APPENDIX 9

London Borough of Hackney – Capital Strategy 2023/24 - 2025/26

1. Introduction and background

1.1 The Capital Strategy sets the policy framework for the development, management and monitoring of capital investment by the Council. The strategy focuses on the core principles that underpin decision making on the council's capital programme including how we will prioritise new capital expenditure; capital expenditure objectives; the key issues and risks that impact on the delivery of the capital programme; and the governance framework required to ensure the capital programme is delivered successfully and provides value for money for residents and businesses of Hackney.

1.2 The capital strategy should align with the priorities set out in the Council's Community Strategy, Strategic Plan and other key council strategies.

1.3 The Capital Strategy sets out:

- How the agreed capital programme will align and contribute to the delivery of the Council's Strategic Plan and its priorities, as well as other relevant Council strategies and priorities.
- An updated profile of the Borough's population, housing, employment and other features.
- An overview of the Council's existing capital programme 2023/24 - 2025/26 and what it will deliver.
- How additional capital investment over and above the existing capital programme will be prioritised.
- The funding strategy for the capital programme, presented to Cabinet as part of the overall budget.
- Details of the governance and delivery assurance framework in place to support the strategic planning and delivery of the capital programme

1.4 This capital strategy has been prepared with reference to CIPFA's Capital Strategy Guidance 2021 and whilst it seeks to follow good practice set out in that document it is recognised that there is more to be done to develop the strategy, further details on this are set out in section 14.

2. Policy framework & the local context

2.1 Hackney's Capital Strategy is an essential part of delivering on the vision for the borough set out in our Community Strategy (2018-2028) and Strategic Plan (2022). The Council's aim is to make Hackney a fairer, safer and more sustainable place for everyone. The five themes of the Community Strategy are:

- A borough where everyone can enjoy a good quality of life and the whole community can benefit from growth
- A borough where residents and local businesses fulfil their potential and everyone enjoys the benefits of increased local prosperity and contributes to community life

- A greener and environmentally sustainable community which is prepared for the future
- An open, cohesive, safer and supportive community
- A borough with healthy, active and independent residents.

2.2 The three Mayor's priorities of the Council Strategic Plan (2022) are set out below:

- **FOR A FAIRER, SAFER HACKNEY**
  We will tackle inequality through poverty reduction, and anti-racism, providing more Council homes as we improve standards of our existing homes, and creating pathways into decent jobs. We will improve our customer services. We will create safe, vibrant, and successful town centres and neighbourhoods and foster strong, cohesive communities and a more inclusive economy.

- **FOR A GREENER, HEALTHIER HACKNEY**
  We will continue to lead the way in the fight against climate change, working towards a net zero Hackney, with cleaner air, less motor traffic, and more liveable neighbourhoods. We will transform adult and children's social care, tackle physical and mental health inequalities and continue to support, value, and give voice to our older and disabled residents.

- **FOR EVERY CHILD IN HACKNEY**
  We will work to ensure every child and young person in Hackney has the best start in life; shaping a more inclusive and high performing education system, maintaining our early years and youth services, keeping children safe and investing in their mental health and well being, providing access to outstanding play, culture, and sport, and opportunities; tackling child poverty, and supporting those families who need us most.

2.3 Other Council plans and strategies related to the Capital Strategy are:

- Local Plan and accompanying Infrastructure Delivery Plan
- Housing Strategy
- The Climate Action Plan (draft version)
- Health and Wellbeing Strategy (draft version)
- Economic Development Plan (in development)
- Housing Asset Management Strategy (2019-2027)
- Strategic (Corporate Estate) Asset Management plan (in development).
- Greater London Authority (GLA): London Recovery Programme (2020),

2.4 Our Capital Strategy has a key role to play in delivering the aims of the Community Strategy and the Strategic Plan in the context of the other key documents listed above. By providing a clear and considered approach to the Council's capital investment, the Council has a framework, set out in the Capital Strategy, to invest to deliver against the objectives of the organisation.

2.5 The Council's growth strategy is set in the borough's Local Plan (2020). The Local Plan states that based on the rate of growth at the time of preparing the Local Plan, Hackney's population will reach around 320,000 by 2033, a growth of 13% above the

2020 figure of 280,900. This population growth will result in a need for more homes, jobs, services, and community facilities such as schools and health care. The Local Plan, supported by an Infrastructure Delivery Plan, sets out a framework to support this population growth by providing 26,250 new homes and at least 23,000 new jobs by 2033. Although the latest census figures were below those projected, there was still an increase of 5.3% (ONS June 2022) and there remains a requirement for significantly more homes and jobs.

2.6 The majority of growth is planned in the borough's town centres and high streets due to the fact these areas have excellent public transport connections and existing services and facilities, and therefore offer the most sustainable development opportunities. The key growth areas in the Local Plan are Hackney Central, Dalston, Shoreditch, Hoxton, Hackney Wick, and Clapton.

2.7 The Council's Capital Strategy prioritises inclusive growth and development in the key growth and regeneration areas of Hackney Central, Dalston, Shoreditch, Hoxton, Hackney Wick, and Clapton. By investing in, and making better use of, Council land and assets in these locations, the Council will seek to meet the needs of a growing population and lack of affordable homes and workspace, deliver improved town centres, homes, jobs, commercial space, and community facilities, whilst at the same time realising the financial benefits to the whole borough of a targeted and coordinated approach to investment in specific places.

2.8 In addition to the key growth areas set out above, the Council will consider the current and future needs of our communities and neighbourhoods and prioritise, where affordable, investment in Council assets and buildings strategically across the borough that will unlock the most benefits for Hackney and our residents and demonstrate a financially sound case for capital investment. Via our Asset Management Plans we will consider further investment in Council owned land and buildings that are underused or in need of improvement.

2.9 The capital strategy will also play an active role in delivering on the Council's commitment to reach net zero emissions by 2040, set out in the Climate Action Plan (draft), and build a borough with cleaner air, healthier lives and better neighbourhoods for all of our residents and businesses. It will do this by taking a targeted approach to growth and development as set out above and by ensuring that any new development meets the highest possible environmental standards and actively contributes to the delivery of the net zero commitment. The Council will ensure the need to achieve our net zero target is factored into all future capital investment decisions and new capital expenditure.

2.10 By adopting this approach, the Council stands to realise more from its own land and assets by maximising the opportunities they present for long term income and growth and reducing unnecessary expenditure on our assets. By pursuing a strategy of capital investment and expenditure that is targeted and focused on delivering inclusive growth and a greener and more sustainable borough we will be better placed to invest in our services, communities and places for years to come and deliver on the ambitions in our Community Strategy and Strategic Plan.

2.11 The Council must also live within its means and remain cognisant of the long-term financial impact (as well as benefits) of capital spend. To this end there will be appropriate governance arrangements in place and capital proposals will be subject to business cases and appropriate scrutiny before being brought forward and decisions are taken.

3. Priorities for capital investment

3.1 Inevitably there will always be a gap between our overall capital ambition to deliver for our residents, businesses and the borough, and our resources to deliver. For this reason the Council must make decisions on future capital investment based on an agreed set of priorities.

3.2 The Council's capital investment priorities are set out below. Any requests for additional capital investment/expenditure must meet as many of the below criteria as possible.

LONDON BOROUGH OF HACKNEY - PRIORITIES FOR CAPITAL EXPENDITURE

- ***To use the capital programme and capital investment to support the delivery of services in line with the Mayor and Council's priorities set out in the Strategic Plan:***
  - ***FOR A FAIRER, SAFER HACKNEY***
  - ***FOR A GREENER, HEALTHIER HACKNEY***
  - ***FOR EVERY CHILD IN HACKNEY***
- ***To ensure that Council assets (where there is no business case in place, or planned, for the redevelopment, disposal or regeneration of the asset) are maintained in accordance with statutory and regulatory requirements and are fit for purpose. Investment in existing Council assets must be aligned with the relevant approved asset management plan for the asset (e.g. Housing Asset Management Plan, Highways Asset Management Plan, Parks Asset Management Plan etc).***
- ***Capital investment to support the delivery of additional Council homes, regeneration, and an inclusive economy in accordance with the borough Growth Strategy in the Local Plan.***
- ***Capital investment to support the implementation of the Climate Action Plan.***
- ***Capital investment that will facilitate the generation of significant revenue or capital income to the Council.***
- ***Capital investment which will result in a significant long term saving for the Council.***

3.3 Capital investment proposals will be considered against these priorities through the revised governance process and methodologies as set out in section 12.

3.4 In addition to the above priorities, it is often the case where the Council will be making a capital investment in a project or programme that is largely funded via other sources (e.g. grant funding, S106, CIL etc). This is demonstrated by the table in 5.2. The decision to bid for and accept external sources of capital funding will be made via the capital governance framework set out in section 12 and a capital bid form will need to be completed to set out how the project will contribute to the Council strategic and capital expenditure priorities, however the capital bid form will recognise that the direct capital ask of the Council is mitigated via the availability of external funding sources. In many cases it should also be noted that the Council will be requested to provide some 'match' funding for external capital funding in order to secure it.

4. Hackney's capital programme

4.1 The capital programme primarily represents two types of expenditure - enhancing of our existing assets, and the creation of, or acquisition of, new assets. Over the three financial years 2019/20 to 2021/22 our capital expenditure has ranged between £154m to £230m. There has been a decline in recent years due to Covid and the reprofiled capital budget for 2022/23 is at £169m. The current capital programme suggests this will increase in future years though this is materially dependent on viability of our regeneration schemes and organisational capacity and technical skills, and external factors such as construction industry inflation and the increased cost of borrowing.

4.2 The Council's capital programme is ambitious in delivering on our zero carbon commitment and on the community infrastructure and affordable housing our residents deserve. The programme does need, however, to remain affordable and we need to ensure that we link our capital programme to our medium term financial plan by factoring in provisions to repay capital borrowing (the 'minimum revenue provision') and interest costs (more on this in section 6).

Non-Housing	**22/23 Forecast £m**	**23/24 Estimate £m**	**24/25 Estimate £m**	**25/26 Estimate £m**	**Total £m**
Chief Executive	0.4	2.3	2.7	1.0	6.3
Adults, Health and Integration	0.0	2.2	0.0	0.0	2.2
Children and Education	16.4	14.4	7.2	0.0	38.0
Finance/Corp Resources – mixed use schemes	8.7	63.1	93.9	33.5	199.2
Finance/Corp Resources - other	21.5	30.3	15.6	3.4	70.8
Climate, Homes & Economy	26.5	37.1	13.6	14.3	91.5
Total Non-Housing budget	**73.5**	**149.4**	**133.0**	**52.1**	**408.0**

Housing	22/23 Forecast £m	23/24 Estimate £m	24/25 Estimate £m	25/26 Estimate £m	Total £m
AMP Capital Schemes HRA	42.7	51.4	43	58.6	195.7
Council Capital Schemes GF	4.4	2.6	2.9	1.4	11.3
Private Sector Housing schemes	1.2	2.0	2.0	2.0	7.3
Estate Regeneration	12.9	55.7	84.6	71.6	224.9
Housing Supply Programme	24.9	33	82.8	96.2	237
Woodberry Down Regeneration	9.3	12.8	7.7	2.6	32.4
Total Housing budget	**95.5**	**157.6**	**223.1**	**232.5**	**708.6**

Total Capital Programme	**168.9**	**307.0**	**356.1**	**284.5**	**1,116.6**

4.3 The 'Finance/Corp Resources- mixed used schemes' line above is primarily the Britannia project. With the significant social infrastructure already delivered in the summer of 2021 with a brand new leisure centre and school, we now move to the delivery of affordable and private for sale housing. As this scheme is funded primarily by sale of on-site private residential accommodation there is a significant element of risk. Brexit, followed by Covid and recent economic events has destabilised the housing market and there is considerable work continuing to monitor and manage this risk. There is a separate project board and governance process for Britannia in terms of ongoing project management and the relevant financial scrutiny.

4.4 The table below shows where our capital investment from April 2022 to March 2026 is helping to deliver against our priorities in the Strategic Plan.

Priority	Example Projects	22/23 £m	23/24 £m	24/25 £m	25/26 £m	Total £m
Fairer, Safer Hackney	Maintaining the homes of our Council residents, Housing Regeneration Schemes delivering more and improved homes, the Britannia Scheme also delivering new homes, Stoke Newington Library Refurbishment, investment in temporary accommodation and new GP surgeries.	114.3	234.8	315.3	263.1	927.5
Greener, Healthier Hackney	Essential Maintenance to Leisure Centres including Kings Hall, London Fields Learner Pool, Parks Infrastructure, Parks Depot, Highways Planned Maintenance, Waste & Fleet Replacement and specific Green projects including Cycle Hangers and	28.4	52.0	28.2	21.0	129.7

Priority	Example Projects	22/23 £m	23/24 £m	24/25 £m	25/26 £m	Total £m
	Electrical Vehicle charging points.					
Every Child in Hackney	Investment in the maintenance of our schools and delivery of additional in-borough, SEND places.	18.1	15.9	7.6	0.4	41.9
Corporate Cross-cutting	Stoke Newington Town Hall and investment in ICT to support a range of our services.	8.2	4.4	4.9	0.0	17.5
Total		**168.9**	**307.0**	**356.1**	**284.5**	**1,116.6**

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

- An ongoing and ambitious estate regeneration programme which will bring homes of different tenures to the market helping make Hackney a fairer place with genuinely affordable homes including the delivery of 1000 new council homes.
- Regeneration, place shaping, and inclusive growth in the borough's town centres and regeneration areas, ensuring that the opportunity for growth in our town centres and regeneration areas delivers on community priorities such as cleaner, greener and safer town centres and more affordable homes and workspace.
- Investing in our young people and helping give them the best start in life through our ongoing investment in our school estate to ensure it is in a suitable state of repair, including the ongoing programme of works to primary school facades.
- Investment in expanding in-borough SEN provision to support some of our more vulnerable young people with new facilities close to home.
- 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 and associated schemes
- Maintenance of the Council's parks and green spaces and libraries, including refurbishment of Stoke Newington - 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 implementing the new Climate Action Plan, decarbonisation of non-housing building stock, LED street lighting and cycle hangers.
- Working in partnership with City and Hackney CCG to build two new primary care facilities in the borough.

5. Financing the capital programme

5.1 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, from which we borrowed £80m from the 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.

5.2 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:

	2022/23	2023/24	2024/25	2025/26	Total
	Forecast	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Capital Programme:					
Non-Housing	73.5	149.4	133.0	52.1	408.0
Housing	95.5	157.6	223.1	232.5	708.6
Total spend	**168.9**	**307**	**356.1**	**284.5**	**1,116.6**
Financed by:					
Capital Receipts	26.8	0.9	27.6	84.3	139.7
Government Grants	16.0	23.9	31.8	17.8	89.5
Reserves	2.5	4.9	1.6	1.6	10.5
Revenue	44.6	52.4	50.2	58.6	205.9
S106/CIL	9.1	12.0	7.9	6.2	35.3
Borrowing	69.9	212.9	237.0	116.0	635.7
Total Financing	**168.9**	**307.0**	**356.1**	**284.5**	**1,116.6**

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.

6. Capital programme and the Medium Term Financial Plan (MTFP)

6.1 It is important to emphasise the impact of the capital programme on the Council's revenue budgets through the MTFP. This occurs in the following ways:

- Through monies that are required to be set aside to repay debt principal. This is known as the Minimum Revenue Provision (MRP). This is required to be charged on all capital expenditure which is funded by borrowing, whether that be internal or external borrowing.
- Interest charged on external borrowing.
- Revenue Contributions to Capital Outlay.

6.2 Budgets are set aside for these charges in the General Fund. Historically MRP and interest budgets have been low as we have had relatively significant levels of capital receipts as well as a large proportion of our schemes being self-funded through mixed-use developments. This has meant our levels of long-term borrowing have also been quite low. Going forward as internal sources of funding deplete both in terms of capital receipts and cash balances borrowing will increase as set out in section 7 of this strategy.

6.3 Through our recently refreshed capital governance arrangements (see section 12) we will ensure that all decisions on capital investment fully reflect the revenue impacts. We will do this by:

- ensuring that all business cases fully consider the revenue costs of borrowing (both MRP and interest) where they are not fully funded by a ring-fenced source.
- Maintaining an up-to-date forecast of the impact of the capital programme on the revenue budgets.
- Ensuring that there is transparency over investment decisions and these are informed by the affordability of revenue impacts.

7. Capital Financing Requirement

7.1 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 £467m in 2020/21 to £1,037m in 2025/26.

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Capital Financing Requirement At Year End					
CFR – Non Housing	357	372	488	590	584
CFR – Housing	110	130	224	347	453
Total CFR	**467**	**502**	**712**	**937**	**1,037**
Net CFR movement		35	210	225	100
External Debt					
Borrowing	72	67	253	510	641
Other long term liabilities	11	10	9	7	6
Total Debt 31 March	**83**	**77**	**262**	**517**	**647**

7.2 The movements in the General Fund CFR reflect the modelled profiling of cash outflows (construction costs) and cash inflows (capital receipts) of the 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.

7.3 The CFR over the longer term (beyond 2025/26) will begin to reduce, 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 the current economic climate from the war in Ukraine, together with higher inflation and higher interest rates, this will have adverse impact on the housing market. The modelling therefore needs to be revisited on a regular basis.

7.4 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. The Council expects to receive £364m of capital receipts between 2021/22 and 2024/25. 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.

Asset disposals	22/23 opening balance £m	22/23 forecast £m	23/24 forecast £m	24/25 forecast £m	25/26 forecast £m	Total received 22/23 to 25/26 £m	Cumulative total £m
HRA total	71	22	28	51	150	251	322
GF	43	28	28	24	33	113	156
Total	**114**	**50**	**56**	**75**	**183**	**364**	**478**

8. Asset Management

8.1 Asset Management Strategies are designed to set out the objectives, policies and process for managing the Council's assets including parks, leisure centre, highways, housing assets, and the Housing Revenue Account (HRA) and General Fund (GF) property assets effectively and meet the Council's strategic objectives. Asset management strategies must take into account the values of the Council as an organisation, the relevant local and national policy context, the Council's Capital Strategy, and set out the guiding principles to produce asset management plans that drill down into more detail the options around individual assets and properties, whilst ensuring that the limited available resources are utilised within the context of the priorities set out within the Strategic Plan and the Capital Strategy.

8.2 Property and the management and maintenance of Council owned property assets is a significant cost to the Council. Each portfolio category requires a unique focus and approach to asset management which, in turn, requires different expertise, governance and decision-making. Hackney seeks to ensure that decision making is transparent and fully accountable. As pressure on the Council to mitigate budget shortfall rises, the various strategies and plans will be periodically reviewed and updated to support the release of greater capital and revenue returns and efficiency savings from the estate. All of this will be further addressed with a move towards the proposed implementation of a corporate landlord model.

8.3 The Council has the following asset management strategies/plans in place:

- Housing Asset Management Strategy 2019 - 2026 - approved at March 2019 Cabinet.
- There are operational asset management plans in place for the boroughs highways and road network incorporating maintenance of highways infrastructure, street lighting, bridges and drainage

8.4 The following asset management strategies/plans are under development:

- Corporate Estate Asset Management Strategy and Plan. The Asset Management Policy which precedes the Asset Management Strategy is in first draft and is due to be refreshed so it reflects the objectives set out within the emerging Strategic Plan. Moreover, further amendments are required to ensure it integrates other service plans and strategies which were approved and published after the first iteration of the Asset Management Policy was drafted.

9. Treasury Management

9.1 This section of the Capital Strategy provides an overview of our treasury management strategy. This strategy's focus is 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

9.2 LB Hackney commenced long-term external borrowing in 2019/20 (excluding the London Energy Efficiency Fund loan, principal remaining £1.2m) for the first time since 2012. At March 2023 we will have £68m long term borrowings and no short term borrowing. We anticipate taking on more medium to long term borrowing over 2023/24 to fund our ambitious capital programme. The Council's detailed borrowing strategy is set out in section 7 of our Treasury Management Strategy (Appendix 3 to the budget report) and is not repeated 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.

9.3 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.

9.4 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.

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Gross Debt	83	77	262	517	647
CFR	**467**	**502**	**712**	**937**	**1,037**

ii) Affordable borrowing limit

9.5 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 2022/23 budget report are set out below:

	2022/23 Approved £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Authorised limit for external debt				
Borrowing	580	762	987	1,087
Other long term liabilities	18	16	14	13
Total	**598**	**777**	**1,001**	**1,100**
Operational limit for external debt				
Borrowing	550	732	957	1,057
Other long term liabilities	18	16	14	13
Total	**568**	**747**	**971**	**1,070**

ii) Investment strategy

9.6 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.

9.7 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 decides which particular investments to buy and the Council may request its money back at short notice.

Snapshot of treasury management investments	**31.3.2021 £m**	**31.3.2022 £m**	**31.3.2023 £m**	**31.3.2024 £m**	**31.3.25 £m**
Near-term investments	69.243	110.045	82.556	82.556	82.556
Longer-term investments	0.2	15.290	0.29	0.29	0.29
TOTAL	**69.443**	**125.335**	**82.846**	**82.846**	**82.846**

9.8 The above numbers are based on the 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 regularly depending on when cash receipts and payments are realised.

10 Commercial Activities

i) Commercial/Investment properties

10.1 Hackney has an investment property portfolio of 51 properties (47 buildings and 4 pieces of land), and 17 aerial masts on HRA land, with an aggregate balance sheet value of £199m as at 31 March 2022. The net revenue return was £6.5m in the same year.

10.2 Hackney's asset 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.

10.3 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.

10.4 Decisions on commercial investments are ultimately made through Cabinet/Full Council, but after consultation through the Capital Asset Steering Board (CASB) (formerly the Capital Investment Board) which is a member/senior officer board.

ii) Wholly owned companies

10.5 The Council has six wholly owned subsidiaries.

- The two residential building management companies for the Makers and the Otto 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. In 2021/22, the PRS company also leased three units on Stoke Newington Church Street from the General Fund, which are let at a market rate. In the same financial year the HLR company added 16 bedsits to its portfolio by way of a 21 year lease Agreement, at an annual rental of £86,661 (increasing by CPI each year). The bedsits are within an existing Council block, Gooch House, and were refurbished as part of the council's regeneration programme.
- Commercial waste company was incorporated in October 2021 and began trading in April 2022. The company provides commercial waste and recycling services beyond the borough boundaries specifically across East and Central London,

11. Knowledge and Skills

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

11.2 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.

11.3 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 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.

11.4 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.

11.5 In the future there may be a requirement to undertake a more comprehensive review of in-house capital project and programme delivery skills, resources and capacity in order to ensure that the Council can deliver investment in assets, and the capital programme, at pace to the highest possible standard.

12 Governance

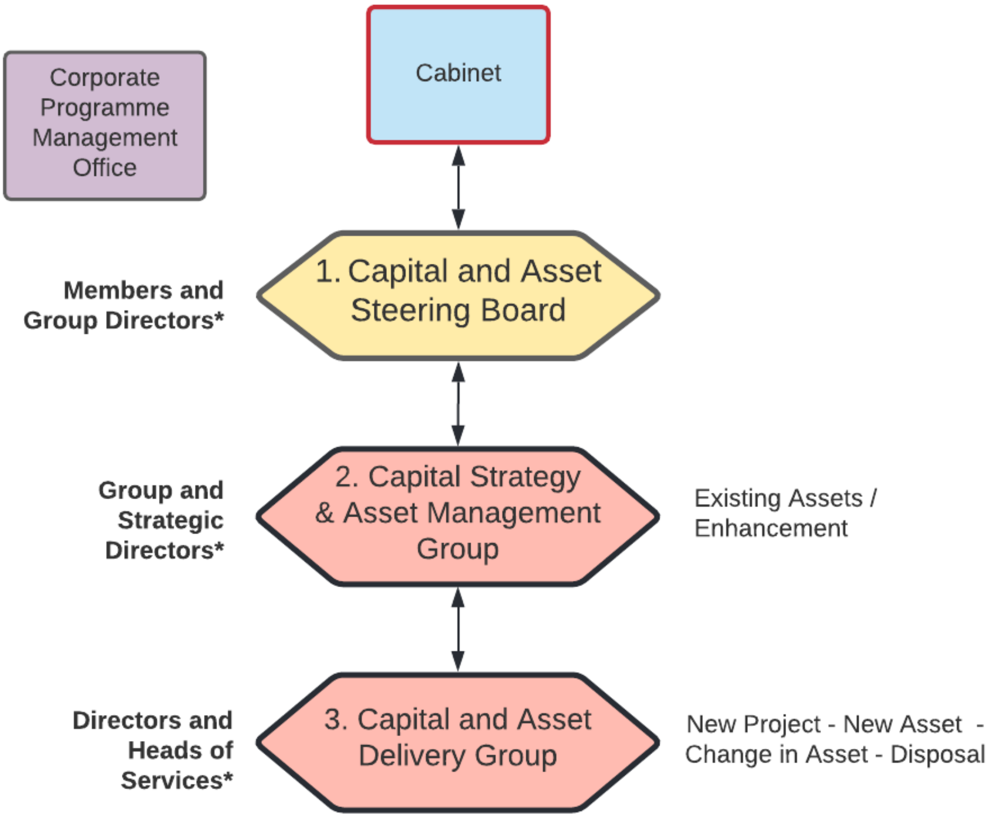
12.1 During the last year a capital management review has been undertaken which included a fundamental review of the governance of the capital programme. The aim of this review was to:

- Enable consistent and transparent consideration and evaluation of capital projects.
- Facilitate objective prioritisation of projects given we cannot afford to do everything.
- Ensure full appreciation and integration of the revenue impact of decisions made on the capital programme.
- Provide clear criteria against which the progress and outcomes of projects can be measured that aligns to the Council's corporate priorities and the Capital Strategy.
- Streamline processes where possible e.g former CPRP bids, Business Case, Project Initiation Document (PID) and S106 bids to become one document.
- Ensure that all capital projects are regularly monitored in the same way across the Council to track progress and outputs.

12.2 Following this review a new governance structure is being phased in. At the apex of this governance structure is a joint Cabinet Member and Chief Officer Board - the Capital Asset Steering Board (CASB) which will review and agree any decisions relating to capital investment and assets that are required to go to Cabinet for a decision. The scope of the CASB is to:

- To review new project proposals, including their affordability and make recommendations to Cabinet on their inclusion on the capital Programme. Capital bids will note the proposed funding route and this will inform the CASB's decision, but final funding will be determined at year end as approved by the Group Director of Finance & Corporate Resources
- Monitor the delivery and development of the Capital Programme, Strategic Asset Management Strategy and the HRA Asset Management Plan.
- To review and monitor the performance of assets against strategic objectives.
- To approve (subject to scheme of delegation) or recommend approval to Cabinet of all disposals and acquisition.
- To make strategic decisions on external funding bids and proposals.
- Help steer the approach to strategic stakeholder relationships or communications relating to capital projects and Council assets.
- Major change control decisions on existing capital projects e.g. additional funding using scheme of delegation limits, pause of project, alternative delivery model.

12.3 The Capital and Asset Steering Board meets monthly (first meeting October 2022) and is a 1st tier board, to which a tier 2 and tier 3 boards will report into it within the new corporate governance framework. Tier 2 and 3 boards will be established in the next phase of the introduction of the new framework. In the meantime, finance teams and service colleagues will work closely to both manage the agenda of the CASB, provide appropriate information for consideration and ensure the principle aims of the review as set out in paragraph 4.1 are maintained. The proposed governance structure is as follows:



12.4 As part of the new governance arrangements a new capital bid form has been designed which looks to capture key information to enable a proposed project to be assessed in terms of its deliverables and alignment with the Council's strategic priorities in the Strategic Plan, the Community Strategy and the Capital Strategy alongside the financial business case. Significant points to note are:

- It includes the high level requirements of a Project Initiation Document (PID) and project business case.

- It is designed to ensure that consistent information is available on each proposed capital project from the outset, that project managers and Heads of Service have considered the projects robustly prior to seeking approval and funding, and that there is full transparency on the project business case, benefits, expected outcomes and outputs, and all capital and revenue costs associated with the project throughout.

- The form should be completed for all proposed new capital projects, and increases in existing capital project budgets of £50,000 or 10% (whichever is the lower) of the original project budget. Increases below this de-min will be processed as part of the quarterly capital adjustments process and approved by Cabinet in the usual way.

- For all new projects, directorates should ideally complete the amended form in advance of the financial year in which it is anticipated that a project will begin to spend. This will facilitate the prioritisation of different projects via the CASB governance process. However, flexibility is built into the process to allow for new capital projects to be approved throughout the year as it is recognised that it will not always be possible to anticipate projects (e.g. new funding opportunities, emergency health and safety issues etc).

- The completing officer/project manager should engage with Finance colleagues on completing the Finance section of the form to ensure all financial implications are reflected.
- For capital projects requiring S106 contributions, the form should clearly state whether the project meets the requirements of the S106 bid and that this funding is available and the S106 team should confirm this before submission.
- Where S106 contributions are part of the funding the bid will still need to go to the S106 Board for funding confirmation. In the event of the S106 bid being rejected at this stage, this will be fed back to the CASB. Further discussions will take place to determine if this process could be further streamlined and the capital project approval form and the S106 bid approval process can be amalgamated.

12.5 Once capital budgets are approved, spend is monitored through the Finance Team, who meet with the Service Area, and then complete the return and feed back to the Capital Team (Capital OFP Timetable). Up to 2022/23 the monitoring is reported to Cabinet quarterly via the Capital OFP (Overall Financial Position), Capital Update & Property Acquisition and Disposals Report) and Audit Committee. The monitoring covers actual year to date capital expenditure, the forecast and the variance against the revised budget position, there is also an update on the projects themselves. Each financial year, two re-profiling exercises are carried out in order that the budget reflects the progress of the projects.

12.6 As part of the revised governance arrangements we aim to standardise the quarterly monitoring of the capital programme and projects contained within. From 2023/24 this monitoring will be reported through to the CASB and summarised in the Capital Update report on a quarterly basis. This will be on an area basis where appropriate but also thematic, for example, for the Education or Leisure capital programmes.

12.7 In addition to the above governance arrangements we also put in place specific project boards for large and/or complex projects. Detailed risk registers are retained and are regularly reviewed in light of changing circumstances, for example, Covid-19 and the impact on the 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. An example of this is the Britannia Board which has recently been extended to cover the refurbishment of Kings Hall.

13. Risks

13.1 There are a number of significant risks to the delivery of our capital programme and these are reflected and managed through the Council's well-established Risk Management Framework which reports through to the Audit Committee (quarterly for the corporate risk register and annual by directorate). 'Management of Capital Programmes/Schemes is classified as High Risk on the Finance & Corporate Resources risk register (**SRCR 0002**).

13.2 The risk is that Major Capital Schemes may not be managed or targeted effectively to maximise the use of resources available and ensure delivery according to expectations. From a financial perspective, as a result of substantial external borrowing to fund the ambitious capital programme, the Council is moving from a debt free position and becoming more vulnerable to changes in the market (potential volatility of the housing market affecting sales volumes / value) and interest rates as well as building cost inflation.

13.3 Controls in place to manage this risk include:

- All capital schemes are subject to review via the capital budget monitoring process. Slippage and/or budget pressures can be identified via this process and appropriate action taken.
- Major schemes are managed via project boards to ensure appropriate actions are taken to ensure delivery of scheme to expected standards and within financial business cases. These schemes have project-based risk registers which records the active management of risks on an ongoing basis.

13.4 At the capital programme level, the CASB (see section 12), will have overall oversight of the entirety of the programme with reporting on an area basis and/or thematically from 2023/24. There will also be regular reporting on industry-wide risks affecting the programme, such as construction inflation, house-price forecasts and borrowing rates to provide context and inform capital bid decisions.

14. Summary and next steps

14.1 This Capital Strategy summarises our capital investment priorities and how we aim to continue to deliver against the Community Strategy and the Strategic Plan. It sets out how our current capital programme is delivering against our plans and describes the new and developing governance structures and frameworks for transparent decision-making going forward as well as how the programme will be monitored to ensure projects deliver what they set out to within the financial parameters set. It addresses our approach to risk, and the borrowing parameters within which we operate as well as ensuring decision-makers are cognisant of the explicit link between our capital ambition and the medium-term financial plan.

14.2 This strategy has been prepared with reference to CIPFA's Capital Strategy Guidance 2021 and whilst it seeks to follow good practice set out in that document it is recognised that there is more to be done to develop the strategy. For example, before this document is reviewed again in a year's time we aim to:

- Move forward in developing a capital strategy and programme which spans a longer time horizon - minimum of 10 years.
- Consider further how we measure return on investment in terms of social, economic and environmental impact alongside financial impact. This needs to dovetail with requirements which are already embedded through our sustainable procurement strategy.
- Incorporate work being developed by Strategic Property Services on moving towards a Corporate Landlord model.