h&f the low tax borough	**London Borough of Hammersmith & Fulham** **COUNCIL** **26 FEBRUARY 2014**
FOUR YEAR CAPITAL PROGRAMME 2014/15 TO 2017/18	
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 outlines the latest 4 year Capital Programme and estimates for the Council's debt reduction programme as measured by the Capital Financing Requirement (CFR).

1.2. This report presents proposals in respect of the Council's capital programme for 2014/15 to 2017/18 totalling £378.2m, incorporating the information arising from the Local Government Finance Settlement. The gross capital programme totals £140.9m for 2014/15. This comprises the Decent Neighbourhoods capital programme (£91.6m - inclusive of the HRA capital programme £48.4m) and the General Fund Programme (£49.3m - inclusive of the School's Organisation Strategy of £34.3m).

1.3. The forecast closing CFR for 2014/15 is £66.5m, subject to a projected surplus in capital receipts of £9.5m being applied to reducing CFR.

1.4. The report sets out the Council's Minimum Revenue Provision (MRP) policy and the Prudential Indicators.

2. RECOMMENDATIONS

2.1. To approve the General Fund Capital Programme budget at £49.3m for 2014/15 (Table 4).

2.2. To note the continuation of the reduction in CFR which based on current forecasts will reduce to £66.5m by 31st March 2015.

2.3. In respect of capital receipts for 2014/15 to:

- Approve the application of £9.5m capital receipts to the reduction of CFR (Table 2).

- Approve the continuation of the rolling programme schemes funded from capital receipts amounting to £6.23m set out in Table 5.

- Approve capital receipts funded schemes within Decent Neighbourhoods Programme (Housing and Regeneration) for 2014/15 as follows:

  - Housing Revenue Account projects £25.8m;
  - Decent Neighbourhoods projects £42.7m.

  This totals £68.5m per Table 6b.

- Note existing capital receipts funded schemes (approved in 2013/14) but now scheduled for 2014/15 are as follows:

  - The Schools Capital Programme £6.6m;
  - Grants to Social Landlords (Hostel Improvement) £60K;
  - Relocation of HAFAD[1] to Edward Woods Community Centre and Related Refurbishment Requirements £308K.

2.4. To approve the Decent Neighbourhoods Programme for 2014/15 as set out in Table 6a (section 7), including the indicative capital expenditure budget 2014/15 of £91.6m funded from capital receipts of £68.5m with the remainder of £23.1m funded from other sources (also included within the programme is the budget envelope of £48.4m for 2014/15 for investment in existing Council Homes via the HRA Capital Programme).

2.5. To approve the annual Minimum Revenue Provision policy statement for 2014/15 in Appendix 5.

2.6. To approve the CIPFA[2] Prudential Indicators as set out in Appendix 6 to the report.

[1] Hammersmith & Fulham Action for Disability
[2] Chartered Institute of Public Finance & Accountancy (CIPFA)

3. REASONS FOR DECISION

3.1. The reason for the recommendations is 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 4 year resource forecast and a capital programme for 2014/15 to 2017/18 (Table 1). General Fund CFR reduction remains a key Council objective for 2014/15, and the projected levels of debt are illustrated in section 5. It should be noted that the debt repayment strategy may need to be reconsidered by Council in light of the 2016/17 CFR reduction forecast which takes the CFR below a level at which it incurs a revenue cost.

Table 1 - Capital Programme 2014/15 to 2017/18

Capital Expenditure	Original Budget 2014/15	Indicative Budget 2015/16	Indicative Budget 2016/17	Indicative Budget 2017/18	Total
	£m	£m	£m	£m	£m
Children's Services	38.3	4.8	0.1	-	43.2
Adult Social Care	2.0	0.5	0.5	0.5	3.3
Transport & Technical Services	7.2	7.2	7.2	7.2	28.9
Finance & Corporate Governance	1.1	0.8	0.8	0.8	3.3
Environment, Leisure & Residents Services	0.7	0.7	0.5	0.5	2.4
Libraries	-	-	-	-	-
Sub-total	**49.3**	**13.8**	**9.0**	**8.9**	**81.1**
Decent Neighbourhoods (Housing & Regeneration)	91.6	97.6	54.2	53.7	297.2
Total Capital Programme	**140.9**	**111.5**	**63.2**	**62.7**	**378.2**

4.2. Since 2006/07, the Council has put in place a CFR reduction strategy which has enabled £90m[3] of CFR to be repaid by the end of 2012/13, delivering a revenue saving – through reduced minimum revenue payments - of £3.6m per annum. The capital programme now put forward seeks to build on these savings whilst funding essential new investment and key Council priorities.

4.3. The LBHF minimum revenue provision statement and CIPFA Prudential Indicators have been updated to meet statutory requirements for 2014/15.

4.4. The Council remains committed to a number of major projects such as the regeneration of King Street and the Earls Court area, together with a range of Decent Neighbourhood

[3] Closing CFR 2006/07 was £168m, and for 2012/13 was £78.4m

schemes. A brief update on these projects is set out in section 8 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 CFR is £66.5m as shown in table 2 below. A surplus of £9.5m in capital receipts is projected for 2014/15 which is proposed to be used for debt reduction purposes.

Table 2 - Forecast Movement in the Capital Financing Requirement (CFR)

	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m
Opening Capital Financing Requirement (CFR)	77.3	66.5	46.3	33.7
Revenue Repayment of Debt (MRP)	(1.3)	(0.9)	(0.1)	0
Annual (Surplus) in the Capital Programme (Table 4)	(9.5)	(19.3)	(12.5)	(0.1)
Closing CFR	**66.5**	**46.3**	**33.7**	**33.6**
Net Movement from opening CFR 2014/15	*(10.8)*	*(31.0)*	*(43.6)*	*(43.7)*

2014/15 opening CFR forecast as at December 2013.

5.2 It should be noted that the 2014/15 debt reduction target of £10.8m is based on an assumption of General Fund forecast receipts of £22.7m (net of costs of disposal) being realised. These are summarised 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. The Council continues to review its asset holdings to identify potential further disposals, although having obtained significant capital receipts in the past 3 years the General Fund asset portfolio is being significantly rationalised in the period to 2017/18. 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 disposals of assets may be incurred, which can be difficult to predict in some cases.

6. GENERAL FUND FORECAST EXPENDITURE AND RESOURCES

6.1 The latest General Fund expenditure and resource forecast is set out in Table 3. Surplus resources of £9.5m are forecast for 2014/15.

Table 3 - General Fund Capital Programme Summary

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Forecast Expenditure (see Table 4)	49.3	13.8	9.0	8.9
Forecast Resources (see Table 4)	(58.7)	(33.1)	(21.5)	(9.0)
In-Year (Surplus)/Deficit	**(9.5)**	**(19.3)**	**(12.5)**	**(0.1)**

6.2 The current proposed General Fund capital expenditure programme for 2014/15 is set out in Appendix 1 and is summarised in Table 4. Table 5 illustrates the capital receipts funded capital expenditure budgets. This comprises the completion of existing schemes and the continuation of future rolling programmes.

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

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Expenditure:					
Children's Services	38.3	4.8	0.1	0	**43.2**
Adult Social Care	2.0	0.5	0.5	0.5	**3.3**
Transport & Technical Services	7.2	7.2	7.2	7.2	**28.9**
Finance and Corporate Services	1.1	0.8	0.8	0.8	**3.3**
Environment, Leisure & Residents Services	0.7	0.7	0.5	0.5	**2.4**
Total	**49.3**	**13.8**	**9.0**	**8.9**	**81.1**
Resources:					
General Fund receipts	(22.7)	(25.8)	(18.7)	(6.3)	**(73.5)**
Net capital receipts	**(22.7)**	**(25.8)**	**(18.7)**	**(6.3)**	(73.5)
Specific or other funding	(36.1)	(7.3)	(2.8)	(2.7)	**(48.9)**
Total	**(58.7)**	**(33.1)**	**(21.5)**	**(9.0)**	**(122.3)**
Annual (surplus)/deficit*	**(9.5)**	**(19.3)**	**(12.5)**	**(0.1)**	**(41.3)**
Use of receipts (memorandum)					
Net capital receipts (Appendix 3)	(22.7)	(25.8)	(18.7)	(6.3)	**(73.5)**
Used to fund Capital Expenditure (Table 5)	13.2	6.5	6.2	6.2	32.2
Annual (surplus)/deficit*	**(9.5)**	**(19.3)**	**(12.5)**	**(0.1)**	**(41.3)**

*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 Receipts Funded Expenditure Forecast

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Continuation of Existing Schemes:				
- Schools Capital Programme	6.620	0.273	0	0
- Grants To Social Landlords (Hostel Improvement)	0.060	0	0	0
- Relocation of HAFAD to Edward Woods Community Centre and Related Refurbishment Requirements	0.308	0	0	0
Sub-total	**6.988**	**0.273**	**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	**13.218**	**6.503**	**6.230**	**6.230**

6.3 The General Fund resources forecast is shown in Table 4 (detailed in Appendix 3). In line with the CFR reduction strategy the core mainstream capital programme continues to be funded from capital receipts as shown in Table 5 with no provision for new borrowing. The specific resource forecast is based on known allocations and includes the updated position for schools capital funding (as at November 2013). For 2014/15 it has been confirmed that the Transport for London Local Implementation Plan has funding of £2.7m (capital £2.2m, revenue £0.5m). 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.

7. DECENT NEIGHBOURHOODS PROGRAMME

7.1 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, following on from specific Cabinet Approvals. A summary of programme is set out in Table 6a and further details are provided in appendices 1 and 2.

7.2 The programme is forecast to be in surplus for the 4 years to 2017/18 by £2.6m based on the forecast expenditure and resources plan. The actual level and timing, of sales underpinning this surplus in resources is subject to the same risks cited in para 5.2.

7.3 Investment from the Decent Neighbourhoods Programme is used to:

- invest in existing Council Housing to ensure homes are maintained at a decent standard, statutory and health and safety obligations are complied with, energy efficiency is improved and residual backlog works which were outside the scope of the decent homes programme are addressed including meeting resident priorities such as security and environmental improvements.
- to deliver 100 additional low cost home ownership opportunities by direct development, in pursuance of the Councils Housing Strategy “Building a Housing Ladder of Opportunity” as set out in the Housing Development Programme business plan approved by Cabinet on 24 June 2013.
- to deliver the regeneration of the West Kensington and Gibbs Green Estates (Earls Court) as set out in the report approved by Cabinet on 3rd September 2012, the principal potential cost allowed for in the forecast is the purchasing of any leasehold or freehold interests.
- to repay debt as it becomes due in accordance with the HRA Financial Strategy.

Table 6a - Decent Neighbourhoods - Expenditure and Resource Forecast

Decent Neighbourhoods Summary	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	£m	**£m**	**£m**	**£m**
Expenditure:				
HRA Debt Repayment	2.4	13.0	5.9	6.2
HRA Capital Programme	48.4	43.6	43.5	43.7
Earls Court Buy Back Costs	21.7	23.4	0	0
Earls Court Project Team Costs	3.6	3.7	3.8	3.9
Housing Development Programme	12.0	13.2	1.0	0
Other Decent Neighbourhoods Projects	3.4	0.7	0	0
Total Expenditure	**91.6**	**97.6**	**54.2**	**53.7**
Resources:				
Property disposals - capital receipts	(40.0)	(35.0)	(20.0)	(20.0)
Sale of new build private & DMS homes	(1.8)	(10.9)	(18.4)	0
Property disposals in period	**(41.8)**	**(45.9)**	**(38.4)**	**(20.0)**
Major Repairs Allowance/Reserve	(17.9)	(16.8)	(17.4)	(17.8)
Revenue contributions	(0.1)	(0.8)	(0.6)	(2.8)
Leaseholder & other contributions & grants	(4.6)	(4.7)	(4.5)	(4.0)
GLA grant (£27K per DMS home)	(0.6)	(2.0)	0	0
Other resources in period	**(23.2)**	**(24.2)**	**(22.4)**	**(24.6)**
Total Resources	**(65.0)**	**(70.1)**	**(60.8)**	**(44.6)**
Cumulative total (surplus)/deficit	**26.6**	**27.5**	**(6.7)**	**9.1**
Capital receipts surplus brought forward	**(59.2)**	**(32.5)**	**(5.0)**	**(11.7)**
Capital receipts surplus carried forward	**(32.5)**	**(5.0)**	**(11.7)**	**(2.6)**

Table 6b - Decent Neighbourhoods Capital Receipts Reconciliation

Decent Neighbourhoods Capital Receipts Reconciliation	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	£m	**£m**	**£m**	**£m**
Capital receipts surplus brought forward	(59.2)	(32.5)	(5.0)	(11.7)
Capital receipts surplus carried forward	(32.5)	(5.0)	(11.7)	(2.6)
Total variance in capital receipts	**(26.6)**	**(27.5)**	**6.7**	**(9.1)**
Property disposals in period	**(41.8)**	**(45.9)**	**(38.4)**	**(20.0)**
Total applied capital receipts	**(68.5)**	**(73.5)**	**(31.7)**	**(29.1)**

7.4 In accordance with the change in capital regulations for housing capital receipts, effective from 1 April 2013 decent neighbourhood receipts must be used for regeneration or housing purposes.

8. HORIZON SCANNING - PROJECTS AND RESOURCES

8.1 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.

8.2 **King Street Regeneration**
Hammersmith & Fulham (LBHF) Council's planning applications committee gave the green light for the £150million regeneration scheme, from King Street Developments Hammersmith Ltd (KSD) - a joint venture between Helical Bar plc and Grainger plc, at a meeting on 12th November 2013. Subject to imminent finalisation of the S106 Agreement and then verification by the Mayor of London the planning approval now paves the way for KSD to regenerate the area around and including the town hall extension. The package of improvements includes: 196 high quality new homes; a three-screen community cinema, to be operated by Curzon; new retail, restaurant and cafe space; replacement offices for the Council and a new town square.

The Grade-II listed town hall will have its former ceremonial stone steps reinstated to link up with the new public piazza while the replacement Council offices will be built to the west of Nigel Playfair Avenue. KSD will also provide £5.25 million towards a regeneration fund to boost the surrounding area and refurbish the Grade-II listed town hall, which was built in 1938.

It is anticipated that the strategy can be delivered at net nil cost to the Council (i.e. the town hall refurbishment works will only draw on existing maintenance budgets with all other costs being met by the developers) but this will need to be kept under review.

8.3 **Earl's Court**
LBHF entered into a Conditional Land Sale agreement, (CLSA) on 23rd January 2013, with the developer Capital & Counties Properties Plc (CapCo), to include Council owned

land including the West Kensington and Gibbs Green Estates in a comprehensive re-development programme. As part of the re-development programme, CapCo will provide LBHF with 760 replacement homes, while other benefits to the wider community include further 740 intermediate affordable homes, jobs, and open spaces. Full details can be found in the 3 September 2012 Cabinet Report. The trigger notice for the CLSA was served in November 2013; this means that the agreement is now unconditional, and CapCo have made a commitment to pay LBHF 5 annual instalments of £15m from December 2015.

8.4 **Housing Development Programme**

On 24 June 2013, the Cabinet approved the Business Plan 2013-2017 to deliver 100 Discounted Market Sales and 33 Private Sales homes at a total cost of £30.3 million via a local housing company.

The capital element of this is funded from the Decent Neighbourhoods Fund (DNF) by sale of expensive dwelling voids, complimented by new homes sales receipts and £2.7 million of GLA grant funding from Mayor's Housing covenant.

8.5 **Schools' Capital Programme**

Cabinet on 23rd March 2013 approved a Schools Organisation Strategy 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, the Chancellor reaffirmed a commitment to investing in schools. Children's Services will be submitting a Schools Organisation Strategy 2014/15 to Cabinet which will address the current projections for demand for school places based on known funding streams.

The Secretary of State announced capital funding grants on 19 December 2013. These are as follows (and have not been built into the budgets yet):

- universal infant free school meals capital for financial year 2014 to 2015 (£194,893); and
- basic need for financial years 2015 to 2017. This extends the previous allocations, meaning that basic need funding has now been confirmed for financial years 2014 to 2017 (£4,245,993).

8.6 **Park Royal City International and Old Oak Common Opportunity Area**

As part of developing the business case for a High Speed 2 / Crossrail interchange at Old Oak Common and to maximise regeneration benefits in the area, discussions have been held with the Department for Transport, High Speed 2 (HS2) Ltd. TfL and Network Rail to promote oversite development at the planned Old Oak Common station and to promote inclusion of connections with existing overground rail services. The Council and the GLA have published a joint vision for the area subject to recent consultation and amendments are now being planned to both the London Plan and the Council's LDF/Local Plan to encourage appropriate development. The Mayor of London is proposing that a Mayoral Development Corporation be established with wide-ranging powers yet to be agreed.

8.7 **Community Infrastructure Levy (CIL)**

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 (principally residential) developments in their area based on increased floorspace (subject to maintaining development viability). The money raised can be used to support development by funding enabling infrastructure that the Council, local community and neighbourhoods want. The CIL is designed to complement and in part replace the funding currently delivered through Section 106 payments on some major schemes. The Mayor of London has introduced a London-wide CIL to contribute to the funding for Crossrail and the Council is currently going through the statutory processes to introduce its own CIL. When the Council introduces its CIL, expected towards the end of 2014, this will give rise to a stream of funding which will need to be deployed for infrastructure development and improvement in order to support further regeneration and development.

9. EQUALITY IMPLICATIONS

9.1 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 2014/15.

9.2 It should be noted that there are some major projects, for example those discussed in section 8 (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. LEGAL IMPLICATIONS

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

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

11. FINANCIAL AND RESOURCES IMPLICATIONS

11.1 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:

11.2 The Council's mainstream capital programme is 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.

11.3 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 6. 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 £77.3m at the start of 2014/15. The proposals set out in this report are estimated to reduce it to £33.6m by the end of 2017/18. This net reduction has been taken account of within the Council's Treasury Management Strategy.

11.4 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 LBHF MRP Statement for 2014/15.

11.5 **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 without HMRC mitigation, then all VAT incurred in support of exempt activities, in that year, can no longer be reclaimed from HM Revenue and Customs (HMRC) and becomes payable by the Council. This would represent a cost of approximately £2m to £3m 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.

The Council has forecast a breach in 2013/14 and has liaised with HMRC to gain one-off mitigation for the breach. The conditions of the mitigation include a requirement for the Council to manage its position under the 5% threshold over a seven-year average. The average looks forward to future years as well as back, which means that there is limited exemption “head-room” up to 2016/17. The Council adopted the following VAT policy in 2013/14 to aid the management of the Partial Exemption position:

• Projects should be 'opted-to-tax' where this option is available and is of no financial disadvantage to the Council.
• If an option-to tax is unavailable it is advised that any avoidable, new projects in 13/14 incurring exempt VAT are deferred for the present time.
• In addition there is only limited room in the 14/15 (and future years) partial exemption forecasts. Therefore, new or re-profiled projects for 14/15 incurring exempt VAT will need to be agreed with the Corporate VAT team.
• In all cases the VAT team should be consulted in advance in order that the forecasts can be updated and re-checked against limits.

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

12. RISK MANAGEMENT

12.1 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 and it is the responsibility of departments to capture risks that may affect the successful delivery of capital projects contained in their programme in their departmental registers. A number of significant opportunity risks to regenerate areas of the borough have previously been considered on the Council’s Enterprise Wide risk and assurance register which has been reviewed by the Council’s Business Board. These are covered in Section 8 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.

12.2 Implications verified/completed by: Michael Sloniowski, BiBorough Risk Manager, telephone 0208 753 2587.

13. PROCUREMENT AND IT STRATEGY IMPLICATIONS

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

13.2 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.	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 (General Fund & Decent Neighbourhoods)
Appendix 2 - Council Capital Programme by Service Area
Appendix 3 - General Fund Anticipated Capital Receipts
Appendix 4 - The Capital Financing Requirement (CFR)
Appendix 5 - Minimum Revenue Provision (MRP) Statement 2014/15
Appendix 6 - CIPFA Treasury Prudential Indicators 2014/15

APPENDICES

APPENDIX 1 - COUNCIL CAPITAL PROGRAMME (GENERAL FUND & DECENT NEIGHBOURHOODS)

Capital Expenditure	Original Budget 2014/15	Indicative Budget 2015/16	Indicative Budget 2016/17	Indicative Budget 2017/18	Total
	£'000	£'000	£'000	£'000	£'000
Children's Services	**38,316**	**4,772**	**100**	**-**	**43,188**
Adult Social Care	**1,971**	**450**	**450**	**450**	**3,321**
Transport & Technical Services	**7,236**	**7,155**	**7,231**	**7,231**	**28,853**
Finance & Corporate Governance	**1,058**	**750**	**750**	**750**	**3,308**
Environment, Leisure & Residents Services	**700**	**692**	**500**	**500**	**2,392**
Libraries	**-**	**-**	**-**	**-**	**-**
Sub-total	**49,281**	**13,819**	**9,031**	**8,931**	**81,062**
Decent Neighbourhoods (Housing & Regeneration)	**91,647**	**97,644**	**54,159**	**53,720**	**297,170**
Total Capital Programme	**140,928**	**111,463**	**63,190**	**62,651**	**378,232**
Capital Financing					
Capital grants from central government departments (inc SCE(C))	**29,166**	**4,306**	**100**	**-**	**33,572**
Grants and contributions from private developers and from leaseholders, etc.	**4,824**	**4,874**	**4,514**	**4,000**	**18,212**
Grants and contributions from non-departmental public bodies	**3,774**	**193**	**-**	**-**	**3,967**
Capital funding from GLA bodies	**2,729**	**4,079**	**2,157**	**2,157**	**11,122**
Use of capital receipts to finance capital expenditure	**81,675**	**79,955**	**37,961**	**35,342**	**234,933**
Capital expenditure financed from the Housing Revenue Account	**113**	**761**	**553**	**2,773**	**4,200**
Capital expenditure financed by the Major Repairs Reserve (MRR) / Major Repairs Allowance (MRA)	**17,886**	**16,751**	**17,361**	**17,835**	**69,833**
Capital expenditure financed from the General Fund Revenue Account	**761**	**544**	**544**	**544**	**2,393**
Total Capital Financing	**140,928**	**111,463**	**63,190**	**62,651**	**378,232**

APPENDIX 2 - COUNCIL CAPITAL PROGRAMME BY SERVICE AREA

Name of Capital Scheme	Original Budget 2014/15	Indicative Original Budget 2015/16	Indicative Original Budget 2016/17	Indicative Original Budget 2017/18	Total
	£'000	£'000	£'000	£'000	£'000
Children's Services					
Lyric Theatre Development	3,991	193	-	-	**4,184**
Schools Capital Programme (Organisation Strategy)	34,325	4,579	100	-	**39,004**
Total Children's Services	**38,316**	**4,772**	**100**	**-**	**43,188**
Adult Social Care					
Extra Care New Build project (Adults' Personal Social Services Grant)	957	-	-	-	**957**
Grants To Social Landlords (Hostel Improvement)	60	-	-	-	**60**
Community Capacity Grant	504	-	-	-	**504**
Disabled Facilities	450	450	450	450	**1,800**
Total Adult Social Care	**1,971**	**450**	**450**	**450**	**3,321**
Transport & Technical Services					
Corporate Buildings Planned Maintenance	2,500	2,500	2,500	2,500	**10,000**
Footways & Carriageways	2,030	2,030	2,030	2,030	**8,120**
Transport For London Schemes	2,162	2,081	2,157	2,157	**8,557**
Controlled Parking Zones	275	275	275	275	**1,100**
Column Replacement	269	269	269	269	**1,076**
Total Transport & Technical Services	**7,236**	**7,155**	**7,231**	**7,231**	**28,853**
Finance & Corporate Governance					
Contribution to Invest to Save Fund	750	750	750	750	**3,000**
Relocation of HAFAD to Edward Woods Community Centre and Related Refurbishment Requirements	308	-	-	-	**308**
Total Finance & Corporate Governance	**1,058**	**750**	**750**	**750**	**3,308**
Environment, Leisure & Residents Services					
Parks Improvements Capital Programme	500	500	500	500	**2,000**
Public CCTV	200	192	-	-	**392**
Total Environment, Leisure & Residents Services	**700**	**692**	**500**	**500**	**2,392**
Decent Neighbourhoods (Housing and Regeneration)					
Housing Revenue Account					
Supply (Major voids/hostels)	1,521	1,499	1,001	1,000	**5,021**
Energy Schemes	2,213	4,392	4,408	4,429	**15,442**
Lift Schemes	5,977	5,669	5,512	5,000	**22,158**
Internal Modernisation	2,610	2,551	2,601	2,500	**10,262**
Major Refurb	6,206	1,500	18,028	22,901	**48,635**
Planned Maint. Framework	19,848	20,006	4,499	-	**44,353**
Minor Programmes	8,966	6,913	6,444	6,790	**29,113**
ASC/ELRS Managed	1,050	1,050	1,050	1,050	**4,200**
Sub-total	**48,391**	**43,580**	**43,543**	**43,670**	**179,184**
Decent Neighbourhoods					
HRA Debt Repayment	2,414	13,020	5,866	6,150	**27,450**
Earl's Court buy back cost	21,743	23,374	-	-	**45,117**
Earl's Court project team cost	3,639	3,718	3,799	3,900	**15,056**
Housing Development Programme	12,041	13,237	951	-	**26,229**
Other DNF projects	3,419	715	-	-	**4,134**
Sub-total	**43,256**	**54,064**	**10,616**	**10,050**	**117,986**
Total Decent Neighbourhoods (Housing and Regeneration)	**91,647**	**97,644**	**54,159**	**53,720**	**297,170**
Total Capital Programme	**140,928**	**111,463**	**63,190**	**62,651**	**378,232**

APPENDIX 3 - GENERAL FUND ANTICIPATED CAPITAL RECEIPTS

Year	Forecast capital receipts
	£'000
2014/15	
Total 2014/15	22,676
2015/16	
Total 2015/16	25,819
2016/17	
Total 2016/17	18,699
2017/18	
Total 2017/18	6,259
Total All Years	73,454

APPENDIX 4 - THE CAPITAL FINANCING REQUIREMENT (CFR) AND POOLING

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 Councils 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 do not need to be pooled but must be used for housing business purposes.

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 5 - MINIMUM REVENUE PROVISION (MRP) STATEMENT 2014/15

1. This statement covers the minimum revenue provision (MRP) that Hammersmith and Fulham Council will set-aside from revenue to reduce borrowing and credit liabilities arising from capital expenditure.

2. Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146, as amended] require local authorities to make a prudent amount of minimum revenue provision (MRP). The Secretary of State (Department for Communities and Local Government) issued statutory guidance on determining the "prudent" level of MRP, to which this Council is required to have regard, in February 2012.

3. The 2014/15 annual MRP statement has been updated in accordance with the statutory guidance. No MRP is required in respect of the Housing Revenue Account (HRA).

Annual MRP Statement – frequency of update and approval

4. The Secretary of State recommends that before the start of each financial year, H & F prepares a statement of its policy on making MRP in respect of that financial year and submits it to the full Council. The statement should indicate how it is proposed to discharge the duty to make prudent MRP in the financial year. If it is ever proposed to vary the terms of the original statement during the year, a revised statement should be put to the Council at that time.

Meaning of "Prudent Provision"

5. The broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

Supported Capital Expenditure or Capital Expenditure incurred before 1 April 2008:

6. For capital expenditure incurred before 1 April 2008, the policy is based on Capital Financing Requirement method (Option 2[4]) – this is a continuation of current practice.

From 1 April 2008 for all unsupported borrowing (which does not form part of Supported Capital Expenditure):

7. Where capital expenditure is incurred from 1 April 2008 and on an asset financed wholly or partly by self-funded borrowing, the MRP is to be made in instalments over the life of the asset in accordance with Option 3 Asset Life Method – this method

[4] Options as given in the CLG statutory guidance

spreads the cost over the estimated life of an asset. Under this method LBHF may in any year make additional voluntary revenue provision, in which case they may make an appropriate reduction in later years' levels of MRP.

8. The guidance states for all capitalised expenditure incurred on or after 1 April 2008, which is (a) financed by borrowing or credit arrangements; and (b) treated as capital expenditure by virtue of either a direction under section 16(2)(b) of the 2003 Act or regulation 25(1) of the 2003 Regulations, the authority should make MRP in accordance with Option 3 Asset Life Method.

9. Asset life for MRP purposes shall be determined in the year that MRP commences and not be subsequently revised by the Executive Director of Finance and Corporate Governance.

10. The determination as to which scheme is funded from borrowing and which from other sources shall be made by the Executive Director of Finance and Corporate Governance. Where an asset is only temporarily funded from borrowing in any one financial year and it is intended that its funding be replaced with other sources by the following year, no MRP shall apply.

11. MRP commencement: When borrowing to provide an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. H&F's policy is to postpone beginning to make MRP until the financial year following the one in which the asset becomes operational. "Operational" here has its standard accounting definition. Investment properties should be regarded as becoming operational when they begin to generate revenues.

12. For any deferred costs of disposal debited to the Capital Adjustment Account, no MRP shall apply.

13. Capital Financing Requirement: Where the CFR was nil or negative on the last day of the preceding financial year, LBHF need not make any MRP in the current financial year.

14. Finance leases and PFI: In the case of finance leases and on-balance sheet PFI contracts, the MRP requirement would be regarded as met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability. Where a lease (or part of a lease) or PFI contract is brought onto the balance sheet, having previously been accounted for off-balance sheet, the MRP requirement would be regarded as having been met by the inclusion in the charge, for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.

15. Housing assets: the duty to make MRP does not extend to cover borrowing or credit arrangements used to finance capital expenditure on housing assets.

16. The Executive Director of Finance and Corporate Governance is responsible for implementing the Annual Minimum Revenue Provision Statement and has managerial, operational and financial discretion necessary to ensure that MRP is calculated in accordance with regulatory and financial requirements and resolve any practical interpretation issues. The Executive Director of Finance and Corporate Governance may also make additional revenue provisions, over and above those set out in the statement, or set aside capital receipts to reduce debt liabilities should it be prudent for financial management of the HRA or the General Fund.

APPENDIX 6 - 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:

	Actual 2012/13 £'000	Revised 2013/14 £'000	Estimate 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000
General Fund	28,692	56,587	49,281	13,819	9,031
Housing Revenue Account	24,722	28,140	48,391	43,580	43,543
Decent Neighbourhoods	3,979	15,674	43,256	54,064	10,616
TOTAL	**57,393**	**100,401**	**140,928**	**111,463**	**63,190**

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 Executive Director of Finance and Corporate Governance will determine the actual financing of capital expenditure incurred once a year, after the end of the financial year.

	Actual 2012/13 £'000	Revised 2013/14 £'000	Estimate 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000
General Fund	78,382	77,347	66,522	46,272	33,679
Housing Revenue Account	217,299	207,717	205,302	192,282	186,416
TOTAL	**295,681**	**285,064**	**271,824**	**238,554**	**220,095**

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:

	Actual 2012/13 £'000	Revised 2013/14 £'000	Estimate 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000
Net Borrowing	55,899	(49,489)	(2,401)	(8,103)	(15,177)
Capital Financing Requirement (CFR)	295,681	285,064	271,824	238,554	220,095
Net Borrowing Less than CFR	**(239,782)**	**(334,553)**	**(274,225)**	**(246,657)**	**(235,272)**

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

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.

	Actual 2012/13 %	Revised 2013/14 %	Estimate 2014/15 %	Estimate 2015/16 %	Estimate 2016/17 %
General Fund	1.2%	1.4%	1.3%	1.4%	1.3%
Housing Revenue Account	15.2%	15.7%	13.4%	11.5%	11.5%

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 2014/15 to 2016/17. 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 without the need for borrowing.

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

	Estimate 2014/15 £	**Estimate 2015/16 £**	**Estimate 2016/17 £**
General Fund - Council Tax £ per Band D home per annum	-52.78	-52.78	-52.78
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).