



London Borough of Hammersmith & Fulham

OVERVIEW & SCRUTINY BOARD 8th April 2014

HIGH LEVEL CAPITAL BUDGET MONITORING REPORT, 2013/14 QUARTER 3

Report of the Corporate Director

Open Report

Classification: For Information

Key Decision: No

Wards Affected: ALL

Accountable Executive Director:

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1. EXECUTIVE SUMMARY

- 1.1. **General Fund debt** - as measured by the Capital Financing Requirement (CFR¹) - is currently forecast to be **£77.3m** by the end of 2013/14. This represents a **decrease** of **£2.9m** compared with the quarter 2 CFR projection of £80.2m and an overall decrease of £1.1m from the 2013/14 opening CFR of £78.4m. The long-term CFR projection remains downwards and is currently forecast to be **£33.7m** by 2016/17.
- 1.2. The General Fund Capital programme for 2013/14 has been revised to **£56.6m** (from £89.3m approved at Quarter 2). This decrease of £32.7m results from re-profiling of capital budgets from 2013/14 into 2014/15 and future years. This change is primarily attributable to reprofiling of the Schools' Organisation Strategy (within Children's Services) into future years.
- 1.3. The **Decent Neighbourhoods capital programme** (including the Housing Revenue Account capital programme) forecast expenditure is **£43.8m** in total (from £57.7m expenditure forecast at Quarter 2). The forecast expenditure on the **Housing capital programme (HRA)** is **£28.1m** (from £35.1m forecast at Quarter 2). The **decrease** in the Decent Neighbourhoods programme of **£13.9m** is primarily due to slippage in expenditure on the original prudent cost forecasts for the HRA capital programme, Earls Court Buyback costs and Fulham Court. The surplus in resources for the Decent Neighbourhoods Programme is projected to be **£59.2m** by the end of 2013/14.

¹ Refer to appendix 5 for a definition of the CFR

2. INTRODUCTION AND BACKGROUND

- 2.1. This report sets out the latest 2013/14 – 2016/17 capital monitoring position for the Council's debt reduction programme, the General Fund, Decent Neighbourhoods and the Housing capital programmes.
- 2.2. A table summarising the Council capital programme at quarter 3 is in Appendix 1.

3. GENERAL FUND – DEBT REDUCTION AND CAPITAL PROGRAMME

- 3.1. **General Fund debt** - as measured by the Capital Financing Requirement (CFR) - is currently forecast to be **£77.3m** by the end of 2013/14. This represents a **decrease** of **£2.9m** compared with the quarter 2 CFR projection of £80.2m and an overall decrease of £1.1m from the 2013/14 opening CFR of £78.4m. The long-term CFR projection remains downwards and is currently forecast to be **£33.7m** by 2016/17.

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

	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
Opening Capital Financing Requirement (CFR)	78.4	77.3	66.5	46.3
Revenue Repayment of Debt (MRP)	(1.4)	(1.3)	(0.9)	(0.1)
Annual (Surplus) in the Capital Programme	0.4	(9.5)	(19.3)	(12.5)
Closing CFR	77.3	66.5	46.3	33.7
<i>Net Movement from opening CFR 2013/14</i>	<i>(1.1)</i>	<i>(11.9)</i>	<i>(32.1)</i>	<i>(44.7)</i>

- 3.2. The current expenditure and resources forecast is summarised in table 2 below, with details in appendices 2a to 2f and 3.

Table 2 - General Fund Capital Programme

General Fund	2013/14	2014/15	2015/16	2016/17	Appendix Ref
	£m	£m	£m	£m	
Expenditure:					
Children's Services	35.3	38.3	4.8	0.1	2a
Adult Social Care	1.9	2.0	0.5	0.5	2b
Transport & Technical Services	14.9	7.2	7.2	7.2	2c
Finance and Corporate Services	0.9	1.1	0.8	0.8	2d
Environment, Leisure & Residents Services	2.6	0.7	0.7	0.5	2e
Libraries	0.9	0	0	0	2f
Total	56.6	49.3	13.8	9.0	
Resources:					
Use of capital receipts	11.6	13.2	6.5	6.2	2
Specific	45.0	36.1	7.3	2.8	2
Total	56.6	49.3	13.8	9.0	2
Resources:					
General Fund Receipts	11.2	22.7	25.8	18.7	3
Net capital receipts	11.2	22.7	25.8	18.7	
Specific or other funding	45.0	36.1	7.3	2.8	
Total	56.2	58.7	33.1	21.5	
Annual (surplus)/deficit	0.4	(9.5)	(19.3)	(12.5)	

- 3.3. The General Fund Capital programme for 2013/14 has been revised to **£56.6m** (from £89.3m approved at Quarter 2). This decrease of £32.7m results from re-profiling of capital budgets from 2013/14 into 2014/15 and future years. This change is primarily attributable to reprofiling of the Schools' Organisation Strategy (within Children's Services) into future years.
- 3.4. General Fund capital receipts for 2013/14 are currently forecast at **£11.2m**. There is no change compared with the previous Quarter 2 projection of £11.2m. Just under £1.5m of General Fund capital receipts have been realised at the end of Quarter 3. Full details of anticipated and realised receipts are provided in Appendix 3.
- 3.5. The forecast debt reduction (funded by surplus capital receipts) remains marginal for 2013/14. There remains a risk that if further receipts were deferred the in-year funding shortfall and the CFR would increase. Receipts funded projects will continue to be closely monitored and revised projections reported accordingly.
- 3.6. Overall, the four-year capital programme remains in surplus based on current information. Long-term projections for debt shown by the CFR figures in table 1 follow a downwards trend.

4. DECENT NEIGHBOURHOODS PROGRAMME (HOUSING AND REGENERATION)

- 4.1 At Quarter 3, the **Decent Neighbourhoods capital programme** (including the Housing Revenue Account capital programme) forecast expenditure budget has been revised to **£43.8m**, (from £57.7m expenditure forecast at Quarter 2), as summarised in Table 3a, 3b and Appendix 4. The forecast expenditure budget for the **Housing capital programme (HRA)** is **£28.1m** (from £35.1m forecast at Quarter 2). The **decrease** in the Decent Neighbourhoods programme budget of **£13.9m** is primarily due to slippages and reductions in expenditure in the original prudent cost forecasts for the HRA capital programme, Earls Court Buyback costs and Fulham Court. The surplus in resources for the Decent Neighbourhoods Programme is projected to be £59.2m by the end of 2013/14.
- 4.2 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.
- 4.3 The programme is forecast to be in surplus for the 4 years to 2016/17 by £11.7m based on the forecast expenditure and resources plan. The actual level and timing of sales underpinning this surplus in resources is subject to risks.
- 4.4 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 3a - Decent Neighbourhoods - Quarter 3 Summary

Decent Neighbourhoods Summary	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
Expenditure:				
HRA Debt Repayment	9.6	2.4	13.0	5.9
HRA Capital Programme	28.1	48.4	43.6	43.5
Earls Court Buy Back Costs	0.0	21.7	23.4	0
Earls Court Project Team Costs	2.5	3.6	3.7	3.8
Housing Development Programme	1.4	12.0	13.2	1.0
Other Decent Neighbourhoods Projects	2.2	3.4	0.7	0
Total Expenditure	43.8	91.6	97.6	54.2
Resources:				
Property disposals - capital receipts	(54.4)	(40.0)	(35.0)	(20.0)
Sale of new build private & DMS homes	(1.3)	(1.8)	(10.9)	(18.4)
Property disposals in period	(55.7)	(41.8)	(45.9)	(38.4)
Major Repairs Allowance/Reserve	(20.1)	(17.9)	(16.8)	(17.4)
Revenue contributions	0.0	(0.1)	(0.8)	(0.6)
Leaseholder & other contributions & grants	(6.5)	(4.6)	(4.7)	(4.5)
GLA grant (£27K per DMS home)	(0.1)	(0.6)	(2.0)	0
Other resources in period	(26.7)	(23.2)	(24.2)	(22.4)
Total Resources	(82.4)	(65.0)	(70.1)	(60.8)
Cumulative total (surplus)/deficit	(38.6)	26.6	27.5	(6.7)
Capital receipts surplus brought forward	(20.5)	(59.2)	(32.5)	(5.0)
Capital receipts surplus carried forward	(59.2)	(32.5)	(5.0)	(11.7)

Table 3b - Decent Neighbourhoods Capital Receipts Reconciliation

Decent Neighbourhoods Capital Receipts Reconciliation	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
Capital receipts surplus brought forward	(20.5)	(59.2)	(32.5)	(5.0)
Capital receipts surplus carried forward	(59.2)	(32.5)	(5.0)	(11.7)
Total variance in capital receipts	38.6	(26.6)	(27.5)	6.7
Property disposals in period	(55.7)	(41.8)	(45.9)	(38.4)
Total applied capital receipts	(17.1)	(68.5)	(73.5)	(31.7)

- 4.5 In accordance with the change in capital regulations for housing capital receipts, effective from 1 April 2013 Decent Neighbourhood capital receipts must be used for regeneration or housing purposes.

5. VAT RISKS AND IMPLICATIONS

- 5.1 As detailed in previous reports, the Council needs to give close consideration to its VAT partial exemption calculation and the risk of breaching the threshold. Capital projects represent the bulk of this risk. A breach that the HMRC did not authorise would cost the Council between £2 to 3 million pounds. A policy to manage this position – including ‘opting to tax’ properties where feasible – was approved by Cabinet on 9th December 2013.
- 5.2 As previously reported, the Council is forecast to breach the threshold in 2013/14. This one-off breach position has been provisionally authorised by

HMRC on the basis the Council's breach position does not materially worsen during the period of the breach.

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.	Capital Budget Monitoring Documents including Briefing to Cabinet Report – 4 Year Capital Programme 2014/15 to 2017/18	Jade Cheung ext. 3374	Finance Dept., 2 nd Floor, Hammersmith Town Hall Extension

LIST OF APPENDICES:

Appendix 1 - Council Capital Programme (General Fund & Decent Neighbourhoods)

Appendices 2a to 2f - General Fund Services

Appendix 2a - Children's Services

Appendix 2b - Adult Social Care

Appendix 2c - Transport & Technical Services

Appendix 2d - Finance and Corporate Governance

Appendix 2e - Environment, Leisure and Residents Services

Appendix 2f - Libraries

Appendix 3 - General Fund Capital Receipts

Appendix 4 - Decent Neighbourhoods Programme (Housing & Regeneration)

Appendix 5 - The Capital Financing Requirement (CFR)

Capital Budget Monitor Appendices – Quarter 3 At 31st December 2013

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

Capital Expenditure	Revised Budget 2013/14 Q2	Revised Budget 2013/14 Q3	Indicative Budget 2014/15	Indicative Budget 2015/16	Indicative Budget 2016/17
	£'000	£'000	£'000	£'000	£'000
Children's Services	66,189	35,311	38,316	4,772	100
Adult Social Care	2,977	1,873	1,971	450	450
Transport & Technical Services	15,670	14,944	7,236	7,155	7,231
Finance & Corporate Governance	900	900	1,058	750	750
Environment, Leisure & Residents Services	2,661	2,647	700	692	500
Libraries	912	912			
Sub-total	89,309	56,587	49,281	13,819	9,031
Housing Services (Housing Revenue Account only)	35,127	28,140	48,391	43,580	43,543
Decent Neighbourhoods projects	22,566	15,674	43,256	54,064	10,616
Total Capital Programme	147,002	100,401	140,928	111,463	63,190
Capital Financing					
Capital grants from central government departments (inc SCE(C))	59,893	29,599	29,166	4,306	100
Grants and contributions from private developers and from leaseholders, etc.	13,344	15,878	4,824	4,874	4,514
Grants and contributions from non-departmental public bodies	2,118	632	3,774	193	
Capital funding from GLA bodies	5,087	4,025	2,729	4,079	2,157
Use of capital receipts to finance capital expenditure	52,663	28,697	81,675	79,955	37,961
Capital expenditure financed from the Housing Revenue Account	-	-	113	761	553
Capital expenditure financed by the Major Repairs Reserve (MRR) / Major Repairs Allowance (MRA)	12,217	20,085	17,886	16,751	17,361
Capital expenditure financed from the General Fund Revenue Account	549	1,372	761	544	544
Use of LBHF reserves	1,131	113			
Total Capital Financing	147,002	100,401	140,928	111,463	63,190

Appendix 2a Children's Services

CHILDREN'S SERVICES CAPITAL PROGRAMME										
Schemes	Revised Budget 2013/14 (at Quarter 1)	Revised Budget 2013/14 (at Quarter 2)	Slippages from/(to) future years	Additions/ (Reductions) / Transfers	Transfers/ Virements	Revised Budget 2013/14 (at Quarter 3)	2013/14 Expenditure to date	2014/15 Budget	2015/16 Budget	2016/17 Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Lyric Theatre Development	13,884	9,384	533			9,917	3,286	3,991	193	
Devolved Capital to Schools	11	711		1,065		1,776	1,780			
Other Capital Schemes	87	87		11		98	24			
Schools Organisational Strategy	56,007	56,007	(32,487)			23,520	7,585	34,325	4,579	100
Total	69,989	66,189	(31,954)	1,076	-	35,311	12,675	38,316	4,772	100
FINANCING SUMMARY										
Capital receipts	4,268	4,268	(2,159)			2,109		6,620	273	
Specific or other funding	65,721	61,921	(29,795)	1,076		33,202	12,675	31,696	4,499	100
Total	69,989	66,189	(31,954)	1,076	-	35,311	12,675	38,316	4,772	100

Appendix 2b Adult Social Care Services

ADULT SOCIAL CARE SERVICES CAPITAL PROGRAMME										
Schemes	Revised Budget 2013/14 (at Quarter 1)	Revised Budget 2013/14 (at Quarter 2)	Slippages from/(to) future years	Additions/ (Reductions) / Transfers	Transfers/ Virements	Revised Budget 2013/14 (at Quarter 3)	2013/14 Expenditure to date	2014/15 Budget	2015/16 Budget	2016/17 Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care Grant	26	30				30	30			
Hostel Improvement Grant	90	90	(60)			30		60		
Supporting Your Choice - Social Care Reform (DoH)	87	87		(87)		0				
Wormwood Scrubs Prison	64	64				64				
Extra Care New Build project (Adults' Personal Social Services Grant)	1,451	957	(957)			0		957		
Community Capacity Grant		490				490	4	504		
Disabled Facilities Scheme	990	990				990	643	450	450	450
White City Collaborative Care project		269				269				
Total	2,708	2,977	(1,017)	(87)	-	1,873	677	1,971	450	450
FINANCING SUMMARY										
Capital receipts	616	616	(60)			556	179	510	450	450
Specific or other funding	2,092	2,361	(957)	(87)		1,317	498	1,461		
Total	2,708	2,977	(1,017)	(87)	-	1,873	677	1,971	450	450

Appendix 2c Transport & Technical Services

TRANSPORT & TECHNICAL SERVICES CAPITAL PROGRAMME										
Schemes	Revised Budget 2013/14 (at Quarter 1)	Revised Budget 2013/14 (at Quarter 2)	Slippages from/(to) future years	Additions/ (Reductions) / Transfers	Transfers/ Virements	Revised Budget 2013/14 (at Quarter 3)	2013/14 Expenditure to date	2014/15 Budget	2015/16 Budget	2016/17 Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Footways and Carriageways	2,030	2,030				2,030	1,349	2,030	2,030	2,030
Planned Maintenance/DDA Programme	5,380	5,282	(610)			4,672	1,955	2,500	2,500	2,500
River Wall Repairs	40	40				40				
Transport For London Schemes	4,065	3,847		99		3,946	1,749	2,162	2,081	2,157
Parking Reserve/ Revenue Contributions	1,018	1,018		(221)		797	337	544	544	544
Developer Contribution Funded	2,368	2,801		71		2,872	1,238			
West London Grant	279	279				279	155			
Fulham Town Hall car park	98	98				98	98			
Other Capital Schemes	275	275		(15)		260	189			
Total	15,553	15,670	(610)	(66)	-	14,994	7,070	7,236	7,155	7,231
FINANCING SUMMARY										
Capital receipts	7,548	7,450	(610)			6,840	3,402	4,530	4,530	4,530
Specific or other funding	8,005	8,220		(66)		8,154	3,668	2,706	2,625	2,701
Total	15,553	15,670	(610)	(66)	-	14,994	7,070	7,236	7,155	7,231

Appendix 2d Finance and Corporate Governance

FINANCE & CORPORATE GOVERNANCE CAPITAL PROGRAMME										
Schemes	Revised Budget 2013/14 (at Quarter 1)	Revised Budget 2013/14 (at Quarter 2)	Slippages from/(to) future years	Additions/ (Reductions) / Transfers	Transfers/ Virements	Revised Budget 2013/14 (at Quarter 3)	2013/14 Expenditure to date	2014/15 Budget	2015/16 Budget	2016/17 Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Contribution to Invest to Save Fund	750	750				750		750	750	750
Edward Woods Community Centre	150	150				150		308		
Total	900	900	-	-	-	900	-	1,058	750	750
FINANCING SUMMARY										
Capital receipts	900	900				900		1,058	750	750
Total	900	900	-	-	-	900	-	1,058	750	750

Appendix 2e Environment, Leisure and Residents Services

ELRS CAPITAL PROGRAMME										
Schemes	Revised Budget 2013/14 (at Quarter 1)	Revised Budget 2013/14 (at Quarter 2)	Slippages from/(to) future years	Additions/ (Reductions) / Transfers	Transfers/ Virements	Revised Budget 2013/14 (at Quarter 3)	2013/14 Expenditure to date	2014/15 Budget	2015/16 Budget	2016/17 Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Parks Expenditure	985	958	(5)	(59)		894	161	500	500	500
Bishops Park	156	156				156	60			
Shepherds Bush Common Improvements	62	545				545	214			
Recycling	22	22				22				
CCTV	200	200				200	85	200	192	
Fulham Palace Trust	618	618				618	617			
Porta Cabin Facility				50		50				
Linford Christie Stadium Refurbishment	162	162				162	15			
Total	2,205	2,661	(5)	(9)	-	2,647	1,152	700	692	500
FINANCING SUMMARY										
Capital receipts	1,161	1,161	(5)	50		1,206	716	500	500	500
Specific or other funding	1,044	1,500		(59)		1,441	436	200	192	
Total	2,205	2,661	(5)	(9)	-	2,647	1,152	700	692	500

Appendix 2f Libraries Services

LIBRARIES CAPITAL PROGRAMME										
Schemes	Revised Budget 2013/14 (at Quarter 1)	Revised Budget 2013/14 (at Quarter 2)	Slippages from/(to) future years	Additions/ (Reductions) / Transfers	Transfers/ Virements	Revised Budget 2013/14 (at Quarter 3)	2013/14 Expenditure to date	2014/15 Budget	2015/16 Budget	2016/17 Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Hammersmith Library Refurbishment	912	912				912	103			
Total	912	912	-	-	-	912	103	-	-	-
FINANCING SUMMARY										
Capital receipts										
Specific or other funding	912	912				912	103			
Total	912	912	-	-	-	912	103	-	-	-

Appendix 3 General Fund Capital Receipts

Year	Forecast capital receipts
	£'000
2013/14	
Total 2013/14	11,238
2014/15	
Total 2014/15	22,676
2015/16	
Total 2015/16	25,819
2016/17	
Total 2016/17	18,699
Total All Years	78,433

Appendix 4 Decent Neighbourhoods (Housing & Regeneration)

Decent Neighbourhoods Summary	Revised Budget 2013/14 (at Quarter 2)	Slippages from/(to) future years	Additions/ (Reductions) / Transfers	Revised Budget 2013/14 (at Quarter 3)	2014/15 Budget	2015/16 Budget	2016/17 Budget
	£m	£m	£m	£m	£m	£m	£m
Expenditure:							
HRA Debt Repayment	9.6			9.6	2.4	13.0	5.9
HRA Capital Programme	35.1	(7.0)		28.1	48.4	43.6	43.5
Earls Court Buy Back Costs	5.0	(4.7)	(0.3)		21.7	23.4	
Earls Court Project Team Costs	2.5			2.5	3.6	3.7	3.8
Housing Development Programme	1.9		(0.5)	1.4	12.0	13.2	1.0
Other Decent Neighbourhoods Projects	3.6	(0.9)	(0.5)	2.2	3.4	0.7	
Total Expenditure	57.7	(12.6)	(1.3)	43.8	91.6	97.6	54.2
Resources:							
Property disposals - capital receipts	(54.2)		(0.2)	(54.4)	(40.0)	(35.0)	(20.0)
Sale of new build private & DMS homes	(0.7)		(0.6)	(1.3)	(1.8)	(10.9)	(18.4)
Property disposals in period	(54.9)	0.0	(0.8)	(55.7)	(41.8)	(45.9)	(38.4)
Major Repairs Allowance/Reserve	(12.2)	(7.9)		(20.1)	(17.9)	(16.8)	(17.4)
Revenue contributions					(0.1)	(0.8)	(0.6)
Leaseholder & other contributions & grants	(7.2)	0.7		(6.5)	(4.6)	(4.7)	(4.5)
GLA grant (£27K per DMS home)			(0.1)	(0.1)	(0.6)	(2.0)	
Other resources in period	(19.4)	(7.2)	(0.1)	(26.7)	(23.2)	(24.2)	(22.4)
Total Resources	(74.3)	(7.2)	(0.9)	(82.4)	(65.0)	(70.1)	(60.8)
Cumulative total (surplus)/deficit	(16.6)	(19.8)	(2.2)	(38.6)	26.6	27.5	(6.7)
Capital receipts surplus brought forward	(20.5)			(20.5)	(59.2)	(32.5)	(5.0)
Capital receipts surplus carried forward	(37.1)	(19.8)	(2.2)	(59.2)	(32.5)	(5.0)	(11.7)
Decent Neighbourhoods Capital Receipts Reconciliation	2013/14 at Q2	Slippages from/(to) future years	Additions/ (Reductions) / Transfers	2013/14 at Q3	2014/15	2015/16	2016/17
				£m	£m	£m	£m
Capital receipts surplus brought forward	(20.5)			(20.5)	(59.2)	(32.5)	(5.0)
Capital receipts surplus carried forward	(37.1)	(19.8)	(2.2)	(59.2)	(32.5)	(5.0)	(11.7)
Total variance in capital receipts	16.6	19.8	2.2	38.6	(26.6)	(27.5)	6.7
Property disposals in period	(54.9)	0.0	(0.8)	(55.7)	(41.8)	(45.9)	(38.4)
Total applied capital receipts	(38.3)	19.8	1.4	(17.1)	(68.5)	(73.5)	(31.7)

Appendix 5 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.**

The government requires the authority to set-aside annually an amount equal to 4% of CFR. This is known as the Minimum Revenue Provision (MRP).

The Council's headline CFR excludes technical adjustments relating to finance leases, PFI, historic MRP commutation, and deferred costs given these items do not give rise to a financing or MRP cost.