


<p>London Borough of Hammersmith & Fulham</p> <p>FULL COUNCIL</p> <p>18 October 2017</p>	
<p>HOUSING FOUR YEAR CAPITAL PROGRAMME 2017-21: UPDATE TO INCLUDE THE FIRE SAFETY PLUS PROGRAMME</p>	
<p>Report of the Cabinet Member for Finance – Councillor Max Schmid</p>	
<p>Open Report</p>	
<p>Classification: For Decision Key Decision: Yes</p>	
<p>Wards Affected: All</p>	
<p>Accountable Director: Jo Rowlands, Lead Director for Regeneration, Planning & Housing Services</p>	
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1. EXECUTIVE SUMMARY

- 1.1. Amendments of £20m are proposed to the Capital Programme for the Fire Safety Plus Programme. This work will be above and beyond the current legal minimum fire standards. The report also updates on the acquisition of additional affordable homes. The updated 2017-21 Housing Revenue Account (HRA) and Decent Neighbourhood Capital programme is £246.2m.
- 1.2. The Fire Safety Plus work is in addition to the existing Housing Capital programme that funds essential Health and Safety Works. Funding for works undertaken as part of the existing Housing Capital Programme will be sought from central government where possible if they make money available.

2. RECOMMENDATIONS

- 2.1. To approve the HRA and Decent Neighbourhood Capital Programme revised budget for 2017/18 at £69.7m including £10m of the £20m Fire Safety Plus Programme with the remaining £10m being planned for 2018/19 (Paragraph 5, Table 1 and Appendix 1).

- 2.2. To approve the HRA and Decent Neighbourhood Capital Programme revised four year budget at £246.2m from 2017/18 to 2020/21 including the £20m Fire Safety Plus Programme (Paragraph 5, Table 1 and Appendix 1).

3. REASONS FOR DECISION

- 3.1 The Fire Safety Plus Programme was endorsed in July 2017 by Full Council. It is designed to improve the safety of Council Homes, both tenanted and leasehold, and we are working closely with the London Fire Brigade to ensure the highest standard. The proposed budget is an additional £20m.
- 3.2 The report also includes £4.9m for the acquisition of additional affordable housing approved by Cabinet on 9 October 2017.
- 3.3 In accordance with the Council's Financial Regulations Full Council are required to approve amendments to the capital programme that exceed £5m.
- 3.4 For the fire safety programme that will ensure residents are as safe as possible, the Council will seek funding from central government.

4. INTRODUCTION AND BACKGROUND

- 4.1 This report sets out an updated four year HRA capital expenditure and resource forecast and capital programme for 2017/18 to 2020/21 as summarised in Table 1 in paragraph 5 and Appendix 1 below. This update includes:

- £20m for the Council's Fire Safety Plus capital works programme to make fire safety improvements to the Council's housing stock above and beyond current legal minimum standards. These works will improve the fire safety of Council homes, both tenanted and leasehold. We are working with the London Fire Brigade (LFB).

This work is in addition to the existing Housing Capital programme. We need and expect additional funding from the Department of Communities and Local Government (DCLG). DCLG have requested details on such works from councils, and we will provide them but DCLG to date have not made any money available.

It's very important we keep residents safe and we cannot wait for central government to work out how funding will become available. So, to enable these important works to proceed, £14m of HRA reserves has been allocated for this programme with the balance being funded by internal borrowing which increases the Housing Capital Financing Requirement (HRA CFR), the measure used for the HRA debt cap. As a result, if central government declines to pay fire safety works, the Council will be very close to its HRA debt cap and our HRA general reserves will reduce to £3m. This would restrict our ability to directly provide additional new homes and to cope with changes in HRA income and / or costs going forward.

All work under this programme will be provided free of charge to Council tenants and leaseholders. Programme expenditure is expected to be allocated as:

- Works on the Charecroft Estate and other buildings which are six stories or higher: £10m
 - Other works under the programme £10m
- £4.9m of additional expenditure for the purchase of additional affordable homes. This will facilitate a much needed increase in the supply of affordable housing that will help to ease the temporary accommodation pressure the Council has, while also making best use of right to buy receipts. This was approved by Cabinet on 9th October 2017.

5. THE HOUSING CAPITAL PROGRAMME

- 5.1 The updated Housing Capital Programme includes £130.1m over four years for major works to be carried out on existing properties and an additional £20m for the Fire Safety Plus programme. It also includes approved plans to deliver new affordable homes. The forecast is based on the position at 31 August 2017
- 5.2 The programme is funded by Internal Borrowing, Revenue Contributions appropriated to the Major Repairs Reserve, contributions from HRA reserves, HRA revenue contributions, Section 106 commuted sums and capital receipts from both Right-to-Buy and sales of surplus non-dwelling sites. The overall Housing Programme expenditure and resource forecast is summarised in Table 1 below (following page). The detailed programme is included at Appendix 1. A reconciliation between the four year programme approved by Full Council on 22 February 2017 and the revised four year programme included in this report is included at Appendix 2.

Table 1: 2017-21 Capital Programme Service Analysis

Housing Programme - Resource Summary				
	Indicative 2017/18 Budget	Indicative 2018/19 Budget	Indicative 2019/20 Budget	Indicative 2020/21 Budget
	£'000	£'000	£'000	£'000
Approved Expenditure				
Decent Neighbourhood Schemes	23,229	28,137	31,215	13,556
HRA Schemes	46,544	42,259	28,826	32,475
Total Housing Programme - Approved Expenditure	69,773	70,396	60,041	46,031
Available and Approved Resource				
Capital Receipts - Unrestricted	11,176	4,200	4,616	0
Capital Receipts - GF	673	450	450	450
Capital Receipts - RTB (141)	8,946	8,144	4,954	1,895
Capital Receipts - Sale of new build homes	414	-	-	-
Earls Court Receipts recognisable	-	-	16,581	4,460
Housing Revenue Account (revenue & reserves funding)	9,464	13,028	4,000	1,313
Major Repairs Reserve (MRR)	17,945	17,404	19,794	19,794
Contributions Developers (S106)	1,969	5,256	400	16,950
Repayment of NHHT loan	270	-	270	-
Contributions from leaseholders	7,385	6,943	4,005	2,849
Government Capital Grants and Contributions	300	600	100	-
Disabled Facilities Grant (DFG)	609	-	-	-
Insurance Claim for Hilary Road fire damage	150	-	-	-
Internal Borrowing	10,471	14,372	4,871	
Reduction in internal borrowing from Earls Court Cash				(1,680)
Total Funding	69,773	70,396	60,041	46,031

5.3 The programme includes borrowing against internal resources of £29.7m. The forecast Housing Capital Finance Requirement (HRA CFR) is shown in Table 2 below:

Table 2

HRA CFR Forecast	2017/18	2018/19	2019/20	2020/21
HRA Capital Financing Memorandum	£'000	£'000	£'000	£'000
Closing Forecast CFR Excluding Deferred Costs	215,315	229,686	234,557	231,197
Deferred Costs of Disposal	6,644	9,084	13,522	16,062
Closing Forecast CFR Including Deferred Costs	221,959	238,770	248,079	247,259

5.5 The HRA CFR is required to remain within a 'Debt Cap' which has been individually set for all housing authorities by the Department for Communities and Local Government. This cap was introduced as part of the transition to HRA self-financing. The Council's debt cap is currently set at £254.6m.

5.6 In 2019/20, borrowing headroom between the CFR and debt cap reduces to just £6.5m. This headroom is forecast to improve to £7.4m in 2020/21.

6. FINANCIAL AND RESOURCES IMPLICATIONS

- 6.1 The report is seeking an approval for additional £20m expenditure which will, until further clarity is received from central government on funding streams, be funded from a combination of HRA Reserves and internal borrowing. It also includes an additional £4.9m of expenditure for the purchase of new affordable homes which is going to Cabinet for approval on 9th October 2017 and the redevelopment grant for Edith Summerskill House (which is funded by S106 commuted sums and Right to Buy one for one receipts). A reconciliation between the four year programme approved by Full Council on 22nd February 2017 and the revised four year programme included in this report is included at Appendix 2. HRA General reserves are expected to reduce to £3m in 2018/19 before building back up again to circa £10m by 2023/24.
- 6.2 The increase in borrowing will result in higher CFR (forecast to increase from £241.43m¹ to £248.1m in 2019/20 and from £243.98m² to £247.3m in 2020/21) and will significantly reduce the borrowing headroom to £6.5m in 2019/20 and £7.4m in 2020/21.
- 6.3 If there are any:
- delays or reductions in income on the Housing Capital programme
 - material reductions in HRA revenue income
 - material increases in the cost of the housing capital programme or in the HRA

then there is a risk that the HRA debt cap will be breached. To mitigate the risk of this, the Council will provide all details of fire safety works to central government to lobby for funding.

- 6.4 The capital programme will be reviewed on a regular basis to manage the risk of exceeding the cap.
- 6.4 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.

¹ As reported to Cabinet on 9th October 2017. The CFR forecast for 19/20 reported to Full Council on 22nd February 2017 was £227.86m, the increase between February 17 and October 17 is mostly because the forecast for the Earls Court recognisable receipts has been moved out by a year.

² As reported to Cabinet on 9th October 2017, The CFR forecast reported to Full Council on 22nd February 2017 was £232.13m, the increase between February 17 and October 17 is mostly because the forecast for the Earls Court recognisable receipts has been moved out by a year

6.5 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 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.

6.6 Expenditure incurred by a Local Authority in the course of delivering statutory functions will ordinarily be outside of the scope of VAT (also known as 'non-business expenditure'). Fire safety expenditure on the Council's own property/dwellings would, generally, be deemed to be non-business. It is nonetheless advised that as and when specific projects and schemes within this newly proposed programme crystallise, they are individually assessed in conjunction with corporate finance to ascertain any potential taxation risks.

6.7 *Implications completed by Hitesh Jolapara, Strategic Finance Director, tel: 020 8753 2501*

7. IMPLICATIONS FOR BUSINESS

7.1 The HRA 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.

7.2 *Implications completed by David Burns, Head of Housing Strategy, tel 020 8753 6090*

8. LEGAL IMPLICATIONS

8.1 There are no particular legal Implications arising from this report.

8.2 *Implications completed by Rhian Davies, Chief Solicitor, Litigation and Social Care, tel. 020 7641 2729*

9. PROCUREMENT IMPLICATIONS

9.1 Expenditure by the Council is subject to binding processes and regulations that ensures transparency, commercial awareness and drives the best value for

money. To ensure that future risk of litigation through unclear procurements are negated early dialogue with Commercial Management around procurement strategies is undertaken and procurement processes can be supported.

9.2 In addition clarity around how the capital spend is approached in terms of programme management and governance to ensure ongoing delivery assurance.

9.3 *Implications completed by Simon Davis, Head of Commercial Management, tel: 07920 503651*

Appendix 1

2017-21 Capital Programme Service Analysis

Appendix 1

Housing Capital Programme

Indicative Future Years Analysis

Scheme Expenditure Summary

HRA Schemes:

	2017/18 Budget	2018/19 Budget	2019/20 Budget	2020/21 Budget	Total Budget (All years)
	£'000	£'000	£'000	£'000	£'000
Supply Initiatives (Major Voids)	947	-	-	-	947
Energy Schemes	1,633	3,697	1,850	1,725	8,905
Lift Schemes	3,250	4,800	3,750	1,150	12,950
Internal Modernisation	500	250	500	1,750	3,000
Major Refurbishments	18,363	14,009	14,486	19,210	66,068
Planned Maintenance Framework	644	-	-	-	644
Minor Programmes	10,127	8,453	7,240	7,640	33,460
Decent Homes Partnering	-	-	-	-	0
ASC/ELRS Managed	1,080	1,050	1,000	1,000	4,130
Fire Safety Plus	10,000	10,000	-	-	20,000
Subtotal HRA	46,544	42,259	28,826	32,475	150,104

Decent Neighbourhood Schemes:

Earls Court Buy Back Costs	7,722	5,629	13,751	6,789	33,890
Earls Court Project Team Costs	856	2,496	4,540	2,599	10,492
Housing Development Project	2,161	8,805	679	-	11,645
Stanhope Joint Venture	4,749	11,392	15,835	6,317	38,293
Other DNP projects	6,815	261	-	-	7,076
Other General Fund	1,782	2,050	950	450	5,232
Subtotal Decent Neighbourhoods	24,085	30,633	35,755	16,155	106,629
Total Expenditure	70,629	72,892	64,581	48,630	256,734
Adjustment for deferred costs	(856)	(2,496)	(4,540)	(2,599)	(10,492)
Total Net Expenditure	69,773	70,396	60,041	46,031	246,242

Appendix 2

Reconciliation from Full Council Approval to 22nd February 2017 to revised Housing Capital Programme Budget	Indicative 2017/18 Budget £'000	Indicative 2018/19 Budget £'000	Indicative 2019/20 Budget £'000	Indicative 2020/21 Budget £'000
Total Housing Programme after adjustment for deferred costs - Approved by Full Council 22nd February 2017	53,178	43,233	36,488	41,788
Edith Summerskill House Redevelopment Grant	1,456	11,392	15,835	6,317
Slippage in HRA Schemes from 16/17 as reported to Cabinet 4th September 2017	6,742			
Additional of Disabled Facilities Grant to the programme	818	450	450	450
Reprofiling and reforecasting Earls Court	1,854	(9,494)	7,811	(4,305)
Housing Development Programme Reprofiling and budget updates	(3,353)	5,280		
Other reprofiling and reforecasting	1,512	2,273	(1,779)	1,750
Total Housing Programme as reported to Cabinet to 9th October 2017 in Capital Programme Monitor & Budget Variations 2017/18 Q1	62,207	53,134	58,805	46,000
Fire Safety Plus works	10,000	10,000		
Sands End Community Centre	500	1,600	500	
HRA Schemes: Programme reprofiling into future years and minor amendments	(2,961)	2,625		
Housing Development Programme Reprofiling and budget updates	(3,689)	3,010	679	
Other reprofiling and reforecasting	(1,184)	27	57	31
Purchasing Additional Affordable Homes	4,900			
Total Housing Programme in this report	69,773	70,396	60,041	46,031