London Borough of Hammersmith & Fulham Cabinet 5 February 2018	
FOUR YEAR CAPITAL PROGRAMME 2018/19	
Report of the Cabinet Member for Finance – Councillor Max Schmid	
Open Report	
Classification: For Decision **Key Decision:** Yes	
Wards Affected: All	
Accountable Director: Hitesh Jolapara, Strategic Finance Director	
Report Author: Andrew Lord, Head of Strategic Planning and Monitoring	**Contact Details:** Tel: 0208 753 2531 Email: Andrew.lord@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report presents the Council's four-year Capital Programme for the period 2018-22. The programme for this period totals £282.5m.

1.2. The gross programme for 2018/19 totals £113.4m. This comprises the General Fund Programme of £37.3m and the Housing Programme of £76.1m.

1.3. The report updates the Minimum Revenue Provision (MRP) Policy for the Council. The CIPFA Prudential Indicators have been updated to meet statutory requirements for 2018/19 and are detailed in the Treasury Management Strategy Statement 2018/19 due to be presented to Political Cabinet in January 2018.

1.4. The programme includes a proposal for the annual rolling programme of £0.5m for Parks to be met from Section 106 resources. The Section 106 funding has been agreed to 2019/20. For 2020/21 and beyond this is subject to future confirmation.

1.5. The Government's new Flexible Use of Capital Receipts provisions came into force in April 2016 (detailed guidance in Appendix 5) and mean the Council can opt to make use of up to £7.1m of capital receipts to fund Invest to Save schemes. However, this would come at revenue cost of £32k per £1m capitalised. A final decision on whether or not to make use of this flexibility will be delegated to the Strategic Finance Director, in consultation with the Cabinet Member for Finance, as part of the closure of the 2017/18 Accounts process.

2. RECOMMENDATIONS

2.1. To approve the General Fund Capital Programme budget at £37.3m for 2018/19 (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 2018/19 General Fund 'Mainstream' Programme as set out in Table 3 (paragraph 5.2) and specifically as follows:

- Capital receipts and internal borrowing amounting to £4.98m to fund the Council's rolling programmes as follows:

	£m
Disabled Facilities Grant [RPHS]	0.45
Planned Maintenance/DDA Programme [ENV]	2.50
Footways and Carriageways [ENV]	2.03
Total	**4.98**

- Contributions from revenue amounting to £0.521m to fund the Council's rolling programmes as follows:

	£m
Controlled Parking Zones [ENV]	0.275
Column Replacement [ENV]	0.246
Total	**0.521**

- Section 106 funding amounting to £0.5m to fund the Council's rolling programmes as follows:

	£m
Parks Capital Programme [ENV]	0.50
Total	**0.50**

2.3. To note existing capital receipts funded schemes previously approved, but now scheduled for 2018/19 (paragraph 5.2, Table 3):

One off schemes:
- Schools' Organisation Strategy - £0.03m
- Carnwath Road - £ 3.07m

Rolling programmes:
- Planned Maintenance/DDA Programme – £6.96m

2.4. To approve the Housing Programme at £76.1m for 2018/19 as set out in Table 5 (paragraph 7.3) and Appendix 1.

2.5. To delegate the potential application of 2017/18 capital receipts (totalling £7.1m) under the Government's new Flexible Use of Capital Receipts provisions to fund Invest to Save schemes in 2017/18 and 2018/19 (as identified in Appendix 5). The final decision on whether to make use of any of this flexibility is delegated to the Strategic Finance Director, in consultation with the Cabinet Member for Finance, as part of the closure of the 2017/18 Accounts process.

2.6. To approve the revised annual Minimum Revenue Provision policy statement for 2018/19 in Appendix 4.

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 2018/19 to 2021/22, as summarised in Table 1 below. A detailed analysis of specific schemes by service is included in Appendix 1.

Table 1 - Capital Programme 2018/19 to 2021/22

		Indicative Budgets			
	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total Budget (All years) £'000
CAPITAL EXPENDITURE					
Children's Services	19,800	300	-	-	**20,100**
Adult Social Care	20	937	-	-	**957**
Environmental Services	15,417	10,778	7,208	7,208	**40,611**
General Fund Schemes under Housing Management	2,050	950	450	450	**3,900**
Sub-total (Non-Housing)	**37,287**	**12,965**	**7,658**	**7,658**	**65,568**
HRA Programme	45,540	34,126	34,065	25,390	**139,121**
Decent Neighbourhoods Programme	30,583	23,676	16,875	6,632	**77,766**
Sub-total (Housing)	**76,123**	**57,802**	**50,940**	**32,022**	**216,887**
Total Expenditure	**113,410**	**70,767**	**58,598**	**39,680**	**282,455**
CAPITAL FINANCING					
Specific/External Financing:					
Government/Public Body Grants	8,061	3,464	2,157	2,447	**16,129**
Developers Contributions (S106)	9,285	1,200	16,950	-	**27,435**
Leaseholder Contributions (Housing)	4,390	3,860	4,048	3,460	**15,758**
Sub-total - Specific Financing	**21,736**	**8,524**	**23,155**	**5,907**	**59,322**
Mainstream Financing (Internal):					
Capital Receipts - General Fund	1,920	8,050	1,920	1,920	**13,810**
Capital Receipts - Housing*	24,538	13,024	8,965	4,495	**51,022**
Revenue funding - General Fund	521	521	521	521	**2,084**
Revenue Funding - HRA	4,563	9,700	5,172	5,000	**24,435**
Major Repairs Reserve (MRR) [Housing]	16,165	15,797	15,805	16,546	**64,313**
Sub-total - Mainstream Funding	**47,707**	**47,092**	**32,383**	**28,482**	**155,664**
Internal Borrowing	43,967	15,151	3,060	5,291	**67,469**
Total Capital Financing	**113,410**	**70,767**	**58,598**	**39,680**	**282,455**

**Includes use of brought-forward receipts*

4.2. The forecast above for specific and external resource is based on known allocations at December 2017. 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 by Government beyond 2018/19. Once this is confirmed, General Fund capital expenditure is likely to increase. In addition, the capital receipts figures will be updated as they become known.

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, Parks and Footways and Carriageways;
- The planned refurbishment of Hammersmith Town Hall (within existing resources from the rolling Planned Building Maintenance programme).

Table 2 – General Fund Capital Programme 2018-22

		Indicative Budgets			
	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total Budget (All years) £'000
CAPITAL EXPENDITURE					
Children's Services	19,800	300	-	-	**20,100**
Adult Social Care	20	937	-	-	**957**
Environmental Services	15,417	10,778	7,208	7,208	**40,611**
General Fund Schemes under Housing Management	2,050	950	450	450	**3,900**
Total Expenditure	**37,287**	**12,965**	**7,658**	**7,658**	**65,568**
CAPITAL FINANCING					
Specific/External Financing:					
Government/Public Body Grants	8,061	3,194	2,157	2,157	**15,569**
Developers Contributions (S106)	3,651	1,200	-	-	**4,851**
Sub-total - Specific Financing	**11,712**	**4,394**	**2,157**	**2,157**	**20,420**
Mainstream Financing (Internal):					
Capital Receipts - General Fund	1,920	8,050	1,920	1,920	**13,810**
Revenue funding - General Fund	521	521	521	521	**2,084**
Sub-total - Mainstream Funding	**2,441**	**8,571**	**2,441**	**2,441**	**15,894**
Internal Borrowing	23,134	-	3,060	3,060	**29,254**
Total Capital Financing	**37,287**	**12,965**	**7,658**	**7,658**	**65,568**

5.2 Table 3 below shows the projects funded from internal resource and comprises the completion of existing schemes and the continuation of rolling programmes.

Table 3 – General Fund Mainstream Programme 2018-22

	Budget 2018/19 £'000	Indicative Budgets: Budget 2019/20 £'000	Budget 2020/21 £'000	Budget 2021/22 £'000	Total Budget (All years) £'000
Approved Expenditure					
Ad Hoc Schemes:					
Schools Organisation Strategy [CHS] (mainstream element)	25	-	-	-	**25**
Hammersmith Town Hall Refurbishment (Mainstream Element/CPMP) [ENV]	6,274	1,000	-	-	**7,274**
Carnwath Road [ENV]	-	3,070	-	-	**3,070**
Rolling Programmes:					**-**
Disabled Facilities Grant [Housing]	450	450	450	450	**1,800**
Planned Maintenance/DDA Programme [ENV]	3,190	1,500	2,500	2,500	**9,690**
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]	246	246	246	246	**984**
Total Mainstream Programmes	**12,490**	**8,571**	**5,501**	**5,501**	**32,063**
Financing					
Capital Receipts	1,920	9,120	1,920	1,920	**14,880**
General Fund Revenue Account	521	521	521	521	**2,084**
Increase/(Decrease) in Internal Borrrowing	10,049	(1,070)	3,060	3,060	**15,099**
Total Financing	**12,490**	**8,571**	**5,501**	**5,501**	**32,063**

5.3 The Secretary of State for Communities and Local Government issued guidance in March 2016, which gives local authorities greater freedom on how they can use capital receipts. For the period 2016/17 to 2018/19 they can be used to fund any expenditure on projects that are designed to generate revenue savings and/or transform service delivery. This freedom has been extended for a further 3 years as part of the 2018 Local Government Finance Settlement. For 2017/18 forecast capital receipts are £7.1m. These could be applied to fund some of the existing commitments of £8.4m that are due to be met from the Efficiency Projects Reserve. For each £1m drawn down the future MRP charge will increase by £0.032m. A decision on whether receipts are used for this purpose will be made at the financial year end by the Strategic Finance Director in consultation with the Cabinet Member for Finance. Further details on this are set out in Appendix 5. Use of receipts for this purpose is not included in the current mainstream forecast (Table 3).

5.4 A summary of forecast 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 costs of disposals of assets may be incurred, which can be difficult to predict in some cases. Where capital receipts are not available, the mainstream programme will be funded from temporary increases in internal borrowing.

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 is explained in more detail in Appendix 3 and the Council's 2018/19 MRP policy is set-out in Appendix 4.

6.2 The current MRP calculations are becoming increasingly complex and require detailed tracking of past financial decisions. It is proposed that a simplified methodology be adopted for 2017/18 onwards that is based on the weighted useful life of all General Fund assets. Advantages of the new methodology are:

- It provides more accurate and simplified MRP calculations whilst still retaining a prudent provision
- Enables easier profiling of MRP costs to support revenue budget setting
- Supports good practice and follows recommended statutory guidance
- May be updated should asset lives change significantly

6.3 The change in the methodology will reduce the MRP charge from 4% to 3.24%.

6.4 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 2018/19 is £56.98m. This is due to the need to fund the mainstream programme of £10.049m from internal borrowing, as set out in Table 3, less the in-year MRP payment. The largest sum is the £6.724m that has been accumulated over recent years from the rolling planned maintenance budget for the refurbishment of Hammersmith Town Hall. Any capital receipts received during the year may be applied to lower the closing CFR. In addition, the council may opt to apply additional Section 106 or CIL identified during the year to fund elements of the capital programme to reduce the closing CFR.

6.5 The current forecast for the General Fund CFR is shown in Table 4 below. The calculation of the gross CFR also requires adjustments to be made regarding Finance Lease and PFI liabilities. This is also shown in Table 4 .

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

General Fund CFR Forecast	**2017/18 Forecast £m**	**2018/19 Forecast £m**	**2019/20 Forecast £m**	**2020/21 Forecast £m**	**2021/22 Forecast £m**
Closing CFR (Excluding DSG-funded Schools Windows borrowing)	47.06	56.98	55.47	58.13	60.70
Closing CFR (DSG-funded Schools Windows borrowing)	6.73	19.55	18.76	18.01	17.29
Other Items (PFIs, Finance Leases etc)	10.85	10.65	10.45	10.25	10.05
Total Closing CFR	**64.64**	**87.18**	**84.68**	**86.39**	**88.05**

7. THE HOUSING CAPITAL PROGRAMME

7.1 The Housing Capital Programme is based on the Financial Plan for Council Homes which is being submitted to Cabinet for approval in February 2018. It includes £124m over four years for major works to be carried out on existing properties and £15m for Fire Safety Plus[1]. It also includes approved plans to deliver new affordable homes as well as the costs relating to Earls Court.

[1] Part of the £20m budget agreed by Full Council on 18 October 2017, the remaining £5m being forecast to be spent in 2017/18

7.2 The programme is primarily funded by Internal Borrowing, Revenue Contributions appropriated to the Major Repairs Reserve, S106, capital receipts from both Right-to-Buy (RTB) and sales of surplus non-dwelling sites and revenue contributions to capital from the general Housing Revenue Account reserves. 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 2018-22

Housing Programme - Resource Summary

	Indicative Budgets			
	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
Approved Expenditure				
Decent Neighbourhood Schemes	30,583	23,676	16,875	6,632
HRA Schemes	45,540	34,126	34,065	25,390
Total Housing Programme - Approved Expenditure	**76,123**	**57,802**	**50,940**	**32,022**
Available and Approved Resource				
Capital Receipts - Unrestricted	6,903	4,617	4,741	4,495
Capital Receipts - RTB (141)	17,635	8,408	4,224	-
Housing Revenue Account (revenue funding)	4,563	9,700	5,172	5,000
Major Repairs Reserve (MRR)	16,165	15,797	15,805	16,546
Contributions Developers (S106)	5,634	-	16,950	-
Repayment of NHHT loan	-	270	-	290
Contributions from leaseholders	4,390	3,860	4,048	3,460
Internal Borrowing	20,833	15,151	-	2,231
Total Funding	**76,123**	**57,802**	**50,940**	**32,022**

Housing Capital Resource Balances

	Indicative Budgets			
	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Usable Capital Receipts				
Capital Receipts B/f	31,683	16,345	13,137	14,413
Generated in year	9,200	10,086	10,242	4,495
Used in Year	(24,538)	(13,294)	(8,965)	(4,495)
Capital Receipts C/f	**16,345**	**13,137**	**14,414**	**14,413**
Of Which '141' Restricted	*16,345*	*13,137*	*14,413*	*14,413*
Associated deferred costs	399	399	399	399
Deferred Capital Receipts (Earl's Court)				
Balance B/f	59,700	74,600	89,500	89,500
Receipts in Year	14,900	14,900		
Balance C/f	**74,600**	**89,500**	**89,500**	**89,500**
Associated deferred costs	*6,978*	*7,865*	*8,769*	*9,839*

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 2018-22 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 Earls Court deferred capital receipts from land sales (capital receipts received in advance of the transfer of the land title). Use of this money is classed as borrowing as, although cash is received from the purchaser, the receipt is only deemed usable for capital funding purposes as land transfers to the purchaser. This does not prevent the Council from spending the cash it receives. This borrowing unwinds when the receipt becomes usable (i.e. when land transfers).

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

Table 6 – Housing CFR Forecast 2018-22

HRA CFR Forecast	2017/18 Forecast £m	2018/19 Forecast £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m
Closing Forecast HRA CFR (excluding deferred costs of disposal)	204.84	225.68	240.83	240.83	243.06
Deferred Costs of Disposal	6.47	7.38	8.26	9.17	10.24
Closing Forecast HRA CFR (including deferred costs of disposal)	211.31	233.05	249.09	250.00	253.30

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. MAJOR PROJECTS

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 the required member approval.

8.2 King Street Regeneration/Hammersmith Town Hall Refurbishment

In November 2017, the Council announced new plans for major regeneration of the King Street area which will also include redevelopment of Hammersmith Town Hall. The Council's development partner is not-for-profit housing provider A2 Dominion. Rogers Stirk Harbour + Partners, one of the world's leading firms of architects, have been commissioned to work up a new scheme. The proposals include:

- A modern new cinema
- At least 50 per cent genuinely-affordable housing for local residents
- Demolishing the Town Hall extension
- A new public space in front of a restored Town Hall
- Staying within the massing and height of the former scheme
- New affordable, flexible office space for business start-ups
- A new arts quarter alongside new cafes, shops and restaurants
- Improved green spaces to help link King Street to the riverside
- Inclusive design to ensure excellent disability access

- Measures to green the environment and minimise the buildings' carbon footprint.

Following public consultation held in November 2017, a planning application will be submitted in the new year.

8.3 **Earl's Court**

The Council entered into a Conditional Land Sale agreement (CLSA), on 23 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 however, the administration continuous to work for a better deal for local residents and the programme has been rephased to reflect those renegotiations.

8.4 **Housing Development Programme**

On 6 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. The Phase 1 tendering process has been re-run as the originally selected bidder failed to meet contract performance standards. This has resulted in slippage of development expenditure.

The Council's retained Right -to -Buy receipts must be spent within a specified time frame and can only fund up to 30% of the costs of developing or acquiring properties. To ensure that the Council does not have to return these receipts to MHCLG, but uses those to enable the delivery of affordable rented housing in the borough, future housing programmes will be delivered via the Affordable Housing Framework that has been approved by Cabinet on 6 February 2017. Although the Affordable Housing Framework report does not specify the cost of the scheme, £15m provision has been made in the Capital Programme (£12m in 2018/19 and £3m in 2019/20). Full financial appraisals and appropriate Cabinet reports and decisions will need to be completed for each individual site as it comes forward.

8.5 **Schools' Capital Programme**

The Council continues to implement its Schools Organisation Strategy with the Schools' Capital programme expected to exceed £5.6m in 2018/19. The strategy continues to focus on expanding school places in light of increasing demand.

8.6 **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. More detailed information about the project can be found on the OPDC's website at: https://www.london.gov.uk/about-us/organisations-we-work/old-oak-and-park-royal-development-corporation-opdc

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.

8.7 **ARK Swift**

The Council in discussions over with ARK schools' charity, who lease the ARK Swift primary school in White City from the Council, over proposals for the redevelopment of the site to include improved replacement facilities and new homes. The Council is considering its role in the ownership and management of the homes.

8.8 **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 precise scope of the works will be assessed in the coming months. Timescales and costs for the refurbishment will be confirmed once this assessment work has been completed. The refurbishment work will include overall strengthening of the structure and an improved road surface, benefitting motorists and cyclists. Ahead of this work, two week-long sets of interim repairs were completed in February and October 2017. It is anticipated that the project will be funded by TfL.

8.9 **Community Infrastructure Levy (CIL)**

The Council has adopted its own CIL, which took effect on 1 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.

To date the Council has received £1.96m of Borough CIL with estimated £1.12m due to be received by the end of 2017/18. Due to the current economic circumstances, it is harder to predict the future CIL receipts, however based on current performance, it is considered prudent to assume that in excess of £4m will be collected in the next financial year with the figure increasing in following years.

Council CIL can be used for the delivery, operation, maintenance and repair of infrastructure to support development in the borough. There are obligations to spend 15% on projects agreed with the community (or 25% where there is a neighbourhood plan in place). There is no legislative framework to define how this is done. To achieve this agreement, the Council has implemented a CIL page on Spacehive to enable community groups to put forward projects and the members of the public to contribute to, as a mechanism of achieving agreement.

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 2018/19.

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 by: Peter Smith, Head of Policy & Strategy, Tel. 020 8753 2206.

10. LEGAL IMPLICATIONS

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

10.2 Implications verified by: David Walker, Principal Solicitor, Commercial and Corporate Property, Tel: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, amendments over £5m requiring approval by Full Council. The Council will also explore use of capital investments to secure future efficiencies.

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 the Treasury Management Strategy Statement 2018/19. 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 2018/19.

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 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.
- 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.

11.6 VAT Implications verified/completed by: Christopher Harris, Chief Accountant, Corporate Finance, Tel: 020 8753 6440.

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 expenditure 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 Council's risk and register which has been reviewed by the Strategic Leadership Team. 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 Corporate risk register.

12.2 Implications verified/completed by: Michael Sloniowski, Shared Services Risk Manager, Tel: 020 8753 2587.

13. COMMERCIAL 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). Tel: 020 8753 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. Projects contained in the capital programme are approved on individual basis and the business implications for each of them are considered in more detail in their specific reports.

14.3 Implications completed by: Prema Gurunathan, Economic Development Manager, Regeneration, Planning and Housing Services Dept. Tel: 020 8753 3111

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

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) and Pooling of Housing Capital Receipts
Appendix 4 - Minimum Revenue Provision (MRP) Statement 2018/19
Appendix 5 - Flexible Use of Capital Receipts Guidance

APPENDIX 1 – Detailed Analysis by Service

Children's Services

	2018/19 Budget £'000	2019/20 Budget £'000 (Indicative Budgets)	2020/21 Budget £'000 (Indicative Budgets)	2021/22 Budget £'000 (Indicative Budgets)	Total Budget (All years) £'000
Scheme Expenditure Summary					
Lyric Theatre Development	1,100	-	-	-	1,100
Schools Organisational Strategy	5,615	300	-	-	5,915
Schools Window Replacement Project	13,085	-	-	-	13,085
Total Expenditure	**19,800**	**300**	**-**	**-**	**20,100**
Capital Financing Summary					
Specific/External or Other Financing					
Capital Grants from Central Government	4,184	-	-	-	4,184
Grants and Contributions from Private Developers (includes S106)	1,406	300	-	-	1,706
Capital Grants/Contributions from Non-departmental public bodies	1,100	-	-	-	1,100
Sub-total - Specific or Other Financing	**6,690**	**300**	**-**	**-**	**6,990**
Mainstream Financing (Internal Council Resource)					
Capital Receipts	25	-	-	-	25
Sub-total - Mainstream Funding	**25**	**-**	**-**	**-**	**25**
Borrowing - non school windows	-	-	-	-	-
Borrowing - school windows	13,085	-	-	-	13,085
Total Capital Financing	**19,800**	**300**	**-**	**-**	**20,100**

Adult Social Care Services

	2018/19 Budget £'000	2019/20 Budget £'000 (Indicative Budgets)	2020/21 Budget £'000 (Indicative Budgets)	2021/22 Budget £'000 (Indicative Budgets)	Total Budget (All years) £'000
Scheme Expenditure Summary					
Extra Care New Build project (Adults' Personal Social Services Grant)	20	937	-	-	957
Total Expenditure	**20**	**937**	**-**	**-**	**957**
Capital Financing Summary					
Specific/External or Other Financing					
Capital Grants from Central Government	20	937	-	-	957
Sub-total - Specific or Other Financing	**20**	**937**	**-**	**-**	**957**
Total Capital Financing	**20**	**937**	**-**	**-**	**957**

APPENDIX 1 – Detailed Analysis by Service /cont.

Environmental Services

	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000	Total Budget (All years) £'000
			Indicative Budgets		
Scheme Expenditure Summary					
Planned Maintenance/DDA Programme	3,190	1,500	2,500	2,500	9,690
King Street -Town Hall Redevelopment	6,274	1,000	-	-	7,274
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	246	246	246	246	984
Carnwath Road	-	3,070	-	-	3,070
Shepherds Bush Common Improvements	400	-	-	-	400
Parks Expenditure	845	500	-	-	1,345
Total Expenditure	**15,417**	**10,778**	**7,208**	**7,208**	**40,611**
Capital Financing Summary					
Specific/External or Other Financing					
Grants and Contributions from Private Developers (includes S106)	1,245	500	-	-	1,745
Capital Grants and Contributions from GLA Bodies	2,157	2,157	2,157	2,157	8,628
Sub-total - Specific or Other Financing	**3,402**	**2,657**	**2,157**	**2,157**	**10,373**
Mainstream Financing (Internal Council Resource)					
Capital Receipts	1,445	7,600	1,470	1,470	11,985
General Fund Revenue Account (revenue funding)	521	521	521	521	2,084
Sub-total - Mainstream Funding	**1,966**	**8,121**	**1,991**	**1,991**	**14,069**
Borrowing	10,049	-	3,060	3,060	16,169
Total Capital Financing	**15,417**	**10,778**	**7,208**	**7,208**	**40,611**

APPENDIX 1 – Detailed Analysis by Service /cont.

General Fund Schemes under Housing management	Indicative Future Years Analysis				
	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000	Total Budget (All years) £'000
Scheme Expenditure Summary					
General Fund Schemes under Housing management:					
Disabled Facilities Grant	450	450	450	450	1,800
Sands End Community Centre	1,600	500	-	-	2,100
Total Expenditure	**2,050**	**950**	**450**	**450**	**3,900**
Capital Financing Summary					
Specific/External or Other Financing					
Grants and Contributions from Private Developers (includes S106)	1,000	400	-	-	1,400
Capital Grants/Contributions from Non-departmental public bodies	600	100	-	-	700
Sub-total - Specific or Other Financing	**1,600**	**500**	**-**	**-**	**2,100**
Mainstream Financing (Internal Council Resource)					
Capital Receipts (GF)	450	450	450	450	1,800
Sub-total - Mainstream Funding	**450**	**450**	**450**	**450**	**1,800**
Total Capital Financing	**2,050**	**950**	**450**	**450**	**3,900**

APPENDIX 1 – Detailed Analysis by Service /cont.

Housing Capital Programme

	Indicative Budgets				
	2018/19 Budget £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000	Total Budget (All years) £'000
Scheme Expenditure Summary					
HRA Schemes:					
Supply Initiatives (Major Voids)	447	-	-	-	447
Energy Schemes	3,597	2,350	1,725	2,150	9,822
Lift Schemes	4,100	4,250	1,650	500	10,500
Internal Modernisation	250	500	1,750	2,000	4,500
Major Refurbishments	12,407	17,686	20,000	12,000	62,093
Minor Programmes	8,759	8,340	7,940	7,640	32,679
ASC/ELRS Managed	980	1,000	1,000	1,100	4,080
Fire Safety Plus	15,000	-	-	-	15,000
Subtotal HRA	**45,540**	**34,126**	**34,065**	**25,390**	**139,121**
Decent Neighbourhood Schemes:					
Earls Court Buy Back Costs	4,062	2,665	2,797	6,632	16,156
Earls Court Project Team Costs	926	907	925	1,095	3,853
Housing Development Project	8,554	2,675	-	-	11,229
Other HRA	375	6	-	-	381
Stanhope Joint Venture	5,592	15,330	14,078	-	35,000
Affordable Housing Delivery Framework	12,000	3,000	-	-	15,000
Subtotal Decent Neighbourhoods	**31,509**	**24,583**	**17,800**	**7,727**	**81,619**
Total Expenditure	**77,049**	**58,709**	**51,865**	**33,117**	**220,740**
Adjustment for deferred costs	**(926)**	**(907)**	**(925)**	**(1,095)**	**(3,853)**
Total Net Expenditure	**76,123**	**57,802**	**50,940**	**32,022**	**216,887**
Capital Financing Summary					
Specific/External or Other Financing					
Contributions from leaseholders	4,390	3,860	4,048	3,460	15,758
Grants and Contributions from Private Developers (includes S106)	5,634	-	16,950	-	22,584
Capital Grants/Contributions from Non-departmental public bodies	-	270	-	290	560
Sub-total - Specific or Other Financing	**10,024**	**4,130**	**20,998**	**3,750**	**38,902**
Mainstream Financing (Internal Council Resource)					
Capital Receipts	24,538	13,024	8,965	4,495	51,022
Housing Revenue Account (revenue funding)	4,563	9,700	5,172	5,000	24,435
Major Repairs Reserve (MRR) / Major Repairs	16,165	15,797	15,805	16,546	64,313
Sub-total - Mainstream Funding	**45,266**	**38,521**	**29,942**	**26,041**	**139,770**
Borrowing (Internal Borrowing)	20,833	15,151	-	2,231	38,215
Total Capital Financing	**76,123**	**57,802**	**50,940**	**32,022**	**216,887**

APPENDIX 2 – Anticipated General Fund Capital Receipts

Year/Property	Forecast Receipts £'000s	Deferred Costs of Disposal reserved £'000s
2018/19		
Total 2018/19	**1,920**	**-**
2019/20		
Total 2019/20	**9,120**	**566**
2020/21		
Total 2019/20	**1,920**	**-**
2021/22		
Total 2020/21	**1,920**	**-**
Total All Years	**14,880**	**566**

APPENDIX 3 - THE CAPITAL FINANCING REQUIREMENT (CFR) AND POOLING OF HOUSING CAPITAL RECEIPTS

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 funds these from grants, capital receipts or 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 it has effectively borrowed internally. **The CFR should therefore be thought of as the total of internal and external borrowing**.

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 RTB or other purchases of HRA properties. The Council can 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 2018/19

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. There is a consultation on the statutory guidance to be applied in 2018/19. The MRP will, over time, reduce the CFR.

3. The statutory guidance lists a number of options for calculating MRP. 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.

4. No MRP is required in respect of the Housing Revenue Account (HRA).

Annual MRP Statement – frequency of update and approval

5. The Secretary of State recommends that before the start of each financial year, Hammersmith and Fulham 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”

6. 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:

7. MRP is calculated using Option 1 - Regulatory Method. 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. For the expenditure above Adjustment A, the MRP rate will be calculated based on useful asset lives .

Capital Expenditure incurred after 1 April 2008 (unsupported borrowing):

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. This method spreads the cost over the estimated life of an asset.

9. The determination as to which scheme is funded from borrowing and which from other sources shall be made by the Strategic Finance Director. 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.

10. 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. The Council'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.

11. 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.

12. The Strategic Finance Director 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 this Statement and with regulatory and financial requirements and resolve any practical interpretation issues.

APPENDIX 5 – FLEXIBLE USE OF CAPITAL RECEIPTS GUIDANCE

1. The Secretary of State for Communities and Local Government issued guidance in March 2016, giving local authorities a greater freedom with how capital receipts can be used to finance expenditure. This Direction allows for the following expenditure to be treated as capital:

"Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility."

2. There is a wide range of projects that could generate qualifying expenditure and the list below is not prescriptive. Examples of projects include:

    - Sharing back-office and administrative services with one or more other council or public sector bodies;
    - Investment in service reform feasibility work, e.g. setting up pilot schemes;
    - Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
    - Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
    - Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;
    - Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others).

3. Expenditure is only eligible if it has been incurred in the period between 0 April 2016 - 31 March 2019 and it can be funded from capital receipts generated only during this period. The proposal to extend this period for another three years was announced in the Local Government Settlement on 19th December 2017.

4. In order to comply with this Direction, the Council must consider the Statutory Guidance issued by the Secretary of State. This Guidance requires authorities to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy with the initial strategy being effective from 1st April 2016 with future Strategies included within future Annual Budget documents.

5. There is no prescribed format for the Strategy, the underlying principle is to support local authorities to deliver more efficient and sustainable services by extending the use of capital receipts to support the revenue costs of reform projects

6. The Statutory Guidance for the Flexible Use of Capital Receipts states that the Strategy should include a list of each project which plans to make use of the capital receipts flexibility, together with the expected savings that the project will

realise. The Strategy should also include the impact of this flexibility on the affordability of borrowing by including updated Prudential Indicators.

7. The Council has reviewed the Flexible Use of Capital Receipts guidance and identified the following schemes as meeting the eligibility criteria laid out in the guidance document, in that they are forecast to generate on-going revenue savings through reducing costs of service delivery:

Efficiency Projects delivering Savings that May be Capitalised

Business Case	Amount £'000s	Annual Savings when Fully Implemented £000's	Notes
ASC Shared Services Strategic Business Case	841	5,571	The restructuring of the ASC service is forecast to deliver Cumulative savings of £18m over 4 years. The approval for this spend was taken by Cabinet on 6th of July 2015
Focus on Practice - Innovation Fund Grant	330	4,200	Focus on practice will deliver savings of up to £4.2m per annum by 2019/20. Approval for this spend was made by Cabinet on 3rd December 2014
Integrated Family Support Service (IFSS)	1,465	1,500	The Integrated Family Support Service is expected to deliver savings of £1.5m per annum. Approval for this funding was given by Cabinet on 10th October 2016
Maximising Children's Social Care Effectiveness	1,612	1,500	Maximising Children's' Social Care effectiveness will delver savings of £1.5m per annum. This business case was approved by Cabinet on 7th of November 2016
Approval of Business Case 4: Transforming Services for Children and Young People with Special Educational Needs(SEN) & Disabilities	563	224	This business case is forecast to deliver savings of £1,500k by 2018/19. Cabinet approved this business case on 7th November 2016
Creation of H&F Social Letting Agency	200	180	The creation of a social letting agency will deliver savings of up to £180k per annum through cost avoidance. This was approved by Cabinet on 7th November 2016
Business Intelligence Infrastructure	784	1,200	Business Intelligence initiatives continue to deliver savings form freedom passes to single person discounts. This funding will be used to continue to deliver these savings and additional savings of £1.2m per annum. The business case was approved by Cabinet on the 6th of Feb 2017
ICT Desktop Strategy	2,150	4,700	The desktop strategy will contribute to the ICT savings of over £4.7m per annum. The business case was approved by Cabinet on 6th Feb 2017
Funding Of Commercial Management Initiative	450	3,600	The implementation of Commercial Management initiatives will lead to £13m of savings by end of 2022/23. The business case was approved by Cabinet on 6th of November 2017
Total Funding Required for Savings Projects	**8,395**		

8. The capital programme is reviewed annually and approved by Full Council in the budget setting cycle in February each year. Any new eligible schemes will be included in this report, with clear indication that they will be fully or part-funded by the flexible use of eligible capital receipts.

9. Any changes to this programme during the year will be presented back to Cabinet, and notified to the DCLG, as per the requirements of the guidance.