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Report to Council

29 FEBRUARY 2012

LEADER
Councillor Stephen Greenhalgh

CAPITAL PROGRAMME 2012/13 TO 2016/17

This report sets out proposals in respect of the capital programme, together with ancillary issues.

Wards

All

CONTRIBUTORS

All Departments

Recommendations:

1. **To approve the General Fund Capital Programme budget at £72.722m for 2012/13.**

2. **To approve a Debt Reduction target of £44.1m by 2016/17 (since 2011/12) which will reduce underlying debt - as measured by the Capital Financing Requirement - to £77.7m.**

3. **To approve that 25% of receipts generated for the decent neighbourhoods programme continue to be used to support general capital investment in 2012/13.**

4. **To approve the following initiatives within the capital programme (Table 4):**
    - **The continuation of the rolling programmes for repairs to Carriageways and Footways £2.1m;**
    - **Corporate Planned Maintenance £2.5m;**
    - **Private Sector Housing Grants £0.45m;**
    - **Parks Improvements £0.5m;**
    - **Contributions to the Invest to Save Fund £0.75m; and**
    - **The Re-provision of Services from Sands End Community Centre £0.22m.**
    - **This totals £6.52m.**

5. **To note and approve the level of resource forecast (Table 2) and indicative expenditure budget 2012/13 of £13.043m for the Decent Neighbourhoods programme as detailed in Appendix 1; and 2012/13 contribution to fund**

works to the HRA stock of £8.82m from the Decent Neighbourhoods Pot (schemes under consideration).

6. **To note the 2012/13 HRA capital programme of £37.42m as set out in Table 6.**

7. **To approve the following annual Minimum Revenue Provision (Appendix 5).**
    - **For debt which is supported through Formula Grant this authority will calculate the Minimum Revenue Provision in accordance with current regulations (namely 4% of the Capital Financing requirement net of adjustment A).**
    - **For debt which has arisen through prudential borrowing it should be written down in equal instalments over the estimated asset life. The debt write-off will commence the year after an asset comes into use.**

8. **To approve the prudential indicators as set out in Appendix 6 to the report.**

1. Introduction

1.1 This report sets out an updated resource forecast and a capital programme for 2012/13 to 2016/17. Since 2006/07, the Council has put in place a debt reduction strategy which has enabled £46m of capital debt to be repaid by the end of 2010/11. Annual cumulative revenue savings[1] of £4m are forecast by 2014/15. The capital programme now put forward seeks to build on these savings whilst funding essential new investment and key Council priorities.

1.2 The Council has embarked on a number of major projects such as King Street Regeneration Strategy and a range of decent neighbourhood schemes. A brief update on these projects is set out in section 6 of this report. Consideration has been taken of known specific funded schemes. Other funding allocations will be addressed when such funding is confirmed.

2. General Fund Debt Reductions

2.1 As at the end of the 2006/07 financial year, the outstanding General Fund debt (as measured by the Capital Financing Requirement – CFR) was £168m. The opening 2010/11 CFR was £132.7m and this reduced to £121.8m by the end of 2010/11. **The forecast closing CFR for 2011/12 is £111.7m**. The CFR is explained in more detail in appendix 4.

2.2 The CFR forecast, together with associated MTFS revenue savings, for future years is identified in Table 1. General fund debt is now forecast to reduce to **£94m in 2012/13 and to £77.7m by 2016/17.**

Table 1 - Forecast Movement in the Capital Financing Requirement (CFR)

	2012/13	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m	£m
Opening Capital Financing Requirement	111.7	94.0	77.7	77.7	77.7
Revenue Repayment of Debt (MRP[2])	(2.7)	(2.0)	(1.4)	(1.4)	(1.4)
Borrowing For Schools & Education Investment[3]	5.0	0.3	0.0	0.0	0.0
Annual (Surplus) in the Capital Programme	(19.9)	(14.6)	1.4	1.4	1.4
Closing CFR	**94.0**	**77.7**	**77.7**	**77.7**	**77.7**
Net Movement from the opening 2011/12 CFR (£121.8 m)	*(27.8)*	*(44.1)*	*(44.1)*	*(44.1)*	*(44.1)*
Revenue Impact (9% of CFR – lagged by 1 year)		*(2.5)*	*(4.0)*	*(4.0)*	*(4.0)*

[1] Taking 2011/12 as the start year.
[2] Minimum Revenue Provision (see Appendix 5 for further information).
[3] Borrowing for Schools Investment to be financed from the DSG Funding.
Figures may not cast due to roundings

2.3 It should be noted that the 2012/13 debt reduction target of **£94m** is based on an assumption of General Fund forecast receipts of **£35.010m** being realised. These are detailed in Appendix 3. The actual level, and timing, of sales is subject to certain risks – most notably a dependence on the wider property market, appropriate consultation and planning considerations. In addition a portion of receipts – up to a cap of 4% - may be appropriated to cover the cost of disposal. The Council continues to review its asset holdings to identify potential further disposals. The target for forecast sales is ambitious and a risk is identified within the Medium Term Financial Strategy that sales may slip or not be achieved. An additional risk is that significant cost of sales may be incurred.

3. Decent Neighbourhoods Programme

3.1 A key Council objective is the regeneration of housing estates and creation of sustainable communities. Certain housing capital receipts have been earmarked for this purpose and a number of initiatives are now in progress whilst others are under consideration. Details of the expenditure and resource forecasts are provided in Appendix 1 and are summarised in Table 2.

3.2 The programme is forecast to be in **surplus by £102.7m by 2016/17**. The actual level, and timing, of sales underpinning this surplus is subject to the same risks cited in 2.3.

Table 2 - Decent Neighbourhoods - Expenditure and Resource Forecast

Decent Neighbourhoods Summary	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	£m	**£m**	**£m**	**£m**	**£m**
Forecast expenditure	13.043	1.747	0	0	0
Forecast resources	(31.874)	(32.408)	(21.000)	(21.000)	(21.000)
In year (surplus) - based on approved schemes	**(18.831)**	**(30.661)**	**(21.000)**	**(21.000)**	**(21.000)**
Schemes under consideration: Forecast expenditure	14.570	6.652	1.796	(4.183)	0.810
Revised In Year (Surplus)	**(4.261)**	**(24.009)**	**(19.204)**	**(25.183)**	**(20.190)**
Balance brought forward	(9.873)	(14.134)	(38.143)	(57.347)	(82.530)
Current Cumulative forecast (Surplus)	**(14.134)**	**(38.143)**	**(57.347)**	**(82.530)**	**(102.720)**
Last Reported Cumulative (Surplus)	*(20.112)*	*(36.168)*	*(56.273)*	*(82.387)*	*N/A*
Budget Council	*(26.015)*	*(48.178)*	*(69.178)*	*(90.178)*	*N/A*

3.3 **Decent Neighbourhoods Receipts**. The council has - via a number of specific Cabinet decisions - opted to ring fence receipts from disposals of certain asset types (hostels, street properties, and other regeneration sites) for regeneration or affordable housing purposes. These receipts have been channelled into the

Decent Neighbourhoods Fund. Although this approach has allowed for investment in a number of such schemes, in general the level of receipts coming into the fund has outstripped the expenditure from it. This has led to a position where the fund is projected to be in **surplus by between £14.1m (2012/12) and £102.7m (2016/17) over the capital programme period.** This is subject to future decisions regarding the possible use of such resources and given the imbalance in funding between this and the general programme the Council agreed that, from 2010/11, these receipts should be top-sliced by 25% to contribute to general resources. This decision is intended to run until 2012/13. The continuation of this contribution thereafter is subject to uncertainties given proposed changes to the Housing Finance regime and it will need to be reconsidered once any changes to the accounting framework are made clear.

3.4 The resources available within the decent neighbourhood's pot have arisen from the sale of HRA land and houses (non Right to Buy). It should be noted that up to 75% of these receipts are at risk of being paid over to the government under pooling regulations. However, pooling can be avoided, where the receipt can be matched against the Council's Capital Allowance. The concept of Capital Allowance is explained in detail in appendix 4. As at the start of 2011/12 this allowance stood at £7.3m. This is forecast to increase to £12.9m at year-end after taking into account expected receipts and qualifying expenditure for the year.

3.5 Over the longer term there is a risk that the Capital Allowance will be exhausted given the success in disposing of HRA properties combined with having few or no schemes against which to match receipts. Should this risk materialise it will become necessary to pool a portion of receipts.

3.6 In considering this risk it is important to note the following:

- In addition to actual expenditure, the Capital Allowance can be increased by a 'resolution to spend' - that is to say a clear and quantifiable commitment to enter into affordable housing or regeneration programmes.
- The government is presently consulting on changing the capital allowance regulations from 2012/13 to allow authorities to apply receipts against the repayment of housing debt.

4. General Fund Forecast Expenditure and Resources

4.1 The latest General Fund expenditure and resource forecast is set out in Table 3. A **surplus in resources of £19.9m is identified for 2012/13**. The actual level, and timing, of sales is again subject to the risks cited in 2.3. It has been assumed, in accordance with the Council's debt reduction strategy, that the surplus on the General Fund capital programme will be set aside for debt redemption.

Table 3 - General Fund Capital Programme Summary

	2012/13	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m	£m
Forecast Expenditure (see Table 4)	72.722	11.134	8.230	7.000	7.000
Forecast Resources (see Table 5)	(92.595)	(25.731)	(6.850)	(5.620)	(5.620)
In-Year (Surplus)/Deficit	**(19.873)**	**(14.597)**	**1.380**	**1.380**	**1.380**

4.2 **Expenditure** - The current expenditure programme is set out in Appendix 2 and is summarised in Table 4. The mainstream expenditure budgets relate to the completion of existing schemes and continuation of rolling programmes (Carriageways, Footways, Corporate planned maintenance, Private Sector Housing Grants, Parks Development, and contribution to the Invest to Save Fund).

Table 4 - General Fund Capital Programme - Expenditure Forecast

	2012/13	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m	£m
Completion of Existing[4] Schemes (mainstream)	10.951	0.614	0	0	0
Continuation of Rolling Programmes (mainstream):					
- Carriageways	1.350	1.350	1.350	1.350	1.350
- Footways	0.750	0.750	0.750	0.750	0.750
- Corporate planned maintenance	2.500	2.500	2.500	2.500	2.500
- Private Sector Housing Grants	0.450	0.450	0.450	0.450	0.450
- Parks Development	0.500	0.500	0.500	0.500	0.500
- Contributions to Invest to Save	0.750	0.750	0.750	0.750	0.750
- Re-provision of services from Sands End Community Centre	0.220	0	0	0	0
Total Mainstream Expenditure	**17.471**	**6.914**	**6.300**	**6.300**	**6.300**
Specific Funded Schemes	**55.251**	**4.220**	**1.930**	**0.700**	**0.700**
Total Forecast Expenditure	**72.722**	**11.134**	**8.230**	**7.000**	**7.000**

4.3 **Resources** - The general fund resources forecast is shown in Table 5. In line with the debt reduction strategy the core mainstream capital programme continues to be funded from capital receipts (Appendix 3) with no provision made for new borrowing other than the continuation of prudential borrowing for Schools and Education (see appendix 2b). The resource forecast for 2012/13 includes a 25% contribution from receipts realised from the decent neighbourhoods asset disposals programme (see 3.3). The specific resource forecast is based on known

[4] Existing mainstream projects include, the Primary and Secondary School Capital Programmes £9.627m; Corporate Planned Maintenance £738K, and Bishops Park scheme £586K = £10.951m

allocations and includes the updated position for schools capital funding (refer to para 6.6) and Transport for London Local Implementation Plan funding of £2.529m in 2012/13. It will be updated over the forthcoming months in accordance with relevant government, and other public and private, spending announcements. In addition the capital receipts figures will be updated as they become known.

Table 5 - General Fund Resource Forecast

	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	£m	**£m**	**£m**	**£m**	**£m**
Right to Buy Receipts	0.500	0.500	0.500	0.500	0.500
General Capital Receipts (Appendix 3)	35.010	21.011	4.420	4.420	4.420
Reimbursement to decent neighbourhoods pot	(7.000)				
Contributions from Decent Neighbourhoods. (Appendix 1)	8.834	0	0	0	0
Scheme Specific Resources	55.251	4.220	1.930	0.700	0.700
Total Forecast Resources	**92.595**	**25.731**	**6.850**	**5.620**	**5.620**

5. Housing Capital Programme

5.1 The latest capital resource forecast for the Housing Capital Programme is set out in table 6 below, together with the proposed Housing Revenue Account Capital Programme.

Table 6 - HRA Capital Programme Summary

HRA Forecast	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
	£m	**£m**	**£m**	**£m**	**£m**
Expenditure:					
Proposed HRA Capital Programme	35.793	31.091	28.858	29.579	30.318
Jepson House (previously Decent Neighbourhoods Programme)	1.627	0.078	0	0	0
Total Expenditure	**37.420**	**31.169**	**28.858**	**29.579**	**30.318**
Resources:					
Major Repairs Allowance	15.178	15.694	16.225	16.772	17.336
Expensive Voids Contributions - Proposed	8.820	4.652	1.796	0.931	0.810
Jepson House - Decent Neighbourhoods Programme	1.627	0.078	0	0	0
Leasehold Contributions	6.692	6.345	3.537	2.500	2.500
Edward Woods receipts	5.103	0	0	0	0
Revenue Contributions	0	4.400	7.300	9.376	9.672
Other Specific Funding	0	0	0	0	0
Total Resources	**37.420**	**31.169**	**28.858**	**29.579**	**30.318**
Forecast (Surplus)/Deficit	**0**	**0**	**0**	**0**	**0**

5.2 The proposed future programme maintains the condition and fitness for purpose of the stock including ensuring homes are maintained at a decent standard and remain in a condition suitable for letting, addresses our statutory and health and safety obligations, improves energy efficiency, addresses residual backlog works which were outside the scope of the decent homes programme and meets resident priorities such as security and environmental improvements. It should be noted that mainstream resources are insufficient to cover the programme and a draw down has been made from the Decent Neighbourhoods pot of £8.82m in 2012/13 as approved by Cabinet in December 2011.

5.3 In November 2011, the Government announced draft determinations to implement self-financing of the HRA from April 2012. Table 6 illustrates the revised assumptions for LBHF's Major Repairs Allowance over the next five years.

6. Horizon Scanning - Projects and Resources

6.1 The Council is currently progressing a number of major projects that are likely to impact on the capital programme over the next 5 years. An update is provided in this section on current progress. As these projects are progressed, appropriate amendments will be made to Capital and Revenue Estimates subject to Member approval.

6.2 **King Street Regeneration**
The Council is currently taking forward proposals for this scheme which includes a major change to the existing Civic Accommodation provision in Hammersmith. At present a developer has been appointed to take forward this scheme and a planning application submitted. It is hoped that the strategy can be delivered at net nil cost to the Council but this position, particularly in the light of the current economic conditions, will need to be kept under review.

6.3 **Earl's Court**
The Council is in discussions with other landowners (Transport for London and Capital & Counties) regarding the potential redevelopment of Earl's Court after 2012. This is intended to bring substantial benefits to the wider area, including more and better quality homes, new jobs and improved open spaces. The plans could include the West Kensington and Gibbs Green Estate and a key concern for the Council is that any scheme must provide 760 new homes for the residents. The Council recently received £15m from Capital and Counties (CapCo) for signing an exclusivity agreement relating to the Earl's Court Regeneration site. Of this receipt, £10m is refundable should a conditional land sale agreement (CLSA) not be possible; the remaining £5m is not refundable under any circumstances.

6.4 **White City/Shepherds Bush Market**
White City is a major development area with potential for up to 5,000 new homes being built. Most of those are being earmarked for land east of Wood Lane with detailed proposals likely to emerge in the next few years. The Council has also set out a new vision to protect Shepherds Bush Market. This is subject to the developer assembling the rest of the land needed to come-up with a viable scheme for redeveloping the market that ultimately gets planning consent and is in accordance with the Council's planning brief.

6.5 **A Local Housing Company**
The Council is exploring options for establishing two housing companies - a development company that would provide new housing, including housing for sale, and a company with charitable aims that would subsequently hold any rented or intermediate housing (such as shared ownership). The Council has identified a number of sites in its ownership which could, if developed, represent a significant opportunity to develop new homes through innovative delivery arrangements.

6.6 **Schools' Capital Programme**
Cabinet gave approval to the School Organisation Strategy in March 2011 to deliver the Council's key educational priorities:

- To meet the Council's statutory responsibility to provide school places to meet demand; and
- The Council's commitment to :
  - The Special Schools Strategy
  - The Schools of Choice agenda for expanding popular schools
  - Increase the percentage of resident children choosing the Borough's schools.

On 3 November 2011, the Government announced increased 2011/12 capital funding for Local Authorities experiencing the greatest need in managing shortfalls in providing pupil places. This additional funding has been made available from efficiencies and savings identified in continuing BSF projects. LBHF were one of the highest recipients being 7th highest nationally with an additional 2011/12 basic needs allocation of **£15.072m** reflecting the pressures the Council has already identified in the need for statutory school places. Officers have been working with schools to develop proposals for both the 2011/12 Capacity allocation and plans for the 2012/13 allocations, subject to Cabinet consideration on the 5 March 2012.

On 13 December 2011, the Government announced new capital funding for 2012/13 including allocations for devolved formula capital, basic need (funding for additional pupil places), and maintenance of which LBHF will benefit from **£16.6m** local authority capital grant funding.

6.7 **White City Collaborative Care Centre**
The centre will be both a flagship joint health and social care service centre operated in conjunction with H&F and the PCT, and a major housing development delivering on the Council's priority to increase home ownership in the borough. The Council side of the project will be delivered via a LIFT Co arrangement, a health finance vehicle with similarities to a PFI deal, where the Council will take a lease-plus interest in the building for a period of 25 years. PFI Credits worth £335,200 per year over 25 years were approved in April 2011 however the project is still subject to full financial close (expected January 2012). Should this be approved, development can expected to commence shortly thereafter.

6.8 **Park Royal City International (Old Oak Common Opportunity Area)**
As part of developing the business case for a High Speed 2 / Crossrail interchange at Old Oak Common, preliminary discussions have been held with Transport for London, Crossrail and Network Rail to promote oversite development as part of the potential first phase of development. If these proposals come to fruition, this may involve the Council considering underwriting circa £30 million to ensure that preliminary infrastructure is installed to facilitate subsequent oversite development, as part of the initial £300 million investment for phase 1 works.

6.9 With regard to resources, a major potential development in the coming years will be the introduction of the **Community Infrastructure Levy (CIL)**. This is a new levy that local authorities can choose to charge on new developments in their area. The money raised can be used to support development by funding infrastructure that the Council, local community and neighbourhoods want. Over time it is designed to replace the funding currently delivered through Section 106 payments. The Mayor of London has introduced a London-wide CIL to pay for Crossrail and the Council is currently considering whether to introduce its own CIL. Should the Council introduce a CIL this will give rise to stream of funding which need to be deployed for infrastructure development and improvement.

7. Executive Director of Finance and Corporate Governance Comments

7.1 Debt reduction is a key element of the Council's revenue budget strategy. The proposals set out in this report will provide for annual revenue savings of £8.1m to have been delivered from 2006/07 to 2014/15. The future delivery of these savings is heavily reliant on meeting the target for asset sales and progress against target will need to be closely monitored. The costs of sale, including security and relocation, also need to be tightly controlled to avoid additional capital and revenue spend pressures.

7.2 The Council's mainstream capital programme is now largely restricted to core rolling programmes but it is looking to regenerate a number of priority areas through a number of initiatives. These may have a major impact, both in terms of expenditure and resources, on the capital forecast over the next 5 years. Amendments will be made in line with Member approval.

7.3 In accordance with the requirements of the Prudential Code for Capital Finance local authorities are required to maintain a number of prudential indicators. These are set out in Appendix 4. The indicator used to reflect the underlying need of an authority to borrow for a capital purpose is the Capital Financing Requirement (CFR). The General Fund CFR is estimated to be £111.7m at the start of 2012/13. The proposals set out in this report are estimated to reduce it to £77.7m by 2016/17. This net reduction has been taken account of within the Council's Treasury Management Strategy. No allowance is made yet for any borrowing should a decision be taken to proceed with a housing company.

7.4 Each year local authorities are required to set aside some of their revenues as provision for debt repayment. This is commonly termed the minimum revenue provision (MRP). Before the start of each financial year full Council is required to approve a statement of its policy on making MRP in respect of that financial year. Appendix 5 sets out the options now available to Hammersmith and Fulham and recommends which option should be followed.

8. COMMENTS OF THE ASSISTANT DIRECTOR (LEGAL AND DEMOCRATIC SERVICES)

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

Capital Budget Monitoring and Financing Information:

Appendix 1 Decent Neighbourhoods (Housing & Regeneration) 2012/2017
Appendix 2a Summary General Fund Capital Programme 2012/2017
Appendix 2b Departmental General Fund Capital Programme 2012/2017 - Children's Services, Adult Social Care, Transport & Technical Services, Finance and Corporate, Environment, Leisure and Residents Services
Appendix 3 General Fund anticipated capital receipts 2012/13 to 2016/17
Appendix 4 The Capital Financing Requirement (CFR) and Capital Allowance
Appendix 5 Annual Minimum Revenue Provision (MRP) Statement
Appendix 6 Prudential Indicators

LOCAL GOVERNMENT ACT 2000 – BACKGROUND PAPERS

No.	Brief Description of Background Papers	Name/Ext. of holder of file/copy	Department
1.	Capital Monitoring Documents	Isaac Egberedu Ext 2503 Jade Cheung Ext 3374	Finance Dept., 2nd Floor, Town Hall Extension

Appendix 1 - Decent Neighbourhoods (Housing & Regeneration) 2012/2017

HOUSING AND REGENERATION CAPITAL PROGRAMME					
Expenditure / (Resources)	**2012/13 £'000**	**2013/14 £'000**	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**
Fulham Court (development including Childrens Centre)	1,722	1,747	0	0	0
Hostel Improvements	1,321	0	0	0	0
Debt Repayment taken under pooling rules from receipts.	9,500	0	0	0	0
Shop Investments	500	0	0	0	0
Total H&R Expenditure	**13,043**	**1,747**	**0**	**0**	**0**
Forecast (Properties to be identified)	(21,000)	(24,500)	(28,000)	(28,000)	(28,000)
Other Sales	(14,335)	(18,814)	0	0	0
Total Sales Receipts	**(35,335)**	**(43,314)**	**(28,000)**	**(28,000)**	**(28,000)**
Resource Transfers					
Temporary use for debt reduction	(7,000)	0	0	0	0
Capital Investment in maintaining existing stock	0	0	0	0	0
Contributions to Jepson House	1,627	78	0	0	0
25% of receipts to the mainstream programme	8,834	0	0	0	0
25% of receipts awaiting further decisions.		10,829	7,000	7,000	7,000
Total Resources	**(31,874)**	**(32,408)**	**(21,000)**	**(21,000)**	**(21,000)**
In Year (Surplus)/Deficit	**(18,831)**	**(30,661)**	**(21,000)**	**(21,000)**	**(21,000)**
SCHEMES UNDER CONSIDERATION	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2015/16**
Total	**14,570**	**6,652**	**1,796**	**(4,183)**	**810**
Revised In-Year Surplus/Cost	**(4,261)**	**(24,009)**	**(19,204)**	**(25,183)**	**(20,190)**
Revised Cumulative Total	**(14,134)**	**(38,142)**	**(57,346)**	**(82,529)**	**(102,719)**
Notes:					
No allowance has been made for the reprovision of family dwellings under the revised voids policy current under review					

Appendix 2a - Summary General Fund Capital Programme 2012/2017

	2012/13 Budget	2013/14 Budget	2014/15 Budget	2015/16 Budget	2016/17 Budget
Department	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Children's Services	57,174	2,409	0	0	0
Adult Social Care	1,467	450	450	450	450
Transport & Technical Services	9,645	7,025	6,530	5,300	5,300
Finance and Corporate	750	750	750	750	750
Environment, Leisure and Residents Services	3,686	500	500	500	500
Total Capital Programme	**72,722**	**11,134**	**8,230**	**7,000**	**7,000**
Draft Capital Financing					
Mainstream (Funded from Capital Receipts):					
Children's Services	9,847	614	0	0	0
Adult Social Care	450	450	450	450	450
Transport & Technical Services	5,338	4,600	4,600	4,600	4,600
Finance and Corporate	750	750	750	750	750
Environment, Leisure and Residents Services	1,086	500	500	500	500
Capital Receipts	**17,471**	**6,914**	**6,300**	**6,300**	**6,300**
Specific Funding					
Capital Grant from Central Government departments	36,974	0	0	0	0
Grants and Contributions from Private Developers and third parties	6,028	15	0	0	0
Grants from the Arts Council	3,050	1,450	0	0	0
Capital funding from GLA Bodies/ Transport for London	3,529	1,725	1,230	0	0
Revenue Contributions	700	700	700	700	700
Prudential Borrowing	4,970	330	0	0	0
Total Scheme Specific	**55,251**	**4,220**	**1,930**	**700**	**700**
Total Resources	**72,722**	**11,134**	**8,230**	**7,000**	**7,000**

Appendix 2b - Departmental General Fund Capital Programme 2012/2017

CHILDREN'S SERVICES CAPITAL PROGRAMME					
Schemes	**2012/13 Budget**	**2013/14 Budget**	**2014/15 Budget**	**2015/16 Budget**	**2016/17 Budget**
	£'000	**£'000**	**£'000**	**£'000**	**£000's**
Lyric Theatre Development	8,850	1,450	0	0	0
Primary Capital Programme	942	79	0	0	0
Schools Capital Programme	46,762	880	0	0	0
Reprovision of Services from Sands End Community Centre	620	0	0	0	0
Total Children's Services	**57,174**	**2,409**	**0**	**0**	**0**
CHILDREN'S SERVICES FINANCING SUMMARY					
Total Mainstream	**9,847**	**614**	**0**	**0**	**0**
Specific Funding					
Capital Grant from Central Government	35,957	0	0	0	0
Grants and Contributions from Private Developers and Leaseholders	2,350	15	0	0	0
The Arts Council	3,050	1,450	0	0	0
London Development Agency	1,000	0	0	0	0
Prudential borrrowing for schools and the Lyric	4,970	330	0	0	0
Total Specific Funding	**47,327**	**1,795**	**0**	**0**	**0**
Total Children's Services	**57,174**	**2,409**	**0**	**0**	**0**

Appendix 2b - Departmental General Fund Capital Programme 2012/2017

ADULT SOCIAL CARE CAPITAL PROGRAMME					
	2012/13 Budget	2013/14 Budget	2014/15 Budget	2015/16 Budget	2016/17 Budget
Schemes	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Adults' Personal Social Services Grant	1,017	0	0	0	0
Disabled Facilities Grant	450	450	450	450	450
Total Community Services	**1,467**	**450**	**450**	**450**	**450**
ADULT SOCIAL CARE FINANCING SUMMARY					
Mainstream Funded Schemes	**450**	**450**	**450**	**450**	**450**
Capital Grant from Central Government department - DOH Adults' PSS	1,017	0	0	0	0
Total Specific Funding	**1,017**	**0**	**0**	**0**	**0**
Total Community Services	**1,467**	**450**	**450**	**450**	**450**

TRANSPORT & TECHNICAL SERVICES CAPITAL PROGRAMME					
Scheme	**2012/13 Budget**	**2013/14 Budget**	**2014/15 Budget**	**2015/16 Budget**	**2016/17 Budget**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
BTS Capital Planned Maintenance	3,238	2,500	2,500	2,500	2,500
Footways & Carriageways	2,100	2,100	2,100	2,100	2,100
Transport For London Schemes	2,529	1,725	1,230	0	0
Developers Agreements Total	1,078	0	0	0	0
Parking Reserve Total	700	700	700	700	700
Total Environment Services	**9,645**	**7,025**	**6,530**	**5,300**	**5,300**
TRANSPORT & TECHNICAL SERVICES FINANCING SUMMARY					
Total Mainstream Funded Schemes	**5338**	**4600**	**4600**	**4600**	**4600**
Developer Contributions	1,078	0	0	0	0
Capital funding from GLA Bodies - Transport for London	2,529	1,725	1,230	0	0
Parking Reserve - Revenue Contributions	700	700	700	700	700
Total Specific Funds	**4,307**	**2,425**	**1,930**	**700**	**700**
Total Environment Services	**9,645**	**7,025**	**6,530**	**5,300**	**5,300**

Appendix 2b - Departmental General Fund Capital Programme 2012/2017

FINANCE & CORPORATE SERVICES CAPITAL PROGRAMME					
	2012/13 Budget	**2013/14 Budget**	**2014/15 Budget**	**2015/16 Budget**	**2016/17 Budget**
Schemes	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Contribution to Invest to Save Fund	750	750	750	750	750
Total FCS	**750**	**750**	**750**	**750**	**750**
FINANCE & CORPORATE SERVICES FINANCING SUMMARY					
Mainstream Total	750	750	750	750	750
Total FCS	**750**	**750**	**750**	**750**	**750**

ENVIRONMENT, LEISURE AND RESIDENTS SERVICES CAPITAL PROGRAMME					
	2012/13 Budget	**2013/14 Budget**	**2014/15 Budget**	**2015/16 Budget**	**2016/17 Budget**
Schemes	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Parks Capital Programme	500	500	500	500	500
Bishops Park	830	0	0	0	0
Shepherds Bush Common Improvements	2,356	0	0	0	0
Total Residents Services	**3,686**	**500**	**500**	**500**	**500**
ENVIRONMENT, LEISURE AND RESIDENTS SERVICES FINANCING SUMMARY					
Capital receipts	1,086	500	500	500	500
Developer Contributions	2,600	0	0	0	0
Total Residents Services	**3,686**	**500**	**500**	**500**	**500**

Appendix 3 - General Fund anticipated capital receipts 2012/13 to 2016/17

2012/13	
58 Bulwer Street	
34 Fulham Palace Road	
School Caretaker Houses	
St Johns Walham Green	
3 Blacks Road (Irish Centre)	
Palingswick House	
12-14 Letchford Gardens	
Hurlingham Yard	
Fulham Town Hall	
Stevenage Road Day Centre	
11 Farm Lane	
Sale of Gibbs Green (Earls Court Regeneration)	
Distillery Lane	
132 Wandsworth Bridge Road	
Fulham Cemetery Lodge	
West Lodge, Margravine Cemetery	
Total 2012-13	**35,010**
2013/14	
Fulham Cross Centre	
Sands End	
282 Goldhawk Rd	
31 Paddenswick Road	
The Lodge Bishops Avenue	
The Lodge North Sheen Cemetery	
The Lodge Paddenswick Road	
The Lodge, Mortlake Cemetery	
50 Commonwealth Avenue	
Clancarty Lodge	
Greswell Centre	
280 Goldhawk Road	
The Lodge Old Oak Common	
Pennard Road	
Total 2013-14	**21,011**
2014/15	
Stowe Rd	
Property to be identified	
Total 2014-15	**4,420**
2015-16	
Property to be identified	**4,420**
2016-17	
Property to be identified	**4,420**
Total All Years	**69,281**

Appendix 4 - The Capital Financing Requirement (CFR) and Capital Allowance

The Capital Finance Requirement (CFR)

The CFR measures an authority's underlying need to borrow for a capital purpose. It replaced the 'credit ceiling' as the Council's measure of debt.

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

An important caveat is that the CFR does not necessarily equal the outstanding loans of the authority. A council may be cash rich and pay for a new asset in full without entering into new loans. However unless the council simultaneously 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. In this example the authority has effectively borrowed internally.

In order to the keep the CFR 'in check', Local Authorities are required to recognise an annual revenue cost – known as the Minimum revenue Provision (MRP) – which reduces it. There are a number of options for selecting MRP, although traditionally this has been 4% of the CFR.

Authorities are also able to make voluntary provisions – these are basically the application of internal resources over and above the MRP.

In summary:

- The CFR (the underlying need to borrow for a capital purpose) will increase whenever capital expenditure is incurred.
- Where capital expenditure is resourced immediately from internal resources the CFR will reduce at the same time that the capital expenditure is incurred, resulting in no net increase to the CFR.
- Where not resourced immediately the CFR will increase. This will be the case whether or not external borrowing actually occurs.
- The CFR may be reduced over time by future applications of internal resources.
- CFR is reduced when minimum revenue provision (MRP) or loans fund repayments are made to revenue.

Pooling and the Capital Allowance

The Local Government Act 2003 introduced the concept of pooling of Housing Revenue Account (HRA) capital receipts. Under these rules, Local Authorities have been required to pay over a portion of HRA capital receipts to the Government. The amount of money paid over to Government depends on various factors including the type of property being disposed of, disposal expenses (which can be netted-off against the receipt) and the capital allowance (explained further on).

Appendix 4 - The Capital Financing Requirement (CFR) and Capital Allowance

Type Of Receipt

1. Right to Buy (RTB) - 75% of capital receipts arising from the disposal of a dwelling through Right to Buy are paid over to the Government (pooled). This applies to disposals and to the principal element of repayments on loans (usually mortgages) granted by the authority for Right To Buy or other purchases of HRA properties.

2. Non-RTB Disposals - these include non-dwellings (such as shops or bare land), non-RTB dwellings (for example vacant property) and other receipts, such as disposal of mortgage portfolios. These items need not always be pooled - see '*Capital Allowance*' below. Where they are pooled, the poolable proportion is 75% for dwelling sales and 50% for other assets.

The Capital Allowance

The Capital Allowance constitutes a sort of 'pot' which local authorities top up by specified types of expenditure and represents a mechanism which allows Local Authorities to retain certain HRA receipts (as opposed to pooling them).

The Capital Allowance is the total of **past or planned** expenditure on affordable housing and regeneration (defined as carrying out of works that bring into effective use assets that are under-used, vacant or derelict). The value of the pot may be drawn upon to reduce non-RTB capital receipts before calculating the poolable amount. The value of the pot increases whenever qualifying expenditure is either incurred or planned and falls each time it is applied to reduce a receipt. Where the value of pot falls to nil, then the authority will be required to pool non-RTB receipts as prescribed above (see *Type of Receipt*).

There is nothing to stop the authority 'topping up' the value of the Capital Allowance with resolutions to spend, however these cannot then be counted when the actual expenditure is incurred. Similarly if the resolution to spend is removed then the allowance should fall.

The Government is currently consulting on changes to the Capital Allowance which will enable HRA debt to be included - this will effectively allow authorities to apply receipts to HRA debt in the absence of qualifying spend or resolutions to spend. These changes, if approved, are expected to take effect from 2012/13.

Appendix 5 - Annual Minimum Revenue Provision (MRP) Statement

Recommendation

The recommended Annual MRP statement for Hammersmith and Fulham is:

- For debt which is supported by Revenue Support Grant this authority will calculate the Minimum Revenue Provision in accordance with current regulations (namely 4% of the Capital Financing Requirement net of Adjustment A)
- For debt which has arisen through prudential borrowing it shall be written down in equal instalments over the estimated asset life. The debt write-off will commence the year after an asset comes into use.

Background

Each year local authorities are required to set aside some of their revenues as provision for debt repayment. This is commonly termed the minimum revenue provision (MRP).

Local authorities are required to approve an annual MRP Statement.

This Appendix sets out:

- The options.
- A recommended annual MRP Statement for this authority.

The Options

Councils can opt for 4 options regarding the MRP calculation.

Option 1

This provides for local authorities to calculate MRP in line with the minimum statutory charge. This is 4% of their opening Capital Financing Requirement, net of Adjustment A and the Commutation adjustment. As set out in the table below this would provide for an LBHF charge of £2.740m in 2012/13.

	£’000
Opening 2012/13 Capital Financing Requirement (CFR)	111,679
Less Adjustment A	(43,179)
Adjusted CFR	68,500
Minimum Gross MRP (at 4%)	2,740

The statutory minimum is not considered appropriate for this authority. LBHF has been concerned to ensure that all prudential borrowing is sustainable and that debt is actively managed downwards. As such it has decided to write down all prudential borrowing over the asset life. This should ensure that budget provision is available to fund asset replacement and that overall borrowing levels are affordable.

Appendix 5 - Annual Minimum Revenue Provision (MRP) Statement

Option 2

This provides for authorities to calculate MRP prior to Adjustment A.

This is not considered appropriate. Given the scale of Adjustment A for LBHF it would increase the level of MRP by £1.727m. This is not affordable. It is also disproportionate given that our actual borrowing is below the CFR net of Adjustment A. It represents an over provision.

Option 3

This provides for separate treatment for supported and unsupported (prudential) borrowing.

For supported borrowing MRP would be calculated as at present (4% on the CFR net of Adjustment A).

For unsupported borrowing the debt would be written down over the asset life.

This option is current LBHF practice. It should be noted that for this Council:
- The debt write off would start the year after an asset comes into use. This would provide transitional relief as schemes are brought on stream.
- The level of unsupported borrowing is excluded from the 4% CFR calculation. This is logical because you are otherwise, in the short-term, writing down debt 'twice' (at both 4% and over the asset life).

Under this option authorities need to carefully consider the type of assets they fund through prudential borrowing. For example, in the short-term, it could be financially advantageous to fund schemes that have a long asset life, rather than a short-life, through prudential borrowing. This would reduce the MRP charge. Whilst this is a consideration, and will be borne in mind, it is unlikely to be an attractive option for LBHF. This authority only undertakes prudential borrowing when it is considered affordable and is supported by a business case. For example if IT equipment is purchased through prudential borrowing it is more sustainable for the debt to be repaid over the asset life. This ensures that revenue capacity is retained for its replacement. It also requires Departments to properly cost out their business case.

The total estimated MRP charge for this option is £2.665m which is £0.075m greater than option 1.

Appendix 6 - Prudential Indicators

CAPITAL EXPENDITURE

The proposed indicative capital programme for the current financial year and the forthcoming financial years built upon the assumed level of resources is as follows:

	Forecast 2011/12 £000	Estimate 2012/13 £000	Estimate 2013/14 £000	Estimate 2014/15 £000
General Fund	37,836	72,722	11,134	8,230
Housing Revenue Account	41,346	37,420	31,169	28,858
Decent Neighbourhoods	4,005	13,043	1,747	0
TOTAL	**83,187**	**123,185**	**44,050**	**37,088**

The above figures exclude over-programming.

CAPITAL FINANCING REQUIREMENT (CFR)

As a consequence of the proposed indicative capital programme, it is envisaged that the capital financing requirement, which reflects the underlying need to borrow to finance the capital programme, will be as follows:

	Forecast 2011/12 £000	Estimate 2012/13 £000	Estimate 2013/14 £000	Estimate 2014/15 £000
General Fund	111,679	94,036	77,735	77,733
Housing Revenue Account	217,427	217,344	207,733	205,312
TOTAL	**329,106**	**311,380**	**285,468**	**283,045**

The General Fund CFR includes allowance for new prudential borrowing of £5.3m regarding the Schools and Education capital programme.

NET BORROWING AND THE CAPITAL FINANCING REQUIREMENT

This is the key indicator of prudence. Its purpose is to ensure that net borrowing is only for capital purposes. This is achieved by measuring net external borrowing against the capital-financing requirement. Estimates of net external borrowing for the preceding year, the current year, and the next two financial years indicate that net borrowing will be less than the capital financing requirement. The Council is forecast to meet the demands of this indicator. The projections are:

	Forecast 2011/12 £000	Estimate 2012/13 £000	Estimate 2013/14 £000	Estimate 2014/15 £000
Net Borrowing	187,166	172,066	142,510	134,799
Capital Financing Requirement (CFR)	329,106	311,380	285,468	283,045
Net Borrowing Less than CFR	**(141,940)**	**(139,314)**	**(142,958)**	**(148,246)**

Appendix 6 - Prudential Indicators

RATIO OF FINANCING COSTS TO THE NET REVENUE STREAM

This indicator demonstrates the percentage of the GF budget and HRA budget that is consumed by financing the capital programme. It should be noted that the HRA expenditure is effectively reimbursed through the Housing Subsidy system.

	Estimate 2012/13 %	Estimate 2013/14 %	Estimate 2014/15 %
General Fund	3.7	2.7	2.1
Housing Revenue Account	16.79	16.52	15.35

INCREMENTAL IMPACT OF CAPITAL SPENDING ON THE GENERAL FUND AND HOUSING REVENUE ACCOUNT

The estimate of the incremental impact of capital decisions proposed over and above capital investment decisions that have already been taken by the council are as follows:

	Estimate 2012/13 £	Estimate 2013/14 £	Estimate 2014/15 £
General Fund – council tax £ per Band D home per annum	-3.95	-29.37	-46.05
Housing Revenue Account – rent £ per household per week	0	0	0

The impact on the Housing Revenue Account is shown as nil. It is anticipated that all the new investment will either be fully funded through housing subsidy or from other specific funding allocations.

BORROWING – AUTHORISED LIMIT & OPERATIONAL BOUNDARY

The prudential indicators concerning the authorised limit for borrowing, and other treasury management activities, are set out in the Treasury Management Strategy report presented elsewhere on this agenda.