

London Borough of Hammersmith & Fulham

Report to: Cabinet

Date: 12/02/2024

Subject: Four Year Capital Programme 2024-28 And Capital Strategy 2024/25

Report of: Councillor Rowan Ree, Cabinet Member for Finance and Reform

Responsible Director: Sukvinder Kalsi, Strategic Director of Finance

SUMMARY

This report presents the Council's Capital Strategy 2024/25 and four-year Capital Programme for the period 2024 to 2028.

The council is investing £576.4m over the next four financial years to develop and enhance its assets (including council housing), to meet its strategic objectives and provide better outcomes for its residents, businesses, and visitors. Key schemes within the programme include:

- Significant investment in the major repairs and health and safety compliance of the council's 12,000 dwellings
- Investment in housing development schemes to provide additional affordable accommodation across the borough
- Public CCTV equipment purchases and installation
- School maintenance programme
- Investment in energy efficient lighting and decarbonisation schemes.
- Hammersmith Bridge pre-restoration works, with funding from the Department of Transport and Transport for London
- Civic Campus programme/ refurbishment of Hammersmith Town Hall
- Investment in the council's public realm including column replacement, footways, and carriageways

The council is required by the CIPFA Prudential Code for Capital Finance and statutory guidance to prepare certain capital related strategies and policies. The Capital Strategy and Minimum Revenue Provision (MRP) Policy are included in this report. The Treasury Management Strategy Statement 2024/25 will also be presented to Cabinet in February 2024 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 2024/25. 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 £143.6m for the period 2024/25-2027/28 (presented in Table 2 and Appendix 1).
2. To approve the continuation of rolling programmes for 2024/25 funded from the Council's mainstream resources. For financial modelling purposes, these programmes are assumed to continue at the same level until 2027/28:

	£m
Corporate Planned Maintenance	2.400
Footways and Carriageways	2.030
Column Replacement	0.346
Total	4.776

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 Strategic Director of Finance and relevant Lead Cabinet Member.
4. To approve the four-year Housing (HRA) Capital Programme at £432.9m for the period 2024/25-2027/28 as set out in Table 6 and Appendix 1.
5. To delegate authority to the Strategic Director of Finance in consultation with the Cabinet Member for Finance and Reform to approve the potential use of up to £3.6m of capital receipts under the Government's Flexible Use of Capital Receipts provisions for funding of Invest to Save schemes in 2024/25 (as identified in Appendix 2) and potential match-funding opportunities.
6. To approve the Capital Strategy 2024/25, as set out in the report.
7. To approve the annual Minimum Revenue Provision policy statement for 2024/25, as set out in Appendix 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, and which will deliver the Council's priorities, as set out in the plan. The Capital Strategy 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	<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>
Building shared prosperity	<p>We need to always confirm that spend fits our council's priorities; challenge how much needs to be spent; and achieve results within agreed budgets. Finance is everyone's business and every penny counts. The council will continue to invest in our ambitious housing development programme and work through the planning system to enable 3,000 new energy-efficient 50% genuinely affordable homes to be built.</p>
Creating a compassionate council	<p>As the council's resources have been reduced we have protected the services on which the most vulnerable residents rely.</p>
Doing things with local residents, not to them	<p>A significant proportion of services are delivered in partnership with local and national companies, and this will continue to promote all business sectors to the benefit of residents. The proposals will implement the Disabled People's Housing Strategy, working in co- production with disabled residents.</p>
Taking pride in H&F	<p>The strategy proposals include significant investment in public realm services, to maintain world-class parks, open spaces and cemeteries, making sure that parks are a safe space for residents.</p> <p>The proposals also are continuing to invest in CCTV so that residents feel secure in their homes and on the streets.</p>
Rising to the challenge of the climate and ecological emergency	<p>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.</p>

CAPITAL STRATEGY 2024/25

1. The Prudential Code¹ 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 Corporate Plan 2023-26 sets 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 will continue to invest in our ambitious housing development programme and work through the planning system to enable 3,000 new energy-efficient 50% genuinely affordable homes to be built or underway by 2026.
- Implement the Special School Organisation and Capital Plan to invest in provision for children and young people with Special Educational Needs and Disabilities.
- Deliver £118m EdCity education campus to align career opportunities in the White City Innovation District to the work of schools, apprenticeships, and reskilling programmes.
- Support local businesses and start-ups by facilitating access to resources, networking opportunities, affordable workspace and business support services.
- Deliver retrofit strategy to generate renewable energy and improve the energy performance of our housing stock.
- Continue with shared equity affordable home ownership solution for residents and workers in the borough.
- Develop a council owned housing company model to support an increase in council owned intermediate rent homes for key workers.
- Continue leading role in providing housing and much wider support to refugees and asylum seekers.

Doing things with residents, not to them

- Continue to expect all major strategies, projects and service design works to have co-production principles, openness, and transparency at their core.

¹ The CIPFA Prudential Code for Capital Finance in Local Authorities (2021) – by regulation local authorities are required to have regard to the Code when carrying out their duties.

Taking pride in Hammersmith & Fulham

- Transform the Grade II listed Town Hall to be one of the most environmentally positive and accessible buildings of its type in Britain.
- Introduce segregated cycle lanes, more cycle storage, and green roofs on estates.
- Deliver a vision for high streets as experience destinations and community hubs, including a refreshed plan for Hammersmith Town Centre.
- Improve the public realm to make it a better place for people to shop, eat, drink, relax and enjoy local arts and facilities.
- Ensure major investment programmes, such as in White City, Earls Court, Olympia, and Old Oak Common serve to benefit residents and businesses.
- Deliver a £4.5m CCTV replacement and investment programme.

Creating a compassionate council

- Deliver the Air Quality Action Plan, by tackling the sources of pollution, raising awareness of local emissions, and working with partners to reduce pollution.

Being ruthlessly financially efficient

- Maximise efficiencies to be gained through digital transformation, income generation, corporate accommodation, and agile working practices.
- Continue regular assurance reporting for major projects and programmes through the Corporate Programme Management Office and Strategic Leadership Teams.
- Deliver on the aspirations of Resident Experience and Access Programme to provide a consistent and inclusive approach for resident access across the Council.
- Embed universal standards for policy and strategy development across the council, centred on co-production, high-quality evidence, equity, and climate considerations.
- Enhance commercial culture, financial returns and added value through our refreshed Commercial Strategy.
- Maximise the added value secured through procurement processes.
- Continue to operate effective governance arrangements across the Council, to support assurance, compliance, transparency and collaboration across decisions.
- Deliver and fund significant investment in the council homes where it will make the biggest impact on residents' quality of life, health and wellbeing.
- Fix the Grade II listed iconic Hammersmith Bridge in partnership with Transport for London and the Department for Transport
- Use capital investment to enable the Council to become more efficient, such as through investing in digital transformation and income generation opportunities.
- Invest in schools and more in-borough Special Education Needs provision.
- Reduce the carbon emissions of homes and infrastructure, whilst also investing so physical assets can adapt to the inevitable changes in our climate.
- Regenerate the borough through schemes such as EdCity, Hartopp and Lannoy and White City, making use of joint ventures with the private sector and other funding.
- Consolidate the Council's office accommodation to enable alternative use for income generation and cultural activities.

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:

- Deliver retrofit programmes to upgrade our council homes and non-domestic buildings with energy efficiency and low-carbon heating.
 - Build industry leading Passivhaus homes with zero fossil fuels.
 - Identify opportunities for new heat networks in our Clean Heat Plan.
 - Continue to expand active travel infrastructure and support.
 - Host one of the densest electric vehicle charging networks in Britain and transition own fleets to low-carbon vehicles.
 - Undertake a full climate risk assessment of the borough and continue to deliver sustainable drainage that increases our resilience to the changing climate.
 - Renew Air Quality Action Plan in consultation with residents and cut air pollution through field-leading projects and partnerships.
 - Implement 'parks for the future' strategy and invest in improving the appearance, maintenance and facilities of parks and open spaces.
 - Retrofit ecology into the Council's building estate, including investigating the significant potential for green roofing.
 - Extend the 20mph speed limit across all the roads for which the Council is responsible.
6. A recent economic downturn has affected the expected costs, market and viability of schemes whilst funding from partners, such as Transport for London, has been under pressure. As part of the capital strategy the impact of increasing inflation and interest rate 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 2024, 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 the redevelopment of the failing, existing Hammersmith Town Hall building, creating a new Civic Campus. This involved entering into a joint venture named West King Street Renewal Limited Liability Partnership (the LLP), with A2

Dominion Development Limited, for the delivery of the scheme, and a conditional land sale agreement between the Council and the LLP, plus the approval of 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 completed 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 for use by the neighbourhood as well as the greater community.
- refurbish and restore 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 five 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 LLP 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 for some of the commercial spaces and a managing agent has been procured for the office space. Investment in these units allows the Council to benefit from the regeneration opportunity that they present.

HRA Asset Management Capital Strategy

11. 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.

12. 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.

13. 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

14. 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

15. The Building Homes and Communities Strategy sets out a self-funding programme of investment in homes and community assets, where the council utilises its land and property assets to meet its key priorities of delivering affordable housing and supporting the council's financial challenge. The strategy 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.

16. Through this strategy, the council established a development programme to directly deliver a substantial number of much-needed affordable homes and renew key community assets. The development programme will directly benefit the council by generating revenue from the sale of market homes, alongside the long-term rental income from the affordable homes. It will also mean the council accrues the long-term assets it builds.

17. Currently, there are 17 projects in the development programme delivering 1,134 new homes, of which, 732 (65%) are affordable and 402 will be for market sale (35%).

18. Of the 17 development projects, the Springvale infill project has been completed and delivered 10 new social rent homes. Education City is under construction, the first phase has already delivered the new Primary school, this will be followed by the first

24 genuinely affordable homes, office building, Youth Zone, new school and will be delivered within the next two months. The remaining 108 affordable homes will be delivered in phase two, due to be completed in late 2025.

19. Construction of the Hartopp and Lannoy site project commenced earlier this year, to deliver 134 new homes of which 112 (84%) will be affordable. This development is taking place on the land on the Aintree Estate that was previously occupied by Hartopp Point and Lannoy Point blocks which were demolished for health and safety reasons.
20. Farm Lane and Lillie Road projects have both obtained planning permission. Avonmore School project has been submitted for planning with White City Central to follow in the next few months. The development programme also delivers against the Council's climate emergency commitments with the first three development projects (Hartopp and Lannoy, Farm Lane and Lillie Road) being delivered to PassivHaus standards of energy efficiency, to reduce carbon emissions and help alleviate fuel poverty.
21. In addition to the council's direct delivery projects outlined above, the development programme includes scheme acquisitions. The council is currently in advanced negotiations to acquire 165 new affordable homes through two section 106 affordable housing schemes. Completion of the two projects is expected by summer 2024, which accelerates the delivery of much needed affordable homes in the borough.

Hammersmith Bridge

22. 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. The Council has incurred significant spend (at risk) of almost £26.6m (estimated to the end of 2023/24) to ensure the continued safe operation of the Bridge and work towards stabilisation. In addition to this, the Council has incurred significant spend (again at risk) of almost £15.3m (estimated to the end of 2023/24) for pre-restoration works, in readiness for the full restoration of the Bridge. These works include removal of the two gas mains off the Bridge and diversion on an alternative route, the planning application for the innovative truss option, geotechnical works and further development of the contract and procurement process for the full restoration of the bridge. These pre-restoration works will ensure that the future project to fully restore the Bridge can be undertaken with greater expediency and effectiveness, and with minimisation of technical and financial risks.
23. In line with government announcements, central government (Department for Transport (DfT)) and Transport for London (TfL) will fund two-thirds of the total project costs, and this is expected to be formalised in a proposed Memorandum of Understanding (MoU). The Council's one third contribution is expected to be funded from a new road user charging scheme, or a toll.

24. Evaluation of engineering options for the stabilisation and strengthening of the Bridge are well advanced. The Council has completed an outline business case for a full strengthening and restoration programme which will see the Bridge re-opened to motor vehicles and will secure funding from the DfT and TfL.

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:

- re-provide modern, fit for purpose schools to support the borough's ambition to give children the best start in life.
- support the funding of education in Hammersmith & Fulham including the future repair and planned maintenance requirements across the school community.
- fund school development through the creation of badly needed affordable housing which will help maintain the borough's vibrant social mix.
- provide significant investment in the condition of the schools' estate through the first three-year schools' capital strategy agreed in 2021.

The school renewal programme is well underway with the delivery of the 2021-2024 three-year programme and the implementation of the ambitious 2023-2028 five-year programme now taking form.

Other Housing projects

26. In addition to the Housing Asset Management Compliance Strategy and Building Homes and Communities Strategy the Council is progressing a number of partnership projects in relation to the provision of affordable housing. These include 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.

Community Infrastructure Levy (CIL)

27. 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.

28. The current capital programme assumes £22.8m CIL contribution towards financing of Civic Campus Council of which £21.7m has been received to date. 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.

29. 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.

30. 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

31. 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.

32. 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.

33. The Council's housing accounts for 75% of the organisation's direct operational CO₂ 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.

34. £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

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 2023/24 and 2024/25 can be found in Appendix 2 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
- 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 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).
- 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 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.

42. 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

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 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.

45. 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.

46. Detailed monitoring is also undertaken of significant projects and reported to Finance SLT 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, 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 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.

CAPITAL PROGRAMME 2024/25-2027/28

Financial Impact

This report is of a wholly financial nature.

The economic outlook is uncertain with supply constraints and labour shortages, driven by the war in Ukraine, Covid and Brexit, leading to higher prices for works and materials and pressure on wages. The December 2023 inflation rate, as measured by the Consumer Price Index, is 4.6% with the Bank of England (BoE) forecasting that it will remain at elevated levels throughout much of 2024, before falling to 2% in early 2025. As part of their policy response to the increase in inflation the BoE have increased the interest base rate to 5.25% with possible further increases if there was evidence of more persistent inflationary pressures. The upturn in inflation represents a significant financial risk to the capital programme as it impacts on budgeted costs, contractor performance, potential receipts, and scheme viabilities. This risk needs to be kept under review with mitigating actions taken as necessary.

The interest rate regarding long-term borrowing from the Public Works Loans Board (PWLB) now stands at 5.2% compared to 1.5% in December 2021.

The increase in build cost inflation and borrowing costs is bad news for the council and will result in additional financial pressures that need to be addressed through the Medium-Term Financial Strategy and HRA business plan. Actions that may partially mitigate against the increase in interest rates, such as use of available internal cash balances or borrowing for shorter-term periods, will continue to be explored with the Council's Treasury Management Team. The revenue affordability and financial sustainability of the council's current, and future, capital expenditure plans, including self-financing schemes, will also need to be reviewed on ongoing basis and as part of the development of the future capital programme.

Andre Mark, Head of Strategic Planning and Investment, 04 January 2024

Legal Implications

The Director of Finance is responsible for ensuring that a four-year rolling capital programme and capital strategy is prepared jointly with SLT directors. This must be submitted on an annual basis for consideration by Cabinet before being approved by Full Council (Financial Regulation 3.12). 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.

Angela Hogan, Chief Solicitor (Contracts and Procurement) 23rd January 2024

Background Papers Used in Preparing This Report:

None

CAPITAL PROGRAMME 2024/25-2027/28 - OVERVIEW

1. This report sets out an updated four-year capital expenditure and resource forecast and a capital programme for 2024/25 to 2027/28, as summarised in Table 1 below. A detailed analysis of specific schemes by service is included in Appendix 1.

Table 1 - Capital Programme 2024/25 to 2027/28

	2024/25	2025/26	2026/27	2027/28	Total Budget (All years)
	£'000	£'000	£'000	£'000	£'000
CAPITAL EXPENDITURE					
Children's Services	7,915	1,937	4,314	3,311	17,477
Environment Department	29,877	3,698	2,376	2,376	38,327
Finance and Resources Department	7,587	-	-	-	7,587
General Fund Schemes under the Economy Department	70,172	3,873	3,260	2,900	80,205
Sub-total (General Fund)	115,551	9,508	9,950	8,587	143,596
Economy Department-HRA Programme	148,108	110,154	81,243	93,345	432,850
Sub-total Economy Department (HRA)	148,108	110,154	81,243	93,345	432,850
Total Expenditure	263,659	119,662	91,193	101,932	576,446
CAPITAL FINANCING					
Use of specific resources (grant/section106/receipts)	76,864	44,609	80,652	40,671	242,796
Borrowing-General Fund	53,081	6,888	5,136	4,776	69,881
Self-financing borrowing -General Fund	29,914	-	-	-	29,914
Borrowing -HRA	103,800	68,165	5,405	56,485	233,855
Total Capital Financing	263,659	119,662	91,193	101,932	576,446

2. The programme for this period totals £576.4m. The gross programme for 2024/25 totals £263.7m. This comprises the General Fund (GF) Programme of £115.6m and the Housing Revenue Account (HRA) Programme of £148.1m.
3. The Building Homes and Communities Strategy included in the current capital programme includes several General Fund and HRA schemes that are at an early stage of development. Their total costs are currently estimated at £307m with assumption that £97m will be funded from borrowing. To date £21m of predevelopment budgets in relation to these schemes have been approved and incorporated in the capital programme. 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.
4. Should these schemes not fully progress there is a risk that some, or all, of the expenditure incurred to date 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.

GENERAL FUND CAPITAL PROGRAMME

5. The General Fund programme is summarised in Table 2 below with details for each service at Appendix 1.

Table 2 – General Fund Capital Programme 2024/25 to 2027/28

	2024/25	2025/26	2026/27	2027/28	Total Budget (All years)
	£'000	£'000	£'000	£'000	£'000
CAPITAL EXPENDITURE					
Children's Services	7,915	1,937	4,314	3,311	17,477
Environment Department	29,877	3,698	2,376	2,376	38,327
Finance and Resources Department	7,587	-	-	-	7,587
General Fund Schemes under the Economy Department	70,172	3,873	3,260	2,900	80,205
Total Expenditure	115,551	9,508	9,950	8,587	143,596
CAPITAL FINANCING					
Specific/External Financing:					
Government/Public Body Grants	7,915	1,937	4,314	3,311	17,477
Grants and Contributions from Private Developers (includes S106/CIL)	13,911	683	500	500	15,594
Capital Grants/Contributions from Non-departmental public bodies	320	-	-	-	320
Capital Grants and Contributions from GLA Bodies	144	-	-	-	144
Sub-total - Specific Financing	22,290	2,620	4,814	3,811	33,535
Mainstream Financing (Internal):					
Capital Receipts - General Fund	3,597	-	-	-	3,597
Earmarked Reserves (Revenue)	6,434	-	-	-	6,434
Sub-total - Mainstream Funding	10,031	-	-	-	10,031
Borrowing-General Fund	82,995	6,888	5,136	4,776	99,795
Borrowing -HRA	235	-	-	-	235
Total Capital Financing	115,551	9,508	9,950	8,587	143,596

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 2023/24 programme as detailed in the 2023/24 quarter 3 capital monitoring report.

Table 3 – General Fund Mainstream Programme 2024/25 to 2027/28

	Indicative Budget 2024/25 £'000	Indicative Budget 2025/26 £'000	Indicative Budget 2026/27 £'000	Indicative Budget 2027/28 £'000	Total Budget (All years) £'000
Invest to Save-Flexible Use of Capital Receipts [FIN]	3,597	-	-	-	3,597
WMC JV Exit Costs [ECD]	1,857	-	-	-	1,857
Carnwath Road [ECD]	1,870	-	-	-	1,870
Hammersmith Bridge Strengthening [ENV]	4,688	-	-	-	4,688
Hammersmith Bridge Pre Restoration Works [ENV]	4,121	-	-	-	4,121
Green Investment Projects	5,000	-	-	-	5,000
Public CCTV [ENV]	1,102	1,139	-	-	2,241
Other Highways Capital Schemes [ENV]	131	-	-	-	131
North End Road - Good Growth Fund [ECD]	224	-	-	-	224
Leisure Centre Capital Investment [ENV]	220	-	-	-	220
Planned Maintenance/DDA Programme [ECD]	6,580	2,400	2,400	2,400	13,780
Waste Collection and Disposal Projects	3,381	-	-	-	3,381
Footways and Carriageways [ENV]	2,030	2,030	2,030	2,030	8,120
Column Replacement [ENV]	406	346	346	346	1,444
Hammersmith Town Hall Refurbishment [ECD]	20,002	-	-	-	20,002
Community Schools Programme [ECD]	350	-	-	-	350
Farm Lane/Mund Street [ECD]	1,119	973	360	-	2,452
Total Mainstream Programmes	56,678	6,888	5,136	4,776	73,478
Financing					
Capital Receipts	3,597	-	-	-	3,597
Increase/(Decrease) in Borrowing	53,081	6,888	5,136	4,776	69,881
Total Financing	56,678	6,888	5,136	4,776	73,478

7. The mainstream programme contains £23.3m of rolling programmes budgets for the corporate planned maintenance (£13.8m including slippages from previous years), footways and carriageways (£8.1m) and street lighting and column replacement (£1.4m). 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 Strategic Director of Finance and lead Cabinet Member.
8. The mainstream programme presented in Table 3 does not include self-financing schemes (where the net General Fund revenue borrowing costs are nil). Whilst the schemes will impact 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.
9. Such self-financing borrowing is forecast to increase by £29.9m over the next 4 years and relates to the Civic Campus development. 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. Table 4 summarises forecast spend on these schemes.

Table 4 - Self -financing schemes and loans CFR movements 2024/25-2027/28

	Indicative Budget 2024/25 £'000	Indicative Budget 2025/26 £'000	Indicative Budget 2026/27 £'000	Indicative Budget 2027/28 £'000	Total Budget (All years) £'000
Approved Expenditure					
Ad Hoc Schemes:					
Acquisition of commercial units (Civic Campus)	29,264	-	-	-	29,264
JV Partnership Loan (Civic Campus)	650	-	-	-	650
Total Mainstream Programmes	29,914	-	-	-	29,914
Financing					
Increase/(Decrease) in Borrowing	29,914	-	-	-	29,914
Total Financing	29,914	-	-	-	29,914

10. General Fund debt is measured by the Capital Finance Requirement (CFR). The CFR measures an authority's underlying need to borrow for a capital purpose. It is considered by the Chartered Institute of Public Finance Accountancy (CIPFA) as the best measure of Council debt as it reflects both external and internal borrowing. The forecast for the General Fund CFR is shown in Table 5 below.

Table 5 - Forecast General Fund headline Capital Financing Requirement (CFR)

GENERAL FUND CFR ANALYSIS	2023/24	2024/25	2025/26	2026/27	2027/28
HEADLINE CFR EXCLUDING SELF FINANCING SCHEMES AND LOANS	£m	£m	£m	£m	£m
Opening Capital Finance Requirement (CFR)	134.01	170.75	221.22	223.51	223.99
Revenue Repayment of Debt (MRP)	(1.60)	(2.61)	(4.60)	(4.65)	(3.61)
Appropriation between HRA & GF	(1.48)	-	-	-	-
Mainstream Programme (Surplus)/Shortfall	39.82	53.08	6.89	5.14	4.78
Closing Capital Finance Requirement (CFR)	170.75	221.22	223.51	223.99	225.15
SELF FINANCING SCHEMES AND LOANS	£m	£m	£m	£m	£m
Opening Capital Finance Requirement	55.42	88.97	84.87	83.08	81.42
Revenue Repayment of Debt (MRP)	-	(0.41)	(1.70)	(1.66)	(1.63)
Repayment of loans	(10.07)	(33.60)	(0.10)	-	-
In Year Borrowing	43.62	29.91	-	-	-
Closing Capital Finance Requirement	88.97	84.87	83.08	81.42	79.79
Finance leases/PFI/ Deferred costs of disposal	12.39	11.69	10.99	10.29	
Total Closing GF CFR	272.11	317.78	317.58	315.70	304.95

11. The forecast General Fund Headline CFR (excluding self-financing schemes) at the start of 2024/25 is £170.8m and is expected to increase to £225.2m by the end of 2027/28. The net increase of £54.4m over the next four years will add a revenue budget pressure, relating to the borrowing costs (MRP plus external interest), of c£3.6m² per annum by the end of 2027/28.

² Cost of borrowing calculated using current PWLB rate of 5.2% and MRP rate of 3.28%.

12. 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 2024/25 - 2027/28. 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.
13. 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 Council's 2024/25 MRP policy is set out in Appendix 3.
14. The MRP payments (including self-financing schemes) are forecast to be £3.02m for 2024/25, raising to £5.24m in 2027/28.
15. A number of affordable housing schemes (already approved or subject to future approvals) contain use of General Fund land for their development and further appropriations of the General Fund land to HRA will be required. The timing of the actual appropriations 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.
16. 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 £84,800 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 Strategic Director of Finance, in consultation with the Cabinet Member for Finance and Reform. The current programme provides for use of £3.6m of capital receipts for these purposes.
17. The forecast is based on known funding allocations as at December 2023 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 2023/24. As additional grants and contributions are confirmed, the General Fund capital programme will increase.

HOUSING CAPITAL PROGRAMME

18. The Housing Capital Programme expenditure and resource forecast is summarised in Table 6 and detailed in Appendix 1. On 6 September 2021 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. The Strategy will be reviewed annually and will inform every subsequent annual revision of the capital programme budget.

Table 6 – Housing Expenditure and Resource Forecast 2024-28

	Indicative 2024/25 Budget £'000	Indicative 2025/26 Budget £'000	Indicative 2026/27 Budget £'000	Indicative 2027/28 Budget £'000
Approved Expenditure				
HRA Asset Management and Compliance Programme	75,570	49,274	56,860	90,878
Building Homes and Communities Strategy	69,016	49,046	12,010	707
Other HRA Capital Schemes	3,522	11,834	12,373	1,760
Total Housing Programme	148,108	110,154	81,243	93,345
Available and Approved Resource				
Capital Receipts - Unrestricted	9,574	6,881	42,265	3,000
Capital Receipts - RTB (141)	1,909	1,929	-	-
Major Repairs Reserve (MRR)	17,600	17,800	18,200	18,800
Contributions Developers (S106)	2,299	7,803	8,075	1,148
Contributions from leaseholders	3,100	3,000	3,000	6,000
Capital Grants from Central Government	2,593	-	-	7,300
RtB GLA Ringfence	7,168	4,576	4,298	612
Borrowing (HRA)	103,565	68,165	5,405	56,485
Total Funding	148,108	110,154	81,243	93,345

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 7, below.

Table 7– Housing CFR Forecast 2024-28

HRA CFR Forecast	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Opening HRA CFR	300.57	362.77	466.57	534.74	540.14
In Year Borrowing	60.72	103.80	68.17	5.41	56.49
Appropriation between HRA & GF	1.48	-	-	-	-
Closing HRA CFR	362.77	466.57	534.74	540.14	596.63

21. The HRA CFR is forecast to be £466.57m by the end of 2024/25 and £596.63m by the end of 2027/28. 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 2024/25 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 is a risk that inflation and interest rates may not fall at the same rate as the business plan anticipates or that inflation and / or interest rates rise further above the long term assumptions within the business plan.
- Rent Regulation. There is uncertainty over government policy on social rents after 2025.
- New developments. 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. 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 five years of receipt. The existing approved Housing Development schemes and the pipeline of

yet to be approved schemes³ is sufficient to make use of these receipts if delivered on time, however there are risks to meeting these deadlines.

EQUALITY IMPLICATIONS

24. 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

25. 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.

26. 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, Head of Finance – Corporate Accountancy, Systems and Tax, 3 January 2024

RISK MANAGEMENT

27. 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, along with high levels of inflation, which will affect construction related costs and increases in interest rates which will impact on the cost of borrowing. The report

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

identifies a number of risks identified in the report 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.

28. 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, Fraud, Risk and Insurance, 22 January 2024

LIST OF APPENDICES:

Appendix 1 – Council Capital Programme by Service Area

Appendix 2 – Flexible Use of Capital Receipts Guidance and Proposed Application

Appendix 3 – Minimum Revenue Provision (MRP) Statement 2024/25

APPENDIX 1 – Detailed Analysis by Service

2024/25	2025/26	2026/27	2027/28	Total Budget (All years)
£'000	£'000	£'000	£'000	£'000

CAPITAL EXPENDITURE					
Children's Services	7,915	1,937	4,314	3,311	17,477
Environment Department	29,877	3,698	2,376	2,376	38,327
Finance and Resources Department	7,587	-	-	-	7,587
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Sub-total (General Fund)	115,551	9,508	9,950	8,587	143,596
Economy Department-HRA Programme	148,108	110,154	81,243	93,345	432,850
Sub-total Economy Department (HRA)	148,108	110,154	81,243	93,345	432,850
Total Expenditure	263,659	119,662	91,193	101,932	576,446

CAPITAL FINANCING					
Specific/External Financing:					
Government/Public Body Grants	10,508	1,937	4,314	10,611	27,370
Grants and Contributions from Private Developers (includes S106/CIL)	16,210	8,486	8,575	1,648	34,919
Capital Grants/Contributions from Non-departmental public bodies	320	-	-	-	320
Capital Grants and Contributions from GLA Bodies	7,612	4,576	4,298	612	17,098
Leaseholder Contributions	3,100	3,000	3,000	6,000	15,100
Sub-total - Specific Financing	37,750	17,999	20,187	18,871	94,807
Mainstream Financing (Internal):					
Capital Receipts - General Fund	3,597	-	-	-	3,597
Capital Receipts - HRA	11,483	8,810	42,265	3,000	65,558
Major Repairs Reserve (MRR)	17,600	17,800	18,200	18,800	72,400
Earmarked Reserves (Revenue)	6,434	-	-	-	6,434
Sub-total - Mainstream Funding	39,114	26,610	60,465	21,800	147,989
Borrowing-General Fund	82,995	6,888	5,136	4,776	99,795
Borrowing -HRA	103,800	68,165	5,405	56,485	233,855
Total Capital Financing	263,659	119,662	91,193	101,932	576,446

APPENDIX 1 – Detailed Analysis by Service

Children's Services

Future Years Budgets

	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000	2027/28 Budget £'000	Total Budget (All years) £'000
Scheme Expenditure Summary					
SEN sufficiency	2,500	600	2,500	1,996	7,596
Basic Need Placement Sufficiency	291	69	521	-	881
Windows & decarbonisation	3,201	-	-	-	3,201
School Maintenance Programme	1,923	1,268	1,293	1,315	5,799
Total Expenditure	7,915	1,937	4,314	3,311	17,477
Capital Financing Summary					
Specific/External or Other Financing					
Capital Grants from Central Government	7,915	1,937	4,314	3,311	17,477
Sub-total - Specific or Other Financing	7,915	1,937	4,314	3,311	17,477
Total Capital Financing	7,915	1,937	4,314	3,311	17,477

Finance and Resources Department

Future Years Budgets

	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000	2027/28 Budget £'000	Total Budget (All years) £'000
Scheme Expenditure Summary					
Invest to Save - Flexible Use of Capital Receipts	3,597	-	-	-	3,597
Tech-tonic 2 Device refresh	3,990	-	-	-	3,990
Total Expenditure	7,587	-	-	-	7,587
Capital Financing Summary					
Mainstream Financing (Internal Council Resource)					
Capital Receipts	3,597	-	-	-	3,597
Use of Reserves	3,755	-	-	-	3,755
Sub-total - Mainstream Funding	7,352	-	-	-	7,352
Borrowing (HRA)	235	-	-	-	235
Total Capital Financing	7,587	-	-	-	7,587

APPENDIX 1 – Detailed Analysis by Service

Environment Department	Future Years Budgets				
	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000	2027/28 Budget £'000	Total Budget (All years) £'000
Scheme Expenditure Summary					
Footways and Carriageways	2,030	2,030	2,030	2,030	8,120
Column Replacement	406	346	346	346	1,444
Other Highways Capital Schemes	4,126	183	-	-	4,309
Clean Air Neighbourhoods	2,847	-	-	-	2,847
Hammersmith Bridge Stabilisation Works	4,688	-	-	-	4,688
Hammersmith Bridge Pre Restoration Works	4,121	-	-	-	4,121
Waste Collection and Disposal Projects	3,381	-	-	-	3,381
Green Investment Projects	5,000	-	-	-	5,000
Public CCTV	1,102	1,139	-	-	2,241
Kings Coronation Youth Fund	597	-	-	-	597
Parks Projects	1,359	-	-	-	1,359
Leisure Centre Capital Investment	220	-	-	-	220
Total Expenditure	29,877	3,698	2,376	2,376	38,327
Capital Financing Summary					
Specific/External or Other Financing					
Grants and Contributions from Private Developers (includes S106/S278)	5,675	183	-	-	5,858
Capital Grants/Contributions from Non-departmental public bodies	320	-	-	-	320
Capital Grants and Contributions from GLA Bodies	124	-	-	-	124
Sub-total - Specific or Other Financing	6,119	183	-	-	6,302
Mainstream Financing (Internal Council Resource)					
Use of Reserves	2,679	-	-	-	2,679
Sub-total - Mainstream Funding	2,679	-	-	-	2,679
Borrowing	21,079	3,515	2,376	2,376	29,346
Total Capital Financing	29,877	3,698	2,376	2,376	38,327

APPENDIX 1 – Detailed Analysis by Service

Economy Department General Fund Managed Schemes	Future Years Budgets				Total Budget (All years) £'000
	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000	2027/28 Budget £'000	
Scheme Expenditure Summary					
Civic Campus					
Hammersmith Town Hall Refurbishment	27,202	-	-	-	27,202
Acquisition of commercial units	29,264	-	-	-	29,264
JV Partnership Loan (Civic Campus)	650	-	-	-	650
Subtotal Civic Campus	57,116	-	-	-	57,116
Building Homes and Communities Strategy (GF sites)					
Mund Street	1,645	973	360	-	2,978
Community Schools Programme	350	-	-	-	350
Subtotal Building Homes and Communities Strategy (GF sites)	1,995	973	360	-	3,328
Other GF Capital Schemes managed by the Economy					
Planned Maintenance/DDA Programme	6,580	2,400	2,400	2,400	13,780
Carnwath Road	1,870	-	-	-	1,870
North End Road - Good Growth Fund	244	-	-	-	244
West Kensington & Gibbs Green Public Realm	510	500	500	500	2,010
WMC JV Exit Costs	1,857	-	-	-	1,857
Subtotal Other GF Capital Schemes managed by the Economy	11,061	2,900	2,900	2,900	19,761
Total Expenditure	70,172	3,873	3,260	2,900	80,205
Capital Financing Summary					
Specific/External or Other Financing					
Grants and Contributions from Private Developers (includes S106)	1,036	500	500	500	2,536
Community Infrastructure Levy (CIL)	7,200	-	-	-	7,200
Capital Grants and Contributions from GLA Bodies	20	-	-	-	20
Sub-total - Specific or Other Financing	8,256	500	500	500	9,756
GF Borrowing	61,916	3,373	2,760	2,400	70,449
Total Borrowing	61,916	3,373	2,760	2,400	70,449
Total Capital Financing	70,172	3,873	3,260	2,900	80,205

APPENDIX 1 – Detailed Analysis by Service /cont.

Economy Department- HRA Capital Programme

Future Years Budgets

Scheme Expenditure Summary

HRA Asset Management and Compliance Programme

Pre Agreed Works
Fire Safety Compliance Programme
Fire Safety Complex Schemes
Lift Schemes
Boiler Schemes
Safety Works - Electrical
Safety Works
Void Works
Other Capital Improvements
Capitalised salaries
Capitalised repairs
Climate Emergency and Other future works
Subtotal HRA Asset Management and Compliance Programme

2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget
£'000	£'000	£'000	£'000

Total Budget (All years)
£'000

7,773	7,041	13,112	17,214	45,140
5,064	1,400	3,450	4,798	14,712
15,185	13,781	-	5,576	34,542
4,192	750	800	1,000	6,742
6,922	4,370	4,670	6,636	22,598
5,382	2,000	4,360	8,168	19,910
7,924	8,052	17,546	21,276	54,798
3,200	1,200	1,200	1,400	7,000
2,265	1,580	770	554	5,169
11,000	5,600	3,300	3,300	23,200
4,070	3,500	3,500	3,982	15,052
2,593	-	4,152	16,974	23,719
75,570	49,274	56,860	90,878	272,582

Building Homes and Communities Strategy (HRA sites)

Homes & Communities Strategy
White City Estate Regeneration
Becklow Gardens
Barclay Close
Jepson House
The Grange
Old Laundry Yard
Education City- HRA element
Hartopp & Lannoy
Farm Lane
Investment in Affordable Housing-Lillie Road Site
Subtotal Building Homes and Communities Strategy (HRA sites)

1,378	-	-	-	1,378
958	215	-	-	1,173
295	720	603	-	1,618
205	573	50	-	828
525	895	1,704	-	3,124
475	860	325	-	1,660
415	536	-	-	951
29,729	1,071	385	-	31,185
20,512	22,746	4,719	707	48,684
4,960	8,808	3,226	-	16,994
9,564	12,622	998	-	23,184
69,016	49,046	12,010	707	130,779

Other HRA Capital Schemes

Stanhope Joint Venture
Nourish Project (Good Growth Fund)
Subtotal Other HRA Capital Schemes
Total Expenditure

3,522	11,603	12,373	1,760	29,258
-	231	-	-	231
3,522	11,834	12,373	1,760	29,489
148,108	110,154	81,243	93,345	432,850

Capital Financing Summary

Specific/External or Other Financing

Capital Grants from Central Government
Contributions from leaseholders
Grants and Contributions from Private Developers (includes S106)
Capital Grants and Contributions from GLA Bodies
RtB GLA Ringfence and Affordable Housing Grants
Sub-total - Specific or Other Financing

2,593	-	-	7,300	9,893
3,100	3,000	3,000	6,000	15,100
2,299	7,803	8,075	1,148	19,325
300	-	-	-	300
7,168	4,576	4,298	612	16,654
15,460	15,379	15,373	15,060	61,272

Mainstream Financing (Internal Council Resource)

Capital Receipts (HRA)
1-4-1 capital receipts
Major Repairs Reserve (MRR) / Major Repairs Allowance
Capital Receipts (GF)
Sub-total - Mainstream Funding

9,574	6,881	42,265	3,000	61,720
1,909	1,929	-	-	3,838
17,600	17,800	18,200	18,800	72,400
-	-	-	-	-
29,083	26,610	60,465	21,800	137,958

Borrowing(HRA)

103,565	68,165	5,405	56,485	233,620
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Total Capital Financing

148,108	110,154	81,243	93,345	432,850
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APPENDIX 2 - FLEXIBLE USE OF CAPITAL RECEIPTS GUIDANCE AND PROPOSED APPLICATION (2024/25)

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 2025 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 £0.800m by the end of 2025/26 for the first tranche. Additional savings are being scoped and validated as the programme progresses and is expected to deliver further revenue savings in time.

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 3 - MINIMUM REVENUE PROVISION (MRP) STATEMENT 2024/25

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 can 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 Strategic 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. 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).
12. 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.
13. 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.
14. 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.
15. The Strategic 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.