	London Borough of Hammersmith & Fulham **CABINET** **2 FEBRUARY 2015**
FOUR YEAR CAPITAL PROGRAMME 2015/16 TO 2018/19	
Report of the Cabinet Member for Finance - Councillor Max Schmid	
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: Christopher Harris, Head of Finance (Corporate Accountancy & Capital)	**Contact Details:** Tel: 0208 753 6440 E-mail: christopher.harris@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report presents the Council's four-year Capital Programme for the period 2015-19. The programme for this period totals £333.1m. The programme is subject to the approval of Full Council and is due to be considered at Budget Council in February 2015.

1.2. The gross programme for 2015/16 totals £125.9m. This comprises the General Fund Programme of £31.7m and the Housing Programme of £94.2m.

1.3. The report sets out the Councils' Minimum Revenue Provision (MRP) policy and the Prudential Indicators.

2. RECOMMENDATIONS

2.1. To approve the General Fund Capital Programme budget at £31.7m for 2015/16 (paragraph 5.1, Table 2 and Appendix 1).

2.2. To approve the continuation of the Council's rolling programmes and the continued use of internal funding for 2015/16 General Fund Programme as set out in Table 3 (paragraph 5.2) and specifically as follows:

- Capital receipts amounting to £5.48m to fund the Council's rolling programmes as follows:

	£m
Disabled Facilities Grant [ASC]	0.45
Planned Maintenance/DDA Programme [TTS]	2.50
Footways and Carriageways [TTS]	2.03
Parks Programme [ELRS]	0.50
Total	**5.48**

- Contributions from revenue amounting to £0.544m to fund the Council's rolling programmes as follows:

	£m
Controlled Parking Zones [TTS]	0.275
Column Replacement [TTS]	0.269
Total	**0.544**

2.3. To note existing capital receipts funded schemes in the Schools programme of £441k, previously approved, but now scheduled for 2015/16 (paragraph 5.2, Table 3).

2.4. To approve the Housing Programme at £94.2m for 2015/16 as set out in Table 5 (paragraph 7.2) and Appendix 1.

2.5. To approve the annual Minimum Revenue Provision policy statement for 2015/16 in Appendix 4.

2.6. To approve the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Indicators as set out in Appendix 5 to the report.

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 and the CIPFA Prudential Code.

4. INTRODUCTION AND BACKGROUND

4.1. This report sets out an updated four-year capital expenditure and resource forecast and a capital programme for 2015/16 to 2018/19, as summarised in Table 1 below. A detailed analysis of specific schemes by service is included in Appendix 1.

Table 1 - Capital Programme 2015/16 to 2018/19

		Indicative Budgets			
	2015/16 Budget £'000	**2016/17 Budget £'000**	**2017/18 Budget £'000**	**2018/19 Budget £'000**	**Total Budget £'000**
CAPITAL EXPENDITURE					
Children's Services	21,897	197	-	-	**22,094**
Adult Social Care	1,948	450	450	450	**3,298**
Transport & Technical Services	7,183	9,101	7,231	7,231	**30,746**
Environment, Leisure & Residents Services	711	500	500	500	**2,211**
Sub-total (Non-Housing)	**31,739**	**10,248**	**8,181**	**8,181**	**58,349**
HRA Programme	57,548	44,502	44,170	38,568	**184,788**
Decent Neighbourhoods Programme	36,613	24,420	14,522	14,432	**89,987**
Sub-total (Housing)	**94,161**	**68,922**	**58,692**	**53,000**	**274,775**
Total Expenditure	**125,900**	**79,170**	**66,873**	**61,181**	**333,124**
CAPITAL FINANCING					
Specific/External Financing:					
Government/Public Body Grants	25,602	4,352	2,157	2,157	**34,268**
Developers Contributions (S106)	239	-	-	-	**239**
Leaseholder Contributions (Housing)	5,693	5,525	5,011	5,000	**21,229**
Sub-total - Specific Financing	**31,534**	**9,877**	**7,168**	**7,157**	**55,736**
Mainstream Financing (Internal):					
Capital Receipts - General Fund	5,921	7,350	5,480	5,480	**24,231**
Capital Receipts - Housing*	66,617	39,056	19,555	2,255	**127,483**
Revenue funding - General Fund	544	544	544	544	**2,176**
Revenue Funding - HRA	2,300	5,500	11,574	10,475	**29,849**
Major Repairs Reserve (MRR) [Housing]	16,849	17,355	17,818	18,323	**70,345**
Sub-total - Mainstream Funding	**92,231**	**69,805**	**54,971**	**37,077**	**254,084**
Internal Borrowing - increase/(decrease)	**2,135**	**(512)**	**4,734**	**16,947**	**23,304**
Total Capital Financing	**125,900**	**79,170**	**66,873**	**61,181**	**333,124**

Includes use of brought-forward receipts

4.2. The forecast above for specific and external resource is based on known allocations at December 2014. This includes the updated position for the Disabled Facilities Grant and the Transport for London Local Implementation Plan funding for 2015/16. The resource forecasts will be updated over the forthcoming months in accordance with relevant government, and other public and private, spending announcements. This will include a review of Children's Services allocations. At present schools' funding is not confirmed beyond 15/16. Once this is confirmed by Government, General Fund capital expenditure is likely to be significantly higher. In addition the capital receipts figures will be updated as they become known.

4.3. The CIPFA Prudential Indicators have been updated to meet statutory requirements for 2015/16 and are detailed in Appendix 5.

5. THE GENERAL FUND CAPITAL PROGRAMME

5.1 The General Fund programme is summarised in Table 2, below. Detail for each service is included at Appendix 1.

Table 2 – General Fund Capital Programme 2015-19

		Indicative Budgets			
	2015/16 Budget £'000	2016/17 Budget £'000	2017/18 Budget £'000	2018/19 Budget £'000	Total Budget £'000
CAPITAL EXPENDITURE					
Children's Services	21,897	197	-	-	**22,094**
Adult Social Care	1,948	450	450	450	**3,298**
Transport & Technical Services	7,183	9,101	7,231	7,231	**30,746**
Environment, Leisure & Residents Services	711	500	500	500	**2,211**
Total Expenditure	**31,739**	**10,248**	**8,181**	**8,181**	**58,349**
CAPITAL FINANCING					
Specific/External Financing:					
Government/Public Body Grants	25,035	2,354	2,157	2,157	**31,703**
Developers Contributions (S106)	239	-	-	-	**239**
Sub-total - Specific Financing	**25,274**	**2,354**	**2,157**	**2,157**	**31,942**
Mainstream Financing (Internal):					
Capital Receipts - General Fund	5,921	7,350	5,480	5,480	**24,231**
Revenue funding - General Fund	544	544	544	544	**2,176**
Sub-total - Mainstream Funding	**6,465**	**7,894**	**6,024**	**6,024**	**26,407**
Total Capital Financing	**31,739**	**10,248**	**8,181**	**8,181**	**58,349**

5.2 Table 3 overleaf shows the projects funded from internal resource and therefore represents the 'discretionary' part of the programme. This mainstream programme comprises the completion of existing schemes and the continuation of rolling programmes. The table is presented in the context of total available resource thus shows the surplus or deficit on the General Fund programme in a given year.

Table 3 – General Fund Mainstream Programme 2015-19

	Budget 2015/16 £'000	Indicative Budgets Budget 2016/17 £'000	Budget 2017/18 £'000	Budget 2018/19 £'000	Total Budget (All years) £'000
Approved Expenditure					
Ad Hoc Schemes:					
Schools Organisation Strategy [CHS] (mainstream element)	441	-	-	-	**441**
Carnwath Road Receipt [TTS]	-	1,870	-	-	**1,870**
Rolling Programmes:					
Disabled Facilities Grant [ASC]	450	450	450	450	**1,800**
Planned Maintenance/DDA Programme [TTS]	2,500	2,500	2,500	2,500	**10,000**
Footways and Carriageways [TTS]	2,030	2,030	2,030	2,030	**8,120**
Controlled Parking Zones [TTS]	275	275	275	275	**1,100**
Column Replacement [TTS]	269	269	269	269	**1,076**
Parks Programme [ELRS]	500	500	500	500	**2,000**
Total Mainstream Programmes**	**6,465**	**7,894**	**6,024**	**6,024**	**26,407**
Available and Approved Resource					
Capital Receipts (total available) [See Appendix 2]	21,252	8,894	3,840	3,840	**37,826**
General Fund Revenue Account	544	544	544	544	**2,176**
Available Mainstream Resource	**21,796**	**9,438**	**4,384**	**4,384**	**40,002**
In-year surplus/(deficit)	**15,331**	**1,544**	**(1,640)**	**(1,640)**	
Surplus/(deficit) brought-forward *	**-**	**15,331**	**16,875**	**15,235**	
Surplus/(deficit) carried forward	**15,331**	**16,875**	**15,235**	**13,595**	

**Assuming surplus from 2014-15 applied to debt reduction or investment*

5.3 The General Fund mainstream capital programme continues to be primarily funded from capital receipts. A summary forecast of General Fund capital receipts is included in Appendix 2. 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. Sales are also at risk of slipping or not being 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 INVESTMENT AND DEBT REDUCTION

6.1 In considering the use of surpluses on the mainstream programme, notably surplus capital receipts, the Council will look at a range of options which maximises return.

6.2 The capital investment strategy in recent years has focused on using surpluses to reduce debt. The revenue savings from debt reduction continue to provide a 'benchmark' which alternative investment ideas should seek to match and, ideally, better.

6.3 General Fund debt is measured by the Capital Finance Requirement (CFR). The Council is required to make an annual provision from revenue, known as the Minimum Revenue Provision (MRP), which set-asides resource to repay debt and in so doing reduces the CFR. The CFR and MRP are explained in more detail in appendix 3 and the Council's 2015/16 MRP policy is set-out policy in Appendix 4.

Table 4 - Forecast Movement in the GF Capital Financing Requirement (CFR)

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Opening Capital Finance Requirement (CFR)	**56.65**	**43.18**	**43.18**	**43.18**
Revenue Repayment of Debt (MRP)	(0.54)	-	-	-
Application of Mainstream Programme (Surplus)	(15.33)	(1.54)	1.64	1.64
Excess' Surplus Reserved/(Utilised)*	2.40	1.54	(1.64)	(1.64)
Closing Capital Finance Requirement (CFR)	**43.18**	**43.18**	**43.18**	**43.18**

Excess' Surplus b/f	-	2.40	3.94	2.30
Excess' Surplus c/f	2.40	3.94	2.30	0.66

Annual debt reduction and investment related revenue savings assumed in MTFS	*0.6*	*1.1*	*1.4*	

**Surplus available having taken the CFR to the Adjustment A floor*

6.4 The annual revenue savings shown in Table 4 comprise MRP savings, interest saved on external debt maturing, savings relating to the restructuring of debt and increases in investment income on cash receipts pending repayment of external debt.

7. THE HOUSING CAPITAL PROGRAMME

7.1 The Housing Capital Programme is based on the Long Term Plan for Council Homes endorsed by Cabinet on 5th January 2015. It maintains the Council's commitment to catch up the repairs backlog on Council Homes and includes £185m for repairs and maintenance to existing Council Homes over the next four years.

7.2 The overall Housing Programme expenditure and resource forecast is summarised in Table 5, overleaf. The detailed programme is included at appendix 1.

Table 5 – Housing Expenditure and Resource Forecast 2015-19

	2015/16 Budget £'000	Indicative Budgets 2016/17 Budget £'000	2017/18 Budget £'000	2018/19 Budget £'000	Total £'000
Forecast Expenditure (Per Table 1)					
HRA Schemes	57,548	44,502	44,170	38,568	184,788
Decent Neighbourhood Schemes	36,613	24,420	14,522	14,432	89,987
Total Housing Programme - Approved Expenditure	**94,161**	**68,922**	**58,692**	**53,000**	**274,775**
Forecast Resource					
General Capital Receipts	15,384	27,032	24,115	6,699	73,230
Earls Court Receipts recognisable	-	18,460	-	-	18,460
Housing Revenue Account (revenue funding)	2,300	5,500	11,574	10,475	29,849
Major Repairs Reserve (MRR)	16,849	17,355	17,818	18,323	70,345
Contributions from leaseholders	5,693	5,525	5,011	5,000	21,229
Capital Grants and Contributions from GLA Bodies	567	1,998	-	-	2,565
Total Forecast Resource (In-year)	**40,793**	**75,870**	**58,518**	**40,497**	**215,678**
Internal Borrowing - increase/(decrease)	2,135	(511)	4,733	16,948	23,305
Total Forecast Resource (In- Year; inc. Borrowing)	**42,928**	**75,359**	**63,251**	**57,445**	**238,983**
In-year surplus/(deficit)	**(51,233)**	**6,437**	**4,559**	**4,445**	
Surplus/(deficit) brought-forward	**65,602**	**14,369**	**20,806**	**25,365**	
Surplus/(deficit) carried forward*	**14,369**	**20,806**	**25,365**	**29,810**	
****Earmarked from above to cover Costs of Disposal and 1-4-1 Replacement under RTB agreement*****	***14,369***	***20,806***	***25,365***	***29,810***	
Surplus/(Deficit) after earmarked resources	**-**	**-**	**-**	**-**	

***Under the 1-4-1 scheme, Right to Buy (RTB) receipts can be retained by the authority on the proviso that they are recycled into the provision of a replacement dwelling. Accordingly, these receipts must be ring-fenced until they can be matched to qualifying expenditure.*

7.3 For the period 2015-19 the Housing programme will be borrowing against internal resources (as shown against ‘internal borrowing’ in Table 5).

7.4 The forecast Housing Capital Finance Requirement CFR and key Housing borrowing indicators are shown in Table 6, below.

Table 6 – Housing CFR Forecast 2015-19

	Forecast 2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Closing HRA Capital Finance Requirement (CFR)	**205,918**	**202,650**	**205,453**	**220,401**
Housing Debt Cap (set by CLG)	254,617	254,617	254,617	254,617
Debt Headroom (Debt Cap minus CFR)	**48,699**	**51,967**	**49,164**	**34,216**
CFR represented by:				
HRA PWLB Borrowing	192,282	186,416	180,267	176,482
Internal HRA Borrowing (HRA CFR minus PWLB Borrowing)	13,636	16,234	25,186	43,919
Equals: HRA CFR	**205,918**	**202,650**	**205,453**	**220,401**

7.5 The HRA CFR is required to remain within a 'Debt Cap' which has been individually set for all housing authorities by the Department for Communities and Local Government. This cap was introduced as part of the transition to HRA self-financing. The Council's debt cap is currently set at £254.617m. The Housing programme is forecast to remain £34m below this threshold for the period 2015-19.

8. HORIZON SCANNING – MAJOR 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**

Following the recent review of the Town Hall redevelopment and King Street regeneration project, the Council's development partner, King Street Developments (Hammersmith) Ltd (KSD), a joint venture between Helical Bar plc and Grainger plc, will now be finalising assembly of the development site. The scheme comprises 196 new homes; a three-screen community cinema, to be operated by Curzon; new retail, restaurant and cafe space; replacement offices for LBHF and a new town square. Once site assembly has been concluded, the scheme will be progressed through detailed design to procurement and construction and will form the catalyst for the regeneration of the area around and including the town hall extension building.

The Grade-II listed town hall will have its former ceremonial stone steps reinstated to link up with the new town square and new external lifts will be installed to provide access to the first floor assembly hall. The replacement council offices will be built to the west of Nigel Playfair Avenue on the site of the existing cinema, facing across the new square towards the town hall. KSD will also provide a total of £9.5 million towards regenerating the surrounding area, refurbishing the Grade-II listed town hall with a more space-efficient open plan layout and funding for affordable housing off-site. It is planned that the overall strategy will be delivered at a net nil cost to the Council (i.e. the town hall refurbishment works will only draw on existing planned maintenance budgets, phased over three years, with the balance being met by KSD's S106 contribution) and this will continue to be kept under review.

8.3 **Housing Stock Options**

The administration have prioritised working with council housing residents to give them more control over their homes. This is part of a wider commitment to devolve more control to the community.

The Economic Regeneration, Housing and The Arts Policy and Accountability meeting of 11th November 2014 requested the administration to establish a Residents' Commission on Council Housing to consider the options for empowering residents to take local control over their homes and for maximising investment in existing and new council homes. In December 2014, Cabinet approved a Strategic Housing Stock Options Appraisal (SHSOA) process which will consider the practical options available to the Council and housing residents. Members have commissioned a report which will set out the options and fully consider the benefits and disadvantages of each option.

8.4 **Earl's Court**
The Council 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. Full details can be found in the 3 September 2012 Cabinet Report. The trigger notice for the CLSA was served in November 2013.

8.5 **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.

This programme is currently under review with a view to changing the tenure of a significant number the homes developed to rented social housing.

8.6 **Schools' Capital Programme**
The Council continues to implement its Schools Organisation Strategy with expenditure in 2015/16 set to exceed £21m. The strategy continues to focus on expanding school places in light of increasing demand.

8.7 **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 over-site 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.

8.8 **The Hammersmith 'Flyunder'**
The Council has published a feasibility study which sets out in detail how Hammersmith town centre might look if a road tunnel – dubbed the flyunder – were built beneath the current A4. The study has been published on the Council's website here: http://www.lbhf.gov.uk/Directory/News/hammersmith_flyunder.asp. The Council is actively seeking support from Transport for London (TfL) and the Greater London Authority (GLA) to develop the next stage of this study.

8.9 **Shepherd's Bush Market**
In October 2014, the Secretary of State confirmed the Shepherds Bush Market CPO, against the recommendations of the CPO Inspector. The Council continues to actively work with the market traders/Goldhawk Road shopkeepers and broker dialogue with the developer to ensure that the unique historic market character and valuable local

businesses are fully protected, as well as requiring the developer to reach negotiated settlements to acquire the remaining land interests.

8.10 **Community Infrastructure Levy (CIL)**
The Council remains on course to introduce its **Community Infrastructure Levy (CIL)** in 2015/16. This is a new levy that local authorities can choose to charge on new developments in their area (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 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. Such developments will be incorporated into the Capital Programme as they are agreed.

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 2015/16.

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

9.3 Implications verified/completed by: David Bennett, Head of Change Delivery (Acting) - 020 7361 1628.

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 four 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 5. 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 £56.6m at the start of 2015/16.

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 4 sets out the LBHF MRP Statement for 2015/16.

11.5 VAT implications

With regard to all major capital schemes and disposals, the Council will need to give careful consideration to its VAT partial exemption threshold. Ordinarily, entities cannot reclaim VAT incurred in the provision of VAT exempt activities, however special provision for Local Authorities means that the 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 breached its partial exemption threshold but has liaised with the 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 2017/18. The Cabinet has adopted the following VAT policy 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 incurring exempt VAT are deferred for the present time.
- In addition there is only limited room in the future years partial exemption forecasts. Therefore, new or re-profiled projects 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.

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 Councils Enterprise Wide risk and assurance register which has been reviewed by the councils 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.

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	Christopher Harris ext 6440	Finance Department, 2nd Floor, HTH Extension

LIST OF APPENDICES:

Capital Budget Monitoring and Financing Information:

Appendix 1 - Council Capital Programme by Service Area
Appendix 2 - General Fund Anticipated Capital Receipts
Appendix 3 - The Capital Financing Requirement (CFR)
Appendix 4 - Minimum Revenue Provision (MRP) Statement 2015/16
Appendix 5 - CIPFA Treasury Prudential Indicators 2015/16

APPENDIX 1 – Detailed Analysis by Service

Children's Services

	2015/16 Budget £'000	2016/17 Budget £'000 (Indicative Budgets)	2017/18 Budget £'000 (Indicative Budgets)	2018/19 Budget £'000 (Indicative Budgets)	Total Budget £'000
Scheme Expenditure Summary					
Lyric Theatre Development	380	-	-	-	**380**
Schools Organisational Strategy	21,517	197	-	-	**21,714**
Total Expenditure	**21,897**	**197**	**-**	**-**	**22,094**
Capital Financing Summary					
Specific/External or Other Financing					
Capital Grants from Central Government	21,263	197	-	-	**21,460**
Capital Grants/Contributions from Non-departmental public bodies	193	-	-	-	**193**
Sub-total - Specific or Other Financing	**21,456**	**197**	**-**	**-**	**21,653**
Mainstream Financing (Internal Council Resource)					
Capital Receipts	441	-	-	-	**441**
Sub-total - Mainstream Funding	**441**	**-**	**-**	**-**	**441**
Total Capital Financing	**21,897**	**197**	**-**	**-**	**22,094**

Adult Social Care Services

	2015/16 Budget £'000	2016/17 Budget £'000 (Indicative Budgets)	2017/18 Budget £'000 (Indicative Budgets)	2018/19 Budget £'000 (Indicative Budgets)	Total Budget £'000
Scheme Expenditure Summary					
Extra Care New Build project (Adults' Personal Social Services Grant)	957	-	-	-	**957**
Disabled Facilities Grant	991	450	450	450	**2,341**
Total Expenditure	**1,948**	**450**	**450**	**450**	**3,298**
Capital Financing Summary					
Specific/External or Other Financing					
Capital Grants from Central Government	1,498	-	-	-	**1,498**
Sub-total - Specific or Other Financing	**1,498**	**-**	**-**	**-**	**1,498**
Mainstream Financing (Internal Council Resource)					
Capital Receipts	450	450	450	450	**1,800**
Sub-total - Mainstream Funding	**450**	**450**	**450**	**450**	**1,800**
Total Capital Financing	**1,948**	**450**	**450**	**450**	**3,298**

APPENDIX 1 – Detailed Analysis by Service /cont.

Transport and Technical Services

	2015/16 Budget £'000	Indicative Budgets 2016/17 Budget £'000	2017/18 Budget £'000	2018/19 Budget £'000	Total Budget £'000
Scheme Expenditure Summary					
Planned Maintenance/DDA Programme	2,500	2,500	2,500	2,500	**10,000**
Footways and Carriageways	2,030	2,030	2,030	2,030	**8,120**
Transport For London Schemes	2,081	2,157	2,157	2,157	**8,552**
Controlled Parking Zones	275	275	275	275	**1,100**
Column Replacement	269	269	269	269	**1,076**
Carnwath Road Receipt	-	1,870	-	-	**1,870**
Other Capital Schemes	28	-	-	-	**28**
Total Expenditure	**7,183**	**9,101**	**7,231**	**7,231**	**30,746**
Capital Financing Summary					
Specific/External or Other Financing					
Grants and Contributions from Private Developers (includes S106)	28	-	-	-	**28**
Capital Grants and Contributions from GLA Bodies	2,081	2,157	2,157	2,157	**8,552**
Sub-total - Specific or Other Financing	**2,109**	**2,157**	**2,157**	**2,157**	**8,580**
Mainstream Financing (Internal Council Resource)					
Capital Receipts	4,530	6,400	4,530	4,530	**19,990**
General Fund Revenue Account (revenue funding)	544	544	544	544	**2,176**
Sub-total - Mainstream Funding	**5,074**	**6,944**	**5,074**	**5,074**	**22,166**
Total Capital Financing	**7,183**	**9,101**	**7,231**	**7,231**	**30,746**

Environment, Leisure and Residents Services

	2015/16 Budget £'000	Indicative Budgets 2016/17 Budget £'000	2017/18 Budget £'000	2018/19 Budget £'000	Total Budget £'000
Scheme Expenditure Summary					
Parks Programme	500	500	500	500	**2,000**
Recycling	19	-	-	-	**19**
CCTV	192	-	-	-	**192**
Total Expenditure	**711**	**500**	**500**	**500**	**2,211**
Capital Financing Summary					
Specific/External or Other Financing					
Grants and Contributions from Private Developers (includes S106)	211	-	-	-	**211**
Sub-total - Specific or Other Financing	**211**	**-**	**-**	**-**	**211**
Mainstream Financing (Internal Council Resource)					
Capital Receipts	500	500	500	500	**2,000**
Sub-total - Mainstream Funding	**500**	**500**	**500**	**500**	**2,000**
Total Capital Financing	**711**	**500**	**500**	**500**	**2,211**

APPENDIX 1 – Detailed Analysis by Service /cont.

Housing Capital Programme

	2015/16 Budget £'000	Indicative Budgets 2016/17 Budget £'000	Indicative Budgets 2017/18 Budget £'000	Indicative Budgets 2018/19 Budget £'000	Total Budget £'000
Scheme Expenditure Summary					
HRA Schemes:					
Supply Initiatives (Major Voids)	2,621	2,000	2,000	2,000	8,621
Energy Schemes	3,411	3,408	3,430	3,930	14,179
Lift Schemes	6,704	5,813	5,800	2,000	20,317
Internal Modernisation	3,551	3,600	3,500	3,000	13,651
Major Refurbishments	9,695	12,228	22,600	20,798	65,321
Planned Maintenance Framework	25,758	10,659	-	-	36,417
Minor Programmes	8,995	7,244	7,290	7,290	30,819
ASC/ELRS Managed	1,250	1,250	1,250	1,250	5,000
Rephasing & Reprogramming	(4,437)	(1,700)	(1,700)	(1,700)	(9,537)
Subtotal HRA	**57,548**	**44,502**	**44,170**	**38,568**	**184,788**
Decent Neighbourhood Schemes:					
HRA Debt Repayment	1,563	2,756	1,931	1,999	8,249
Earls Court Buy Back Costs	9,541	11,943	8,988	8,988	39,460
Earls Court Project Team Costs	3,115	5,437	3,559	3,445	15,556
Housing Development Project	18,744	5,584	44	-	24,372
Other DNP projects	3,650	(1,300)	-	-	2,350
Subtotal Decent Neighbourhoods	**36,613**	**24,420**	**14,522**	**14,432**	**89,987**
Total Expenditure	**94,161**	**68,922**	**58,692**	**53,000**	**274,775**
Capital Financing Summary					
Specific/External or Other Financing					
Contributions from leaseholders	5,693	5,525	5,011	5,000	21,229
Capital Grants and Contributions from GLA Bodies	567	1,998	-	-	2,565
Sub-total - Specific or Other Financing	**6,260**	**7,523**	**5,011**	**5,000**	**23,794**
Mainstream Financing (Internal Council Resource)					
Capital Receipts (Including use of b/f resource)	66,617	20,596	19,555	2,255	109,023
Earls Court Receipts realisable	-	18,460	-	-	18,460
Housing Revenue Account (revenue funding)	2,300	5,500	11,574	10,475	29,849
Major Repairs Reserve (MRR) / Major Repairs Allowance	16,849	17,355	17,818	18,323	70,345
Sub-total - Mainstream Funding	**85,766**	**61,911**	**48,947**	**31,053**	**227,677**
Internal Borrowing	2,135	(512)	4,734	16,947	23,304
Total Capital Financing	**94,161**	**68,922**	**58,692**	**53,000**	**274,775**

APPENDIX 2 – Anticipated General Fund Capital Receipts by year

Year	Forecast Receipts
2015/16	
Total 2015/16	**21,252**
2016/17	
Total 2016/17	**8,894**
2017/18	
Total 2017/18	**3,840**
2018/19	
Total 2018/19	**3,840**
Total All Years	**37,826**

APPENDIX 3 - THE CAPITAL FINANCING REQUIREMENT (CFR), MINIMUM REVENUE PROVISION (MRP) 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**.

The Minimum Revenue Provision (MRP)

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

The MRP formula contains a 'floor' - known as 'Adjustment A' - which has been individually fixed for all authorities. When the CFR drops below this level, MRP is no longer payable. For Hammersmith and Fulham the floor has been set at £43.2m. In short, there is no revenue incentive to reduce the CFR below this level.

In addition to MRP, authorities are able to make voluntary provisions to reduce the CFR. These provisions can be made from capital or revenue resources. Voluntary reduction of the CFR delivers a benefit to revenue in the subsequent year as it reduces the mandatory MRP charge.

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 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 4 - MINIMUM REVENUE PROVISION (MRP) STATEMENT 2015/16

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. 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[1]) – 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 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

[1] Options as given in the CLG statutory guidance

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 5 - 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 2013/14 £'000	Revised 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000
General Fund	37,615	67,903	31,739	10,248	8,181
Housing	21,306	62,526	94,161	68,922	58,692
TOTAL	**58,921**	**130,429**	**125,900**	**79,170**	**66,873**

At present, schools' funding is not confirmed beyond 2015/16. Once this is confirmed by Government, General Fund capital expenditure is likely to be significantly higher.

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 2013/14 £'000	Revised 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000
General Fund	74,200	56,648	43,179	43,179	43,179
Housing Revenue Account	207,260	205,346	205,918	202,650	205,453
TOTAL	**281,460**	**261,994**	**249,097**	**245,830**	**248,632**

The General Fund CFR does not include any requirement for prudential borrowing within the capital programme. The above figures exclude the CFR associated with finance leases and PFI schemes which are fully funded through revenue budgets.

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 2013/14 £'000	Revised 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000
Net Borrowing	(69,689)	(132,401)	(118,103)	(105,177)	(82,595)
CFR	281,460	261,994	249,097	245,830	248,632
Net Borrowing Less CFR	**(351,149)**	**(394,395)**	**(367,200)**	**(351,007)**	**(331,227)**

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

RATIO OF FINANCING COSTS TO 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 2013/14 £'000	Revised 2014/15 £'000	Estimate 2015/16 £'000	Estimate 2016/17 £'000	Estimate 2017/18 £'000
General Fund	1.4%	1.3%	1.4%	1.3%	1.4%
Housing Revenue Account	15.8%	14.8%	13.6%	12.3%	10.9%

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 2015/16 to 2017/18. The estimated reduction to Council tax due to debt reduction savings has been calculated at a per dwelling level.

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

	Estimate 2015/16 £	Estimate 2016/17 £	Estimate 2017/18 £
Council Tax £ per Band D home per annum	-8.59	-15.74	-20.04

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).