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London Borough of Hammersmith & Fulham

Cabinet

7 FEBRUARY 2011

LEADER
Councillor Stephen Greenhalgh

CAPITAL PROGRAMME 2011/12 TO 2015/16

Wards: All

This report sets out proposals in respect of the capital programme , together with ancillary issues.

CONTRIBUTORS

All Departments
DFCS
ADLDS

HAS A EIA BEEN COMPLETED? YES

Recommendations:

1. **To approve that the General Fund Capital Programme is £31.931m for 2011/12.**

2. **To approve a Debt Reduction target of £53.9m by 2015/16 which will reduce underlying debt (Capital Financing Requirement to £78.8m).**

3. **To approve that 25% of receipts generated for the decent neighbourhoods programme continue to be used to support general capital investment.**

4. **To approve the following initiatives within the capital programme:**
    - **The continuation of the rolling programmes for Corporate Planned Maintenance (£2.5m), repairs to carriageways and footways (£2.1m) , private sector housing grants (£0.45m), Parks Improvements (£0.5m) and contributions to the Invest to Save Fund (£0.750m)**
    - **The setting aside of £0.250m in reserve for the DDA Programme.**

5. **To approve, subject to agreement of the overall programme, prudential borrowing of £5.4m regarding the Schools Capital Strategy.**

6. **To note and approve the level of resource forecast (Table 5) and indicative expenditure for the decent neighbourhoods programme as detailed in Appendix 1 and proposed 2011/12 contribution to fund works to the HRA stock of £14.867m from the Decent Neighbourhoods Pot for one year only.**

7. **To approve the 2011/12 HRA capital programme as set out in Appendix 3, and subject to appropriate Member approval for un-commintted schemes.**

8. **To approve the prudential indicators as set out in Appendix 4 to the report.**

9. **To approve the following annual Minimum Revenue Provision: (Appendix 5).**

   - **For debt which is supported through Formula Grant this authority will calculate the Minimum Revenue Provision in accordance with current regulations (namely 4% of the Capital Financing requirement net of adjustment A).**

   - **For debt which has arisen through prudential borrowing it should be written down in equal instalments over the estimated asset life. The debt write-off will commence the year after an asset comes into use.**

1. INTRODUCTION

1.1 This report sets out an updated resource forecast and a capital programme for 2011/12 to 2015/16. Since 2006/07, the Council has put in place a debt reduction strategy which has enabled £36m of capital debt to be repaid by the end of 2009/10. Annual revenue savings of £3.6m are forecast by 2011/12. The capital programme now put forward seeks to build on these savings whilst funding essential new investment and key Council priorities.

1.2 The Building Schools for the Future programme was halted in 2010/11. An update is now given on future capital proposals for schools.

1.3 The funding for the Decent Homes Programme has now come to an end. Proposals are now put forward regarding the on-going housing investment needs for 2011/12. The funding options for 2012/13 onwards will be reviewed subject to the outcome of Government's announcement to replace the existing HRA subsidy system with a new system of council housing finance.

1.4 The Council has embarked on a number of major projects such as the King Street Regeneration Strategy and a range of decent neighbourhood schemes. A brief update on these projects is set out in this report and appropriate allowance made within the overall capital programme.

2. DEBT REDUCTION

2.1 General Fund debt (as measured by the Capital Financing Requirement) was £132.7m at the start of 2010/11. As set out in Table 1 it is now forecast that such debt will reduce by £53.9m, to £78.8m, by 2015/16. This will largely be achieved by applying surplus capital receipts, which are over and above the core investment needs, for debt redemption. Overall revenue savings are budgeted to increase by £4.6m from 2011/12 to 2015/16.

Table 1 – Movement in the Capital Financing Requirement (CFR)

	11/12	12/13	13/14	14/15	15/16
	£'m	£'m	£'m	£'m	£'m
Opening Capital Financing Requirement	127.1	117.0	92.7	84.8	81.4
Revenue Repayment of Debt	-3.5	-3.0	-1.9	-1.6	-1.5
Repayment of receipts used for temporary debt redemption.	2.4	2.0	0.0	0.0	0.0
Borrowing For Schools Investment	5.4	0.0	0.0	0.0	0.0
Annual (Surplus)/Deficit in the Capital Programme (Table 2)	-14.4	-23.3	-6.0	-1.8	-1.2
Closing CFR	117.0	92.7	84.8	81.4	78.8
Net Movement from the opening 2010/11 CFR (£132.7)	-15.7	-40.0	-47.9	-51.3	-53.9
Revenue Impact (9% of CFR – lagged by 1 year)	-0.50	-1.41	-3.6	-4.3	-4.6

3. THE GENERAL FUND CAPITAL PROGRAMME.

Summary

3.1 The proposed capital programme and resource forecast is summarised in Table 2. The overall programme is forecast to be in surplus of £49.9m to the end of 2015/16. It is planned to use this surplus to repay debt.

Table 2 – General Fund Capital Programme Summary

	2011/12	2012/13	2013/14	2014/15	2015/16
	£'000s	£'000s	£'000s	£'000s	£'000s
Forecast Resources (Table 3)	46,377	32,857	14,967	9,100	8,500
Capital Programme (Table 4)	31,931	9,519	9,004	7,300	7,300
In-Year Surplus/(Deficit)	**14,446**	**23,338**	**5,963**	**1,800**	**1,200**
Cumulative Balance Surplus/(Deficit)	**14,446**	**40,925**	**46,888**	**48,688**	**49,888**

Resources

3.2 The general fund resource forecast is detailed in Table 3.

Table 3 General Fund Resource Forecast.

	2011/12	2012/13	2013/14	2014/15	2015/16
	£'000s	£'000s	£'000s	£'000s	£'000s
Right to Buy Receipts	500	500	500	500	500
Planned Sales	22,876	23,725	3,875	600	0
Decent Neighbourhood Receipts	7,956	5,413	7,888	7,000	7,000
-Reimbursement of Decent Neighbourhood receipts	(6,293)	0	0	0	0
Scheme Specific Resources	21,338	3,219	2,704	1,000	1,000
Total Forecast Resources	**46,377**	**32,857**	**14,967**	**9,100**	**8,500**

3.3 **Right to Buy (RTB) Receipts.** Usable RTB receipts (25% of sale value) are now running at £0.5m (10 properties) a year and are not expected, given current market conditions, to increase in 2012/13 onwards. The Council continues to explore options that promote the shared ownership of Council dwellings. No income from such schemes is assumed within the resource forecast

3.4 **Planned Sales.** The current forecast for planned asset sales is set out in Table 3. The actual level, and timing, of sales is subject to certain caveats. Not least they are dependant on the wider property market, appropriate consultation and planning considerations. The Council continues to review its asset holdings to identify potential further disposals. The target for forecast sales is ambitious. A risk is identified within the Medium Term Financial Strategy that sales may slip or not be achieved or that significant cost of sales may be incurred.

3.5 **Borrowing.** From 2007/08 to 2010/11 the Council undertook no new general borrowing as part of the debt reduction strategy. Allowance for prudential borrowing of £5.4m is made to support investment in schools. This is treated as a specific resource.

3.6 **Decent Neighbourhoods Receipts**. Via a number of specific Cabinet decisions, the Council has opted to ringfence receipts from disposals of certain asset types (hostels, street properties, and other regeneration sites) for regeneration or affordable housing purposes. These receipts have been channelled into the Decent Neighbourhoods fund. Although this approach has allowed for investment in a number of such schemes, in general the level of receipts coming into the fund has outstripped the expenditure from it. This has led to a position where the fund is projected to be in surplus by between £2.8m and £90m over the capital programme period. This is subject to future decisions regarding the possible use of such resources. Given the imbalance in funding between this and the general programme the Council agreed that, from 2010/11, these receipts should be top sliced by 25% to contribute to general resources. This approach continues to be reviewed over time to ensure that there is no material impact on the delivery of regeneration or affordable housing initiatives.

3.7 There is a central government imposed restriction on how local authorities can use housing capital receipts. The Council has to determine a Capital Allowance. This increases as expenditure is incurred on affordable housing and regeneration initiatives and decreases in line with housing capital receipts. Should the Capital Allowance become negative then 75% of housing receipts are payable to the Government. The latest estimate is that the Capital Allowance will exceed £21m at the close of 2011/12 and the council can accordingly make full use of the housing receipts. This position continues to be reviewed and may be impacted by future changes to the housing capital finance regime.

3.8 **Specific Funding Allocations.** The specific funding resource forecast is based on current allocations and will be updated over the forthcoming months in accordance with relevant government, and other public and private, spending announcements.

<u>Expenditure</u>

3.9 The Council's Capital Programme has, in recent years, been developed through a combination of agreed rolling programmes, agreement of individual projects (via formal decision making processes), and the inclusion of specifically funded schemes. The framework for an annual bidding round has not been applied in recent years as available resources have been prioritised to repay debt.

3.10 The proposed programme for 2011/12 (Table 4) onwards provides for the completion of existing schemes (mainly Bishops Park) and continuation, with the exception of the Disability Discrimination Act (DDA) programme, of the previously agreed rolling programmes. Over recent years an annual provision of £0.25m has been made for DDA works but has been infrequently used. DDA works tend now to be undertaken as a matter of course within new capital initiatives. It is proposed that any unapplied allocation brought forward from 2010/11 (up to £0.25m) be set aside within a reserve for use as appropriate. No further annual provision will be made. This position will continue to be reviewed.

Table 4 – 2011/12 t0 2015/16 Capital Programme

	2011/12	2012/13	2013/14	2014/15	2015/16
Mainstream	£'000	£'000	£'000	£'000	£'000
Completion of Existing Schemes	4,293	0	0	0	0
Continuation of Rolling Programmes:					
- Carriageways	1,350	1,350	1,350	1,350	1,350
- Footways	750	750	750	750	750
- Planned Maintenance	2,500	2,500	2,500	2,500	2,500
- Private Sector Housing Grants	450	450	450	450	450
-Contributions to Invest To Save	750	750	750	750	750
-Parks Development	500	500	500	500	500
Scheme Specific Schemes	21,338	3,219	2,704	1,000	1,000
Total	**31,931**	**9,519**	**9,004**	**7,300**	**7,300**

3.11 **Schools Capital Programme** - The scheme specific resources include an allowance of £5.4m for prudential borrowing to support capital investment in schools and new capital grant awards for schools investment of £7.6m for 2011/12. Following the abandonment of the Building Schools for the Future programme the Government announced that a review would be taken of future education capital funding. This is expected to be complete in early 2011. The future schools capital programme for the council will be determined once the outcome of the Government review is known.

3.12 **White City Health and Care Centre -** The centre will be both a flagship joint health and social care service centre operated in conjunction with H&F PCT, and a major housing development delivering on the Council's priority to increase home ownership in the borough. It is also expected to play a significant role in regenerating the physical environment in the north of the borough.

3.13 The Council side of the project will be delivered via a LIFT Co arrangement, a health finance vehicle with similarities to a PFI deal, where the Council will take a lease- plus interest in the building for a period of 25 years. The cost of the lease plus agreement will be met by freeing up various satellite premises as teams move into the new centre. The Collaborative Care Centre is based on the old Janet Adegoke Leisure Centre site, incorporating the Children's Services site at Sawley Road. The Council awaits the outcome of a PFI credits bid of £4.5m to fund its ongoing running costs.

3.14 The planning permission, subject to the completion of a section 106 Legal agreement, is for 175 residential units above the collaborative care centre, comprising of 105 market units and 70 affordable. The 70 affordable units will be a mixture of bed sizes from studio accommodation through to family sized dwellings. The affordable housing will be low cost home ownership tenures affordable to residents in the borough on low to moderate incomes

4 . DECENT NEIGHBOURHOODS – EXPENDITURE AND RESOURCE FORECAST

4.1 The Council continues to set aside housing capital receipts regarding it's objectives for regeneration and creating sustainable communities. The current regeneration receipts forecast, and expenditure plan, is set out in Appendix 1 and summarised in table 5.

Table 5 Decent Neighbourhoods - Resource/Expenditure Forecast.

	2011/12	2012/13	2013/14	2014/15	2015/16
	£'000s	£'000s	£'000s	£'000s	£'000s
Balance b/fwd	**(928)**				
Expenditure	3,934	36	0	0	0
Resources	(32,547)	(18,238)	(23,663)	(21,000)	(21,000)
In Year (Surplus) – based on approved schemes	**(29,541)**	**(18,202)**	**(23,663)**	**(21,000)**	**(21,000)**
Capital Investment in maintaining existing housing stock. (1 year only)	**14,867**	**0**	**0**	**0**	**0**
Other Schemes Under Consideration	**11,861**	**(5,000)**	**1,500**	**0**	**0**
Revised In Year (Surplus)	**(2,813)**	**(23,202)**	**(22,163)**	**(21,000)**	**(21,000)**
Cumulative (Surplus)	**(2,813)**	**(26,015)**	**(48,178)**	**(69,178)**	**(90,178)**

4.2 The programme is forecast to be in surplus by £90m by 2015/16. The expensive voids policy is still in place and the resources forecast is likely to increase as more properties come through for disposal although this is likely to be offset in future years by new initiatives that emerge.

4.3 The resources forecast include the sale of expensive to repair void properties. Allowance has been made for the top-slice of 25% of future receipts to support general investment needs. The current forecast is based on the identification of 50 new properties for sale in 2011/12 – increasing to 80 by 2014/15.

4.4 A key priority for the Council is to ensure adequate on-going investment in the Council housing stock following the completion of the decent homes programme. Section 5 sets out the current Housing Capital Expenditure and Resource forecast. A drawdown of £14.9m is being proposed for 2011/12 only.

4.5 The resources available for the decent neighbourhoods programme continue to be separately identified and their use is subject to Member approval.

5. REGENERATION INITIATIVES.

5.1 The Council is currently progressing a number of major projects that are likely to impact on the capital programme over the next 5 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.

5.2 **King Street Regeneration.** The Council is currently taking forward proposals for this scheme which includes a major change to the existing Civic Accommodation provision in Hammersmith. At present a developer has been appointed to take forward this scheme and a planning application submitted. It is hoped that the strategy can be delivered at net nil cost to the Council but this position, particularly in the light of the current economic conditions, will need to be kept under review.

5.3 **Earls Court**. The council is in discussions with other landowners (Transport for London and Capital & Counties) regarding the potential redevelopment of Earls Court after 2012. This is intended to bring substantial benefits to the wider area, including more and better quality homes, new jobs and improved open spaces. The plans could include the West Kensington and Gibbs Green Estate and a key concern for the Council is that any scheme must provide new homes for these 1,650 residents in the same area as they are living. To date the Council has approved expenditure of £0.650m regarding planning and transport studies. . This has been funded from section 106 (planning) and developer contributions.

5.5 **White City/Shepherds Bush Market.** White City is a major development area with potential for up to 5,000 new homes being built. Most of those are being earmarked for land east of Wood Lane with detailed proposals likely to emerge in the next few years. The council has also set out a new vision to protect Shepherds Bush Market. This includes the relocation of the Bush Theatre to the old Shepherds Bush library for which capital resources (funded from section 106 resources) of £1m have been identified to secure the release of a restrictive covenant from the church commissioners. The council has also agreed an option for the potential future sale, at market value, of the old laundry site at Pennard road, to developers, Orion Shepherd Bush Market Limited. This is subject to the developer assembling the rest of the land needed to come-up with a viable scheme for redeveloping the market that ultimately gets planning consent and is in accordance with the council's planning brief.

5.6 **A Housing Company**. The Council is exploring options for establishing 2 housing companies, a development company that would provide new housing, including housing for sale, and a company with charitable aims that would subsequently hold any rented or intermediate housing (such as shared ownership). The Council has identified a number of sites in its ownership which could, if developed, represent a significant opportunity to develop new homes through innovative delivery arrangements.

6. HOUSING CAPITAL PROGRAMME

6.1 The latest capital resource forecast for the Housing Capital Programme is set out in table 6 below (see Appendix 3 for details), together with the proposed Housing Revenue Account Capital Programme.

6.2 The HRA resource forecast indicates a deficit of £12m from 2012/13 onwards. The HRA capital programme post-2011/12 will be subject to the changes to the HRA subsidy trailed in the Sustainable Communities Bill.

Table 6 HRA Capital resource forecast

	2011/12	2012/13	2013/14	2014/15	2015/16
	£'000s	£'000s	£'000s	£'000s	£'000s
Proposed HRA Capital Programme	**43,179**	**29,335**	**29,105**	**28,858**	**28,858**
Resources:					
Major Repairs Allowance	12,648	12,921	13,037	13,321	13,321
Receipts	5,103	0	0	0	0
Expensive Voids Contributions (Proposed – 1 year only)	14,867	0	0	0	0
Leasehold Contributions	7,880	4,414	4,068	3,537	3,537
Total mainstream resources	**40,498**	**17,335**	**17,105**	**16,858**	**16,858**
Specific Funding	2,681	0	0	0	0
Total Resources	**43,179**	**17,335**	**17,105**	**16,858**	**16,858**
In-Year (Surplus) / Deficit	**0**	**12,000**	**12,000**	**12,000**	**12,000**
Cumulative (Surplus) / Deficit	**0**	**12,000**	**24,000**	**36,000**	**48,000**

6.3 The funding for the decent homes programme came to an end in 2010/11. The proposed future programme maintains the condition and fitness for purpose of the stock including ensuring homes are maintained at a decent standard and remain in a condition suitable for letting, addresses our statutory and health and safety obligations, improves energy efficiency, addresses residual backlog works which were outside the scope of the decent homes programme and meets resident priorities such as security and environmental improvements. As previously noted mainstream resources are insufficient to cover the program and a draw down has been made from the Decent Neighbourhoods pot of £14.9m in 2011/12.

6.4 The Housing Capital programme indicates that it will be in deficit of £48m by 2015/16. Options will be explored to balance the programme from 2012/13 onwards once the proposals for the new Housing Subsidy regime are known.

7. COMMENTS OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES

7.1 Debt reduction is a key element of the Council's revenue budget strategy. The proposals set out in this report will provide for annual revenue savings of £7.7m to have been delivered from 2006/07 to 2015/16. The future delivery of these savings is heavily reliant on meeting the target for asset sales and progress against target will need to be closely monitored. The costs of sale, including security and relocation, also need to be tightly controlled to avoid additional capital and revenue spend pressures.

7.2 The Council's mainstream capital programme is now largely restricted to core rolling programmes but it is looking to regenerate a number of priority areas through a number of initiatives. These may have a major impact, both in terms of expenditure and resources, on the capital forecast over the next 5 years. Amendments will be made in line with Member approval.

7.3 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 4. 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 £127.1m at the start of 2011/12. The proposals set out in this report are estimated to reduce it to £78.8m by 2015/16. This net reduction has been taken account of within the council's Treasury Management Strategy. No allowance is made yet for any borrowing should a decision be taken to proceed with a housing company.

7.4 Each year local authorities are required to set aside some of their revenues as provision for debt repayment. This is commonly termed the minimum revenue provision (MRP). Before the start of each financial year full council is required to approve a statement of its policy on making MRP in respect of that financial year. Appendix 5 sets out the options now available to Hammersmith and Fulham and recommends which option should be followed.

8. COMMENTS OF THE ASSISTANT DIRECTOR (LEGAL AND DEMOCRATIC SERVICES)

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

LOCAL GOVERNMENT ACT 2000
BACKGROUND PAPERS

No.	Brief Description of Background Papers	Name/Ext. of holder of file/copy	Department
1.	Capital Monitoring Documents	Isaac Egberedu Ext 2503	Finance Dept., 2nd floor , HTH Extension