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| <p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>CABINET</b></p> <p><b>8 FEBRUARY 2016</b></p> |    |
| <p><b>FOUR YEAR CAPITAL PROGRAMME 2016/17 TO 2019/20</b></p>   |   |
| <p><b>Report of the Cabinet Member for Finance – Councillor Max Schmid</b></p>                               |   |
| <p><b>Open Report</b></p>  |   |
| <p><b>Classification: For Decision</b><br/> <b>Key Decision: Yes</b></p>                                     |   |
| <p><b>Wards Affected: All</b></p>  |   |
| <p><b>Accountable Director: Hitesh Jolapara – Strategic Finance Director</b></p>                             |   |
| <p><b>Report Author:</b><br/> Christopher Harris, Head of Finance (Corporate Accountancy &amp; Capital)</p>  | <p><b>Contact Details:</b><br/> Tel: 0208 753 6440<br/> E-mail:<br/> <a href="mailto:christopher.harris@lbhf.gov.uk">christopher.harris@lbhf.gov.uk</a></p> |

**1. EXECUTIVE SUMMARY**

- 1.1. This report presents the Council’s four-year Capital Programme for the period 2016-20. The programme for this period totals £286.3m.
- 1.2. The gross programme for 2016/17 totals £112.6m. This comprises the General Fund Programme of £43.5m and the Housing Programme of £69.1m.
- 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 £43.5m for 2016/17 (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 2016/17 General Fund 'Mainstream' 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 [ENV] | 2.50        |
| Footways and Carriageways [ENV]         | 2.03        |
| Parks Programme [ENV]                   | 0.50        |
| <b>Total</b>                            | <b>5.48</b> |

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

|                                | £m           |
|--------------------------------|--------------|
| Controlled Parking Zones [ENV] | 0.275        |
| Column Replacement [ENV]       | 0.269        |
| <b>Total</b>                   | <b>0.544</b> |

2.3. To note existing capital receipts funded schemes previously approved, but now scheduled for 2016/17 (paragraph 5.2, Table 3):

- Schools' Organisation Strategy - £2.73m
- Carnwath Road - £ 3.07m

2.4. To approve the Housing Programme at £69.1m for 2016/17 as set out in Table 5 (paragraph 7.2) and Appendix 1.

2.5. To approve the annual Minimum Revenue Provision policy statement for 2016/17 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 2016/17 to 2019/20, as summarised in Table 1 below. A detailed analysis of specific schemes by service is included in Appendix 1.

**Table 1 - Capital Programme 2016/17 to 2019/20**

|  | Indicative Budgets |                  |                  |                  | Total Budget (All years)<br>£'000 |
|--|--------------------|------------------|------------------|------------------|-----------------------------------|
|  | 2016/17<br>£'000   | 2017/18<br>£'000 | 2018/19<br>£'000 | 2019/20<br>£'000 |                                   |
| <b>CAPITAL EXPENDITURE</b>               |                    |                  |                  |                  |                                   |
| Children's Services                      | 30,199             | 12,045           | 390              | -                | <b>42,634</b>                     |
| Adult Social Care                        | 1,707              | 450              | 450              | 450              | <b>3,057</b>                      |
| Environmental Services                   | 11,311             | 7,731            | 7,731            | 7,731            | <b>34,504</b>                     |
| Libraries                                | 250                | -                | -                | -                | <b>250</b>                        |
| <b>Sub-total (Non-Housing)</b>           | <b>43,467</b>      | <b>20,226</b>    | <b>8,571</b>     | <b>8,181</b>     | <b>80,445</b>                     |
| HRA Programme                            | 47,836             | 26,117           | 21,131           | 21,943           | <b>117,027</b>                    |
| Decent Neighbourhoods Programme          | 21,315             | 21,421           | 28,222           | 17,829           | <b>88,787</b>                     |
| <b>Sub-total (Housing)</b>               | <b>69,151</b>      | <b>47,538</b>    | <b>49,353</b>    | <b>39,772</b>    | <b>205,814</b>                    |
| <b>Total Expenditure</b>                 | <b>112,618</b>     | <b>67,764</b>    | <b>57,924</b>    | <b>47,953</b>    | <b>286,259</b>                    |
| <b>CAPITAL FINANCING</b>                 |                    |                  |                  |                  |                                   |
| <b>Specific/External Financing:</b>      |                    |                  |                  |                  |                                   |
| Government/Public Body Grants            | 21,508             | 4,756            | 2,298            | 2,157            | <b>30,719</b>                     |
| Developers Contributions (S106)          | 5,010              | -                | -                | -                | <b>5,010</b>                      |
| Leaseholder Contributions (Housing)      | 4,093              | 2,849            | 2,849            | 2,849            | <b>12,640</b>                     |
| <b>Sub-total - Specific Financing</b>    | <b>30,611</b>      | <b>7,605</b>     | <b>5,147</b>     | <b>5,006</b>     | <b>48,369</b>                     |
| <b>Mainstream Financing (Internal):</b>  |                    |                  |                  |                  |                                   |
| Capital Receipts - General Fund          | 11,280             | 5,550            | 5,480            | 5,480            | <b>27,790</b>                     |
| Capital Receipts - Housing*              | 28,443             | 8,794            | 9,064            | 16,488           | <b>62,789</b>                     |
| Revenue funding - General Fund           | 544                | 544              | 544              | 544              | <b>2,176</b>                      |
| Revenue Funding - HRA                    | 3,514              | 3,702            | 353              | 1,562            | <b>9,131</b>                      |
| Major Repairs Reserve (MRR)<br>[Housing] | 17,377             | 17,820           | 18,325           | 18,873           | <b>72,395</b>                     |
| Earmarked Reserves (Revenue)             | -                  | -                | -                | -                | <b>-</b>                          |
| <b>Sub-total - Mainstream Funding</b>    | <b>61,158</b>      | <b>36,410</b>    | <b>33,766</b>    | <b>42,947</b>    | <b>174,281</b>                    |
| <b>Internal Borrowing</b>                | <b>20,849</b>      | <b>23,749</b>    | <b>19,011</b>    | <b>-</b>         | <b>63,609</b>                     |
| <b>Total Capital Financing</b>           | <b>112,618</b>     | <b>67,764</b>    | <b>57,924</b>    | <b>47,953</b>    | <b>286,259</b>                    |

\*Includes use of brought-forward receipts

- 4.2. The forecast above for specific and external resource is based on known allocations at December 2015. The resource forecasts for both external and internal financing 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 16/17. 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 2016/17 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. The programme includes:

- The continuation of the School's Organisation Strategy (within Children's Services) which is committed to increasing school places in the Borough;
- The continuation of the Council's rolling programmes for Disabled Facilities Grants, Planned Building Maintenance, Footways and Carriageways and Parks.
- The planned refurbishment of Hammersmith Town Hall (within the Planned Building Maintenance programme). This project is designed to increase the usage and occupancy of the Town Hall, thereby allowing other corporate property to be vacated and savings realised.

**Table 2 – General Fund Capital Programme 2016-20**

|   | Indicative Budgets |                  |                  |                  | Total Budget<br>(All years)<br>£'000 |
|---|--------------------|------------------|------------------|------------------|--------------------------------------|
|   | 2016/17<br>£'000   | 2017/18<br>£'000 | 2018/19<br>£'000 | 2019/20<br>£'000 |                                      |
| <b>CAPITAL EXPENDITURE</b>              |                    |                  |                  |                  |                                      |
| Children's Services                     | 30,199             | 12,045           | 390              | -                | <b>42,634</b>                        |
| Adult Social Care                       | 1,707              | 450              | 450              | 450              | <b>3,057</b>                         |
| Environmental Services                  | 11,311             | 7,731            | 7,731            | 7,731            | <b>34,504</b>                        |
| Libraries                               | 250                | -                | -                | -                | <b>250</b>                           |
| <b>Total Expenditure</b>                | <b>43,467</b>      | <b>20,226</b>    | <b>8,571</b>     | <b>8,181</b>     | <b>80,445</b>                        |
| <b>CAPITAL FINANCING</b>                |                    |                  |                  |                  |                                      |
| <b>Specific/External Financing:</b>     |                    |                  |                  |                  |                                      |
| Government/Public Body Grants           | 21,508             | 4,757            | 2,297            | 2,157            | <b>30,719</b>                        |
| Developers Contributions (S106)         | 760                | -                | -                | -                | <b>760</b>                           |
| <b>Sub-total - Specific Financing</b>   | <b>22,268</b>      | <b>4,757</b>     | <b>2,297</b>     | <b>2,157</b>     | <b>31,479</b>                        |
| <b>Mainstream Financing (Internal):</b> |                    |                  |                  |                  |                                      |
| Capital Receipts - General Fund         | 11,280             | 5,550            | 5,480            | 5,480            | <b>27,790</b>                        |
| Revenue funding - General Fund          | 544                | 544              | 544              | 544              | <b>2,176</b>                         |
| <b>Sub-total - Mainstream Funding</b>   | <b>11,824</b>      | <b>6,094</b>     | <b>6,024</b>     | <b>6,024</b>     | <b>29,966</b>                        |
| <b>Internal Borrowing</b>               | 9,375              | 9,375            | 250              | -                | <b>19,000</b>                        |
| <b>Total Capital Financing</b>          | <b>43,467</b>      | <b>20,226</b>    | <b>8,571</b>     | <b>8,181</b>     | <b>80,445</b>                        |

5.2 Table 3 below shows the projects funded from internal resource and therefore represents the 'discretionary' part of the programme. This has traditionally been referred to as the 'mainstream programme' and it 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 2016-20**

|  | Indicative Budgets |                   |                   |                   | Total Budget<br>(All years)<br>£'000 |
|--|--------------------|-------------------|-------------------|-------------------|--------------------------------------|
|  | Budget<br>2016/17  | Budget<br>2017/18 | Budget<br>2018/19 | Budget<br>2019/20 |                                      |
|  | £'000              | £'000             | £'000             | £'000             |                                      |
| <b>Approved Expenditure</b>                                  |                    |                   |                   |                   |                                      |
| <b>Ad Hoc Schemes:</b>                                       |                    |                   |                   |                   |                                      |
| Schools Organisation Strategy [CHS]<br>(mainstream element)* | 2,730              | 70                | -                 | -                 | 2,800                                |
| Carnwath Road [ENV]  | 3,070              | -                 | -                 | -                 | 3,070                                |
| <b>Rolling Programmes:</b>                                   |                    |                   |                   |                   |                                      |
| Disabled Facilities Grant [ASC]                              | 450                | 450               | 450               | 450               | 1,800                                |
| Planned Maintenance/DDA Programme<br>[ENV]**                 | 2,500              | 2,500             | 2,500             | 2,500             | 10,000                               |
| Footways and Carriageways [ENV]                              | 2,030              | 2,030             | 2,030             | 2,030             | 8,120                                |
| Controlled Parking Zones [ENV]                               | 275                | 275               | 275               | 275               | 1,100                                |
| Column Replacement [ENV]                                     | 269                | 269               | 269               | 269               | 1,076                                |
| Parks Programme [ENV]  | 500                | 500               | 500               | 500               | 2,000                                |
| <b>Total Mainstream Programmes</b>                           | <b>11,824</b>      | <b>6,094</b>      | <b>6,024</b>      | <b>6,024</b>      | <b>29,966</b>                        |
| <b>Available and Approved Resource</b>                       |                    |                   |                   |                   |                                      |
| Capital Receipts (total available)                           | 13,330             | 9,840             | 3,840             | 3,840             | 30,850                               |
| General Fund Revenue Account                                 | 544                | 544               | 544               | 544               | 2,176                                |
| <b>Available Mainstream Resource</b>                         | <b>13,874</b>      | <b>10,384</b>     | <b>4,384</b>      | <b>4,384</b>      | <b>33,026</b>                        |
| <b>In-year surplus/(deficit)</b>                             | <b>2,050</b>       | <b>4,290</b>      | <b>(1,640)</b>    | <b>(1,640)</b>    |                                      |
| <b>Surplus/(deficit) brought-forward</b>                     | -                  | <b>2,050</b>      | <b>6,340</b>      | <b>4,700</b>      |                                      |
| <b>Surplus/(deficit) carried forward</b>                     | <b>2,050</b>       | <b>6,340</b>      | <b>4,700</b>      | <b>3,060</b>      |                                      |

\*Queensmill redevelopment using Earls Court receipt, £9m of which has been ring-fenced for this purpose

\*\* The Planned Maintenance Programme includes the planned refurbishment for Hammersmith Town Hall.

It is likely that this budget will increase by approximately £3m-£4m once the slippages from 2015/16 have been confirmed.

- 5.3 The General Fund mainstream capital programme continues to be primarily funded from capital receipts. A 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 CAPITAL FINANCE REQUIREMENT (CFR)

- 6.1 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 2016/17 MRP policy is set-out policy in Appendix 4. The current forecast for the General Fund CFR is shown in Table 4 below.
- 6.2 The General Fund CFR is stated with and without schools' windows in the table below. This is because the Dedicated Schools Grant (DSG) will compensate the Council for any cost of borrowing associated with the Schools' Windows programme. The forecast General Fund CFR excluding school windows at the end of 2015/16 is £44.26m. This is subject to the application of forecast capital receipt surpluses to debt reduction at the year-end. The CFR with the DSG-funded Schools Windows will be £45.26m.

**Table 4 - Forecast General Fund Capital Financing Requirement (CFR)**

| General Fund CFR Forecast                                    | 2015/16<br>£m | 2016/17<br>£m | 2017/18<br>£m | 2018/19<br>£m | 2019/20<br>£m |
|--|---------------|---------------|---------------|---------------|---------------|
| Closing CFR (Including DSG-funded Schools Windows borrowing) | 45.26         | 52.51         | 57.21         | 58.54         | 59.57         |
| Closing CFR (Excluding DSG-funded Schools Windows borrowing) | 44.26         | 42.17         | 37.92         | 39.79         | 41.61         |

## 7. THE HOUSING CAPITAL PROGRAMME

- 7.1 The Housing Capital Programme is based on the Financial Plan For Council Homes that is also on the Cabinet Agenda for 8<sup>th</sup> February 2016. It includes £117m for repairs and maintenance to existing Council Homes over the next four years. It maintains the same 2016/17 programme as included in last year's forecast but the programme for future years has had to be scaled back as a result of the Government's 1% reduction to rents each year for the next four years, which were not accompanied by any Government funding to bridge the resulting financial gap. For example the February 2015 four year capital programme report anticipated spending £44.1m in 2017/18 and £38.6m in 2018/19 on the Housing Capital Programme, now we expect to spend only £26.1m in 2017/18 and £21.1m in 2018/19. This means the Council will be spending £35.5m less on maintaining residents' homes in these two years alone. Full details are set out in the Financial Plan For Council Homes: The Housing Revenue Account Financial Strategy, 2016/17 Housing Revenue Account budget and 2016/17 Rent Reduction.
- 7.2 This programme is primarily funded by internal borrowing, an annual contribution to major repairs from revenue and use of existing balances.
- 7.3 The overall Housing Programme expenditure and resource forecast is summarised in Table 5, below. The detailed programme is included at appendix 1.

Table 5 – Housing Expenditure and Resource Forecast 2016-20

### Housing Programme - Resource Summary

|   | Indicative Future Years         |                                 |                                 |                                 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|   | Indicative<br>2016/17<br>Budget | Indicative<br>2017/18<br>Budget | Indicative<br>2018/19<br>Budget | Indicative<br>2019/20<br>Budget |
|   | £'000                           | £'000                           | £'000                           | £'000                           |
| <b>Approved Expenditure</b>                           |                                 |                                 |                                 |                                 |
| Decent Neighbourhood Schemes                          | 21,315                          | 21,421                          | 28,222                          | 17,829                          |
| HRA Schemes   | 47,836                          | 26,117                          | 21,131                          | 21,943                          |
| <b>Total Housing Programme - Approved Expenditure</b> | <b>69,151</b>                   | <b>47,538</b>                   | <b>49,353</b>                   | <b>39,772</b>                   |
| <b>Funding</b>  |                                 |                                 |                                 |                                 |
| Capital Receipts - Unrestricted                       | 26,404                          | 3,675                           | 3,835                           | 3,915                           |
| Capital Receipts - RTB (141)                          | 2,039                           | 1,320                           | 856                             | 1,422                           |
| Earls Court Buyback rental income                     | 466                             | 3,702                           | 353                             | 1,562                           |
| Earls Court Receipts recognisable                     | -                               | 3,799                           | 4,374                           | 11,151                          |
| Housing Revenue Account (revenue funding)             | 3,048                           | -                               | -                               | -                               |
| Major Repairs Reserve (MRR)                           | 17,377                          | 17,820                          | 18,325                          | 18,873                          |
| Contributions Developers (S106)                       | 3,450                           | -                               | -                               | -                               |
| Repayment of NHHT loan                                | 800                             | -                               | -                               | -                               |
| Contributions from leaseholders                       | 4,093                           | 2,849                           | 2,849                           | 2,849                           |
| <b>Internal Borrowing</b>                             | <b>11,474</b>                   | <b>14,373</b>                   | <b>18,761</b>                   | <b>-</b>                        |
| <b>Total Funding</b>                                  | <b>69,151</b>                   | <b>47,538</b>                   | <b>49,353</b>                   | <b>39,772</b>                   |

### Housing Capital Resource Balances

|                                  | 2016/17<br>£'000 | 2017/18<br>£'000 | 2018/19<br>£'000 | 2019/20<br>£'000 |
|----------------------------------|------------------|------------------|------------------|------------------|
| <b>Usable Capital Receipts</b>   |                  |                  |                  |                  |
| Capital Receipts B/f             | 42,964           | 30,099           | 40,779           | 51,923           |
| Generated in year                | 12,000           | 12,000           | 12,000           | 12,000           |
| Used in Year                     | (2,039)          | (1,320)          | (856)            | (1,422)          |
| <b>Capital Receipts C/f</b>      | <b>52,925</b>    | <b>40,779</b>    | <b>51,923</b>    | <b>62,501</b>    |
| <i>Of Which '141' Restricted</i> | <i>30,099</i>    | <i>40,779</i>    | <i>51,923</i>    | <i>62,501</i>    |
| <i>Associated deferred costs</i> | <i>409</i>       | <i>409</i>       | <i>409</i>       | <i>409</i>       |
| <b>Deferred Capital Receipts</b> |                  |                  |                  |                  |
| Balance B/f                      | 29,900           | 44,800           | 55,901           | 66,427           |
| Receipts in Year                 | 14,900           | 14,900           | 14,900           | 14,900           |
| Recognition Profile              |                  | (3,799)          | (4,374)          | (11,151)         |
| <b>Balance C/f</b>               | <b>44,800</b>    | <b>55,901</b>    | <b>66,427</b>    | <b>70,176</b>    |
| <i>Associated deferred costs</i> | <i>4,257</i>     | <i>4,257</i>     | <i>4,257</i>     | <i>4,257</i>     |

*\*\*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.*

7.4 For the period 2016-20 the Housing programme will be borrowing against internal resources (as shown against 'internal borrowing' in Table 5). This is principally

achieved through the use of cash associated with deferred capital receipts (capital receipts received in advance). Use of this money is classed as borrowing as, although cash is received from the purchaser, the receipt is only deemed usable for funding purposes as land transfers to the purchaser. This does not prevent the Council from spending the cash it receives, but until such time that land transfers any such use is classed as borrowing. This borrowing unwinds when the receipt becomes usable (i.e. when land transfers). The total available to the HRA for the purposes of internal borrowing is shown in Table 6.

- 7.5 The forecast Housing Capital Finance Requirement (HRA CFR) is shown in Table 6, below.

**Table 6 – Housing CFR Forecast 2016-20**

| HRA CFR Forecast         | 2015/16<br>£m | 2016/17<br>£m | 2017/18<br>£m | 2018/19<br>£m | 2019/20<br>£m |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Closing Forecast HRA CFR | 210.01        | 221.48        | 235.86        | 254.61        | 254.61        |

- 7.6 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.

## **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. Site assembly is being developed in parallel with the scheme being progressed through detailed design, procurement and construction. This 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. 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 the residents of Council Homes to give them ownership of the land their homes are on. This is part of a wider commitment to devolving 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.

At the corresponding meeting on 3rd November 2015, the Residents Commission recommended that Cabinet pursue the transfer of the Council's housing stock to a resident-led Registered Provider which is constituted on the Community Gateway model.

On 7<sup>th</sup> December 2015 Cabinet accepted in full the Residents' Commission recommendations regarding:

- The future ownership of the council's housing stock;
- Means of increasing resident control over the ownership and management of council homes;
- Improvement of services to tenants and leaseholders

Cabinet also formally resolved to pursue, subject to a ballot, the transfer of the Council's housing stock to a resident-led Registered Provider which is constituted on the Community Gateway model. If the Council are successful in achieving this, a new Registered Provider would be able to both invest in the housing stock at levels that would not be viable if the stock were to be retained and also access funding to increase the provision of affordable housing within the Borough.

### 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; this means that the agreement is now unconditional, and CapCo have made a commitment to pay LBHF 5 annual instalments of £15m, with the first instalment having been paid at the end of December 2015.

## 8.5 Housing Development Programme

On 6<sup>th</sup> July 2015 Cabinet approved Phase 1 of the Housing Development Programme, to deliver 31 units of residential accommodation over 4 sites, financed by £10.8m Right-to-Buy and Section 106 receipts.

Feasibility studies for Phase 2 are now underway, but as the Housing Revenue Account borrowing headroom is fully utilised without consideration of further direct development, Phase 2 and beyond will need to compete with other finance intensive schemes (such as the redevelopment of Edith Summerskill House) for Section 106 resources.

## 8.6 Schools' Capital Programme

The Council continues to implement its Schools Organisation Strategy with expenditure in 2016/17 set to exceed £20m. The strategy continues to focus on expanding school places in light of increasing demand.

## 8.7 Old Oak and Park Royal Opportunity Area

As part of developing the business case for a High Speed 2 / Crossrail interchange at Old Oak Common the London Boroughs of Brent, Ealing and Hammersmith & Fulham and the GLA published a joint Vision for the Old Oak area to encourage appropriate development and to maximise regeneration benefits in the area. Since then the Old Oak and Park Royal Mayoral Development Corporation (OPDC) was established in April 2015 and is now the planning authority for the Old Oak and Park Royal Opportunity Area. The boundary of this area can be viewed on the OPDC's website at: [https://www.london.gov.uk/sites/default/files/gla\\_migrate\\_files\\_destination/OPDC%20boundary%20-%2001\\_0.pdf](https://www.london.gov.uk/sites/default/files/gla_migrate_files_destination/OPDC%20boundary%20-%2001_0.pdf)

The council remains responsible for all other services such as waste collection, highways enforcement, car parking, parks management and maintenance etc. within the OPDC boundary. OPDC are currently drafting their Local Plan due to go out to the first round of public consultation in January 2015. The OPDC intend to adopt the Local Plan later in 2016. This will be used to assess any planning applications for development in the OPDC area. The council will be a statutory consultee for any planning applications submitted. An LBHF elected member is represented on the OPDC Planning Committee and the Leader of the Council also sits on the OPDC Board which is responsible for overseeing and decision making on the project. The Board meets every 2 months. Further information regarding the OPDC can be found at <https://www.london.gov.uk/about-us/organisations-we-work/old-oak-and-park-royal-development-corporation-opdc/about-opdc-0>

LBHF have successfully petitioned against H2Ss proposals for a Wetlands on Wormwood Scrubs and have secured £3.3m with a £3.9m cap to undertake alternative ecological enhancement works to the Scrubs which would be rolled out after Royal Assent anticipated to be in December 2016. The legal agreement is due to be finalised shortly. A further petition objecting to proposed works to re-routing the Stamford Brook Sewer through Wormwood Scrubs in Hs2's Additional Provision - AP4 is the subject of current discussions with HS2.

## 8.8 **The Hammersmith ‘Flyunder’**

Following on from the Council’s work in 2013/14, Transport for London (TfL) have undertaken further feasibility work on the ‘Flyunder’ and four other road tunnels in London. Detailed business cases have been prepared and submitted to the Treasury as part of the recent spending review. The next stage is anticipated to be the National Infrastructure Commission. TfL’s more detailed business case work has identified a higher capital cost and a considerable funding shortfall. The Council is developing an Supplementary Planning Document (SPD) with the recently formed Hammersmith Residents Working party in order to establish a planning framework that would hopefully bring the Flyunder forward, along with significant improvements to the built environment in the town centre.

## 8.9 **Shepherd’s Bush Market**

An appeal by the traders’ association against the Shepherds Bush Market CPO is scheduled to be heard in the Court of Appeal in early March 2016. Despite the appeal, the developer Orion has served notice on the option agreement to draw down on the council land (former Spring Grove laundry site) which forms part of the regeneration project. The Council is working to establish the purchase price in line with the overage clause. The Council also continues to work with the market traders/Goldhawk Road shopkeepers and the developer to ensure that the unique historic market character and local businesses are protected, as well as requiring the developer to reach negotiated settlements to acquire the remaining land interests.

## 8.10 **Hammersmith Bridge**

The Council, in partnership with Transport for London (TfL), is currently looking at options to strengthen Hammersmith Bridge to allow double decker buses to use the bridge. The Council is undertaking an initial feasibility exercise with any final decision subject to a further Cabinet Decision and agreement with TfL. It is anticipated that any eventual project will be substantially funded by TfL.

## 8.11 **Community Infrastructure Levy (CIL)**

The Council has adopted its own CIL, which took effect on the 1<sup>st</sup> September 2015. This is a levy that local authorities can choose to charge on new developments in their area and in part replaces the use of Section 106 Agreements to support the provision of infrastructure. The CIL money collected must be used in enabling development by funding, operating and maintaining infrastructure. The Council is also obliged to use 15% of the CIL funds to deliver projects agreed with community (or 25% where there is an adopted neighbourhood plan in place). As yet, no funds have been received. The Mayor also charges a CIL which current funds Crossrail.

## 8.12 **Flexible Use of Capital Receipts**

For the period 1 April 2016 to 31 March 2020, the Government has granted new powers to local authorities whereby capital receipts can be spent more flexibly. Previously, capital receipts could only be spent on a narrow range of items such as capital expenditure or the repayment of debt. The new flexibility will enable local authorities to

also apply capital receipts to the costs of service reform. This has been broadly defined, however the Government, in their draft guidance, have specifically cited *'projects which are forecast to generate ongoing savings to an authority's, or several authorities', and/or to another public sector body's net service expenditure'*. This flexibility will only apply to capital receipts generated in the flexibility period (1 April 2016 to 31 March 2020).

## **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 2016/17.
- 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, Principal Solicitor, Commercial and Corporate Property 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).

- 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 2016/17.
- 11.5 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 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 Shared Services risk and assurance register which has been reviewed by the 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. The service maintains a register of key risks, where there may become significant they may be escalated onto the Shared Services risk register.

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

### **13. PROCUREMENT IMPLICATIONS**

13.1 There are no direct procurement implications in relation to this report. Advice in relation to procurement and commercial considerations will be given as and when projects start.

13.2 Implications verified/completed by: Alan Parry, Interim Head of Procurement (Job-share). Telephone 0208 753 2581

### **14. IMPLICATIONS FOR BUSINESS**

14.1 The Council's Capital Programme represents significant expenditure within the Borough and consequently, where supplies are sourced locally, may impact either positively or negatively on local contractors and sub-contractors. Where capital expenditure increases, or is brought forward, this may have a beneficial impact on local businesses; conversely, where expenditure decreases, or is slipped, there may be an adverse impact on local businesses.

14.2 Implications completed by: Antonia Hollingsworth, Principal Business Investment Officer, Planning and Growth Dept. Tel: 020 8753 1698

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

| <b>No.</b> | <b>Description of Background Papers</b> | <b>Name/Ext of holder of file/copy</b> | <b>Department/ Location</b> |
|------------|---|--|-----------------------------|
| 1.         | None                                    |  |                             |

## **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 2016/17
- Appendix 5 - CIPFA Prudential Indicators 2016/17

## APPENDIX 1 – Detailed Analysis by Service

### Children's Services

|  | Indicative Budgets                |                            |                            |                            | Total Budget<br>(All years)<br>£'000 |
|--|-----------------------------------|----------------------------|----------------------------|----------------------------|--------------------------------------|
|  | 2016/17<br>Budget<br>£'000        | 2017/18<br>Budget<br>£'000 | 2018/19<br>Budget<br>£'000 | 2019/20<br>Budget<br>£'000 |                                      |
|  | <b>Scheme Expenditure Summary</b> |                            |                            |                            |                                      |
| Schools Organisational Strategy                                  | 20,824                            | 2,670                      | 140                        | -                          | 23,634                               |
| Schools Window Replacement Project                               | 9,375                             | 9,375                      | 250                        | -                          | 19,000                               |
| <b>Total Expenditure</b>   | <b>30,199</b>                     | <b>12,045</b>              | <b>390</b>                 | <b>-</b>                   | <b>42,634</b>                        |
| <b>Capital Financing Summary</b>                                 |                                   |                            |                            |                            |                                      |
| <b>Specific/External or Other Financing</b>                      |                                   |                            |                            |                            |                                      |
| Capital Grants from Central Government                           | 18,094                            | 2,600                      | 140                        | -                          | 20,834                               |
| Grants and Contributions from Private Developers (includes S106) | -                                 | -                          | -                          | -                          | -                                    |
| Capital Grants/Contributions from Non-departmental public bodies | -                                 | -                          | -                          | -                          | -                                    |
| Capital Grants and Contributions from GLA Bodies                 | -                                 | -                          | -                          | -                          | -                                    |
| <b>Sub-total - Specific or Other Financing</b>                   | <b>18,094</b>                     | <b>2,600</b>               | <b>140</b>                 | <b>-</b>                   | <b>20,834</b>                        |
| <b>Mainstream Financing (Internal Council Resource)</b>          |                                   |                            |                            |                            |                                      |
| Capital Receipts   | 2,730                             | 70                         | -                          | -                          | 2,800                                |
| General Fund Revenue Account (revenue funding)                   | -                                 | -                          | -                          | -                          | -                                    |
| Use of Reserves  | -                                 | -                          | -                          | -                          | -                                    |
| <b>Sub-total - Mainstream Funding</b>                            | <b>2,730</b>                      | <b>70</b>                  | <b>-</b>                   | <b>-</b>                   | <b>2,800</b>                         |
| <b>Borrowing</b>   | <b>9,375</b>                      | <b>9,375</b>               | <b>250</b>                 | <b>-</b>                   | <b>19,000</b>                        |
| <b>Funding to be identified/agreed</b>                           | <b>-</b>                          | <b>-</b>                   | <b>-</b>                   | <b>-</b>                   | <b>-</b>                             |
| <b>Total Capital Financing</b>                                   | <b>30,199</b>                     | <b>12,045</b>              | <b>390</b>                 | <b>-</b>                   | <b>42,634</b>                        |

### Adult Social Care Services

|   | Indicative Budgets                |                            |                            |                            | Total Budget<br>(All years)<br>£'000 |
|---|-----------------------------------|----------------------------|----------------------------|----------------------------|--------------------------------------|
|   | 2016/17<br>Budget<br>£'000        | 2017/18<br>Budget<br>£'000 | 2018/19<br>Budget<br>£'000 | 2019/20<br>Budget<br>£'000 |                                      |
|   | <b>Scheme Expenditure Summary</b> |                            |                            |                            |                                      |
| Extra Care New Build project (Adults' Personal Social Services Grant) | 957                               | -                          | -                          | -                          | 957                                  |
| Transforming Care (Winterbourne Grant)                                | 300                               | -                          | -                          | -                          | 300                                  |
| Disabled Facilities Grant   | 450                               | 450                        | 450                        | 450                        | 1,800                                |
| <b>Total Expenditure</b>  | <b>1,707</b>                      | <b>450</b>                 | <b>450</b>                 | <b>450</b>                 | <b>3,057</b>                         |
| <b>Capital Financing Summary</b>                                      |                                   |                            |                            |                            |                                      |
| <b>Specific/External or Other Financing</b>                           |                                   |                            |                            |                            |                                      |
| Capital Grants from Central Government                                | 957                               | -                          | -                          | -                          | 957                                  |
| Grants and Contributions from Private Developers (includes S106)      | -                                 | -                          | -                          | -                          | -                                    |
| Capital Grants/Contributions from Non-departmental public bodies      | 300                               | -                          | -                          | -                          | 300                                  |
| Capital Grants and Contributions from GLA Bodies                      | -                                 | -                          | -                          | -                          | -                                    |
| <b>Sub-total - Specific or Other Financing</b>                        | <b>1,257</b>                      | <b>-</b>                   | <b>-</b>                   | <b>-</b>                   | <b>1,257</b>                         |
| <b>Mainstream Financing (Internal Council Resource)</b>               |                                   |                            |                            |                            |                                      |
| Capital Receipts  | 450                               | 450                        | 450                        | 450                        | 1,800                                |
| General Fund Revenue Account (revenue funding)                        | -                                 | -                          | -                          | -                          | -                                    |
| Use of Reserves   | -                                 | -                          | -                          | -                          | -                                    |
| <b>Sub-total - Mainstream Funding</b>                                 | <b>450</b>                        | <b>450</b>                 | <b>450</b>                 | <b>450</b>                 | <b>1,800</b>                         |
| <b>Borrowing</b>  | <b>-</b>                          | <b>-</b>                   | <b>-</b>                   | <b>-</b>                   | <b>-</b>                             |
| <b>Total Capital Financing</b>  | <b>1,707</b>                      | <b>450</b>                 | <b>450</b>                 | <b>450</b>                 | <b>3,057</b>                         |



## APPENDIX 1 – Detailed Analysis by Service /cont.

### Environmental Services

|  | Indicative Budgets |                   |                   |                   | Total Budget<br>(All years)<br>£'000 |
|--|--------------------|-------------------|-------------------|-------------------|--------------------------------------|
|  | 2016/17<br>Budget  | 2017/18<br>Budget | 2018/19<br>Budget | 2019/20<br>Budget |                                      |
|  | £'000              | £'000             | £'000             | £'000             |                                      |
| <b>Scheme Expenditure Summary</b>                                |                    |                   |                   |                   |                                      |
| 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                                     | 2,157              | 2,157             | 2,157             | 2,157             | 8,628                                |
| Controlled Parking Zones   | 275                | 275               | 275               | 275               | 1,100                                |
| Column Replacement   | 269                | 269               | 269               | 269               | 1,076                                |
| Carnwath Road  | 3,070              | -                 | -                 | -                 | 3,070                                |
| Parks Expenditure  | 500                | 500               | 500               | 500               | 2,000                                |
| Shepherds Bush Common Improvements                               | 510                | -                 | -                 | -                 | 510                                  |
| <b>Total Expenditure</b>   | <b>11,311</b>      | <b>7,731</b>      | <b>7,731</b>      | <b>7,731</b>      | <b>34,504</b>                        |
| <b>Capital Financing Summary</b>                                 |                    |                   |                   |                   |                                      |
| <b>Specific/External or Other Financing</b>                      |                    |                   |                   |                   |                                      |
| Capital Grants from Central Government                           | -                  | -                 | -                 | -                 | -                                    |
| Grants and Contributions from Private Developers (includes S106) | 510                | -                 | -                 | -                 | 510                                  |
| Capital Grants/Contributions from Non-departmental public bodies | -                  | -                 | -                 | -                 | -                                    |
| Capital Grants and Contributions from GLA Bodies                 | 2,157              | 2,157             | 2,157             | 2,157             | 8,628                                |
| <b>Sub-total - Specific or Other Financing</b>                   | <b>2,667</b>       | <b>2,157</b>      | <b>2,157</b>      | <b>2,157</b>      | <b>9,138</b>                         |
| <b>Mainstream Financing (Internal Council Resource)</b>          |                    |                   |                   |                   |                                      |
| Capital Receipts   | 8,100              | 5,030             | 5,030             | 5,030             | 23,190                               |
| General Fund Revenue Account (revenue funding)                   | 544                | 544               | 544               | 544               | 2,176                                |
| Use of Reserves  | -                  | -                 | -                 | -                 | -                                    |
| <b>Sub-total - Mainstream Funding</b>                            | <b>8,644</b>       | <b>5,574</b>      | <b>5,574</b>      | <b>5,574</b>      | <b>25,366</b>                        |
| <b>Borrowing</b>   | -                  | -                 | -                 | -                 | -                                    |
| <b>Total Capital Financing</b>                                   | <b>11,311</b>      | <b>7,731</b>      | <b>7,731</b>      | <b>7,731</b>      | <b>34,504</b>                        |

### Libraries Services

|  | Indicative Budgets |                   |                   |                   | Total Budget<br>(All years)<br>£'000 |
|--|--------------------|-------------------|-------------------|-------------------|--------------------------------------|
|  | 2016/17<br>Budget  | 2017/18<br>Budget | 2018/19<br>Budget | 2019/20<br>Budget |                                      |
|  | £'000              | £'000             | £'000             | £'000             |                                      |
| <b>Scheme Expenditure Summary</b>                                |                    |                   |                   |                   |                                      |
| Hammersmith Library Refurbishment Project                        | 250                | -                 | -                 | -                 | 250                                  |
| <b>Total Expenditure</b>   | <b>250</b>         | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>250</b>                           |
| <b>Capital Financing Summary</b>                                 |                    |                   |                   |                   |                                      |
| <b>Specific/External or Other Financing</b>                      |                    |                   |                   |                   |                                      |
| Capital Grants from Central Government                           | -                  | -                 | -                 | -                 | -                                    |
| Grants and Contributions from Private Developers (includes S106) | 250                | -                 | -                 | -                 | 250                                  |
| Capital Grants/Contributions from Non-departmental public bodies | -                  | -                 | -                 | -                 | -                                    |
| Capital Grants and Contributions from GLA Bodies                 | -                  | -                 | -                 | -                 | -                                    |
| <b>Sub-total - Specific or Other Financing</b>                   | <b>250</b>         | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>250</b>                           |
| <b>Mainstream Financing (Internal Council Resource)</b>          |                    |                   |                   |                   |                                      |
| Capital Receipts   | -                  | -                 | -                 | -                 | -                                    |
| General Fund Revenue Account (revenue funding)                   | -                  | -                 | -                 | -                 | -                                    |
| Use of Reserves  | -                  | -                 | -                 | -                 | -                                    |
| <b>Sub-total - Mainstream Funding</b>                            | <b>-</b>           | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>                             |
| <b>Borrowing</b>   | <b>-</b>           | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>                             |
| <b>Total Capital Financing</b>                                   | <b>250</b>         | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>250</b>                           |

## Housing Capital Programme

### Indicative Budgets

| 2016/17<br>Budget<br>£'000 | 2017/18<br>Budget<br>£'000 | 2018/19<br>Budget<br>£'000 | 2019/20<br>Budget<br>£'000 | Total Budget<br>(All years)<br>£'000 |
|----------------------------|----------------------------|----------------------------|----------------------------|--------------------------------------|
|----------------------------|----------------------------|----------------------------|----------------------------|--------------------------------------|

### Scheme Expenditure Summary

#### HRA Schemes:

|                                  |               |               |               |               |                |
|----------------------------------|---------------|---------------|---------------|---------------|----------------|
| Supply Initiatives (Major Voids) | 939           | -             | -             | -             | 939            |
| Energy Schemes                   | 3,961         | 2,150         | 1,885         | 2,057         | 10,053         |
| Lift Schemes                     | 6,373         | 5,101         | 2,687         | 94            | 14,255         |
| Internal Modernisation           | 1,408         | -             | -             | 1,403         | 2,811          |
| Major Refurbishments             | 16,565        | 12,202        | 11,874        | 13,746        | 54,387         |
| Planned Maintenance Framework    | 9,071         | -             | -             | -             | 9,071          |
| Minor Programmes                 | 8,346         | 6,707         | 5,722         | 6,694         | 27,469         |
| ASC/ELRS Managed                 | 1,173         | 950           | 823           | 888           | 3,834          |
| Rephasing & Reprogramming        | -             | (993)         | (1,860)       | (2,939)       | (5,792)        |
| <b>Subtotal HRA</b>              | <b>47,836</b> | <b>26,117</b> | <b>21,131</b> | <b>21,943</b> | <b>117,027</b> |

#### Decent Neighbourhood Schemes:

|                                       |               |               |               |               |                |
|---------------------------------------|---------------|---------------|---------------|---------------|----------------|
| Earls Court Buy Back Costs            | 10,506        | 16,378        | 24,128        | 13,782        | 64,794         |
| Earls Court Project Team Costs        | 4,636         | 5,043         | 4,094         | 4,047         | 17,820         |
| Housing Development Project           | 4,928         | -             | -             | -             | 4,928          |
| Other DNP projects                    | 1,245         | -             | -             | -             | 1,245          |
| <b>Subtotal Decent Neighbourhoods</b> | <b>21,315</b> | <b>21,421</b> | <b>28,222</b> | <b>17,829</b> | <b>88,787</b>  |
| <b>Total Expenditure</b>              | <b>69,151</b> | <b>47,538</b> | <b>49,353</b> | <b>39,772</b> | <b>205,814</b> |

### Capital Financing Summary

#### Specific/External or Other Financing

|   |              |              |              |              |               |
|---|--------------|--------------|--------------|--------------|---------------|
| Capital Grants from Central Government                              | -            | -            | -            | -            | -             |
| Contributions from leaseholders                                     | 4,093        | 2,849        | 2,849        | 2,849        | 12,640        |
| Grants and Contributions from Private Developers<br>(includes S106) | 4,250        | -            | -            | -            | 4,250         |
| <b>Sub-total - Specific or Other Financing</b>                      | <b>8,343</b> | <b>2,849</b> | <b>2,849</b> | <b>2,849</b> | <b>16,890</b> |

#### Mainstream Financing (Internal Council Resource)

|   |               |               |               |               |                |
|---|---------------|---------------|---------------|---------------|----------------|
| Capital Receipts (inc adj for deferred costs) | 28,443        | 8,794         | 9,064         | 16,488        | 62,789         |
| Housing Revenue Account (revenue funding)     | 3,514         | 3,702         | 353           | 1,562         | 9,131          |
| Major Repairs Reserve (MRR) / Major Repairs   | 17,377        | 17,820        | 18,325        | 18,873        | 72,395         |
| <b>Sub-total - Mainstream Funding</b>         | <b>49,334</b> | <b>30,316</b> | <b>27,742</b> | <b>36,923</b> | <b>144,315</b> |

#### Borrowing (Internal Borrowing)

|                                |               |               |               |               |                |
|--------------------------------|---------------|---------------|---------------|---------------|----------------|
|                                | 11,474        | 14,373        | 18,761        | -             | 44,608         |
| <b>Total Capital Financing</b> | <b>69,151</b> | <b>47,538</b> | <b>49,353</b> | <b>39,772</b> | <b>205,814</b> |

## APPENDIX 2 – Anticipated General Fund Capital Receipts

| <b>Year</b>            | <b>Forecast receipts<br/>£'000s</b> |
|------------------------|-------------------------------------|
| <b>2016/17</b>         |                                     |
| <b>Total 2016/17</b>   | <b>13,330</b>                       |
|                        |                                     |
| <b>2017/18</b>         |                                     |
| <b>Total 2017/18</b>   | <b>9,840</b>                        |
|                        |                                     |
| <b>2018/19</b>         |                                     |
| <b>Total 2018/19</b>   | <b>3,840</b>                        |
|                        |                                     |
| <b>2019/20</b>         |                                     |
| <b>Total 2019/20</b>   | <b>3,840</b>                        |
| <b>Total All Years</b> | <b>30,850</b>                       |

## **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 CFR presented in Table 4 excludes the CFR associated with Finance Leases and PFIs as the financing costs of these elements are fully funded through revenue budgets.

### **The Minimum Revenue Provision (MRP)**

In order to 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 2016/17**

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<sup>1</sup>) – 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.

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<sup>1</sup> Options as given in the CLG statutory guidance

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 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:

|              | <b>Actual<br/>2014/15<br/>£'000</b> | <b>Revised<br/>2015/16<br/>£'000</b> | <b>Estimate<br/>2016/17<br/>£'000</b> | <b>Estimate<br/>2017/18<br/>£'000</b> | <b>Estimate<br/>2018/19<br/>£'000</b> |
|--------------|-------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| General Fund | 41,180                              | 53,786                               | 43,467                                | 20,226                                | 8,571                                 |
| Housing      | 56,790                              | 73,398                               | 69,151                                | 47,538                                | 49,353                                |
| <b>TOTAL</b> | <b>97,970</b>                       | <b>127,184</b>                       | <b>112,618</b>                        | <b>67,764</b>                         | <b>57,924</b>                         |

### 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 Strategic Finance Director will determine the actual financing of capital expenditure incurred once a year, after the end of the financial year.

|  | <b>Actual<br/>2014/15<br/>£'000</b> | <b>Revised<br/>2015/16<br/>£'000</b> | <b>Estimate<br/>2016/17<br/>£'000</b> | <b>Estimate<br/>2017/18<br/>£'000</b> | <b>Estimate<br/>2018/19<br/>£'000</b> |
|--|-------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| General Fund                                   | 45,180                              | 44,260                               | 42,167                                | 37,919                                | 39,788                                |
| General Fund<br>(DSG Funded<br>School Windows) | -                                   | 1,000                                | 10,340                                | 19,295                                | 18,755                                |
| Housing Revenue<br>Account                     | 205,343                             | 210,009                              | 221,483                               | 235,856                               | 254,617                               |
| <b>TOTAL</b>                                   | <b>250,523</b>                      | <b>255,269</b>                       | <b>273,990</b>                        | <b>293,070</b>                        | <b>313,160</b>                        |

The GF CFR associated with the Schools' Windows Programme is shown separately because the Dedicated Schools Grant (DSG) will meet the borrowing costs associated with this 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:

|  | <b>Actual<br/>2014/15<br/>£'000</b> | <b>Revised<br/>2015/16<br/>£'000</b> | <b>Estimate<br/>2016/17<br/>£'000</b> | <b>Estimate<br/>2017/18<br/>£'000</b> | <b>Estimate<br/>2018/19<br/>£'000</b> |
|--|-------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Net Borrowing                          | (112,401)                           | (118,103)                            | (105,177)                             | (82,595)                              | (87,159)                              |
| CFR                                    | 250,523                             | 255,269                              | 273,990                               | 293,070                               | 313,159                               |
| <b>Net Borrowing<br/>Less than CFR</b> | <b>(362,924)</b>                    | <b>(373,372)</b>                     | <b>(379,167)</b>                      | <b>(375,665)</b>                      | <b>(400,318)</b>                      |

\*Net borrowing = Actual borrowing as at 31<sup>st</sup> March less total investments as at 31<sup>st</sup> 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.

|                         | <b>Actual<br/>2014/15<br/>£'000</b> | <b>Revised<br/>2015/16<br/>£'000</b> | <b>Estimate<br/>2016/17<br/>£'000</b> | <b>Estimate<br/>2017/18<br/>£'000</b> | <b>Estimate<br/>2018/19<br/>£'000</b> |
|-------------------------|-------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| General Fund            | 1.3%                                | 1.4%                                 | 1.3%                                  | 1.3%                                  | 1.3%                                  |
| Housing Revenue Account | 13.9%                               | 12.5%                                | 11.6%                                 | 11.4%                                 | 10.7%                                 |

## **INCREMENTAL IMPACT OF CAPITAL INVESTMENT DECISIONS ON COUNCIL TAX AND HRA RENTS**

The Council has forecast debt reduction savings for the General Fund resulting from the proposed capital programme. Therefore, this indicator is represented as: (Debt Reduction & debt restructuring savings) ÷ Taxbase (number of dwellings). This saving contributes towards the proposed Council Tax freeze in 2016/17 and the decision not to apply the Government's Social Care Precept to council tax payers.

|                             | <b>Estimate<br/>2015/16<br/>£</b> | <b>Estimate<br/>2016/17<br/>£</b> | <b>Estimate<br/>2017/18<br/>£</b> |
|-----------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Council Tax Implication (£) | -7.64                             | -14.86                            | -18.23                            |

The impact on the Housing Revenue Account Rents is assessed as nil. It is anticipated that all the new HRA investment will be funded without the need for external borrowing. In addition, the recent Government ruling to reduce HRA Rents effectively prevents rents from increasing.

## **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).