

Extraordinary Overview and Scrutiny

9 February 2021



	Draft Capital Strategy 2021
Purpose of the report	To make a recommendation to Cabinet
Report Author	Terry Collier, Deputy Chief Executive Heather Morgan, Group Head Regeneration and Growth
Cabinet Member	Cllr Boughtflower, Leader
Confidential	No
Corporate Priority	Housing Financial Sustainability
Recommendations	Overview and Scrutiny is asked to: <ul style="list-style-type: none">• Note the working draft of the Capital Strategy 2021• Provide recommendations on how the strategy could be improved and amended to Cabinet for them to consider prior to the report going to Cabinet on 24 February and Council on 25 February 2021
Reason for Recommendation	<p>The Capital Strategy has to be produced on an annual basis</p> <p>It sets out in plain English the why, what, where, when and how of our capital investment decisions and how these dovetail into the Council's wider strategic aims – housing (with a focus on affordable), regeneration and green initiatives and climate change.</p> <p>Overview and Scrutiny are being asked to undertake pre-decision scrutiny of this key document to ensure it is robust and fit for purpose</p>

1. Key issues

- 1.1 Since April 2018 there has been a statutory requirement for every authority to have a Capital Strategy in place and it has to be formally adopted by Council.

All authorities are required to set out what need the Council has for capital financing, why it has this need and what the money will be spent on. In addition to that, there are more technical aspects which have to be included and the document should also outline our approach to risk management and how we are resourcing this side of our business.

- 1.2 The Council underwent a virtual financial Peer Review in November 2020. In its response the Peer Review team recognised that the 'leadership team has ambitions to widen the current housing schemes and in delivering affordable housing for its residents' and that 'progress is already underway with a new corporate plan in development stages with a focus on 'Recovery (including Community Support), Affordable Housing and Climate Change'. This new focus has been reflected in the new Capital Strategy.
- 1.3 The 2021 Strategy is a very different document from those that have preceded it. There is a clear break from the past, and it puts 'front and centre' how the Council's new priorities of:
- delivering affordable housing
 - achieving the regeneration of our town centres
 - ensuring a sustainable future in recognition of declaring a climate change emergency

are to be delivered through this Capital Strategy.

Affordable housing (section 5)

- 1.4 Over the past few years private housebuilders have failed to provide sufficient affordable housing to meet the growing needs of our residents. Over the past five years only 147 new build affordable rented units have been delivered (an average of 29 per year). This needs to be seen in the context of a widening gap between people's income and the cost of housing (called affordability), the high use of emergency accommodation (we have 110 homeless households and the net cost of accommodating them is approximately £6,740 per household per annum), a year-on-year reduction in properties available for re-letting by 21% and an increase in the numbers of the housing register and in need (now in excess of 2,600)
- 1.5 The Capital Strategy sets out how the Council will actively reverse this trend by directly intervening in the direct delivery of additional housing, and in particular affordable homes (set at 80% of the full market rents). There is a commitment that Council developments will deliver at least 50% affordable provision on its schemes.

Regeneration (section 6)

- 1.6 Economic development and recovery from the economic impacts of the COVID-19 Pandemic is key and reflects the importance that the Council places on ensuring the overall prosperity of the Borough and its residents. The Council has significant landholdings in Staines-upon-Thames and has a pivotal role in using those assets to ensure a vibrant and sustainable town centre for this and future generations of residents.
- 1.7 The Council's landholdings within the town centre (including our strategic acquisitions) provide a clear opportunity to bring forward at least 1,420 units in the next 10 years. As a result, we are in a position to ensure the delivery of

22% of the Borough's assessed 5-year land supply requirement in the Local Plan (738 units to be delivered by the Council out of a required 3,343. This is key plank in protecting our green belt from being put at risk through the submission of unacceptable applications on the premise that we as a Council cannot deliver our housing need numbers.

Climate change and green initiatives

- 1.8 The Council has joined a growing number of domestic and international authorities in declaring a climate emergency and adopting a carbon-neutral target. A Climate Change Task Group has been set up and the Council is at an early stage of fully assessing and identifying our own carbon footprint along with developing a carbon trajectory to reach carbon neutrality. This work will help to inform where investment will be required to meet our targets.
- 1.9 Focus areas for capital investment in green measures will include the transition of our fleet of vehicles to low carbon alternatives and the decarbonisation of Council owned buildings. Best practice environmental design will be built into our developments. An example of this are the plans are underway to redevelop Spelthorne Leisure Centre to be the first fully compliant Passivhaus Leisure Centre in the Country demonstrating the Council's commitment to tackling climate change.
- 1.10 There is also a capital sum for the Lower River Thames scheme. This will reduce flood risk to people living and working near the Thames, contribute to a vibrant local economy and maximise the social and environmental value of the river. The Scheme is expected to cost (including contingencies) £640m. To date Spelthorne has committed £49k per year in revenue costs. In early discussions partners agreed a contribution to the capital costs and this was identified as £1.3m for Spelthorne. With the scheme progressing it is expected this spend would take place between 2023 and 2025.

2. Options analysis and proposal

- 2.1 There is a statutory requirement for a Council to have a Capital Strategy and for this to be adopted on an annual basis before the end of the financial year (in much the same way as we are required to do with our Treasury Management Strategy). This Strategy needs to be formally agreed by Council and needs to be agreed by Cabinet before that can take place. Overview and Scrutiny are being asked to feed into this decision making process with their views and recommendations.

3. Financial implications

- 3.1 The Capital Strategy sets out a number of financial matters around sources of funding, what we spend annually on services, the range of options available to us for borrowing, and how we undertake effective treasury management of our funds. It also sets out the Councils proposed development programme for future years (which is focused on delivering affordable housing and regeneration activity).
- 3.2 One particularly important matter is the capital requirement to deliver the proposed housing activity (with its significant focus on affordable housing). The funding for the developments identified in the Capital Strategy were considered at the Extraordinary Council Meeting on 21 January 2021. That meeting agreed that budgetary provision should be made. These budget

estimates/costs will be reflected in the Capital Programme which is going to Council on 25 February 2021 as part of the budget setting process

- 3.3 It should be noted that the Council has already set (as required by the Prudential Code), borrowing limits for its total capital expenditure (Operational Boundary and Authorised Limit). These limits have been agreed for the current financial year and the following three financial years to fund all the schemes in the current Capital Programme.

- 3.4 The Council at its February 2021 meeting will be refreshing the Capital Programme (alongside the Capital Strategy) by rolling forward the period covered by the Programme by one year to cover the period of 2021-22 to 2024-25 and will be updating its Borrowing Limits for that period. Currently the Operational Boundary borrowing limit is as follows:

2020-21 £1,250m

2021-22 £1,250m

2022-23 £1,300m

2023-24 £1,350m

and the Authorised Limit (which is a worst-case limit and allows for unforeseen cashflow events) is as follows:

2020-21 £1,350m

2021-22 £1,350m

2022-23 £1,400m

2023-24 £1,450m

- 3.5 These limits include borrowing already undertaken by the Council. As a result of the initial work by officers on the draft Capital Programme for 2021-22 to 2024-25 (with some general contingency provisions being removed), it is anticipated that the total Capital Spend over the next four years will reduce. Initial modelling suggests a reduction from £326m for the current 4-year period to approximately £250m for the new 4 year period (a reduction of £76m). Current borrowing limits are likely to be more than sufficient for the next four years and indeed may be reduced slightly. Council are therefore not required to extend the borrowing limit.
- 3.6 The strategy needs to be read alongside and in conjunction with the annual Treasury Management Strategy and the budget for 2021/22.

4. Other considerations

- 4.1 Risk management, skills, and performance management are all covered in the Capital Strategy itself and do not require repeating here.
- 4.2 An Executive Summary will be provided to give the headline information in an easily digestible format. A series of appendices provide the supporting and technical detail. As a whole the strategy has again been kept short, informative and readable. There are no specific equality and diversity matters to be taken into account when developing the Capital Strategy.
- 4.3 One of the challenges that the Peer Review identified that needs to be addressed is the need to 'ensure that effective programme and project management is further developed and embedded across the organisation for

both capital and revenue spend reflecting internal controls and proportionate risk management'. Appendix 4 in covers risk but also governance and reflects the potential move to a committee system from May 2021 (if it is approved at an Extraordinary Council meeting in late March). This includes specific reference to the setting up of a sub-committee of the policy and resources committees to review and monitor all the Councils development projects (as agreed at the Extraordinary Council meeting on 21 January 2021. The detailed operation of the sub-committee will be developed by the Committees Task Group.

5. Sustainability/Climate Change Implications

- 5.1 Sustainability and climate change are one of the three core elements of the Capital Strategy. The document sets out at a high level what the Council is aiming to achieve and identifies a number of key areas of activity that the Council will be looking at (e.g. green fleet). This core element will be developed considerably over the coming months by the Climate Change Task Group and it is envisaged that any actions and recommendations relating to capital which that Task Group put to Cabinet (before May) or to a Committee (after May) for approval will feature in future versions of this Capital Strategy.

6. Timetable for implementation

- 6.1 Recommendations from Overview and Scrutiny on this draft Capital Strategy will be taken to Cabinet on 24 February, where they will formally consider those recommendations and make a decision on whether or not to accept some or all of them. In addition, recommendations from O&S will be fed back to Cabinet immediately after this meeting so that they are aware of them. Cabinet will then advise officers what changes are required so that these can be fed into a final document.
- 6.2 The final version of the Capital Strategy will be considered by Cabinet on 24 February, which will make a recommendation to Council on the matter. Council will make the final decision on whether or not to adopt the Capital Strategy 2021 on 25 February at the annual budget Council meeting.

Background papers:

None

Appendices:

- 1 Draft Capital Strategy 2021 (This gives residents, councillors and other stakeholders an overview of why, where and how we intend to spend capital to provide services and meet some of the Council's wider strategic aims)
- 2 Appendix 1 of draft Capital Strategy (Historical Background)
- 3 Appendix 2 of draft Capital Strategy (Investment Parameters)
- 4 Appendix 3 of draft Capital Strategy (Housing information)
- 5 Appendix 4 of draft Capital Strategy (Risk and decision making)
- 6 Appendix 5 of draft Capital Strategy (Treasury Management)
- 7 Appendix 6 of draft Capital Strategy (Our commercial activity)
- 8 Appendix 7 of draft Capital Strategy (Key performance indicators)