h&f putting residents first	**London Borough of Hammersmith & Fulham** **CABINET** **11 FEBRUARY 2013**

4 YEAR CAPITAL PROGRAMME 2013/14 TO 2016/17	
Report of the Leader of the Council – Councillor Nicholas Botterill	
Open Report	
Classification – For Decision **Key Decision:** Yes	
Wards Affected: All	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Jade Cheung, Finance Manager (Corporate Accountancy & Capital)	**Contact Details:** Tel: 0208 753 3374 E-mail: jade.cheung@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report sets out draft proposals in respect of the Council's capital programme for 2013/14 to 2016/17. The capital programme totals gross expenditure of £129.6m for 2013/14. This comprises the Decent Neighbourhoods Programme £27.6m, the General Fund Programme £65.0m (inclusive of the School's Organisation Strategy of £39m), and the HRA Programme £37m. The balanced 4 year programme 2013/14 to 2016/17 totals £279.6m (Appendix 1).

1.2. This report states the latest capital estimates for the Council's debt reduction programme, the General Fund, Decent Neighbourhoods and the Housing capital programmes.

1.3. This report incorporates the information arising from the Local Government Finance Settlement for 2013/14, where available.

2. RECOMMENDATIONS

2.1. That the draft General Fund Capital Programme budget at £65.0m for 2013/14 be approved.

2.2. That approval be given to a Debt Reduction target of £20m for 2013/14 which will reduce underlying debt – based on current forecasts and as measured by the Capital Financing Requirement (CFR)[1] - to £71.4m.

2.3. That 25% of receipts generated for the Decent Neighbourhoods programme continue to be used to support general capital investment or debt reduction in 2013/14 to 2016/17, subject to future review and potential regulatory changes.

2.4. That approval be given to the following proposed capital receipts funded initiatives within the General Fund capital programme 2013/14 (Table 5):

- The continuation of the rolling programmes for repairs to Carriageways and Footways £2.03m;
- Corporate Buildings Planned Maintenance £2.5m;
- Private Sector Housing Grant (Disabled Facilities) £0.45m;
- Parks Improvements £0.5m;
- Contributions to the Invest to Save Fund £0.75m; and
  This totals £6.23m.

2.5 To note existing capital receipts funded schemes (approved for 2012/13) but now scheduled for 2013/14 as follows:

- The Schools Capital Programme £8.906m;
- The Corporate Buildings Planned Maintenance £1.84m
  This totals £10.746m.

The overall total use of capital receipts for General Fund capital schemes in 2013/14 is £16.976m.

2.6 That approval be given to the level of resource forecast (Table 2) and indicative capital expenditure budget 2013/14 of £27.6m for the Decent Neighbourhoods programme, funded fully by capital receipts, as detailed in Appendix 2.

2.7 That approval be given to the 2013/14 HRA capital programme of £37.0m as set out in Table 7 (Appendix 4) and approve the use of £15.212m of Decent Neighbourhoods' capital receipts in support of this programme for 2013/14.

[1] Refer to Appendix 6 for CFR definition

2.8 That approval be given to the annual Minimum Revenue Provision for 2013/14 (Appendix 7).

- 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.

2.9 That the CIPFA[2] prudential indicators as set out in Appendix 8 to the report be approved.

3. REASONS FOR DECISION

3.1. The reason for the recommendations are to comply with the Council's Financial Regulations which form part of the Council's Constitution. It is also necessary to comply with statutory accounting requirements.

4. INTRODUCTION AND BACKGROUND

4.1. This report sets out an updated resource forecast and a capital programme for 2013/14 to 2016/17. Since 2006/07, the Council has put in place a debt reduction strategy which has enabled £67m of CFR capital debt to be repaid by the end of 2011/12. The capital programme now put forward seeks to build on these savings whilst funding essential new investment and key Council priorities.

4.2. The Council remains committed to a number of major projects such as the regeneration of White City, King Street and the Earls Court area, together with a range of decent neighbourhood schemes. A brief update on these projects is set out in section 9 of this report. Consideration has been taken of known specific funded schemes. Other funding allocations will be addressed when such funding is confirmed.

5. GENERAL FUND DEBT REDUCTION

5.1 The forecast closing General Fund debt as measured by the Capital Financing Requirement (CFR) for 2013/14 is £71.4m as shown in table 1 below. A surplus of £18.1m in capital receipts is projected which is proposed will be used for debt reduction purposes.

[2] Chartered Institute of Public Finance & Accountancy (CIPFA)

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

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Opening Capital Financing Requirement (CFR)	91.4	71.4	50.7	43.6
Revenue Repayment of Debt (MRP)	(1.9)	(1.1)	(0.3)	(0.0)
Annual (Surplus) in the Capital Programme	(18.1)	(19.6)	(6.8)	(4.1)
Closing CFR	**71.4**	**50.7**	**43.6**	**39.5**
Net Movement from opening CFR 2013/14	*(20.0)*	*(40.7)*	*(47.8)*	*(51.9)*

5.2. It should be noted that the 2013/14 debt reduction target of £20m is based on an assumption of General Fund forecast receipts of £23.7m being realised in addition to a transfer of Decent Neighbourhoods receipts of £11.3m. These are summarised in Appendix 5. 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. A further risk is that a transfer of Decent Neighbourhood receipts to the General Fund may, in future, we restricted by regulation. 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.

6. DECENT NEIGHBOURHOODS PROGRAMME

6.1 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 2 and are summarised in Table 2.

6.2 The programme is forecast to be in surplus by £8.8m in 2013/14. The actual level, and timing, of sales underpinning this surplus is subject to the same risks cited in para 5.2.

Table 2 - Decent Neighbourhoods - Expenditure and Resource Forecast

Line	Decent Neighbourhoods Summary	2013/14 Estimated Budget	2014/15 Estimated Budget	2015/16 Estimated Budget	2016/17 Estimated Budget
		£m	**£m**	**£m**	**£m**
1	Forecast expenditure budget (approved schemes only)	27.6	5.3	16.0	5.9
2	Net total resources	(18.7)	(7.4)	(7.9)	(8.1)
3 (1+2)	**Annual (surplus)/deficit**	**8.9**	**(2.1)**	**8.1**	**(2.3)**
4	Schemes under consideration: Forecast expenditure	2.4	(0.2)	0.6	3.7
5 (3+4)	**Annual (Surplus)/deficit**	**11.3**	**(2.2)**	**8.7**	**1.4**
6	Balance brought forward	(20.1)	(8.8)	(11.1)	(2.4)
7 (5+6)	**Cumulative Total (Surplus)/deficit**	**(8.8)**	**(11.1)**	**(2.4)**	**(0.9)**

6.3 **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. In general, the level of receipts into this fund has outstripped expenditure from it and since 2010/11 25% of these receipts have been redirected towards general fund debt reduction (£11.3m receipts for 2013/14, refer to Appendix 2). It is proposed that this approach should continue however it is further proposed that it should be subject to regular review depending on factors such as:

- Increasing projects coming on-line in the Decent Neighbourhoods Programme;
- The pace of debt reduction in the General Fund and the level of General Fund receipts;
- Potential future commitments to reduce Housing Debt;
- Regulatory change which may restrict such transfers.

6.4 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 current or anticipated regeneration or housing development spend or a commitment to reduce debt. This mitigation did not previously apply to Right to Buy (RTB) receipts; however under new regulations (known as the 1-4-1 scheme) the Council is also able to retain these receipts, above a given threshold, where the receipt is recycled into social or affordable housing.

7. GENERAL FUND FORECAST EXPENDITURE AND RESOURCES

7.1 The latest General Fund expenditure and resource forecast is set out in Table 3. Surplus resources of £18.1m are forecast for 2013/14. Subject to agreement, this surplus will be directed towards general fund debt reduction. It should be stressed that the actual level, and timing, of sales is again subject to the risks stated in para 5.2.

Table 3 - General Fund Capital Programme Summary

	2013/14 **£m**	**2014/15** **£m**	**2015/16** **£m**	**2016/17** **£m**
Forecast Expenditure (see Table 4)	65.0	12.4	9.2	9.2
Forecast Resources (see Table 4)	(83.1)	(32.0)	(16.0)	(13.3)
In-Year (Surplus)/Deficit	**(18.1)**	**(19.6)**	**(6.8)**	**(4.1)**

7.2 **Expenditure**

The current proposed General Fund capital expenditure programme for 2013/14 is set out in Appendix 3a to 3e and is summarised in Table 4. Table 5 illustrates the receipts-funded capital expenditure budgets. This comprises the completion of existing schemes and the continuation of future rolling programmes, which require Member approval. Resources figures are fully explained in para 7.3, and reflect the surpluses in projected capital receipts.

Table 4 - General Fund Capital Programme – Expenditure & Resources Forecast

	2013/14 £m	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**Total £m**
Expenditure:					
Children's Services	51.2	2.7			53.9
Adult Social Care	2.1	1.0	0.5	0.5	3.9
Transport & Technical Services	10.5	7.5	7.5	7.5	33.0
Finance and Corporate Services	0.8	0.8	0.8	0.8	3.0
Environment, Leisure & Residents Services	0.5	0.5	0.5	0.5	2.0
Total	65.0	12.4	9.2	9.2	95.8
Resources:					
General Fund Receipts	23.7	20.5	7.0	4.2	55.4
Deferred Cost of Disposal					0.0
Transfer from Decent Neighbourhood receipts 25%	11.3	6.0	6.1	6.2	29.6
Net capital receipts	35.0	26.6	13.0	10.4	85.0
Specific or other funding	48.0	5.5	3.0	3.0	59.4
Total	83.1	32.0	16.0	13.3	144.4
Annual surplus/(deficit)*	(18.1)	(19.6)	(6.8)	(4.1)	**(48.6)**
Use of receipts (memorandum)					
Net capital receipts	35.0	26.6	13.0	10.4	85.0
Used to fund Capital Expenditure (Table 5)	(16.9)	(7.0)	(6.2)	(6.3)	(36.4)
Annual surplus/(deficit)*	**18.1**	**19.6**	**6.8**	**4.1**	**48.6**

*It is anticipated that any surpluses will be used for debt reduction in accordance with the Council's debt reduction strategy

Table 5 - General Fund Capital Programme – Capital Receipts Funded Expenditure Forecast

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Continuation of Existing Schemes:				
- Schools Capital Programme	8.906	0.748		
- Corporate Buildings Planned Maintenance	1.840			
Sub-total	**10.746**	**0.748**	**0**	**0**
Continuation of Rolling Programmes :				
- Carriageways Planned Maintenance	1.280	1.280	1.280	1.280
- Footways Planned Maintenance	0.750	0.750	0.750	0.750
- Corporate Planned Maintenance	2.500	2.500	2.500	2.500
- Disabled Facilities	0.450	0.450	0.450	0.450
- Parks Improvements Capital Programme	0.500	0.500	0.500	0.500
- Contribution to Invest to Save	0.750	0.750	0.750	0.750
Sub-total	**6.230**	**6.230**	**6.230**	**6.230**
Total	**16.976**	**6.978**	**6.230**	**6.230**

7.3 **Resources**

The General Fund resources forecast is shown in Table 4 and is summarised in Table 6 (refer to Appendix 5). In line with the debt reduction strategy the core mainstream capital programme continues to be funded from capital receipts as shown in Table 6 with no provision required for new borrowing. The resource forecast for 2013/14 includes a 25% contribution from receipts realised from the Decent Neighbourhoods asset disposals programme (see Table 4). The specific resource forecast is based on known allocations and includes the updated position for schools capital funding (as at month 8 2012/13). For 2013/14 it has been confirmed that the Transport for London Local Implementation Plan has funding of £3.5m. The resource forecast 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 6 – General Fund Capital Receipts Forecast Summary

Year	Forecast £m
2013/14	23.7
2014/15	20.5
2015/16	7.0
2016/17	4.2
Total	**55.4**

8. HOUSING CAPITAL PROGRAMME

8.1 The proposed Housing Revenue Account capital programme for 2013/14 to 2016/17 is summarised in table 7 below (Appendix 4):

Table 7 - HRA Capital Programme Summary

	2013/14 Budget £m	**2014/15 Budget £m**	**2015/16 Budget £m**	**2016/17 Budget £m**
Expenditure	37.0	31.0	30.7	30.3
Resources	(37.0)	(31.0)	(30.7)	(30.3)
Forecast (Surplus) /Deficit	**0**	**0**	**0**	**0**

8.2 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. The proposed programme is based on current stock condition data, with the programme for the first part of 2013 reflecting current on-going commitments. An updated stock condition survey is currently in progress which will be used to inform the HRA's on-going asset management plan; this may impact on the detailed programme for the later part of 2013/14. Therefore the detailed HRA Capital Programme will be included in the Asset Management report which will be bought to Cabinet in Spring 2013.

8.3 It should be noted that the previous estimated £18.4m of additional revenue contributions (separate to revenue contributions stated in Appendix 4) for 2013/14 to 2015/16 are now not included in the proposed HRA capital programme. These have been substituted with a proposed draw down from the Decent Neighbourhoods pot to enable the HRA to build up general reserves to protect against future risks (as outlined in HRA Financial Strategy and Rent Increase report). This also replaces the formerly anticipated receipts from the sale of the twelve penthouse flats at Edward Woods, whilst options to sell are given further consideration. For 2013/14 the anticipated use of capital receipts is primarily from the Decent Neighbourhoods expensive voids totalling £15.2m, for Members to consider.

9. HORIZON SCANNING - PROJECTS AND RESOURCES

9.1 The Council is currently progressing a number of major projects that are likely to impact on the capital programme over the next four 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.

9.2 **King Street Regeneration**
The Council is currently working with an appointed developer to take forward proposals for this scheme which includes a major change to the existing Civic Accommodation provision in Hammersmith. 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.

9.3 **Earl's Court**
On 3rd September 2012 Cabinet having considered the Analysis of Consultation Responses and the Equalities Impact Assessment and having regard to the regeneration benefits agreed to enter into the Conditional Land Sale Agreement regarding the potential redevelopment of Earl's Court. The agreement has now been signed, and the buying back of leaseholders will now commence. The redevelopment is intended to bring substantial benefits to the wider area, including more and better quality homes, new jobs and improved open spaces. The plans include the West Kensington and Gibbs Green Estate and provide 760 new replacement homes for the residents within the redevelopment area. Full details can be found in the 3rd September 2012 Cabinet Report.

9.4 **White City/Shepherds Bush Market**
White City is a major opportunity area with potential for up to 5,000 new homes being built. Most of those are being earmarked for land east of Wood Lane. The council in partnership with the Mayor of London has developed an Opportunity Area Planning Framework to guide future developments in the area. The council has also set out a new vision to improve the historic Shepherds Bush Market. Consent was granted for a planning application for an enabling development scheme of 220 homes and new retail facilities in March 2012. The Council is currently pursuing a CPO strategy to facilitate land assembly to implement the consented scheme.

9.5 **A Local Housing Company/Joint Venture Vehicle**
The Council has established 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 intermediate housing (retained equity) and receive development profits as gift aid to reinvest in provision of affordable housing and other regeneration activities. The Council initiated a pilot programme of seven 'hidden homes' sites in January 2012 to build 27 new affordable homes. The first site was completed in March 12 which consisted of two 1 bed flats. For larger housing development sites the Council has initiated a procurement exercise to identify a private sector partner to establish a long term housing & regeneration joint venture. Two initial sites have been identified for development which has the capacity to deliver 200 new homes. The Joint Venture Vehicle is expected to be established by January 2014.

9.6 **Schools' Capital Programme**
In the past two years, the Council has received significant 'Basic Needs' allocations from the Department for Education in support of expanding pupil places in the borough. Cabinet has approved a Schools Organisation Strategy (approved March 2012 and

revisited as further funds have become available), 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.

In the Autumn Statement of December 2012 the Chancellor reaffirmed a commitment to investing in schools and in the event that further funds become available the Schools Organisation Strategy will be revisited as required.

9.7 **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.

9.8 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. The CIL is designed to complement 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.

10. EQUALITY IMPLICATIONS

10.1 The private sector disabled facilities scheme which comprises a Council funded contribution of £450K is unchanged from previous years and is forecast to remain unchanged in future years. This funding helps to facilitate disabled people's participation in public life. In addition to Council funding, a grant allocation is expected from government in support of this scheme for 2013/14 and 2014/15.

10.2 It should be noted that there are some major projects, for example those discussed in section 9 (Earl's Court etc.), which are subject to other decision making processes where due regard to the PSED (public sector equality duty) has been, and continues to be given (because it is a continuing duty) in order to determine the relevance to equality groups and any mitigating measures that are possible. This does not seek to change those decisions.

10.3 There has been significant expansion of the Schools' Capital Programme further to the confirmation of funding allocations from the Department of Education. The Equality Impact Assessment (EIA) for this programme has been considered and agreed in the School Organisation Strategy 2011 together with subsequent reports which have updated this strategy, the most recent being December 2012. Again, this does not seek to change those decisions.

10.4 Implications verified/completed by: Carly Fry, Opportunities Manager 0207 361 3430.

11. LEGAL IMPLICATIONS

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

11.2 Implications verified/completed by: David Walker, Head of Commercial (Bi-Borough) 020 7361 2211.

12. FINANCIAL AND RESOURCES IMPLICATIONS

12.1 This report is of a wholly financial nature and financial and resource implications are considered throughout; however the following supplementary comments should also be noted:

12.2 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 4 years. Amendments will be made in line with Member approval.

12.3 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 8. 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 £91.4m at the start of 2013/14. The proposals set out in this report are estimated to reduce it to £39.5m by the end of 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.

12.4 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 7 sets out the options now available to Hammersmith and Fulham and recommends which option should be followed.

12.5 **VAT Implications**

With regard to all major capital schemes and disposals, the council will need to give close 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 overall VAT liability in any one year. If this threshold is breached, then all VAT incurred in support of exempt activities, in that year, can no longer be reclaim from HM Revenue and Customs (HMRC) becomes payable. This would represent approximately £2m to £3m cost per year of breach.

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 receipts, expense or slippages can frustrate this process.

Given current forecasts, there is a likelihood that the Council will breach the threshold in coming years. To manage this, the Council will be applying to HMRC to allow a 'one-off' breach under the terms of an established scheme, which allows a seven-year average to be considered. While this should be sufficient to contain the forecast breach, it significantly reduces the exemption 'head-room' in each of the years forming part of the average.

Officers will continue to closely monitor the threshold, however as a means to manage this risk it is recommended that the Council seeks to 'opt to tax' on land transactions, where feasible, thereby taking them out of the partial exemption calculation.

12.6 Implications verified/completed by: Christopher Harris, Head of Corporate Accountancy and Capital, telephone 0208 753 6440.

13. RISK MANAGEMENT

13.1 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. Each may affect the likelihood or timeliness of meeting projected receipts. Mitigation is undertaken on a case by case basis. A number of significant opportunity risks to regenerate areas of the borough have previously been considered on the Councils Enterprise Wide risk and assurance register which has been reviewed by the councils Business Board. These are covered in Section 9 of the report. Exposure to risks such as the potential for Fraud and Bribery in relation to its property and asset dealings are covered through the councils existing Anti-Fraud and Bribery policies.

13.2 Implications verified/completed by: Michael Sloniowski, Head of Risk Management, telephone 0208 753 2587.

14. PROCUREMENT AND IT STRATEGY IMPLICATIONS

14.1 There are no direct procurement and IT implications in relation to this report.

14.2 Implications verified/completed by: Alan Parry, Procurement Consultant, telephone 0208 753 2581.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Financial monitoring documents	Jade Cheung ext 3374	Finance Department, 2nd Floor, HTH Extension

LIST OF APPENDICES:

Capital Budget Monitoring and Financing Information:

Appendix 1 - Council Capital Programme (Decent Neighbourhoods, General Fund & HRA)
Appendix 2 - Decent Neighbourhoods Programme (Housing & Regeneration)
Appendix 3a - General Fund: Children's Services
Appendix 3b - General Fund: Adult Social Care
Appendix 3c - General Fund: Transport & Technical Services
Appendix 3d - General Fund: Finance and Corporate Services
Appendix 3e - General Fund: Environment, Leisure and Residents Services
Appendix 4 - Housing Capital Programme (HRA)
Appendix 5 - General Fund – Anticipated capital receipts
Appendix 6 - The Capital Financing Requirement (CFR) and Capital Allowance
Appendix 7 - Annual Minimum Revenue Provision (MRP) Statement
Appendix 8 - CIPFA Prudential Indicators

Capital Budget Monitor Appendices

Council Capital Programme (Decent Neighbourhoods, General Fund and HRA) Appendix 1

Draft Capital Gross Expenditure Budget	Indicative Budget 2013/14	Indicative Budget 2014/15	Indicative Budget 2015/16	Indicative Budget 2016/17	Total
	£'000	£'000	£'000	£'000	£'000
Children's Services	**51,165**	**2,733**	**-**	**-**	**53,898**
Adult Social Care	**2,054**	**954**	**450**	**450**	**3,908**
Transport & Technical Services	**10,536**	**7,494**	**7,494**	**7,494**	**33,018**
Finance & Corporate Services	**750**	**750**	**750**	**750**	**3,000**
Environment, Leisure & Residents Services	**500**	**500**	**500**	**500**	**2,000**
Sub-total	**65,005**	**12,431**	**9,194**	**9,194**	**95,824**
Housing Services (Housing Revenue Account only)	**37,037**	**31,027**	**30,703**	**30,343**	**129,110**
Decent Neighbourhoods projects	**27,558**	**5,295**	**15,951**	**5,866**	**54,670**
Total Capital Programme	**129,600**	**48,753**	**55,848**	**45,403**	**279,604**
Draft Capital Financing					
Capital grants from central government departments (inc SCE(C))	**35,100**	**2,272**	**-**	**-**	**37,372**
Capital grants from European Community Structural Funds (including ERDF)	**-**	**-**	**-**	**-**	**-**
Grants and contributions from private developers and from leaseholders, etc.	**7,838**	**5,682**	**3,600**	**2,500**	**19,620**
Grants and contributions from non-departmental public bodies	**6,000**	**-**	**-**	**-**	**6,000**
Capital grants from the National Lottery	**-**	**-**	**-**	**-**	**-**
Capital funding from GLA bodies	**4,466**	**2,264**	**2,264**	**2,264**	**11,258**
Use of capital receipts to finance capital expenditure	**59,746**	**21,369**	**32,488**	**22,578**	**136,181**
Capital expenditure financed from the Housing Revenue Account	**15,717**	**16,249**	**16,796**	**17,361**	**66,123**
Capital expenditure financed by the Major Repairs Reserve (MRR) / Major Repairs Allowance (MRA) - Govt Grant	**-**	**-**	**-**	**-**	**-**
Capital expenditure financed from the General Fund Revenue Account	**733**	**917**	**700**	**700**	**3,050**
Supported Capital Expenditure SCE (R) Single Capital Pot	**-**	**-**	**-**	**-**	**-**
SCE (R) Separate Programme Element	**-**	**-**	**-**	**-**	**-**
Other borrowing & credit arrangements not supported by central government	**-**	**-**	**-**	**-**	**-**
Total Capital Financing	**129,600**	**48,753**	**55,848**	**45,403**	**279,604**

Decent Neighbourhoods Programme **Appendix 2**

Line	DECENT NEIGHBOURHOODS PROGRAMME				
Line	**Schemes**	**2013/14 Budget**	**2014/15 Budget**	**2015/16 Budget**	**2016/17 Budget**
		£'000	**£'000**	**£'000**	**£'000**
	EXPENDITURE:				
	Fulham Court (development including Childrens Centre)	1,747			
	Hostel Improvements	1,321			
	Shop Investments	500			
	HRA Debt repayments taken under pooling rules from receipts	9,582	2,414	13,020	5,866
	Earls Court Project Team Costs	643	659	676	
	Earls Court: Buying back leaseholder and freeholder properties including homeloss and disturbance	9,637			
	Earls Court: SDLT on leasehold properties (buybacks and new properties)	239			
	Ongoing Earls Court project Costs	205	210	215	
	Earls Court OT assessments	42	21		
	Earls Court Legal Fees post CLSA (includes costs of defending challenges)	1,161	1,189	1,219	
	Earls Court CPO costs	704	722	740	
	Earls Court Stopping up enquiries	51	53	54	
	Earls Court Financial advice (due diligence)	26	27	27	
	Contributions to Local Housing Company	1,700			
A	**Total**	**27,558**	**5,295**	**15,951**	**5,866**
	FORECAST RESOURCES:				
B	**Brought Forward Resources**	**(20,064)**	**(8,810)**	**(11,060)**	**(2,388)**
C	**Expensive Dwellings Voids sales**	(32,287)	(23,639)	(24,230)	(24,835)
	Stewarts Lodge				
	248 Hammersmith Grove	(1,385)			
	282 Goldhawk Road	(10,000)			
	Fulham Court - New Development Only	(550)	(450)		
D	**Other Sales**	**(11,935)**	**(450)**		
E	**Earls Court**	(316)			
F	**HRA Shops**	(643)	0	0	0
G (C+D+E+F)	**Total Resources (excl. b/fd & pre transfers)**	**(45,181)**	**(24,089)**	**(24,230)**	**(24,835)**

Appendix 2 continued

	DECENT NEIGHBOURHOODS PROGRAMME				
Line	**Schemes**	**2013/14 Budget**	**2014/15 Budget**	**2015/16 Budget**	**2016/17 Budget**
		£'000	**£'000**	**£'000**	**£'000**
	Resource Transfers				
	Capital Investment for existing HRA stock	14,155	9,096	10,307	10,482
	Contributions to Jepson House	1,057			
	25% of receipts to General Fund	11,295	6,022	6,058	6,209
	Deferred Cost of disposal (max 4%)		1,600		
H	**Total Resource Transfers**	**26,507**	**16,718**	**16,365**	**16,691**
I (G+H)	**Net Total Resources**	**(18,674)**	**(7,371)**	**(7,866)**	**(8,144)**
J (A+I)	**Annual (surplus)/deficit (approved schemes only)**	**8,884**	**(2,076)**	**8,086**	**(2,278)**
	SCHEMES UNDER CONSIDERATION				
	Watermeadow Court additional planning costs	700			
	Decant Cedarne Road/Fulham Town Hall	1,000	(1,000)		
	Earls Court Contingency	670	576	586	713
	25% of receipts to General Fund		250		
K	**Total**	**2,370**	**(174)**	**586**	**3,718**
L (J+K)	**Annual (Surplus)/Deficit**	**11,254**	**(2,250)**	**8,672**	**1,440**
M (B+L)	**Cumulative Total (Surplus)/Deficit**	**(8,810)**	**(11,060)**	**(2,388)**	**(949)**

General Fund Programme - Children's Services **Appendix 3a**

CHILDREN'S SERVICES CAPITAL PROGRAMME				
Schemes	**2013/14 Budget**	**2014/15 Budget**	**2015/16 Budget**	**2016/17 Budget**
	£'000	**£'000**	**£'000**	**£'000**
Lyric Theatre Development	12,203	217		
Schools Organisational Strategy	38,962	2,516		
Total	**51,165**	**2,733**	**0**	**0**
FINANCING SUMMARY				
Capital receipts	8,906	748		
Specific or other funding	42,259	1,985		
Total	**51,165**	**2,733**	**0**	**0**

General Fund Programme - Adult Social Care Services **Appendix 3b**

ADULT SOCIAL CARE SERVICES CAPITAL PROGRAMME				
Schemes	**2013/14 Budget**	**2014/15 Budget**	**2015/16 Budget**	**2016/17 Budget**
	£'000	**£'000**	**£'000**	**£'000**
Adult Social Care Grant	66			
Hostel Improvement Grant				
Supporting Your Choice - Social Care Reform (DoH)	87			
Adults' Personal Social Services Grant	957			
Disabled Facilities Scheme	450	450	450	450
Community Capacity Grant	494	504		
Total	**2,054**	**954**	**450**	**450**
FINANCING SUMMARY				
Capital receipts	450	450	450	450
Specific or other funding	1,604	504		
Total	**2,054**	**954**	**450**	**450**

General Fund Programme - Transport & Technical Services   Appendix 3c

TRANSPORT & TECHNICAL SERVICES CAPITAL PROGRAMME				
Schemes	**2013/14 Budget**	**2014/15 Budget**	**2015/16 Budget**	**2016/17 Budget**
	£'000	**£'000**	**£'000**	**£'000**
Footways and Carriageways	2,030	2,030	2,030	2,030
Planned Maintenance/DDA Programme	4,340	2,500	2,500	2,500
Transport For London	3,466	2,264	2,264	2,264
Parking Reserve/ Revenue Contributions	700	700	700	700
Total	**10,536**	**7,494**	**7,494**	**7,494**
FINANCING SUMMARY				
Capital receipts	6,370	4,530	4,530	4,530
Specific or other funding	4,166	2,964	2,964	2,964
Total	**10,536**	**7,494**	**7,494**	**7,494**

General Fund Programme - Finance and Corporate Services   Appendix 3d

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

General Fund – Environment, Leisure and Residents Services **Appendix 3e**

ELRS CAPITAL PROGRAMME				
Schemes	**2013/14 Budget**	**2014/15 Budget**	**2015/16 Budget**	**2016/17 Budget**
	£'000	**£'000**	**£'000**	**£'000**
Parks Expenditure	500	500	500	500
Total	**500**	**500**	**500**	**500**
FINANCING SUMMARY				
Capital receipts	500	500	500	500
Total	**500**	**500**	**500**	**500**

Housing Capital Programme (HRA) **Appendix 4**

HOUSING CAPITAL PROGRAMME (HRA)				
Schemes	**2013/14 Budget**	**2014/15 Budget**	**2015/16 Budget**	**2016/17 Budget**
	£ '000	**£ '000**	**£ '000**	**£ '000**
Supply Initiatives (Major	2,750	2,500	2,500	2,500
Energy Schemes	1,282	2,400	2,400	2,400
Lift Schemes	3,470	3,500	3,308	2,500
Internal Modernisation	0	2,500	2,500	2,500
Major Refurbishments	6,409	4,225	4,225	4,225
Preventative Planned Maintenance	14,171	9,162	9,080	9,528
Minor Programmes	7,825	5,690	5,640	5,640
Decent Homes Partnering	78			
CSD/RSD Managed (Adaptations, CCTV)	1,050	1,050	1,050	1,050
Rephasing and reprogramming	0	0	0	0
Total	**37,037**	**31,027**	**30,703**	**30,343**
FINANCING SUMMARY				
Capital Receipts	15,212	9,096	10,307	10,482
Revenue Contributions from HRA (formerly MRA)	15,717	16,249	16,796	17,361
Leasehold & Other External Contributions	6,108	5,682	3,600	2,500
Total	**37,037**	**31,027**	**30,703**	**30,343**

General Fund Anticipated Capital Receipts

Appendix 5

Year	Receipts Forecast 2013/14 £'000
2013/14	
Total 2013/14	23,734
2014/15	
Total 2014/15	20,533
2015/16	
Total 2015/16	6,977
2016/17	
Total 2016/17	4,155
Total All Years	55,399

Appendix 6

The Capital Financing Requirement (CFR), Pooling and the Capital Allowance

The Capital Financing 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.

It was introduced by the Government in 2004 and 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. **The CFR should therefore be thought of as the total of internal and external borrowing**.

Pooling and Types of Receipt

The Council is required to hand-over a proportion of housing-related capital receipts to the Government.

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. A change in regulations now enables Council's to retain an RTB receipt where it is recycled into new social or affordable housing (known as the 1-4-1 scheme), once certain baselines have been met.

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.

Appendix 6 continued

<u>The Capital Allowance</u>

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.

A recent change in regulations now also allows Councils to retain non-RTB receipts if they are directed to the reduction of Housing debt.

Appendix 7

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.

<u>The Options</u>

Councils can opt for 4 options regarding the MRP calculation.

<u>Option 1</u>

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 £1.930m in 2013/14.

	£m
Opening 2013/14 Capital Financing Requirement (CFR)	91.428
Less Adjustment A	(43.179)
Adjusted CFR	48.249
Minimum Gross MRP (at 4%)	**1.930**

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 7 continued

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 **£2.133m** which is £0.203m greater than option 1.

<u>Option 4</u>

Option 4
This is similar to Option 3. It provides for separate treatment for supported and unsupported (prudential borrowing). The difference is that it provides for schemes that have been financed from unsupported borrowing to be written down by an amount equivalent to the amount of depreciation provision arrived at under standard accounting rules. This would be technically more difficult for the Council to introduce and would require a change in existing practice. There could also be future complications regarding asset revaluations that could result in significant increases in debt repayment levels.

Option 4 is not considered as attractive as option 3.

Appendix 8

Prudential Indicators

CAPITAL EXPENDITURE

Estimate of total capital expenditure to be incurred in the current financial year and the forthcoming financial years built upon the assumed level of resources is as follows:

	Forecast 2012/13 £000	Estimate 2013/14 £000	Estimate 2014/15 £000	Estimate 2015/16 £000
General Fund	52,468	65,005	12,431	9,194
Housing Revenue Account	32,213	37,037	31,027	30,703
Decent Neighbourhoods	13,667	27,558	5,295	15,951
TOTAL	98,348	129,600	48,753	55,848

CAPITAL FINANCING REQUIREMENT (CFR)

The estimate of capital financing requirement at the end of each year will relate to all capital expenditure – i.e. it includes relevant capital expenditure incurred in previous years. The capital financing requirement will reflect the authority's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements.

In order to make these estimates, all of the financing options available are considered and estimated. The estimates will not commit the local authority to particular methods of financing. The Chief Financial Officer will determine the actual financing of capital expenditure incurred once a year, after the end of the financial year.

	Forecast 2012/13 £000	Estimate 2013/14 £000	Estimate 2014/15 £000	Estimate 2015/16 £000
General Fund	91,428	71,445	50,737	43,630
Housing Revenue Account	217,299	207,717	205,303	192,284
TOTAL	**308,727**	**279,162**	**256,040**	**235,914**

The General Fund CFR does not include any requirement for prudential borrowing within the capital programme.

NET DEBT 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 2012/13 £000	Estimate 2013/14 £000	Estimate 2014/15 £000	Estimate 2015/16 £000
Net Borrowing*	82,066	66,510	77,599	71,896
Capital Financing Requirement (CFR)	308,727	279,162	256,040	235,914
Net Borrowing Less than CFR	**(226,661)**	**(212,652)**	**(178,441)**	**(164,018)**

*Net borrowing = Actual borrowing as at 31st March 2013 less total investments as at 31st March 2013

RATIO OF FINANCING COSTS TO THE NET REVENUE STREAM

The Council has estimated the ratio of financing costs to net revenue stream. This prudential indicator is expressed in the following manner: Estimate of financing costs ÷ estimate of net revenue stream x 100% for years 1, 2 and 3.

	Estimate 2013/14	Estimate 2014/15	Estimate 2015/16
General Fund	2.4%	1.7%	1.9%
Housing Revenue Account	16.2%	14.8%	13.4%

INCREMENTAL IMPACT OF CAPITAL INVESTMENT DECISIONS ON COUNCIL TAX

The Council has forecast the debt reduction savings for the General Fund resulting from the proposed capital programme for 2013/14 to 2015/16. The estimated reduction to Council tax due to debt reduction savings has been calculated at a per dwelling level.The impact on the Housing Revenue Account is shown as nil. It is anticipated that all the new HRA investment will be fully funded.

This indicator is represented as: (Debt Reduction & debt restructuring savings) ÷ Taxbase (number of dwellings).

	Estimate 2013/14 £	Estimate 2014/15 £	Estimate 2015/16 £
General Fund – Council tax £ per Band D home per annum	-28.32	-44.40	-44.40
Housing Revenue Account – rent £ per household per week	0	0	0

BORROWING – AUTHORISED LIMIT & OPERATIONAL BOUNDARY

The prudential indicators concerning the authorised limit and operational boundary for borrowing, and other treasury management activities, are set out in the Treasury Management Strategy report (presented separately from this report).