London Borough of Hackney – Capital Strategy 2021/22

1. Introduction and background

This capital strategy sets out our approach to capital, where we spend our money, and how we pay for it. The strategy encompasses other key documents, notably the capital programme, the treasury strategy and the investment strategy. It also provides a commentary on our approach to commercial property, and how associated risk within the overall capital programme is managed.

2. Hackney's capital programme

The capital programme is, much like revenue expenditure, there to deliver the Council's Corporate Plan (2018-21) Hackney a Place for Everyone, aiming to build a fairer, safer and more sustainable Hackney - with our spend priorities driven by such.

The capital programme primarily represents two types of expenditure - enhancing of our existing assets, and acquisition of new assets. Over the last three years we have spent around £220m-£270m each year, and the aggregate budgets for 2020/21 to 2022/23 range between £219m and £376m per year. The outturn for the current year is anticipated to be lower than previous years mainly due to slower progress on some schemes due to Covid-19.

The Council is committed to rebuilding Hackney better despite the pandemic and this feeds through our capital programme as well as day to day services - our capital programme remains ambitious in delivering the community infrastructure and affordable housing our residents deserve.

Non-Housing	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Total**
	Forecast	**Estimate**	**Estimate**	**Estimate**	
	£m	**£m**	**£m**	**£m**	**£m**
Children, Adults & Community Services	7.2	15.9	16.1	10.8	50.0
Neighbourhoods and Housing	60.5	34.3	67.3	89.4	251.5
Finance/Corp Resources – commercial schemes	12.9	15.3	18.4	2.6	49.2
Finance/Corp Resources - other	31.3	30.0	21.0	11.5	93.8
Non-Housing budget	**111.9**	**95.5**	**122.7**	**114.3**	**444.5**

Housing					
Asset Management Plan	47.1	64.2	63.4	65.2	239.9
Regeneration	40.9	44.7	91.3	112.3	289.1
Housing Supply Programme	15.4	18.6	71.1	69.9	175.2
GF schemes/Private sector hsg	4.4	13.4	13.5	13.5	44.8
Housing budget	**107.9**	**140.9**	**239.3**	**260.9**	**749.0**

Total Annual Capital Budgets	**219.8**	**236.4**	**362.1**	**375.2**	**1193.5**

The Commercial Schemes line above contains our three mixed use schemes (Nile St, Tiger Way, and Britannia) plus, in 2019/20, a £16m of equity/loan injection into our wholly owned Hackney PRS company for the acquisition of 25 properties at Hoxton Press, Colville Estate. In 2020/21 Hackney HLR Housing Limited purchased 8 properties at Bridge House from the Council, at a cost of £3.4m, with all of the units occupied by Hackney residents paying a living rent.

The mixed used schemes are delivered by the Council and operate on the basis that community infrastructure (schools at Nile Street and Tiger Way, Leisure Centre, School and significant improvements to public realm at Britannia) are paid for by the development and sale of private housing units. The Governance section below sets out how the increased risks associated with these schemes are managed.

The overall indicative programme incorporates schemes that will deliver the following:

- An ongoing and ambitious regeneration programme which will bring homes of different tenures to the market helping make Hackney a fairer place with genuinely affordable homes.
- Investing in our young people and helping give them the best start in life through the delivery of high quality secondary school places, namely the permanent site for the City of London Academy Shoreditch Park (CoLASP) and the Urswick extension alongside ensuring our existing school estate is kept in a suitable state of repair, including the ongoing programme of works to primary school facades.
- Investment in expanding in-borough SEN provision to supporting some of our more vulnerable young people with new facilities close to home.
- A brand new Britannia Leisure Centre this summer helping keep our residents healthy.
- Regeneration of our town centres to support local businesses and make for an improved place for our residents.
- Ongoing maintenance of the corporate property estate and the maintenance of the ICT infrastructure going forward following the current investment in upgrades to the Council's main ICT platforms - improving our processes internally and making front-line services more accessible.
- A highways maintenance programme retained at the current level of £4m pa and associated schemes
- Maintenance of the Council's parks and green spaces and libraries, including refurbishment of Stoke Newington and Stamford Hill Libraries - ensuring our residents have the space to exercise and stay healthy and have access to good local facilities.
- An ongoing commitment towards delivering on our zero carbon target, including LED street lighting.
- Working in partnership with City and Hackney's CCG to build two new primary care facilities in the borough - helping to ensure residents have access to fit for purpose healthcare facilities.

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is not itself subsidised by, other local services. HRA capital expenditure is therefore recorded separately.

3a. Governance - internal

Service managers bid, either through the Capital Programme Review Panel (CPRP) (which meets several times a year) or annually through the budget setting process to include projects in the Council's capital programme. In completing these bids, managers are required to consider the Council's priorities and the contribution the proposals contained within contribute to these.

Bids are assessed and collated by Corporate Finance. The final capital programme is presented to Cabinet and full Council each year as part of the overall budget setting process. The updates via CPRP are considered by Cabinet throughout the year and, where approved, are added to the capital programme.

Capital budget monitoring occurs quarterly (conducted by the management accounting teams in conjunction with project managers) with summary reports forming part of the Overall Financial Position (OFP) process, which is considered and approved by Cabinet.

There are further governance processes around planning and monitoring of the major strands of the capital programme. This ensures that scrutiny is proportionate to the risk of these projects. Detailed risk registers are retained and are regularly reviewed in light of changing circumstances, for example Covid19 and the impact on delivery of construction projects alongside the economic impacts including the housing market. The Boards will oversee mitigation to these risks and ensure that alternate strategies are considered as and when appropriate.

Area	Governance
HRA (housing regen and supply)	Housing Delivery Board
Building Schools for the Future (BSF) programme and other projects delivered through the Local Education Partnership (this includes Nile Street as the last BSF project and Tiger Way)	Strategic Partnering Board (membership includes Group Director of Finance and Corporate Resources and Lead Member for Schools)
Britannia (new leisure centre, school, affordable and private housing)	Britannia Development Board (membership includes the Mayor, Lead Members for Finance, Leisure and Schools, CE, GDFCR, Group Director Childrens and other chief officers) Britannia Steering Group officer group chaired by the CE.
Office/Member overarching strategic capital and major project forum	Capital Investment Board (Mayor, Deputy Mayors, other lead

	members, CE, GDFCR, Other Directors and key players)

As part of the Capital Management Review currently being led by the Group Director of Finance and Corporate Resources (GDFCR) these governance arrangements and processes will be reviewed to ensure they are sufficiently strategic and transparent, particularly in the way competing priorities are assessed and schemes are added to the capital programme. It is anticipated that there may be a more defined role for the Capital Investment Board in approving and overseeing the Capital Programme going forward.

3b. Governance - wholly owned subsidiaries

Hackney has established five wholly owned subsidiaries in the last 2-3 years, to facilitate and enable its interests on behalf of residents in the borough:

- Two residential building management companies for the respective private dwellings at the Nile St and Tiger Way mixed-use developments - these are very low risk operations, existing only to provide a building management function and funded by resident service charges
- A holding company and two subsidiaries that will purchase private sale and redundant properties primarily from the HRA, and deliver London Living Rent (HLR) and Private Rented Sector (PRS) properties in the borough. This company set-up will also mitigate against sales risk, i.e. we would be able to transfer properties to these companies during a period of downturn in the housing market.

Both the residential building management companies became active in 2019/20. On the housing acquisition side, the holding and PRS companies became active, with the HLR company anticipated to commence trading in 2020/21. In 2020/21 Hackney HLR Housing Limited purchased 8 properties at Bridge House from the Council, at a cost of £3.4m, with all of the units occupied by Hackney residents paying a living rent. There is a memorandum of understanding between the Council and the companies which sets parameters of trading for each. Funding of the companies are approved via Hackney's capital programme and as such follows the process outlined in 3a.

4. Financing the capital programme

The Housing Self-Financing Settlement of 2012 left the London Borough of Hackney in a fortunate position. £752m of HRA debt that was until that point serviced through the Housing Subsidy system was effectively repaid by the Government, leaving us debt free. This has meant that we did not need to borrow externally on a long-term basis, from 2012, until 2019/20, during which we have borrowed £65m from PWLB. We also continue to use internal borrowing, i.e. using balances to temporarily finance capital expenditure, notably to contribute towards forward funding development of the mixed-use and regeneration schemes.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows.

	2020/21 Forecast £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Programme:				
Non-Housing	111.9	95.5	122.7	114.3
Housing	107.9	140.9	239.3	260.9
Total spend	**219.8**	**236.4**	**362.1**	**375.2**
Financed by:				
Capital Receipts	89.9	77.3	38.4	59.0
Government Grants	23.2	36.5	20.9	22.8
Reserves	0.0	6.0	12.1	11.6
Revenue	47.9	60.5	63.4	66.3
S106/CIL	5.7	9.7	5.2	2.5
Borrowing	53.1	46.4	222.0	213.0
Leasing and PFI				
Total Financing	**219.8**	**236.4**	**362.1**	**375.2**

It should be noted that some forward funding to be financed by borrowing will be required until these capital receipts are realised through sales of residential properties made available through the development of mixed use schemes.

5. Capital Financing Requirement

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed (external or internal) capital expenditure and reduces with minimum revenue provision charges and capital receipts used to repay debt. Current modelling sees the aggregate CFR increase from £493m in 2019/20 to £749m in 2022/23.

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Financing Requirement At Year End					
CFR – Non Housing	383	379	342	378	428
CFR – Housing	110	110	127	282	421
Total CFR	**493**	**489**	**469**	**660**	**749**
Net CFR movement		-4	-20	191	189
External Debt					
Borrowing	126	100	120	275	413
Other long term liabilities	12	12	11	10	9
Total Debt 31 March	**138**	**112**	**131**	**285**	**422**

The movements in the General Fund CFR reflect the modelled profiling of cash outflows (construction costs) and cash inflows (capital receipts) of the three mixed-use schemes. The Housing CFR increase is primarily through the same principle, for its regeneration programme and asset management of existing stock, where future rental flows pay down an element of the debt over a much longer (40 years) term.

The CFR over the longer term (beyond 2023/24) reduces, reflecting years where cash inflows exceed outflows. This is of course dependent on additional schemes which may be added to the programme. There is also a risk in the modelling, around the volume and value of the capital receipts, taking into account the deterioration in the housing market amid Brexit. The modelling therefore needs to be revisited on a regular basis.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Council expects to receive £298m of capital receipts between 2020/21 and 2023/24. The majority of this is from sales of properties developed as part of mixed use and regeneration schemes and will be applied to the repayment of debt incurred to forward fund the schemes, in the first instance.

	20/21 opening balance	20/21 forecast	21/22 forecast	22/23 forecast	23/24 forecast	Total received 20/21 to 23/24	Cumulative total
HRA total	18	11	32	2	41	86	104
GF	87	61	88	42	21	212	299
Total	**105**	**72**	**120**	**44**	**62**	**298**	**403**

6. Asset Management

To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place.

- HRA asset management strategy - considered at February 2019 cabinet - http://mginternet.hackney.gov.uk/ieListDocuments.aspx?CId=111&MId=4331
- The General Fund asset management strategy is in the process of being refreshed following the recent restructure and the consideration of the move to a corporate landlord model.

7. Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

i) Borrowing Strategy

As mentioned above, 2019/20 saw LB Hackney commence long-term external borrowing (excluding the London Energy Efficiency Fund loan, principal remaining £2.4m) for the first time since 2012. At the time of writing we have £75m long term borrowings and £20m short term borrowing. We anticipate taking on more medium to long term borrowing over 2021/22 to fund our ambitious capital programme. The Council's detailed borrowing strategy is set out in section 6 of our Treasury Management Strategy (Appendix 3 to the budget report) and is not repeated here. A significant change in PWLB loan availability is however noted here - PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield. The Council does not have any such schemes in its capital programme and as part of its capital strategy must recognise the impact of any such proposals on our overall ability to access PWLB loans.

The Council needs to ensure that external debt (i.e. borrowing for any purpose, plus other long-term liabilities) does not, except in the short term, exceed the total of the capital financing requirement in the previous year plus the estimates of any increase in the capital financing requirement at the end of the current and next two financial years. This allows some flexibility for limited early borrowing for future years.

Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases are shown below, compared with the capital financing requirement (see above). The increase in gross debt rises in line with the borrowing requirement of the capital programme.

	2020/21	2020/21	2021/22	2022/23	2023/24
	Approved	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Gross Debt	138	112	131	285	422
CFR	493	489	469	660	749

ii) Affordable borrowing limit

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. For clarity:

- **Authorised limit** – This represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, whilst not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under Section 3 (1) of the Local Government Act 2003.
- **Operational boundary** – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.

The limits recommended for approval in the 2021/22 budget report are set out below.

	2020/21 Approved £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Authorised limit for external debt				
Borrowing	582	519	710	899
Other long term liabilities	18	18	17	16
Total	**600**	**536**	**727**	**914**
Operational boundary for external debt				
Borrowing	552	489	680	869
Other long term liabilities	18	18	17	16
Total	**570**	**507**	**697**	**915**

iii) Investment strategy

Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's investment strategy is set out in the Treasury Management Strategy (Appendix 3 to the Budget Report) and is not repeated in full here. In summary the Council's strategy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with other local authorities, money market funds or selected high-quality financial institutions, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in corporate bonds, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Snapshot of treasury management investments	31.3.2019 £m	31.3.2020 £m	31.3.2021 £m	31.3.2022 £m	31.3.23 £m
Near-term investments	85,575	65,679	77,551	74,059	64,059
Longer-term investments	21,700	13,700	10,200	0.2	0.2
TOTAL	**107,275**	**79,379**	**87,751**	**74,259**	**64,259**

The above numbers are based on current level of investments including liquid cash invested in MMF, call/notice accounts. The level of cash invested in MMFs and call/notice accounts changes on a regular basis depending upon when cash receipts and payments are realised.

8. Commercial Activities

i) Commercial/Investment properties

Hackney has an investment property portfolio of 22 properties, and 15 aerial masts on HRA land, with an aggregate balance sheet value of £215m as at 2019/20. The revenue return was £6.4m in the same year

Hackney's acquisitions each have specific purposes. An acquisition must meet requirements in terms of price (we know how much something is worth to us, and if the price is higher than that we walk away), and strategic value (does owning this asset help us to unlock value in something else we already own or help us influence a crucial piece of development in the Borough), will it safeguard jobs etc etc.

Before the Council makes an acquisition a great deal of work goes into investigating whether an apparent opportunity truly is an opportunity. The Council has long term objectives for the sustained delivery of services and housing, and if it is to spend capital acquiring physical assets it must:

- Know how and why the asset in question will contribute to the achievement of its long term objectives, and
- Understand whether or not an acquisition can offer value for money. This requires a rigorous and formal valuation of the asset which we then test ourselves informally , noting that property values are only measured at a point in time and subject to markets which vary over the months and years.

Decisions on commercial investments are ultimately made through Cabinet/Full Council, but after consultation through the Capital Investment Board (a member/officer steering group).

ii) Wholly owned companies

As mentioned above, Hackney has five wholly owned subsidiaries, of which all are now active, with the HLR housing company becoming active in 2020/21.

The two residential building management companies provide only this service, are funded by resident service charges, and work primarily on a cost recovery basis. With regard to the housing acquisition side - Hackney PRS Housing Limited acquired 25 properties developed as part of the Council's regeneration programme in 2019/20. A combination of £16m equity/loan was issued to the company to acquire the units at Hoxton Press, Colville Estate, which are now all let at market rates. In 2020/21 Hackney HLR Housing Limited purchased 8 properties at Bridge House from the Council, at a cost of £3.4m, with all of the units occupied by Hackney residents paying a living rent.

9. Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

Where Council staff do not have the knowledge and skills required or an independent view is required to corroborate officer views, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. We use a range of property consultants from framework contracts and pwc as tax advisers.

The Commercial Property market constantly evolves with the local and global economy. The Council informs its decisions by using internally sourced knowledge and external knowledge. Internal knowledge comes from Council services which engage closely with local businesses, landowners and developers, including Area Regeneration, from the daily activity of the Strategic Property team who are constantly negotiating rent reviews and lease renewals locally, and who also provide viability modelling and negotiation for the Planning Authority.

External knowledge comes from a consistently maintained network in Hackney, the City of London and East London Property market where relationships are maintained with private landowners, and public sector stakeholders such as the City of London Corporation, LLDC, TfL, GLA etc. Hackney’s Strategic Property team also maintains a professional services framework, which hosts a range of property advisers, both technical and agents, selected for their particular individual strengths and local knowledge. This arrangement encourages the more committed advisers to invest in understanding the Council's agenda, and economic circumstances, leading to a more beneficial long term relationship for all parties.

10. Capital Management Review

The Council continues to be mindful that capital governance and management arrangements need to be kept under review in response to changing economic conditions and priorities. In recognition of the level of ambition represented by our capital programme, the levels of borrowing it assumes, the need to focus on the rebuilding and supporting our communities, town centres, the local economy, and businesses post Covid, and the increased reliance on developments where the Council takes the risk of sale of private residential units, the Council is undertaking a wide-ranging capital management review.

The review aims to ensure that the Council continues to meet the following objectives:

1. The capital programme aligns with the Council's key strategic priorities

2. There is a clearly understood and agreed capital strategy and aligned governance framework in place

3. The capital programme is affordable in terms of capital resources available and the impact on revenue budgets.

4. The capital budget setting and bid process is transparent and efficient and in alignment with CE restructure and strategic capital function.

5. Consistent governance and decision making processes are in place across an overarching capital programme strategy

6. That the right skill sets are in the right place in the organisation to develop, monitor and deliver the capital programme.

7. There are effective arrangements to update capital cash flow projections for the short, medium and long term.

8. Overall, the Council continues to be in compliance with CIPFA's Prudential Code for Capital Finance in Local Authorities 2018 and systems and processes remain fit for purpose.

This capital strategy will be refreshed as part of this review.