

Capital Strategy 2024/25 to 2026/27

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 - 2026/27 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 15.

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 \(2022-2026\)](#). 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](#)
- [Inclusive Economy Strategy](#)
- [Hackney Central Town Centre Strategy](#)
- [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).

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 SEND school places 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 a projected population increase of 5.3% (ONS June 2022) and there remains a requirement for significantly more homes to deal with the housing affordability crisis.
- 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 and Hoxton, Woodberry Down, 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, Woodberry Down, Shoreditch and 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 address the 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, 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 are 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 via the governance process and methodologies as set out in section 13.

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. Government grant funding, S106, CIL etc). This is demonstrated by the table in 6.2. The decision to bid for and accept external sources of capital funding will be made via the capital governance framework set out in section 13 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.

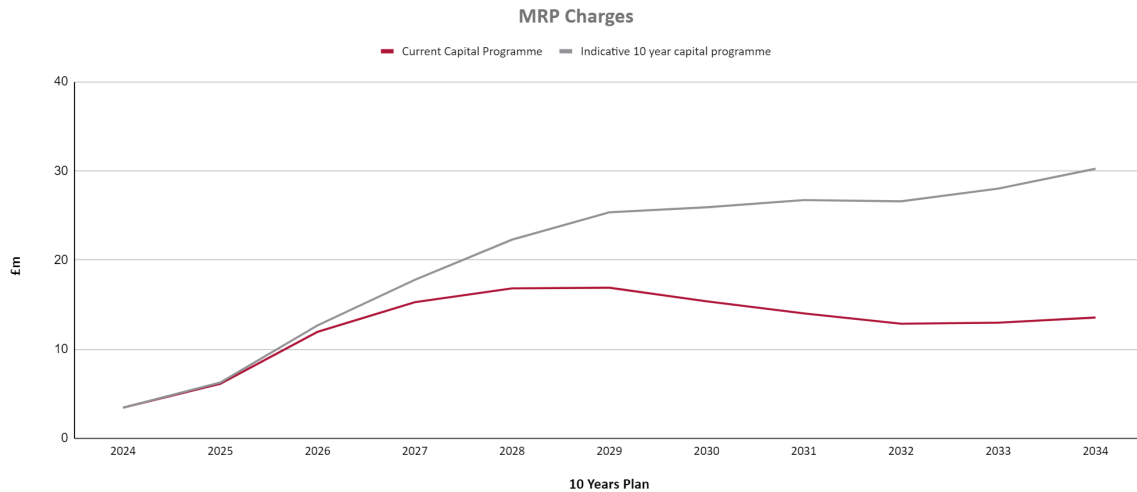
4. 10 Year capital programme outlook

4.1 As part of the budget setting we are looking at a longer-term time horizon as we aim to develop a robust financial framework that will serve as a guiding compass for the Council's decision-making on capital investments. The table presented below outlines our anticipated 10 year capital requirements. While this representation will not capture everything, it's crucial to note that our approach is iterative, and we are committed to ongoing refinement as we strive for a comprehensive understanding of our financial landscape.

	23/24 - 26/27	27/28 - 33/34	10 year outlook
	Estimate	Indicative	Total
	£m	£m	£m
Capital Programme:			
Non-Housing	448.5	298.5	747.0
Housing	1,029.2	979.6	2,008.8
Total spend	1,477.8	1,278.0	2,755.8
Financed by:			
Capital Receipts	66.5	213.5	280.0
Government Grants	198.3	99.9	298.2
Reserves	20.1	2.4	22.5
RCCO	218.1	428.1	646.2
S106/CIL	20.4	0.0	20.4
Borrowing	954.4	534.1	1,488.5
Total Financing	1,477.8	1,278.0	2,755.8

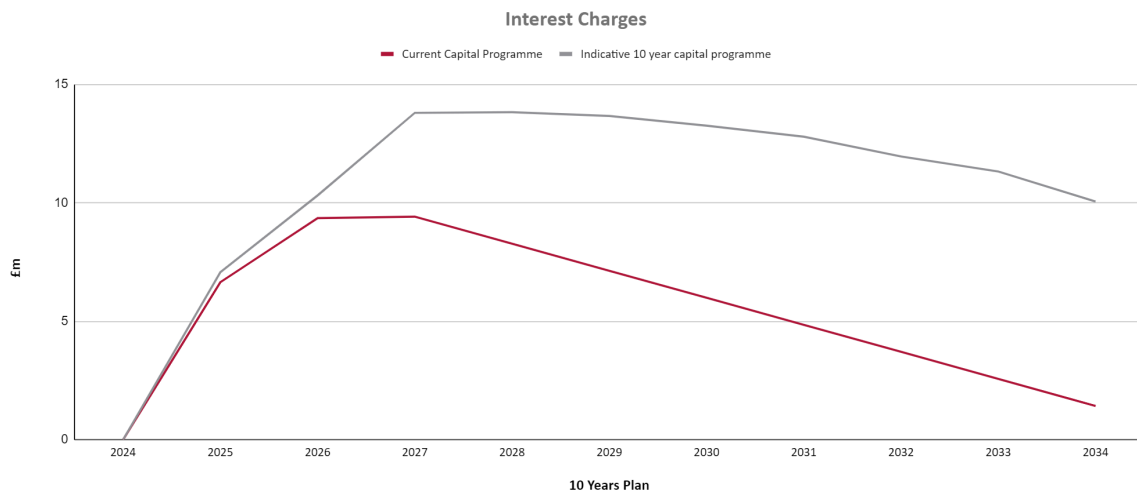
4.2 There HRA borrowing requirement is predominantly to fund the Housing Regeneration Programmes, Estate Regeneration Programme, Housing Supply Programme and Woodberry Down, until capital receipts are realised through sales of residential properties becoming available through these developments. The capital receipts will be realised once developments are complete and private for sale and shared ownership units are marketed. Some of the programmes will not complete until after 2033/34 when the capital receipts will be realised. The residual borrowing from the schemes, which equates to circa 30% of the build costs, will be repaid from the rental income streams from the new social housing units over a fifty year period. This residual borrowing for the new social rented homes, as well as interest costs has been factored into HRA business planning.

4.3 The graph below captures the impact this will have on the General Fund.



4.4 The Minimum Revenue Provision (MRP) is the minimum amount that a local authority must statutorily charge to its income and expenditure account each year, for the repayment of borrowing. The MRP charge will increase from £3.5m to £30m in 10 years.

4.5 The annual interest charge is much more difficult to estimate as it is dependent on the availability of cash balances to 'cash flow' schemes which are ultimately to be funded from external borrowing. The below estimate is based on the assumption that 100% of the schemes are funded from external borrowing 100% of the time. In reality this may not occur, however, there is, of course, an opportunity cost of using internal cash balances in terms of the interest that could be earned from investing these balances. The assumption around interest rates is 5% over a 10 year period.



4.6 As we progress, we aim to enhance financial viability of the capital programme through a combination of

- Scrutinising the existing capital programme for potential rationalisation. This ensures efficient resource allocation aligned with strategic objectives.
- Performing a strategic evaluation of the council's property portfolio with the aim of easing the strain on the capital programme. The goal is to assess various

"non-core" assets in relation to corporate priorities, financial performance, and their potential future benefits and risks to LBH. This assessment may result in the identification of assets for potential disposal, generating capital receipts and reducing the need for borrowing to finance the capital programme.

- Increasing the MTFP savings target to provide additional funding for the capital programme, ensuring a more robust financial foundation.

5. Hackney's three year capital programme

5.1 Included as part of the budget report is a three year capital programme which reflects the capital investment position over the medium term which informs the Council's Medium Term Financial Plan through identifying the monies required to be set aside to repay debt principal, interest charged on external borrowing and Revenue Contributions to Capital Outlay.

5.2 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 2020/21 to 2022/23 our capital expenditure has ranged between £133m to £202m. In recent years, there has been a decline, attributed to the impact of Covid and a substantial rise in construction inflation, leading to project delays. The reprofiled capital budget for 2023/24 is at £212m. 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.

5.3 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 (see section 7).

Non-Housing	23/24 Forecast £m	24/25 Estimate £m	25/26 Estimate £m	26/27 Estimate £m	Total £m
Chief Executive	0.4	5.9	1.0	0.0	7.2
Adults, Health and Integration	1.6	1.8	0.5	0.2	4.2
Children and Education	13.7	20.9	8.9	4.9	48.4
Finance/Corp Resources – mixed use schemes	27.7	74.7	75.0	11.8	189.2
Finance/Corp Resources - other	35.4	39.8	5.9	4.6	85.7
Climate, Homes & Economy	30.8	45.0	30.1	7.9	113.9
Total Non-Housing budget	109.6	188.2	121.4	29.4	448.5

Housing	23/24 Forecast £m	24/25 Estimate £m	25/26 Estimate £m	26/27 Estimate £m	Total £m
AMP Capital Schemes HRA	46.3	55.3	53.6	55.6	210.9
Council Capital Schemes GF	5.9	4.8	2.3	2.3	15.3
Private Sector Housing schemes	1.6	2.0	2.0	1.7	7.4
Estate Regeneration	20.7	55.7	148.8	187.7	412.9
Housing Supply Programme	19.8	32.6	70.6	99.9	222.9
Woodberry Down Regeneration	8.2	12.6	5.7	10.7	37.3
New Homes	0.6	6.0	16.4	99.6	122.6
Total Housing budget	103.1	169.2	299.4	457.5	1,029.2

Total Capital Programme	212.7	357.4	420.8	486.9	1,477.8
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5.3 The 'Finance/Corp Resources - mixed used schemes' line above is primarily the mixed use 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. This includes regular updates of the financial model including the forecast income from sales at present day value. Where there is a shortfall from the original estimate and therefore a gap in the estimated Council contribution extra borrowing costs are factored into our medium term financial plan. There is a separate project board and governance process for Britannia in terms of ongoing project management and the relevant financial scrutiny.

5.4 The table below shows where our capital investment from April 2023 to March 2027 is helping to deliver against our priorities in the Strategic Plan.

Priority	Example Projects	23/24 £m	24/25 £m	25/26 £m	26/27 £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.	149.6	267.7	374.3	467.0	1,258.6

Priority	Example Projects	23/24 £m	24/25 £m	25/26 £m	26/27 £m	Total £m
Greener, Healthier Hackney	Essential Maintenance to Leisure Centres including Kings Hall, Play areas in parks, London Fields Learner Pool, Parks Infrastructure, Parks Depot, Highways Planned Maintenance, Waste & Fleet Replacement and specific Green projects including Cycle Hangers and Electrical Vehicle charging points.	44.2	61.0	37.0	14.5	156.8
Every Child in Hackney	Investment in the maintenance of our schools and delivery of additional in-borough, SEND places.	14.0	21.1	9.1	5.1	49.3
Corporate Cross-cutting	Stoke Newington Town Hall and investment in ICT to support a range of our services.	4.9	7.6	0.3	0.3	13.1
Total		212.7	357.4	420.8	486.9	1,477.8

5.5 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 1,000 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.

6. Financing the capital programme

6.1 During 2019/20, we secured a £80m loan from the Public Works Loan Board (PWLB) to support our capital programme. As of March 2024, our long-term borrowings stand at £63.1m. 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.

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

	2023/24	2024/25	2025/26	2026/27	Total
	Estimate	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Capital Programme:					
Non-Housing	109.6	188.2	121.4	29.4	448.5
Housing	103.1	169.2	299.4	457.5	1,029.2
Total spend	212.7	357.4	420.8	486.9	1,477.8
Financed by:					
Capital Receipts	1.8	18.3	40.0	6.4	66.5
Government Grants	30.8	56.7	48.3	62.4	198.3
Reserves	7.5	10.9	1.6	0.1	20.1
RCCO	46.2	55.7	57.1	59.1	218.1
S106/CIL	5.1	14.4	0.9	0.0	20.4
Borrowing	121.3	201.4	272.9	358.8	954.4
Total Financing	212.7	357.4	420.8	486.9	1,477.8

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.

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

7.1 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.

7.2 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 8 of this strategy.

7.3 The capital governance arrangements (see section 13) 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.

8. Capital Financing Requirement

8.1 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 £464m in 2022/23 to £1,189m in 2026/27.

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	31/03/23 Actuals £m	31/03/24 Estimated £m	31/03/25 Estimated £m	31/03/26 Estimated £m	31/03/27 Estimated £m
Capital Financing Requirement At Year End					
CFR – Non Housing	343	377	499	497	413
CFR – Housing	121	162	229	436	776
Total CFR	464	539	728	933	1,189
Net CFR movement		75	189	205	256
External Debt					
Borrowing	67	63	363	599	886
Other long term liabilities	10	9	7	6	5
Total Debt 31 March	77	72	370	605	891

8.2 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 (50 years) term.

- 8.3 The CFR over the longer term (beyond 2026/27) 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.
- 8.4 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 £271m of capital receipts between 2023/24 and 2026/27. The majority of this is from sales of properties developed as part of mixed use and housing regeneration schemes and will be applied to the repayment of debt incurred to forward fund the schemes, in the first instance.

Asset disposals	23/24 opening balance £m	23/24 forecast £m	24/25 forecast £m	25/26 forecast £m	26/27 forecast £m	Total received 23/24 to 23/27 £m	Cumulative total £m
HRA	113	2	21	35	17	75	188
GF	0	42	8	57	89	196	196
Total	113	44	29	92	107	271	384

9. Asset Management

- 9.1 Asset Management Strategies are designed to set out the objectives, policies and process for managing the Council's assets including parks, leisure centres, highways, housing assets held within 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.
- 9.2 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 shortfalls 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.

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

- [Housing Asset Management Strategy](#) - 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

9.4 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 being refined to reflect the objectives set out within Hackney's Strategic Plan and to ensure it integrates other service plans and strategies which were since approved and published. This is being tested via a programme of consultation with Group Directors and senior service leaders. This is the precursor to a fully resourced comprehensive review of LBH's operational space requirements now and anticipated. This is programmed alongside investments to refine and modernise our asset data tools to assist officers in making recommendations for the best use of assets given the demand, cost projections and resources available.

10. Treasury Management

10.1 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

10.2 The Council commenced long-term external borrowing in 2019/20 (excluding the London Energy Efficiency Fund loan) for the first time since 2012. We estimate at March 2024 we will have £63.1m long term borrowings and no short term borrowing. We anticipate taking on more medium to long term borrowing over 2024/25 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.

10.3 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.

10.4 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.

	31/03/23 Actuals £m	31/03/24 Estimated £m	31/03/25 Estimated £m	31/03/26 Estimated £m	31/03/27 Estimated £m
CFR	464	539	728	933	1,189
Gross Debt	77	72	370	605	891

ii) Affordable borrowing limit

10.5 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 2024/25 budget report are set out below:

	2023/24	2024/25	2025/26	2026/27
	Approved	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Authorised limit for external debt				
Borrowing	761	778	983	1,239
Other long term liabilities	16	14	13	12
Total	777	792	996	1,251
Operational limit for external debt				
Borrowing	732	748	953	1,209
Other long term liabilities	16	14	13	12
Total	748	762	966	1,221

ii) Investment strategy

- 10.6 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.
- 10.7 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 etc., 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	31.3.2023 £m	31.3.2024 £m	31.3.25 £m	31.3.2026 £m
Near-term investments	45	30	30	30
Longer-term investments	0.29	0.29	0.29	0.29
TOTAL	45.29	30.29	30.29	30.29

- 10.8 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.

11 Commercial Activities

- i) Commercial/Investment properties
- 11.1 Hackney has an investment property portfolio of 50 properties (46 buildings and 4 pieces of land), with an aggregate balance sheet value of £183m as at 31 March 2023. The net revenue return was £11.4m in the same year (includes one off £6.4m of historic income following settlement of a legal dispute).
- 11.2 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.

11.3 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.

11.4 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

11.5 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,

12. Knowledge and Skills

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

12.2 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

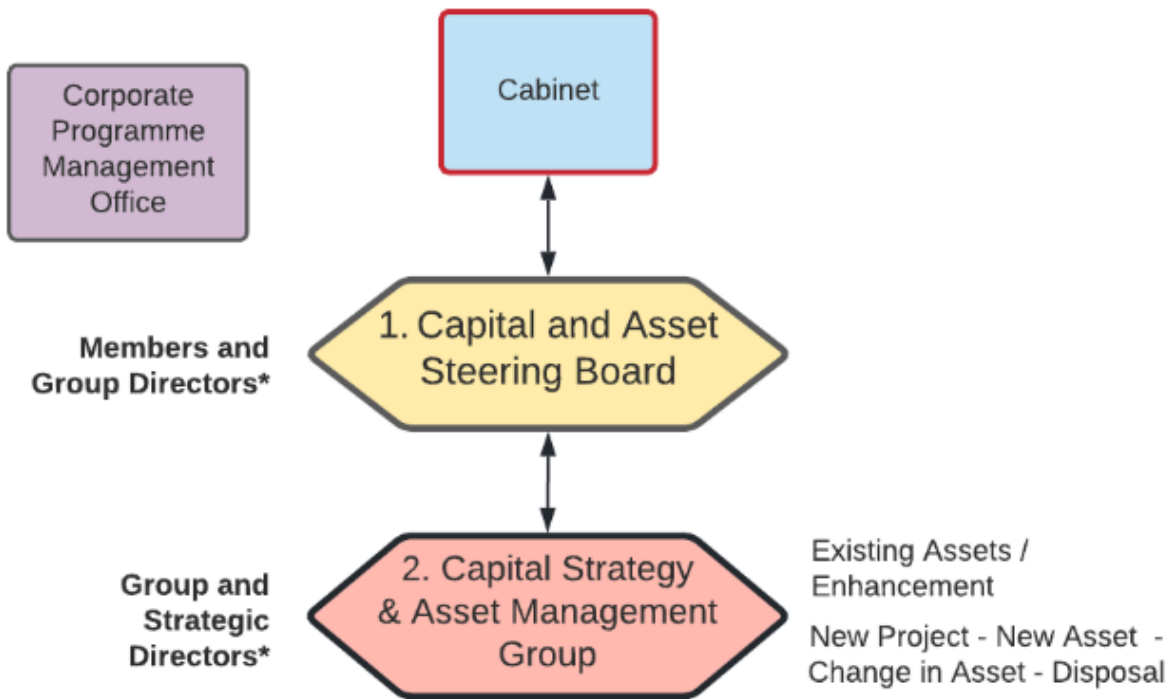
employs Arlingclose Limited as treasury management advisers. We use a range of property consultants from framework contracts and PWC as tax advisers.

- 12.3 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.
- 12.4 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.
- 12.5 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.

13 Governance

- 13.1 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
 - 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.

13.2 The Capital and Asset Steering Board (CASB) meets monthly and is a first tier board, and a tier two officer board, the Capital Strategy & Asset Management Group reports into it within the new corporate governance framework. Finance teams and service colleagues will work closely to both manage the agenda of the CASB, provide appropriate information for consideration. The governance structure is as follows:



13.3 The Capital Strategy and Asset Management Group (CSAMG), is a senior officer steering group that will use the principles established within the Strategic Plan to discuss and agree a corporate approach (cross directorate) when it involves decisions relating to capital investment and the future use and operation of assets across the Council's entire estate.

13.4 The Group comprises senior officers who have delegated powers under the Council's current scheme of delegation to make decisions. As such the Group will have the authority to make decisions that do not need Cabinet approval. The Group will also discuss and make recommendations for Cabinet decisions, which will be discussed at the Capital and Asset Steering Board (CASB) ahead of Cabinet or will go straight to Cabinet.

13.5 The Group will provide leadership, accountability and assurance to the General Fund and Housing Revenue Account property and asset management functions. It will have oversight of the capital programme in terms of capital financing and the impact of the programme on the Council's revenue budgets.

13.6 The Group will receive updates and monitoring information on a range of property asset strategy issues, which will include:

- asset strategy development and implementation
- asset policy development

- asset performance
- corporate landlord implementation
- asset challenge programmes
- property based regeneration projects

13.7 The Group will perform a 'triage' role in relation to business cases to be presented to and approved by the Capital and Asset Steering Board, in relation to:

- Capital funding bids
- Asset closures and staff relocations
- Asset disposals and acquisitions

13.8 As part of the governance arrangements a capital bid form captures 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 is 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-minimus will be processed as part of the quarterly capital adjustments process and approved by Cabinet.
- 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.

- 13.9 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). The Capital Programme budget 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.
- 13.10 As part of governance arrangements we have standardised the quarterly monitoring of the capital programme and projects contained within. The capital monitoring is 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.
- 13.11 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, increasing construction inflation and its 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.

14. Risks

- 14.1 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**).
- 14.2 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.
- 14.3 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.

14.4 At the capital programme level, the CASB (see section 13), has overall oversight of the entirety of the programme with reporting on an area basis and/or thematically. There will also be periodic 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.

15. Summary and next steps

15.1 This Capital Strategy outlines our key capital investment priorities and articulates our commitment to aligning with the Community Strategy and the Strategic Plan. It provides an overview of how our existing capital programme is contributing to our strategic goals and outlines the evolving governance structures for transparent decision-making. Additionally, the document describes the monitoring mechanisms in place to ensure that projects adhere to established financial parameters and deliver on their intended outcomes. The strategy delves into our risk management approach and outlines the borrowing parameters within which we operate. It emphasises the importance of decision-makers understanding the direct connection between our capital ambitions and the medium-term financial plan. In essence, this strategy serves as a comprehensive guide to our capital investment focus, decision-making processes, risk management, and financial alignment

15.2 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 the intention to advance the transition from a three year capital programme to a ten year capital programme;
- 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; and
- Incorporate work being developed by Strategic Property Services on moving towards a Corporate Landlord model.