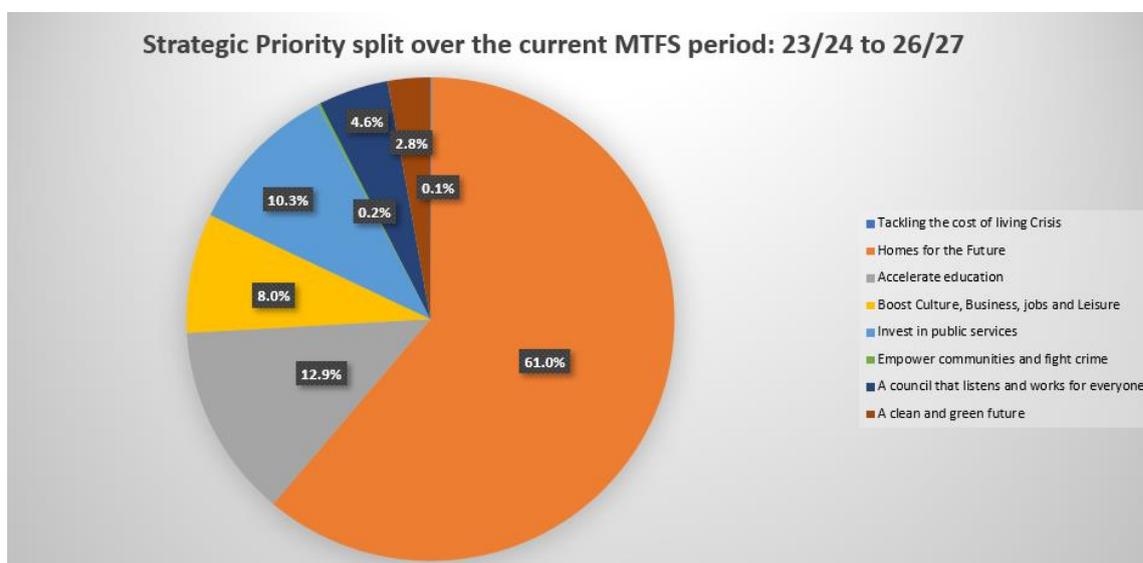


**Capital Strategy 2024-25**

**1. Introduction**

- 1.1 This Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in Tower Hamlets Council along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes-technical areas.
- 1.2 Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.
- 1.3 The long-term capital investment plan is underpinned by the council's strategic plan 2022-26. Capital proposals are considered within the Council's overall medium to long-term priorities, and the preparation of the capital programme is an integral part of the financial planning process. The pie chart below summarises how the total £748.2m capital investment within the General Fund (GF) and Housing Revenue Account (HRA) capital programmes are allocated to priorities within the council's strategic plan 2022-26:



**Key General Fund Capital Program Highlights to Date**

- 1.4 The Council has been continuing to deliver against Strategic Plan priorities since the last capital programme was approved in March 2023. Key achievements include;

**Parks**

- 1.5 The redevelopment of the Island Gardens Café to provide a modern style café

with public toilet access is nearly complete, enhancing the social value of the park and its place in the community. The historic parks programmes approved in 2018 are coming to an end. Achievements include:

- Playground has been fully replaced.
- Self-locking gates have been added to tennis courts on 5 sites.
- Improvements including more tree planting, replacement of bins/benches and health and safety upgrades across parks.
- New interpretations, orientation, park rules and information signs have been installed at various parks across the borough.
- New lighting and CCTV cameras have been installed at various parks across the borough.

### **Tree Planting**

1.6 The programme to plant trees across the Borough continues to help the council reach its Air Quality Action Plan Targets and support commitment to carbon neutrality by 2025. To date, 522 trees have been planted split across highways, parks and THH housing estates.

### **Education**

1.7 The Basic Needs Programme is set to deliver a new two form entry primary school at Wood Wharf, which will open to students in early 2024. In addition, the Council has successfully delivered amalgamations at St Annes and Guardian Angels Primary Schools, Stepney Park Primary School, as well as the expansion of alternative provision at London East Alternative Provision (Harpley), and delivery of a rolling programme of condition and improvement to ensure our assets remain safe and usable continue.

### **Youth Safe Spaces**

1.8 As part of youth transformation, two 'safe spaces' have been provided at 27 Columbia Road, Bethnal Green and 16 Goulston Street, Whitechapel. The buildings underwent a full refurbishment to provide modern, safe, welcoming spaces for young people.

### **Health and Social Care**

1.9 The Tower Hamlets Public Health Team work together with NHS North East London Integrated Care Board to ensure there are sufficient modern health facilities available to meet the primary care needs of the boroughs residents. The following are now complete and operational:

- Goodman's Fields Health Centre
- Sutton Wharf Health Centre

- Island Medical Centre
- Wellington Way Health Centre
- Wood Wharf Health Centre
- The Adult Day Care centre at Sewardstone Road has been completed, increasing in-borough provision of support and accommodation services to people with learning disabilities. A new Service Provider will be appointed early 2024 following fit out of the facility with specialist equipment.

### **Carbon Offset Programme**

1.10 The Council remains committed to carbon neutrality by 2025 and through the s106 Carbon Fund offset fund, the council has successfully delivered;

- Boiler Replacement Programme to replace old, inefficient gas boilers and faulty radiators as well as upgrading heating controls.
- Schools Carbon Emission Reduction Programme supported various schools with carbon reduction projects to reduce energy consumption and improve energy-efficiency of the buildings, install renewable and low-carbon technology resulting in lower energy costs, consumption and related carbon emissions.
- Small and medium-sized enterprises (SME) Energy Efficiency Grants Programme provided SMEs across the borough with grants to deliver energy-efficiency improvements, heating upgrades and renewable energy technologies.
- Public Sector Retrofit project replaced gas boilers with air source heat pumps in council buildings to provide decarbonised heating.

### **Street Lighting**

1.11 Street lighting programme is nearing completion, installing new Light Emitting Diode (LED) lanterns in an effort to reduce the energy consumption which in turn reduces costs and carbon footprint within the borough and work is also underway to complete the replacement of the columns. In addition, they are future proofed for advertising, banners, way finding and EV charging points.

### **CCTV Transformation**

1.12 The CCTV Transformation Programme is in the final stages of completion with 337 new cameras installed (96%). It is anticipated that all 350 cameras will be upgraded by the end of March 2024.

### **Key General Fund Capital Program Additions**

1.13 Approvals are also being sought to include additional budget provisions with the capital programme to further deliver against Strategic Plan priorities since the

last capital programme was approved in March 2023. Key additions include;

### **Institute of Academic Excellence (IAE)**

1.14 Funding of £15.000m is allocated to deliver on the Mayoral pledge 'Accelerate Education':

- Establish a high-performing, selective A-Level institution to accelerate attainment, to ensure more Tower Hamlets students attend the world's top universities, including Oxbridge and Russell Group universities.
- Review our sixth forms and colleges' performance to accelerate A level attainment so more of our pupils go to the top universities, including Oxbridge and Russell group of universities.
- Increase the number of our youngsters going on to Further and Higher Education, including boosting Oxbridge and Russell Group entrance through intensive learning after school, and support with applications, and a full review of sixth-form and college performance.

1.15 The primary purpose of this growth bid is the reassignment and reconfiguration of the Professional Development Centre (PDC) through a feasibility study utilising the 6th form Schedule of Accommodation model for a 250 place setting.

### **Culturally Sensitive Misuse Treatment Centre**

1.16 Funding of £1.510m is allocated to develop and deliver a specialist recovery service for problematic substance users local to Tower Hamlets from the Black, Asian, and Minority Ethnic (BAME) communities. This service will deliver drug and alcohol related prevention, treatment, recovery and aftercare services which are culturally sensitive and meet the needs of these communities. Service delivery will be flexible to meet the needs of the service users which will include evening and weekend opening times.

### **Women's Resource Centre (with a focus on Bangladeshi women)**

1.17 Funding of £1.000m is allocated to establish a dedicated Women's Resource Centre, with a particular culturally sensitive approach towards the needs of Bangladeshi women, as data suggests Bangladeshi women continue to be marginalised and face economic, health, social and gender inequalities disproportionately. The project aims to provide a dedicated resource centre to enable opportunities for the development of all marginalised women, especially Bangladeshi women.

### **Basic Need Programme**

1.18 The Basic Need programme will continue to deliver expansions across the borough including a new flagship 6FE Secondary School at Mulberry London Dock. The Department of Education (DfE) has provided grant funding of £53.8m to deliver the school which is designed as a passiv haus building to ensure the air quality within the school provides the best learning environment for its pupils.

An additional budget provision of £11.128m is required for the development, which is due to be completed by July 2024 in time for the school to be opened before the start of the 2024-25 academic year. The facility will also provide wider benefits to the Tower Hamlets community through a 'Community Use agreement' which will ensure the sporting and social facilities of the school are available for wider community use outside of school hours. Additional budget provisions of £2.450m and £0.804m will also enable the basic need programme to deliver expansion at Beatrice Tate Special School and Wood Wharf respectively.

- 1.19 The borough's SEND sufficiency review has highlighted areas of significant need which will be a focus for capital investment in the coming period. A programme for investing HNPCA (DfE) grant will progress, with key investment in Beatrice Tate and Hermitage; as well as the development of Alternative Resource Provisions (ARPs) at key education sites across the borough.

### **Universal Free School Meals (UFSM)**

- 1.20 Tower Hamlets will be the first Council to extend free school meals to all secondary school pupils up to the age of 16. An additional capital investment of £0.792m will ensure that secondary schools have the correct equipment and resources to increase their catering capacity to successfully deliver UFSM from September 2023.

### **Parks Programme**

- 1.21 The council is additionally investing £4.619m in improvements to recreational, leisure and play facilities across the borough's parks and open spaces, including a number of housing estate sites. With a growing population and a high number of residents having little or no access to private outdoor space, well-maintained parks and open spaces are more important than ever in supporting the health and well-being of our residents. Better play, recreational and sports facilities are also needed to help tackle high levels of childhood obesity and general poor health in the population. The programme has four key strands, which are detailed as follows:

- Improving Sporting Facilities in Parks - seeks to upgrade existing multi-use games areas and install new astroturf facilities at Stebondale, Millwall Park, and at King Edward Memorial Park. The funding will also enable the Council to install the borough's first natural turf cricket pitch at Victoria Park and provide cricket practice nets at Millwall Park and Stepney Green Park.
- Inclusive playgrounds programme will support families to have access to high quality, accessible, local play facilities. Our play facilities are particularly important for low-income households who rely on local free provision. This programme will improve the accessibility of six play areas for children and young people, including those with additional needs.
- Six housing estate sites that are part of the Tower Hamlets Homes portfolio will benefit from upgrades to playgrounds to ensure they are inclusive. There will also be improvements to gym equipment and general upgrades to sites.

- Improve three parks and open spaces that include Alton Street Open Space, Pennyfields Open Space and Shandy Park. These sites will benefit from general upgrades, improved site layout to reduce anti-social behaviour and improved recreational facilities.

### **Highways**

1.22 Funding of £4.227m is allocated to deliver a series of public realm improvements across 7 key sites; Bigland Street, Poplar High street, Bromley-by-Bow, City Island, Plumbers Row, Preston's Road and Marsh Wall. Improvement works will include additional parking bays, new electrical vehicle charging points, increased provision of pedestrian crossing facilities, undertaking footway and carriageway improvements, increasing cycle parking and environmental improvements such as tree planting. These schemes aim to provide safer roads and cleaner air quality for the local community, encourage walking and cycling, encourage the community to switch to electric vehicles to reduce the negative impact of carbon emissions.

### **Rubbish and Recycling Bins**

1.23 The council is investing £1.485m in additional rubbish and recycling bins to support the rapid growth in housing development in Tower Hamlets. It is recognised existing purpose-built blocks of flats, storage and signage infrastructure is often inadequate to accommodate the type and volumes of waste being produced.

### **Care Technology Transformation**

1.24 The council is investing £0.300m in 'care technology' as a key part of the Council's Adult Social Care vision and strategy. Care Technology offers opportunities for residents to be better supported, to live independently and with improved health and wellbeing for longer and be better connected with their communities.

### **Idea Stores IT Hardware**

1.25 Capital funding of £0.300m is allocated for new IT hardware (Desktops and Monitors) to be used in Idea Stores to benefit Residents and other Idea Store Service Users.

### **Carbon offset Programme**

1.26 Through the strategic plan, there is a commitment to making the borough cleaner and greener. Commitments have been included across the programme funded from the 'carbon fund' to deliver the following;

- Community tree planting - Approx. 200 trees planted on THH estates, at locations which have been identified in consultation with residents.
- installing Solar PV panels onto council offices and leisure centres.

- Residential Energy Efficiency Project - deliver energy efficiency measures such as insulation, double glazing, replacement boilers to reduce carbon emissions from the existing housing stock in the borough.
- Funding will be made available to community groups to install low-carbon heating and energy-generating technologies, energy-efficiency retrofits and to promote learning and behavioural projects.
- Bio-Solar Installation Project- will deliver biodiverse roof area and renewable energy generating technologies to buildings across the Borough.

## Capital Expenditure and Financing

1.27 Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. The Council has some limited discretion on what counts as capital expenditure. At this stage capital budgets are still subject to change, including changes arising due to the implementation of IFRS 16 - Accounting for Leases.

1.28 In 2024-25 the Council's planned capital spending is £247.0m, £128.3m in the General Fund and £118.7m in the HRA, as summarised below:

**Table 1: Prudential Indicator: Estimates of Capital Expenditure in £millions**

Capital Expenditure	2022-23 Actual	2023-24 Forecast	2024-25 Budget	2025-26 Budget	2026-27 Budget	2023-27 (MTFS Period)
General Fund	94.199	88.862	128.282	59.672	14.301	291.117
HRA	43.079	72.157	118.715	158.060	108.143	457.075
<b>TOTAL</b>	<b>137.278</b>	<b>161.019</b>	<b>246.997</b>	<b>217.732</b>	<b>122.444</b>	<b>748.192</b>

\* Capital expenditure arising from a change in the accounting for leases does not represent cash expenditure.

1.29 The main General Fund capital projects include work on the New Leisure Centre, waste and recycling, capital footway and public realm improvement and new infrastructure.

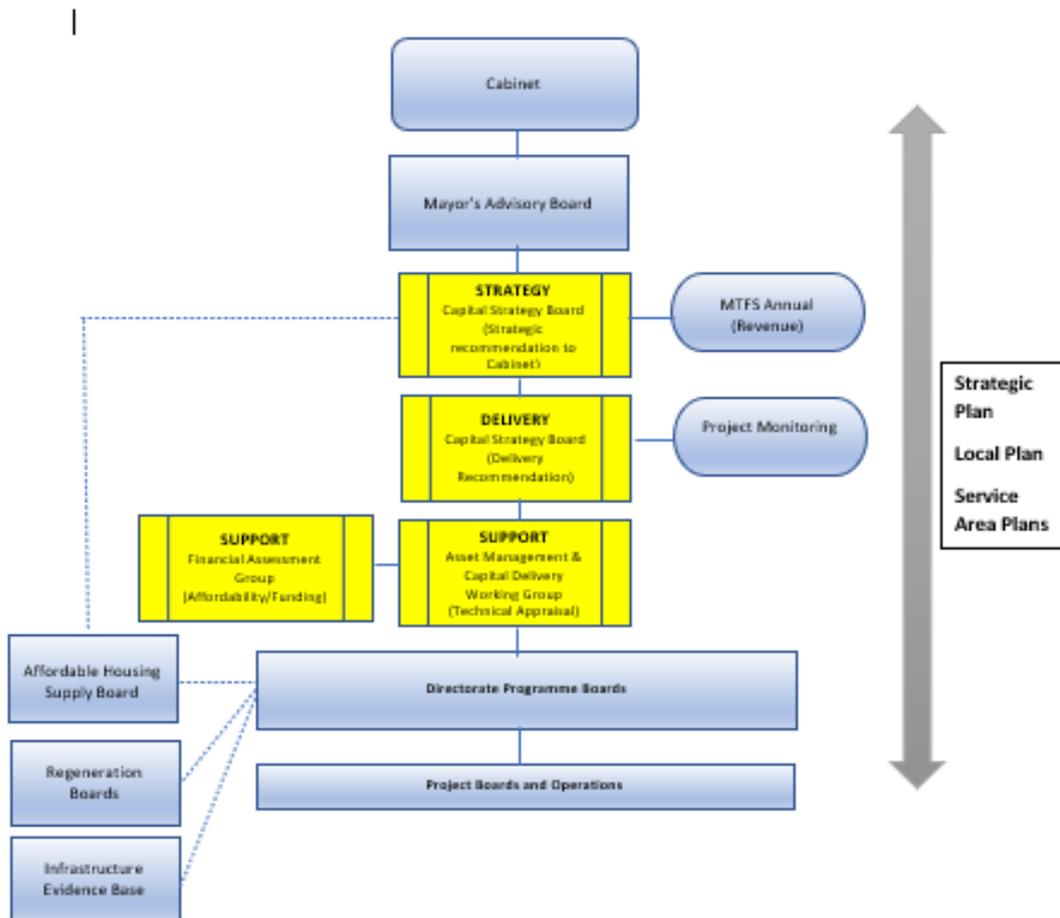
1.30 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes £344.1m on the building of new homes over the period 2023-24 to 2026-27 of which £144.6m is forecast to be funded from prudential borrowing, which has been factored into the latest update to the 30-year HRA business plan and deemed affordable.

1.31 **Governance:** Following an officer process, taking account of service priorities and Mayor's Advisory Board direction, the final capital programme is presented to Cabinet in January and to Council in February/March each year for approval.

1.32 To successfully deliver a substantial and agile capital programme, it is essential

to have effective governance, project monitoring, financial management and appropriate staff resources in place. The current governance arrangements seek to ensure that quality outcomes are delivered on time, with best value always demonstrated. The summary flow chart below details the existing capital governance process:

## LBTH CAPITAL PROGRAMME GOVERNANCE



1.33 For a scheme to be delivered through the council's capital programme, it will need to have been progressed through the capital governance process. Capital bids for new schemes are signed off by Divisional Directors, following consideration at the relevant directorate Programme Boards. Schemes are expected to be prioritised by directorates based on service need in line with the priorities set out in the Strategic Plan 2022-26.

1.34 The first step in the governance process is to identify funding sources. This exercise is completed by the Financial Assessment Group, comprising of representatives from the Corporate Capital Finance Team, Capital Delivery PMO and lead monitoring officers for s106 and CIL funding sources are allocated in the following order: external grant, s106 and CIL, capital receipts and requirement for borrowing.

- 1.35 Once bids have been accepted in principle, directorate client teams are required to complete a Project Initiation Document (PID). Subject to the consideration of financial and technical appraisals, the scheme is recommended for approval to the Capital Strategy Board, ahead of Cabinet approval and approved budget allocation as required.
- 1.36 All capital expenditure must be financed, from external sources (e.g., government grants, Community Infrastructure Levy (CIL) and other contributions), the Council's own resources (revenue, reserves, capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the approved capital programme is as follows:

**Table 2: Capital financing in £ millions**

Funding Source	2022-23 Actual	2023-24 Forecast	2024-25 Budget	2025-26 Budget	2026-27 Budget	2023-27 (MTFS Period)
External resources	53.170	78.207	123.764	50.525	17.348	269.844
Capital receipts	11.343	14.991	36.767	52.146	27.867	131.771
Revenue resources	23.748	35.200	31.884	30.067	31.586	128.737
Debt	49.017	32.621	54.582	84.994	45.643	217.840
<b>TOTAL</b>	<b>137.278</b>	<b>161.019</b>	<b>246.997</b>	<b>217.732</b>	<b>122.444</b>	<b>748.192</b>

*\* debt arising from changes to accounting for leases are to be reflected in the approved capital programme*

- 1.37 Debt is only a temporary source of finance since loans and leases must be repaid. This is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Proceeds from capital receipts are also used to finance the capital program. Table 3 below shows the level of capital receipts used in place of debt finance. Planned MRP and use of capital receipts are as follows:

**Table 3: Replacement of debt finance in £millions**

	2022-23 Actual	2023-24 Forecast	2024-25 Budget	2025-26 Budget	2026-27 Budget
Planned MRP	12.830	16.958	16.095	17.799	19.643
Capital receipts	-	-	-	-	-
<b>TOTAL</b>	<b>12.830</b>	<b>16.958</b>	<b>16.095</b>	<b>17.799</b>	<b>19.643</b>

- 1.38 The Council's full Minimum Revenue Provision Statement is attached at Annex A.
- 1.39 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £58.5m during 2024-25. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

**Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions**

Capital Financing requirement (CFR)	2022-23 Actual	2023-24 Forecast	2024-25 Budget	2025-26 Budget	2026-27 Budget
General Fund	404.900	405.108	425.690	437.413	423.415
HRA	165.598	181.052	218.957	274.429	314.427
<b>TOTAL CFR</b>	<b>570.498</b>	<b>586.160</b>	<b>644.647</b>	<b>711.842</b>	<b>737.842</b>

The CFR has been increased in respect of changes in the accounting for leases.

1.40 **Asset management:** To ensure that capital assets continue to be of long-term use, the Council has updated its strategic asset management strategy (SAMP).

1.41 Tower Hamlets owns over 1100 separately listed non-residential buildings and land assets, with a book value of over £1.3bn. Property assets play a critical ‘enabling’ role within the Council: accommodating services; underpinning our finances; and supporting our wider aims of local economic and social development. The SAMP reviews the context with relevance to property assets, in particular:

- External trends such as economic and population growth.
- The strategies and policies which influence the need for property and what benefits the council expects to realise from property.
- The operational context of our assets – such as building condition, running costs and usage patterns.

### Priorities

1.42 Following analysis of our ambitions and the key challenges facing the council, four priorities are proposed for the next 5 years:

- Responding to changing property need – reviewing council services’ forecast needs for property over the next 5 years
- Supporting the council’s financial sustainability – setting out the interaction of the council’s financial strategy with our asset planning
- Managing our estate as a corporate landlord – ensuring that we take a ‘corporate view’ of assets through our Corporate Landlord Model framework
- Responding to the Net Zero challenge – reviewing the implications of the Net Zero Council target, in view of the significance of buildings to the need for decarbonisation

1.43 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects. The Authority is currently also permitted to spend capital receipts “flexibly” on service transformation projects until 2025-26. Repayments of capital grants, loans and investments also generate capital receipts.

**Table 5: Capital Receipts receivable in £ millions**

	2022-23 Actual	2023-24 Forecast	2024-25 Budget	2025-26 Budget	2026-27 Budget
General Fund	28.650	25.000	20.000	20.000	20.000
Loans repaid	-	-	-	-	-
<b>TOTAL CFR</b>	<b>28.650</b>	<b>25.000</b>	<b>20.000</b>	<b>20.000</b>	<b>20.000</b>

## 2. Treasury Management

- 2.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 2.2 As of 31 December 2023, the Council had £68.7m of borrowings at an average interest rate of 3.01% and £250.0m of treasury investments at an average rate of 4.9%.
- 2.3 **Borrowing strategy:** The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher. The Council does not borrow to invest for the primary purpose of financial return and therefore retains full access to Public Works Loans Board as its main source of borrowing.
- 2.4 Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the Capital Financing Requirement (see above).

**Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions**

	2022-23 Actual	2023-24 Forecast	2024-25 Budget	2025-26 Budget	2026-27 Budget
Actual debt (including PFI & leases)	117.215	113.149	128.294	122.667	116.407
Estimated new borrowing	-	-	10.000	100.000	110.000
<b>Total debt</b>	<b>117.215</b>	<b>113.149</b>	<b>138.294</b>	<b>222.667</b>	<b>226.407</b>
<b>Capital Financing Requirement</b>	<b>570.498</b>	<b>586.160</b>	<b>644.647</b>	<b>711.842</b>	<b>737.842</b>

- 2.5 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. Table 6 above demonstrates that the Council expects to comply with this.
- 2.6 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £60m at each year-end. This benchmark is forecast to increase to £173.9m over the next three years.

**Table 7: Borrowing and the Liability Benchmark in £ millions**

	31.03.23 Actual	31.03.24 Forecast	31.03.25 Budget	31.03.26 Budget	31.03.27 Budget
Forecast borrowing	68.709	68.709	78.709	168.709	178.709
Liability benchmark	(109.241)	(48.882)	76.160	165.482	173.742

- 2.7 The table shows that the Council expects to remain borrowed above its liability benchmark.
- 2.8 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

**Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt**

	2023-24	2024-25	2025-26	2026-27
	Limit	Limit	Limit	Limit
Authorised limit – borrowing	572.000	635.000	708.000	790.000
Authorised limit - PFI and leases	50.000	65.000	59.000	53.000
Authorised limit - total external debt	<b>622.000</b>	<b>700.000</b>	<b>767,000</b>	<b>843.000</b>
Operational boundary – borrowing	542.000	585.000	658.000	690.000
Operational boundary - PFI and leases	45.000	60.000	54.000	48.000
Operational boundary – total external debt	<b>587.000</b>	<b>645.000</b>	<b>712.000</b>	<b>738.000</b>

- 2.9 **Treasury Investment Strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.
- 2.10 The Council's policy 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 the government, money market funds or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, strategic pooled funds, shares and property, to balance the

risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy, and the Council may request its money back at short notice.

**Table 9: Treasury Management Investment forecast in £ millions**

	31.03.23 actual	31.03.24 forecast	31.03.25 budget	31.03.26 budget	31.03.27 budget
Near-term investments	182.000	122.000	7.000	7.000	9.000
Longer-term investments	56.000	56.000	56.000	56.000	56.000
<b>TOTAL</b>	<b>238.000</b>	<b>178.000</b>	<b>63.000</b>	<b>63.000</b>	<b>65.000</b>

2.11 Further details on treasury investments are in pages 5.1 to 5.26 of the Treasury Management Strategy

2.12 **Risk Management:** The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

2.13 The treasury management prudential indicators are in paragraphs 6.1 to 6.6 of the Treasury Management Strategy.

2.14 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Corporate Director Resources and staff, who must act in line with the treasury management strategy approved by Council. The Audit Committee is presented with mid-year and outturn reports on treasury management activities. The Audit Committee is responsible for scrutinising treasury management decisions.

### 3. Investments for Service Purposes

3.1 The Council makes investments to assist local public services, including making loans to its subsidiaries & associates, local charities, and its employees to support local public services and to stimulate economic growth. Considering the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to protect the real term value of the Council's financial assets.

3.2 Total investments for service purposes are currently valued at £2.1m with the largest being loans to Oxford House and PLACE Ltd.

3.3 **Governance:** Decisions on service investments are made by the relevant service manager in consultation with the Strategic Heads of Finance and Corporate Director Resources and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the

3.4 Prudential indicator: Net income from commercial and service investments to net revenue stream. The Council has nominal commercial/service investments and has not borrowed to invest in the commercial portfolio.

#### 4. Liabilities

4.1 In addition to the debt detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £478.0m at 31 March 22). The Council is also at risk of having to pay for any defaults on loans by housing associations in connection with residential properties transferred to them by the Council, and the pension liabilities of Tower Hamlets Homes should the ALMO not be able to meet its pension obligations. As of 31 March 2022, the Tower Hamlets Homes pension fund had an IAS19 surplus of £8.4m. The Council has not put aside any money for these potential liabilities.

4.2 Governance: Decisions on incurring new discretionary liabilities are taken by service managers in consultation with the Strategic Heads of Finance and Corporate Director Resources. The risk of liabilities crystallising and requiring payment is reported in the Council's accounts.

#### 5. Revenue Budget Implications

5.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e., the amount funded from Council Tax, business rates and general government grants.

**Table 10a: Proportion of Financing Costs to Net Revenue Stream (General Fund)**

	2022-23 Actual	2023-24 Forecast	2024-25 Budget	2025-26 Budget	2026-27 Budget
Financing costs (£m)	5.342	8.882	8.062	8.197	9.696
Proportion of net revenue stream	1.4%	2.0%	1.8%	1.8%	2.1%

**Table 10b: Proportion of Financing Costs to Net Revenue Stream (HRA)**

	2022-23 Actual	2023-24 Forecast	2024-25 Budget	2025-26 Budget	2026-27 Budget
Financing costs (£m)	4.794	4.195	4.768	10.353	16.473
Proportion of net revenue stream	4.7%	3.7%	3.9%	8.0%	12.1%

5.2 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend in some cases for up to 50 years into the future. The Corporate Director of Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable.

## **6. Knowledge and Skills**

- 6.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Interim Corporate Director of Resources is a qualified accountant with over 30 years' experience and the Council pays for junior staff to study for relevant professional qualifications including CIPFA.
- 6.2 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and Savills as property consultants. This approach ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

## Minimum Revenue Provision (MRP) Policy Statement 2024-25

1. The Guidance requires the Council to approve an annual MRP statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods. This statement is consistent with that approved by the Council for 2023-24
2. For supported capital expenditure MRP will be determined in accordance with the former regulations that applied on 31 March 2008, incorporating an “Adjustment A” of £17.5m. (DLUHC Guidance Option 1 – the Regulatory Method).
3. For unsupported capital expenditure incurred after 31 March 2008, MRP will be determined by charging over the expected useful life of the relevant asset in equal instalments, starting in the year after that in which the asset becomes operational. There are two areas where asset lives are bound by regulation. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. (DLUHC Guidance Option 3 – the Asset Life Method).
4. For assets acquired by leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability (per DLUHC Guidance).
5. Where former operating leases are brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, the asset values adjusted for accruals, prepayments then, the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
6. For capital expenditure loans to third parties, the Authority will make nil MRP unless (a) the loan is an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in-year but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment on loans that are investments for commercial purposes, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss. This option was proposed by the government in its recent MRP consultation and in the Authority’s view is consistent with the current regulations.
7. Under the DLUHC Guidance MRP is not required to be charged in respect of assets held within the Housing Revenue Account (HRA). Since removal of the HRA debt cap by central government in 2018, the Council has made a voluntary revenue provision (VRP) on new HRA debt funded capital expenditure. Future provision will

be subject to affordability and the HRA Business Plan.

8. Where there is a change in policy from the previous year for any category of expenditure, this change will be reported to Council including reason the change is prudent.
9. Capital expenditure incurred during 2023-24 will not be subject to a MRP charge until 2024-25 or later.