policy statement for 2022/23, as set out in Appendix 6.

8. To note the existing mainstream funded schemes previously approved, but now reprofiled to 2022/23 and future years as detailed in Table 3.

Wards Affected: All

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 Values	Summary of how this report aligns to the H&F Values
Being ruthlessly financially efficient	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. 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.

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 which will need comply with the Council's Contract Standing Orders and Financial Regulations.

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Background Papers Used in Preparing This Report:

None

CAPITAL PROGRAMME 2022/23-2025/26 - OVERVIEW

1. This report sets out an updated four-year capital expenditure and resource forecast and a capital programme for 2022/23 to 2025/26, as summarised in Table 1 below. A detailed analysis of specific schemes by service is included in Appendix 1.

Table 1 - Capital Programme 2022/23 to 2025/26

		Indicative Future Years Analysis			
	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total Budget (All years) £'000
CAPITAL EXPENDITURE					
Children's Services	3,748	3,579	-	-	**7,327**
Social Care	957	-	-	-	**957**
Environment Department	10,060	2,466	2,376	2,376	**17,278**
Finance & Resources Department	4,585	-	-	-	**4,585**
General Fund Schemes under the Economy Department	94,592	53,027	7,400	2,400	**157,419**
Sub-total (General Fund)	**113,942**	**59,072**	**9,776**	**4,776**	**187,566**
Economy Department-HRA Programme	77,654	104,828	115,979	91,117	**389,578**
Sub-total Economy Department (HRA)	**77,654**	**104,828**	**115,979**	**91,117**	**389,578**
Total Expenditure	**191,596**	**163,900**	**125,755**	**95,893**	**577,144**
CAPITAL FINANCING					
Specific/External Financing:					
Government/Public Body Grants	6,483	3,579	-	-	**10,062**
Grants and Contributions from Private Developers (includes S106/CIL)	7,636	7,841	9,146	3,649	**28,272**
Capital Grants/Contributions from Non-departmental public bodies	45	-	-	-	**45**
Capital Grants and Contributions from GLA Bodies	5,278	5,557	8,473	3,925	**23,233**
Leaseholder Contributions (Housing)	1,598	1,811	1,449	931	**5,789**
Sub-total - Specific Financing	**21,040**	**18,788**	**19,068**	**8,505**	**67,401**
Mainstream Financing (Internal):					
Capital Receipts - General Fund	13,911	-	-	-	**13,911**
Capital Receipts - HRA	3,156	3,331	2,894	13,428	**22,809**
Major Repairs Reserve (MRR)	16,620	17,013	17,415	17,934	**68,982**
Sub-total - Mainstream Funding	**33,687**	**20,344**	**20,309**	**31,362**	**105,702**
Borrowing-General Fund	85,568	54,232	9,776	4,776	**154,352**
Borrowing -HRA	51,301	70,536	76,602	51,250	**249,689**
Total Capital Financing	**191,596**	**163,900**	**125,755**	**95,893**	**577,144**

2. The programme for this period totals £577.1m. The gross programme for 2022/23 totals £191.6m. This comprises the General Fund (GF) Programme of £113.9m and the Housing Revenue Account (HRA) Programme of £77.7m

3. The forecast is based on known funding allocations at December 2021 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 2021/22. As

additional grants and contributions are confirmed, the General Fund capital programme will increase.

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:

    - Hammersmith Bridge stabilisation
    - the Civic Campus programme/ refurbishment of Hammersmith Town Hall
    - the school maintenance programme
    - the Council's rolling programmes for column replacement and footways and carriageways
    - Social Care capital projects.
    - a carry forward of £4.923m for corporate planned maintenance works and the annual rolling programme of £2.4m - this programme includes investment in energy efficient lighting and decarbonisation schemes.

5. The capital programme approves a funding envelope for rolling programmes. It does not approve the detail of how such funding is utilised. It is the responsibility of the lead Strategic Leadership Team Directors to agree a planned programme of works in consultation with the Director of Finance and lead Cabinet Member.

Table 2 – General Fund Capital Programme 2022/23 to 2025/26

		Indicative Future Years Analysis			
	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total Budget (All years) £'000
CAPITAL EXPENDITURE					
Children's Services	3,748	3,579	-	-	**7,327**
Social Care	957	-	-	-	**957**
Environment Department	10,060	2,466	2,376	2,376	**17,278**
Finance & Resources	4,585	-	-	-	**4,585**
General Fund Schemes under the Economy Department	94,592	53,027	7,400	2,400	**157,419**
Total Expenditure	**113,942**	**59,072**	**9,776**	**4,776**	**187,566**
CAPITAL FINANCING					
Specific/External Financing:					
Government/Public Body Grants	6,483	3,579	-	-	**10,062**
Grants and Contributions from Private Developers (includes S106/CIL)	6,795	1,261	-	-	**8,056**
Capital Grants/Contributions from Non-departmental public bodies	45	-	-	-	**45**
Capital Grants and Contributions from GLA Bodies	2,572	-	-	-	**2,572**
Sub-total - Specific Financing	**15,895**	**4,840**	**-**	**-**	**20,735**
Mainstream Financing (Internal):					
Capital Receipts - General Fund	12,479	-	-	-	**12,479**
Sub-total - Mainstream Funding	**12,479**	**-**	**-**	**-**	**12,479**
Borrowing-General Fund	85,568	54,232	9,776	4,776	**154,352**
Total Capital Financing	**113,942**	**59,072**	**9,776**	**4,776**	**187,566**

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 2021/22 programme as detailed in the 2021/22 quarter 3 capital monitoring report.

Table 3 – General Fund Mainstream Programme 2022/23 to 2025/26

	Indicative Budget 2022/23 £'000	Indicative Budget 2023/24 £'000	Indicative Budget 2024/25 £'000	Indicative Budget 2025/26 £'000	Total Budget (All years) £'000
Approved Expenditure					
Social Care Capital projects [ASC]	-	-	-	-	**-**
Invest to Save-Flexible Use of Capital Receipts [FIN]	4,285	-	-	-	**4,285**
Investment in Digital Infrastructure [RES]	300	-	-	-	**300**
Capital Investment in Street Lighting [ENV]	800	-	-	-	**800**
Carnwath Road [ECD]	1,870	-	-	-	**1,870**
Hammersmith Bridge Strengthening [ENV]	1,946	-	-	-	**1,946**
North End Road - Good Growth Fund [ECD]	610	-	-	-	**610**
HRA Watermeadow adjustment [ECD]	1,432	-	-	-	**1,432**
Foster carers' extension [CHS]	169	-	-	-	**169**
Planned Maintenance/DDA Programme [ECD]	7,323	2,400	2,400	2,400	**14,523**
Footways and Carriageways [ENV]	2,030	2,030	2,030	2,030	**8,120**
Column Replacement [ENV]	346	346	346	346	**1,384**
Hammersmith Town Hall Refurbishment* [ECD]	21,824	2,725	-	-	**24,549**
Community Schools Programme [ECD]	1,020	60	-	-	**1,080**
Education City regeneration [ECD]	-	3,500	-	-	**3,500**
Farm Lane/Mund Street [ECD]	1,439	-	-	-	**1,439**
Investment in Affordable Housing-Lillie Road Site [ECD]	910	-	-	-	**910**
Total Mainstream Programmes	**46,304**	**11,061**	**4,776**	**4,776**	**66,917**
Financing					
Capital Receipts	13,911	-	-	-	**13,911**
Increase/(Decrease) in Borrrowing	32,393	11,061	4,776	4,776	**53,006**
Total Financing	**46,304**	**11,061**	**4,776**	**4,776**	**66,917**

**Hammersmith Town Hall Refurbishment figure contains only mainstream element of funding (£11.3m), the remaining approved budget is expected to be funded from Community Infrastructure Levy (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 £101.3m over the next 4 years and mainly relate to the Civic Campus development and the provision of development financing to EdCity Office Ltd. The full financial implications of both schemes have been reported to Full Council with subsequent updates to Cabinet. Detailed programme management and officer and member governance arrangements are in place to ensure that officers and members understand the key financial assumptions and risks associated with the self-financing schemes. These schemes are subject to regular monitoring and scrutiny.

8. The Grade II* Listed 134-year-old Hammersmith Bridge (the Bridge) was closed to motor vehicles in April 2019 and to all users in August 2020 on public safety grounds. Following an 11-month closure and extensive investigations by Hammersmith & Fulham engineers and the introduction of a pioneering temperature control scheme, it re-opened to pedestrians, cyclists and river traffic on 17 July 2021. The re-opening, with strict conditions, was recommended by the Board for the Continued Case for the Safe

Operation (CCSO). One condition was that for the Bridge to remain open, it must be properly and permanently stabilised as soon as possible.

9. Following detailed cost-analysis the Council has approved a stabilisation construction project for the Bridge at an estimated value of £8.9m (including indirect costs, preliminaries and contingencies). This work is to be completed expeditiously (anticipated by September 2022) so that users can continue to use the Bridge safely.

10. In line with government announcements, central government (Department for Transport (DfT)) and Transport for London (TfL) are expected to fund two-thirds of the total project costs and this is expected to be formalised in a proposed Memorandum of Understanding (MoU). The Council will fund its share of the stabilisation project costs through borrowing. This funding split is assumed within the capital programme.

11. The Council is continuing to develop an outline business case for a full strengthening and restoration programme which will see the Bridge re-opened to motor vehicles. This is exploring options to fund the Council's contribution to both stabilisation and strengthening and restoration through a road charge or toll.

12. 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. Schemes will be added to the programme when the funding is confirmed.

13. 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 £55,000 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 for capital schemes, 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 £4.285m of capital receipts for these purposes.

14. 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 2022/23 MRP policy is set out in Appendix 6.

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)

GENERAL FUND CFR ANALYSIS HEADLINE CFR EXCLUDING SELF FINANCING SCHEMES AND LOANS	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Opening Capital Finance Requirement (CFR)	**122.16**	**133.75**	**164.42**	**172.80**	**174.75**
Revenue Repayment of Debt (MRP)	(1.36)	(1.72)	(2.69)	(2.82)	(2.90)
Mainstream Programme (Surplus)/Shortfall	12.95	32.39	11.06	4.78	4.78
Closing Capital Finance Requirement (CFR)	**133.75**	**164.42**	**172.80**	**174.75**	**176.63**

16. The forecast General Fund Headline CFR at the start of 2022/23 is £133.8m and is expected to increase to £176.6m by the end of 2025/26. The increase of £42.8m over the next four years will add a revenue budget pressure, relating to the borrowing costs (MRP plus external interest), of c£2.2m per annum by the end of 2025/26

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 eligible elements of the capital programme to reduce the closing CFR. The current General Fund capital receipts forecast contained in this report assumes no new receipts for financial years 2023/24 to 2025/26. Should capital receipts be identified, they will be added to the programme, as an additional funding source, and will reduce the forecast CFR and MRP.

HOUSING CAPITAL PROGRAMME

18. The Housing Capital Programme expenditure and resource forecast is summarised in Table 5 and detailed in Appendix 1. On 6 September 2022, Cabinet approved a 12-year HRA Asset Management Capital Strategy (the Strategy). This detailed the spending priorities for the twelve-year period between 2022/23 and 2033/34, priorities that represent £728.6m of expenditure. The aim of the Strategy is to direct capital investment to where it will make the biggest impact on residents' quality of life, health and wellbeing with the following key spend areas:

    - Fire Safety
    - Structural Safety
    - Asset Replacement
    - Disabled Adaptations
    - Stock Condition Survey findings
    - Climate Emergency
    - Estate Improvements
    - White City Estate
    - Charecroft Estate Phase 2
    - West Kensington Estate

19. The works set out in the Strategy are different to the current HRA four-year capital programme due for completion in 2024/25 covering Major Refurbishments, Fire Safety, Lifts, Boilers, Structural Safety, Electrical, Voids and Miscellaneous schemes. Additional

expenditure of £188.7m is included within the 2022-26 capital programme in respect of the new works within the Strategy. The Strategy will be reviewed annually and will inform every subsequent annual revision of the capital programme budget.

Table 5 – Housing Expenditure and Resource Forecast 2022-26

	Indicative 2022/23 Budget £'000	Indicative 2023/24 Budget £'000	Indicative 2024/25 Budget £'000	Indicative 2025/26 Budget £'000
Approved Expenditure				
HRA Asset Management and Compliance Programme	65,009	84,894	75,226	63,101
Building Homes and Communities Strategy	10,578	9,296	26,496	22,533
Other HRA Capital Schemes	2,067	10,638	14,257	5,483
Total Housing Programme	**77,654**	**104,828**	**115,979**	**91,117**
Available and Approved Resource				
Capital Receipts - Unrestricted	3,156	3,331	2,894	13,428
Capital Receipts - GF	1,432	-	-	-
Major Repairs Reserve (MRR)	16,620	17,013	17,415	17,934
Contributions Developers (S106)	841	6,580	9,146	3,649
Contributions from leaseholders	1,598	1,811	1,449	931
Capital Grants and Contributions from GLA Bodies	746	3,308	6,468	2,457
RtB GLA Ringfence	1,960	2,249	2,005	1,468
Borrowing (HRA)	51,301	70,536	76,602	51,250
Total Funding	**77,654**	**104,828**	**115,979**	**91,117**

Under the 1-4-1 scheme, Right to Buy (RTB) receipts can be retained by the Council 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.

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

Table 6 – Housing CFR Forecast 2021-26

HRA CFR Forecast	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
Closing Forecast HRA CFR	258.14	309.44	379.98	456.58	507.83

21. The HRA CFR is forecast to be £309.4m by the end of 2022/23 and £507.8m by 2025/26. The significant borrowing costs that arise from the increase in the HRA CFR will impact on future HRA revenue budgets. This impact is regularly assessed as part of the HRA Business Plan and is reflected in the proposed 2022/23 HRA revenue budget.

22. As set out in the HRA business plan the increase in borrowing costs will require significant additional HRA revenue savings to be made. There are also multiple interacting assumptions and risks that need to be regularly stress tested and reviewed to ensure the underlying strength and resilience of the plan. Key risks that need to be closely monitored to ensure the delivery and affordability of the Strategy include:

- Interest rate changes. The current base case uses borrowing rates after consultation with the Council's Treasury Advisor. However, there are growing signs that in reaction to inflation increasing above government targets that interest rates may rise sooner than expected.

- Rent Regulation. There is uncertainty over government policy on social rents after 2025.
- New development. Building additional homes not only provides much needed affordable housing for the boroughs' residents but is also a key factor in the HRA's future viability. If new build developments were to cease completely then it is estimated that additional revenue savings of £800,000 above the base model savings requirement would be required.
- Build and works inflation. A mounting concern is inflation with supply constraints and labour shortages, driven by Covid and Brexit, leading to higher prices and pressure on wages.
- Climate change funding. The Strategy includes climate change investment of £213m and it is assumed that this will be funded by 50% borrowing/recharges and 50% government grant. There is risk that lower grant funding will be identified/awarded and this may further impact on the HRA CFR.

23. 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 be incurred by the Council. The capital programme will be updated as and when further phases and schemes are approved

24. Should these schemes not fully progress there is a risk that some, or all, of the expenditure will 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.

25. 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. At 1 October 2021, the GLA held £23.9m of Hammersmith & Fulham receipts from the last two financial years. This is the equivalent of £79m[1] 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[2] is sufficient to make use of these receipts if delivered on time, however there are risks to meeting these deadlines due to further design work after extensive consultation being undertaken on the schools' regeneration schemes. The Council can request for an extension to the three years where an approved programme is in place.

26. The proposed HRA programme relies on £20.2m of S106 receipts for affordable housing, of which £16.1m has been received to date with the remainder dependent on the associated developments proceeding in a timely manner. The impact of Covid-19 on

[1] The latest MHCLG guidance states that 1-4-1 receipts received in the 2017/18 financial year or later can now fund 40% of the total development expenditure on eligible tenures, with the remaining 60% being funded from a mixture of non-housing receipts, S106 and borrowing. Officers continue to work through the implications of this guidance on the optimal allocation of funding to schemes.
[2] The housing development pipeline was presented to Cabinet on 3 March 2020 in the report "Financial Plan for Council Homes".

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

27. 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

28. 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.

29. 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 Corporate Accountancy, Systems and Tax 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.

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

RISK MANAGEMENT

30. 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 impacts of the Covid-19 pandemic on the economy coupled with Brexit impacting on prices in the short and potentially longer term. The report identifies a number of risks which could impact on the delivery of the HRA Business Plan and strategy, and the need for robust monitoring to continue in respect of these risks.

31. Risk 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 Council's 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.

Implications completed by: David Hughes, Director of Audit, Risk and Insurance, Tel: 020 7361 2389.

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.

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 2022/23
Appendix 5 – Flexible Use of Capital Receipts Guidance and Proposed Application
Appendix 6 – Minimum Revenue Provision (MRP) Statement 2022/23

APPENDIX 1 – Detailed Analysis by Service

Children's Services	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000	Total Budget (All years) £'000
		Indicative Future Years Analysis			
Scheme Expenditure Summary					
SEN sufficiency	650	650	-	-	1,300
Foster carers' extension	169	-	-	-	169
School Maintenance Programme	2,929	2,929	-	-	5,858
Total Expenditure	**3,748**	**3,579**	**-**	**-**	**7,327**
Capital Financing Summary					
Specific/External or Other Financing					
Capital Grants from Central Government	3,579	3,579	-	-	7,158
Sub-total - Specific or Other Financing	**3,579**	**3,579**	**-**	**-**	**7,158**
Mainstream Financing (Internal Council Resource)					
Capital Receipts	27	-	-	-	27
Sub-total - Mainstream Funding	**27**	**-**	**-**	**-**	**27**
Borrowing	142	-	-	-	142
Total Capital Financing	**3,748**	**3,579**	**-**	**-**	**7,327**

Social Care Services	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000	Total Budget (All years) £'000
		Indicative Future Years Analysis			
Scheme Expenditure Summary					
Extra Care New Build project (Adults' Personal Social Services Grant)	957	-	-	-	957
Total Expenditure	**957**	**-**	**-**	**-**	**957**
Capital Financing Summary					
Specific/External or Other Financing					
Capital Grants from Central Government	957	-	-	-	957
Sub-total - Specific or Other Financing	**957**	**-**	**-**	**-**	**957**
Total Capital Financing	**957**	**-**	**-**	**-**	**957**

APPENDIX 1 – Detailed Analysis by Service

Finance & Resources Department	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000	Total Budget (All years) £'000
		Indicative Future Years Analysis			
Scheme Expenditure Summary					
Invest to Save - Flexible Use of Capital Receipts	4,285	-	-	-	4,285
Investment in Digital Infrastructure	300	-	-	-	300
Total Expenditure	**4,585**	**-**	**-**	**-**	**4,585**
Capital Financing Summary					
Mainstream Financing (Internal Council Resource)					
Capital Receipts	4,285	-	-	-	4,285
Sub-total - Mainstream Funding	**4,285**	**-**	**-**	**-**	**4,285**
Borrowing	300	-	-	-	300
Total Capital Financing	**4,585**	**-**	**-**	**-**	**4,585**

APPENDIX 1 – Detailed Analysis by Service

Environment Department

Indicative Future Years Analysis

	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000	Total Budget (All years) £'000
Scheme Expenditure Summary					
Footways and Carriageways	2,030	2,030	2,030	2,030	8,120
Hammersmith Bridge Stabilisation Works	5,840	-	-	-	5,840
Column Replacement	346	346	346	346	1,384
Other Highways Capital Schemes	994	-	-	-	994
Capital Investment in Street Lighting	800	-	-	-	800
Leisure Centre Capital Investment	50	90	-	-	140
Total Expenditure	**10,060**	**2,466**	**2,376**	**2,376**	**17,278**
Capital Financing Summary					
Specific/External or Other Financing					
Capital Grants from Central Government	1,947	-	-	-	1,947
Grants and Contributions from Private Developers (includes S106/S278)	999	90	-	-	1,089
Capital Grants/Contributions from Non-departmental public bodies	45	-	-	-	45
Capital Grants and Contributions from GLA	1,947	-	-	-	1,947
Sub-total - Specific or Other Financing	**4,938**	**90**	**-**	**-**	**5,028**
Mainstream Financing (Internal Council Resource)					
Capital Receipts	844	-	-	-	844
Sub-total - Mainstream Funding	**844**	**-**	**-**	**-**	**844**
Borrowing	4,278	2,376	2,376	2,376	11,406
Total Capital Financing	**10,060**	**2,466**	**2,376**	**2,376**	**17,278**

APPENDIX 1 – Detailed Analysis by Service

Economy Department General Fund Managed Schemes	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000	Total Budget (All years) £'000
		Indicative Future Years Analysis			
Scheme Expenditure Summary					
Civic Campus					
Hammersmith Town Hall Refurbishment	25,950	2,725	-	-	28,675
Acquisition of commercial units	17,281	31,171	-	-	48,452
Equity Loan (Civic Campus)	13,894	-	-	-	13,894
Subtotal Civic Campus	**57,125**	**33,896**	**-**	**-**	**91,021**
Building Homes and Communities Strategy (GF sites)					
Education City Loan	22,000	12,000	5,000	-	39,000
Education City -Youth Facility	579	4,671	-	-	5,250
Community Schools Programme	1,020	60	-	-	1,080
Mund Street	2,530	-	-	-	2,530
Investment in Affordable Housing-Lillie Road Site	910	-	-	-	910
Subtotal Building Homes and Communities Strategy (GF sites)	**27,039**	**16,731**	**5,000**	**-**	**48,770**
Other GF Capital Schemes managed by the Economy					
Planned Maintenance/DDA Programme	7,323	2,400	2,400	2,400	14,523
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
Subtotal Other GF Capital Schemes managed by the Economy	**10,428**	**2,400**	**2,400**	**2,400**	**17,628**
Total Expenditure	**94,592**	**53,027**	**7,400**	**2,400**	**157,419**
Capital Financing Summary					
Specific/External or Other Financing					
Grants and Contributions from Private Developers (includes S106)	1,670	1,171	-	-	2,841
Community Infrastructure Levy (CIL)	4,126	-	-	-	4,126
Capital Grants and Contributions from GLA Bodies	625	-	-	-	625
Sub-total - Specific or Other Financing	**6,421**	**1,171**	**-**	**-**	**7,592**
Mainstream Financing (Internal Council Resource)					
Capital Receipts (GF)	7,323	-	-		7,323
Sub-total - Mainstream Funding	**7,323**	**-**	**-**	**-**	**7,323**
GF Borrowing	80,848	51,856	7,400	2,400	142,504
Total Borrowing	**80,848**	**51,856**	**7,400**	**2,400**	**142,504**
Total Capital Financing	**94,592**	**53,027**	**7,400**	**2,400**	**157,419**

APPENDIX 1 – Detailed Analysis by Service /cont.

Economy Department- HRA Capital Programme	Indicative Future Years Analysis				
	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000	Total Budget (All years) £'000
Scheme Expenditure Summary					
HRA Asset Management and Compliance Programme					
Pre Agreed Works	7,183	250	6,868	7,368	21,669
Fire Safety Compliance Programme	8,900	3,671	7,689	5,400	25,660
Fire Safety Complex Schemes	19,596	30,940	6,500	-	57,036
Lift Schemes	3,035	750	750	750	5,285
Boiler Schemes	3,100	4,970	6,140	4,370	18,580
Safety Works - Electrical	7,225	5,337	4,390	3,860	20,812
Safety Works	7,093	14,958	12,750	13,150	47,951
Void Works	3,704	1,200	1,200	1,200	7,304
Other Capital Improvements	6,435	2,983	2,266	1,250	12,934
Capitalised salaries	3,200	2,000	1,800	3,300	10,300
Capitalised repairs	4,010	4,040	4,070	3,500	15,620
Climate Emergency and Other future works	3,000	15,280	18,835	17,160	54,275
Allowance for program slippage for financial modeling purposes	(11,472)	(1,485)	1,968	1,793	(9,196)
Subtotal HRA Asset Management and Compliance Programme	**65,009**	**84,894**	**75,226**	**63,101**	**288,230**
Building Homes and Communities Strategy (HRA sites)					
Homes & Communities Strategy	1,315	-	-	-	1,315
White City Estate Regeneration	386	386	386	386	1,544
Old Laundry Yard	1,111	-	-	-	1,111
Education City- HRA element	7,766	8,910	26,110	22,147	64,933
Subtotal Building Homes and Communities Strategy (HRA sites)	**10,578**	**9,296**	**26,496**	**22,533**	**68,903**
Other HRA Capital Schemes					
Housing Development Project	54	-	-	-	54
Stanhope Joint Venture	1,263	9,888	13,745	5,483	30,379
Hartopp & Lannoy	750	750	512	-	2,012
Subtotal Other HRA Capital Schemes	**2,067**	**10,638**	**14,257**	**5,483**	**32,445**
Total Expenditure	**77,654**	**104,828**	**115,979**	**91,117**	**389,578**
Capital Financing Summary					
Specific/External or Other Financing					
Contributions from leaseholders	1,598	1,811	1,449	931	5,789
Grants and Contributions from Private Developers (includes S106)	841	6,580	9,146	3,649	20,216
Capital Grants and Contributions from GLA Bodies	746	3,308	6,468	2,457	12,979
RtB GLA Ringfence	1,960	2,249	2,005	1,468	7,682
Sub-total - Specific or Other Financing	**5,145**	**13,948**	**19,068**	**8,505**	**46,666**
Mainstream Financing (Internal Council Resource)					
Capital Receipts (HRA)	3,156	3,331	2,894	13,428	22,809
Major Repairs Reserve (MRR) / Major Repairs Allowance	16,620	17,013	17,415	17,934	68,982
Capital Receipts (GF)	1,432	-	-		1,432
Sub-total - Mainstream Funding	**21,208**	**20,344**	**20,309**	**31,362**	**93,223**
Borrowing(HRA)	51,301	70,536	76,602	51,250	249,689
Total Capital Financing	**77,654**	**104,828**	**115,979**	**91,117**	**389,578**

APPENDIX 2 – Anticipated General Fund capital receipts

2022/23	**£'000**
Receipts b/f from 2021/22	682
Forecast capital receipts for the year	13,780
Cost of Sales (4%)	(551)
Total 2022/23	**13,911**

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. An authority may be 'cash rich' and pay for a new asset in full without entering into new loans. However, unless it 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. Table 1 below shows the Council's forecast total General Fund CFR for the period 2022/23-2025/26:

Table 1- Forecast General Fund CFR 2022/23-2025/26

GENERAL FUND CFR ANALYSIS **HEADLINE CFR EXCLUDING SELF FINANCING SCHEMES AND LOANS**	**2021/22** **£m**	**2022/23** **£m**	**2023/24** **£m**	**2024/25** **£m**	**2025/26** **£m**
Opening Capital Finance Requirement (CFR)	**122.16**	**133.75**	**164.42**	**172.80**	**174.75**
Revenue Repayment of Debt (MRP)	(1.36)	(1.72)	(2.69)	(2.82)	(2.90)
Mainstream Programme (Surplus)/Shortfall	12.95	32.39	11.06	4.78	4.78
Closing Capital Finance Requirement (CFR)	**133.75**	**164.42**	**172.80**	**174.75**	**176.63**
SELF FINANCING SCHEMES AND LOANS	**2021/22** **£m**	**2022/23** **£m**	**2023/24** **£m**	**2024/25** **£m**	**2025/26** **£m**
Opening Capital Finance	**21.51**	**36.85**	**89.86**	**132.87**	**135.13**
Revenue Repayment of Debt (MRP)	(0.18)	(0.17)	(0.16)	(2.74)	(2.78)
In Year Borrowing	15.52	53.18	43.17	5.00	-
Closing Capital Finance	**36.85**	**89.86**	**132.87**	**135.13**	**132.35**
Finance leases/PFI/ Deferred costs of disposal	7.79	7.09	6.39	5.69	4.99
Total Closing GF CFR	**178.39**	**261.37**	**312.05**	**315.57**	**313.97**

5. The current forecast for the General Fund Headline CFR (excluding self-financing schemes and loans) is £164.4m at the end of 2022/23 and £176.6m by

the end of 2025/26. The increase in General Fund Headline CFR puts additional pressures on revenue budgets.

6. The headline CFR figures exclude:

   - £4.4m Schools Windows Replacement Programme
   - £32m equity loan to the Civic Campus joint venture
   - £63m investment in acquisition of Civic Campus commercial units
   - £39m development financing to EdCity Office Ltd

   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 from £36.9m to £89.9m (net movement £53m) in 2022/23 and to £132.4m (gross financing requirement of £101.3m less estimated MRP of £5.9m) estimated by the end of 2025/26. Table 2 details the CFR movements regarding these schemes.

Table 2 - Self -financing schemes and loans CFR movements 2022/23-2025/26

	Indicative Budget 2022/23 £'000	Indicative Budget 2023/24 £'000	Indicative Budget 2024/25 £'000	Indicative Budget 2025/26 £'000	Total Budget (All years) £'000
Approved Expenditure					
Ad Hoc Schemes:					
Education City -ARK loan	22,000	12,000	5,000	-	**39,000**
Acquisition of commercial units (Civic Campus) [ECD]	17,281	31,171	-	-	**48,452**
Equity Loan (Civic Campus) [ECD]	13,894	-	-	-	**13,894**
Total Mainstream Programmes	**53,175**	**43,171**	**5,000**	**-**	**101,346**
Financing					
Increase/(Decrease) in Borrrowing	53,175	43,171	5,000	-	**101,346**
Total Financing	**53,175**	**43,171**	**5,000**	**-**	**101,346**

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 for the 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 the 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 General Fund 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.

APPENDIX 4 – CAPITAL STRATEGY 2022/23

1. The Prudential Code[3] 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 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 12-year HRA Asset Management Capital Strategy

Taking pride in Hammersmith & Fulham
- Hammersmith & Fulham is aiming to be the greenest Borough in Britain including investment in green fleet

[3] 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.

- Continuing to invest in CCTV so that residents feel secure in their homes and on the streets

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 plans to develop more physical education, sport and youth facilities including at the Education City scheme.
- 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

The Council has approved a Climate and Ecology Strategy and action plan to deliver its target of net zero greenhouse gas emissions in the borough by 2030. It has been shaped by the work of the resident-led Climate and Ecological Emergency Commission, who worked closely with the Council's Climate Unit and was devised by ten cross-departmental officer working groups. The capital strategy incorporates a number of measures that support the Climate and Ecology Strategy which include:

- Use of the corporate planned maintenance programme to deliver energy efficient lighting and decarbonisation
- Investment as part of the 12-year HRA Asset Management Capital Strategy of £213m to decarbonise our housing stock; this includes costs of 50% at £106.5m with a view to bidding for government funding and achieving cost and programme synergies of carrying these works out in conjunction with the other works identified.
- Use of cutting-edge green technology including a ground-breaking heat pump as part of the Civic Campus development.

6. The Covid-19 pandemic has resulted in unprecedented risk and uncertainty the wider economy. 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.

7. Learning the lessons from working from home during the pandemic, and in preparation for the workforce's 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 will be the subject of separate decision reports.

8. 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

9. In January 2019, Full Council approved plans for major regeneration of the King Street area which included redevelopment of Hammersmith Town Hall, creating a Civic Campus. This involves entering into a joint venture (JV) 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. The budget for the scheme is included in the Council’s Capital Programme and the project is in the construction phase. 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;
   - 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;
   - 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; and
   - contribute to meeting the climate change emergency by the use of cutting edge green technology.

10. A capital budget of £64m has also been approved for the acquisition of commercial units that will be constructed by the JV 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 of the commercial space and a managing agent is being procured for the office space. Investment in these units can allow the Council to benefit from the regeneration opportunity that they present.

Education City

11. In the absence of a national programme for capital investment in existing schools, the Council and Absolute Return for Kids (ARK) have successfully collaborated to plan and

co-fund a new Education City, that will 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 for up to 120 places
- New youth facilities
- An office for educational charities
- 132 new homes, 100% of which will be affordable housing

12. 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.

13. On 5 July 2021, Cabinet approved an investment loan of up to £39m to enable ARK to facilitate the construction of their office block. On 19 November 2021, the Council and Ark formally entered into a Master Development Agreement to enable the construction works to be carried out on each party’s behalf through a Special Purpose Vehicle (SPV) known as Education City Development Ltd (ECDL). The contractors Bowmer & Kirkland have since begun works on site with practical completion of Phase 1 due in 2023. When Phase 2 starts and completes, this will deliver the majority of the Council’s new homes, nursery and adult education centre.

HRA Asset Management Capital Strategy

14. The Council is the responsible landlord for over 17,000 homes across Hammersmith & Fulham. The HRA Asset Management Capital Strategy (the Strategy) details the spending priorities for the twelve-year period between 2022/23 and 2033/34, priorities that represent £728.6m of capital spend. The purpose of the Strategy is to inform the four-year Capital Programme budget that is submitted annually for Full Council approval. The Strategy will inform every subsequent annual revision of the Capital Programme budget for the duration of the 12- year Strategy period, subject to annual reviews of the Strategy.

15. The aim of the Strategy is to direct capital investment to where it will make the biggest impact on residents’ quality of life, health and wellbeing. The programme of capital investment will deliver housing assets that residents can be proud of and that will serve as a foundation for healthy, happy lives. We know that poor quality housing has a huge impact on physical and mental health and can impede people from reaching their full potential. Addressing structural damp and mould issues is a key theme of this Strategy. The programme will deliver 21st century assets that are fit for the future. Many of the projects detailed in the Strategy involve new windows, kitchens and bathrooms, things that will make a big difference to residents’ quality of life.

16. The main headings of the Strategy are:
    - Fire Safety
    - Structural Safety
    - Asset Replacement
    - Disabled Adaptations
    - Stock Condition Survey findings
    - Climate Emergency

- Estate Improvements
- White City Estate
- Charecroft Estate Phase 2
- West Kensington Estate

17. The number one priority of the Strategy is health and safety and compliance. While safety and compliance come first, every capital project covered in this programme will be designed to maximise the impact on reducing carbon emissions. Wherever possible works will use methods and materials that improve energy efficiency and will be increasingly delivered as part of comprehensive whole-home retrofit schemes. The programme features more than £100m specifically earmarked for decarbonisation projects, to be supplemented by other financial mechanisms as they become available and government funding bids.

Building Homes and Communities Strategy

18. 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 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 and the Housing Revenue Account.

19. 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.

20. Schemes that have been approved within the strategy include sites at White City, Education City, Farm Lane, Mund Street and Lillie Road as well as early design and resident consultation at Old Laundry Yard. Further sites will continue to be brought forward to Cabinet for approval in the forthcoming months.

Hammersmith Bridge

21. The Grade II* Listed 134-year-old Hammersmith Bridge (the Bridge) was closed to motor vehicles in April 2019 and to all users in August 2020 on public safety grounds. Following an 11-month closure and extensive investigations by Hammersmith & Fulham engineers and the introduction of a pioneering temperature control scheme, it re-opened to pedestrians, cyclists and river traffic on 17 July 2021. The re-opening, with strict conditions, was recommended by the Board for the Continued Case for the Safe Operation (CCSO). One condition was that for the Bridge to remain open, it must be properly and permanently stabilised as soon as possible.

22. Following detailed cost-analysis the Council has approved a stabilisation construction project for the Bridge at an estimated value of £8.9m (including indirect costs,

preliminaries and contingencies). This work is to be completed expeditiously (anticipated by September 2022) so that users can continue to use the Bridge safely.

23. In line with government announcements, central government (Department for Transport (DfT)) and Transport for London (TfL) are expected to fund two-thirds of the total project costs and this is expected to be formalised in a proposed Memorandum of Understanding (MoU).

24. Evaluation of engineering options for the stabilisation and strengthening of the Bridge are well advanced. The Council is continuing to develop an outline business case for a full strengthening and restoration programme which will see the Bridge re-opened to motor vehicles and to secure funding from the DfT and TfL. This is exploring options to fund the Council's contribution to the stabilisation, strengthening and restoration through a road charge or toll.

Schools Renewal Programme

25. 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.

26. The work is currently underway to assess viability, produce a detailed business case and proceed to planning application stage as appropriate.

Other Housing projects

27. 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.

28. The redevelopment of land on Aintree Estate, previously occupied by Hartopp Point and Lannoy Point blocks, for the delivery of new homes including replacement of lost affordable housing.

29. 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. The planning decision is currently subject to call in by the Secretary of State.

Old Oak and Park Royal Opportunity Area

30. 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.

31. 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)

32. 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.

33. At 31 March 2021 the Council holds £13.9m 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.

34. 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.

35. 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

36. The Council's Climate and Ecology Strategy and action plan set out the Council's approach to delivering its target of net zero greenhouse gas emissions in the borough by 2030.

37. 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

38. The Council's housing accounts for 35% of its total emissions and is a priority area that the Council can directly influence through retrofit programmes. Three quarters of CO2 emissions from homes come from heating and hot water, mostly powered by gas. To achieve net zero, the majority of homes must be retrofitted with energy efficiency measures, and gas boilers replaced with low carbon heating such as air-source heat pumps, by 2030. The Council can influence this through:
    - Investment in retrofitting Council homes which will reduce the borough's emissions and grow the market for retrofit, driving down cost.
    - Energy planning and investment to bring about district heating networks.
    - Information and incentives to homeowners and landlords encourage retrofit.
    - Enforcement of Minimum Energy Efficiency Standards for landlords.

39. £213m has been identified as required to decarbonise our housing stock and this is included within the 12-year Housing Asset Management Capital Strategy. This Strategy assumes costs of 50% at £106.5m with a view to bidding for government funding and in achieving cost and programme synergies of carrying these works out in conjunction with the other works identified.

Invest to Save Projects

40. 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 2021/22 and 2022/23 can be found in Appendix 5 of this report.

Health and Safety

41. 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

42. 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
    - 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.

43. 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.

44. 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

45. As part of being ruthlessly financially efficient, the Council has arrangements 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 such as the affordable housing development programme. 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.

46. 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 large new 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.

47. The 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

48. 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.

49. 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 reserves will need to be authorised by the Director of Finance in consultation with the Chief Executive and Cabinet Member for Finance and Commercial Services.
    - 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 impact section 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 impact. A 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.

50. The Council's annual Capital Programme is approved by the Cabinet and Full Council. The SLT 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.

51. Detailed monitoring is also undertaken of significant projects and reported to Finance SLT and the Cabinet Member for Finance and Commercial Services.

Finance Strategy

52. 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.

53. 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, 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.

54. 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 to support the Council's investment in the borough to enable the borough's economic recovery from Covid-19 which will be self-financing. 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 (2022/23)

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

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 2022/23

1. This statement covers the minimum revenue provision (MRP) that Hammersmith & 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 & 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 & 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.