

The Capital Strategy of Spelthorne Borough Council

Will have new logo

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1. Introduction

This document sets out Spelthorne Borough Council's Capital Strategy. It 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. Supported by other documents including Asset Management Plans and Treasury Management Strategies, it spells out our priorities in the short-, medium- and long-term.

In particular, this document demonstrates how our Capital Strategy will help to deliver two key goals contained in our [Corporate Plan](#):

- **To deliver much-needed housing** in order to help reduce homelessness locally, increase affordable provision and help meet the overall need for additional homes- the Council is seeking to ensure that on all its developments at least 50% of the units are affordable or keyworker rental units
- **To regenerate our town centres** and ensure that all development is high quality and well -designed, and contributes positively to the development of truly sustainable communities, in economic, social and environmental terms.

Capital Strategies help ensure that Councils take a long term planned approach to how they identify their need to incur capital expenditure and how they will manage and finance that expenditure.

How capital expenditure is defined

Capital expenditure is money used by the Council to acquire, upgrade, and maintain physical assets such as property, operational buildings and equipment which will provide benefits to the Council and its residents over more than one year. Capital expenditure can include everything from installing new windows with enhanced glazing or purchasing a piece of equipment or vehicle through to constructing a brand new building. Capital expenditure is different to revenue expenditure, which is the money used by the Council for the day-to-day delivery of services, staffing and supplies.

2. What is our Capital Strategy?

2.1 Put simply, the key element of our Capital Strategy is to deliver affordable homes as part of our regeneration strategy

- We are **delivering** the affordable homes for our residents which the market fails to provide and we are prioritising people who are on our Housing Register
- We are aiming at **regeneration** of key sites which will produce more affordable and sustainable homes alongside mixed use development to ensure the development of sustainable communities within the borough and Staines-upon-Thames in particular.
- We are looking to deliver on our pledge of taking positive actions on both **green initiatives and the climate change** agenda as a result of this Council declaring a Climate Emergency in October 2020.
- Historically we have invested in commercial property which, delivers an ongoing sustainable income stream to support these activities and maintain existing services.

2.2 Given the economic impact of COVID-19 regeneration projects will become even more important. Beyond housing, regeneration and green initiatives, our Capital Strategy will also help us meet our need to upgrade and maintain:

- Operational buildings, to include sustainable measures in upgrades
- Infrastructure in the borough, including green network initiatives
- Our vehicle fleet – as we move to greener options over the next 3 years
- Our ICT infrastructure – to ensure supports office and remote working.

Our duty to look after public money

2.3 As a Council, we have a duty to look after the public purse, and residents and businesses expect us to do so in a sensible and rational way. This Capital Strategy will demonstrate how we:

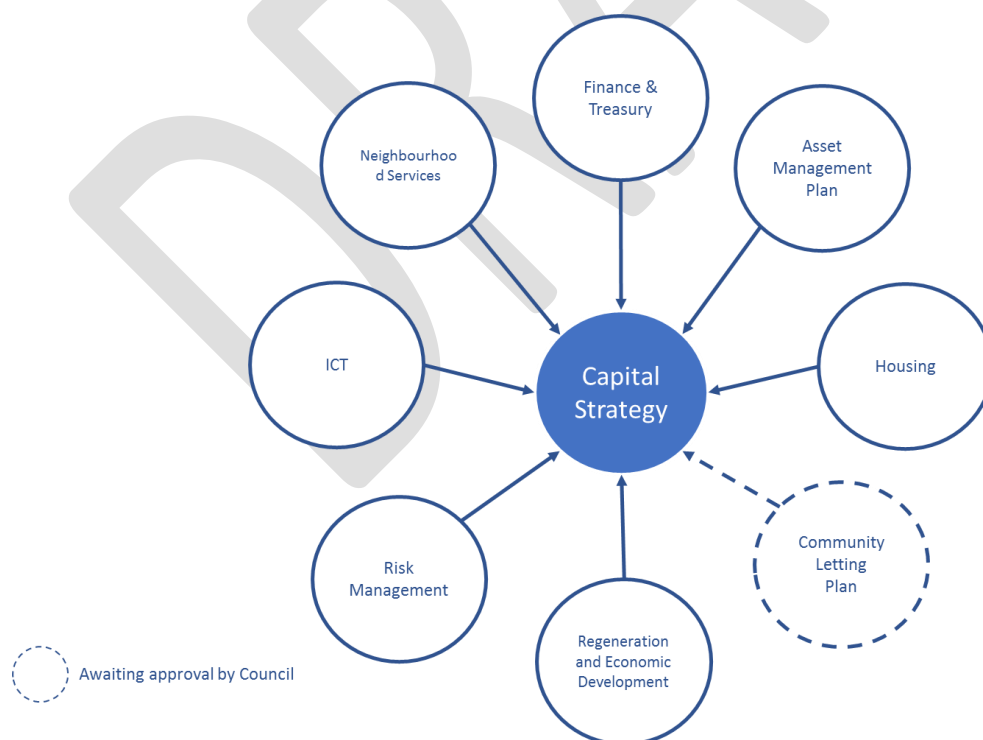
- **Finance our spending** largely through prudent borrowing, specific grants , revenue contributions to capital or use of reserves (called capital financing) within the borrowing within the approved Prudential Debt parameters sets out in accordance with the Prudential Code (Operational Boundary and Authorised Borrowing Limit)
- **Spend wisely and safely**, especially in relation to the investment portfolio that we hold (called commercial activity) and planned development and regeneration activates in the borough

- **Manage risk and make decisions**, ensuring we have the appropriate skills and expertise, and taking a measured approach to investment, development and regeneration and risks associated with climate change.
- **Ensure we have enough money** immediately to hand to keep services running on a day-to-day basis and to maintain the assets on an ongoing basis
- **Maximise our returns** on monetary investments (called treasury management)

2.4 Underpinning the whole Capital Strategy is the need to ensure that the Council is financially sustainable in the future (this is another [Corporate Plan](#) priority), something that is especially challenging in the current financial landscape (due to the impacts of COVID-19 and the road to recovery, plus exiting the EU with no deal).

2.5 The Council acknowledges the need to positively address climate change and will look to actively embed sustainability in all its Capital investment, development and spending decisions moving forwards.

3. How do existing plans feed into the Capital Strategy?



- 3.1 The Council already has several strategies in place which cover various aspects of spending. We appreciate that it can be difficult to understand how all of these elements mesh together to form a 'whole', which is where the Capital Strategy comes in. By bringing everything together in one document, we can show how the need to invest in assets – such as building a new waste depot, for example – has a range of implications.

An overview of our individual strategies

- 3.2 The various strategies that we currently have in place are set out below, although some are being updated to reflect the intentions set out in this document. Please follow the links if you would like to read them in full.
- 3.3 **Medium Term Financial Strategy** (also known as the Council's Outline Budget) – how the Council sees our need for revenue funding in the next five years, and its strategy for ensuring the financial sustainability of the Council
- 3.4 **Treasury Management Strategy** and Investment Strategy – how the Council properly manages the money we have at hand (cash flow) to make sure money is always available to run the Council and deliver services and to fund future developments and capital expenditure
- 3.5 **Asset Management Plan** – how the Council's assets support our corporate objectives and the services we provide. It sets out principles, priorities and action to ensure our assets are used and managed as efficiently and effectively as possible.
- 3.6 **Housing and Homelessness Strategy** – detailing the Council's strategic approach to ensure that there is a choice of housing options available to people living in Spelthorne, including supporting those who are homeless or at risk of homelessness, and preventing people from becoming homeless.

4 Where does the Council get its money from and what does it spend it on?

Our sources of income

- 4.1 The Council gets its money from a variety of sources – for 2021/22, our revenue funding is coming from: **The 2021/22 figures are yet to be updated and are subject to Council approval in February 2021**

Funding	£	%
Interest earned	1,340,000	6
General grants from government	551,100	2
Our share of Council Tax	8,282,500	35
Our share of Business Rates	3,800,000	16
Income from our investment properties	9,924,800	41
TOTAL	23,898,400	100

Table 1: Sources of income

What we fund

4.2 Our income is used to fund the range of services we provide – for 2021/22, this covers:

The 2021/22 figures are yet to be updated and are subject to Council approval in February 2021

FUNDING	NET COST AFTER CHARGES GRANTS ETC £	%
Electoral Registration & Elections	262,700	1
Democratic and Corporate Services	2,979,000	13
Grants to community organisations	209,600	1
Housing benefits	384,200	2
Housing and Homelessness	1,948,000	8
Planned maintenance	1,284,100	5
Planning and Economic Development	1,140,600	5
Asset management	799,300	3
Environmental Services & compliance	1,740,900	7
Refuse collection	1,426,700	6
Street cleaning	925,900	4
Grounds maintenance	1,689,200	7
Community wellbeing	822,600	3
Support services and central overheads	6,127,300	26
Project Delivery Fund	1,408,300	6
Revenue contribution to capital	750,000	3

TOTAL	23,898,400	100
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Table 2: Funding of services

Our capital expenditure plans

4.3 In 2021/22, the Council is planning capital expenditure of **£65.6m** as summarised below:

The 2021/22 figures are yet to be updated and are subject to Council approval in February 2021

	2018/19 ACTUAL £m	2019/20 FORECAST £m	2020/21 BUDGET £m	2021/22 BUDGET £m	2022/23 BUDGET £m	2023/24 BUDGET £m	2024/25 BUDGET £m
Other Services Programme	376.9	42.9	31.1	56.5	23.7		
Housing Investment Programme	3.7	24.1	34.1	46.1	33.9		
ICT	0.3	0.2	0.2	0.1	0.6		
Environmental	0.2	0.5	0.2	0.1	0.1		1.3
TOTAL	275.3	67.7	65.6	102.8	58.3		

Table 3: Prudential indicator: estimates of capital expenditure in £ millions

4.4 Our capital projects include:

- Property development projects for operational purposes eg for supporting housing service needs (expenditure: £58.271m 2020/21, £39.952m 2021/22, £25.523m 2022/23)
- New Leisure centre development (original budget estimate for build costs and fees: £40m)
- Various corporate projects including facilities improvements and IT (including wireless infrastructure, cabling, network kit, document management system, property management system, telephony hardware and software)
- Waste, parks and parking includes new waste vehicles, reducing carbon footprint, improving management of parks and open spaces and enhancing CCTV.

- 4.5 The Council also plans to incur **£65.6m** of capital expenditure on housing and regeneration within the Borough (as per the table above). For full details of the Council's Capital Programme, including the project appraisals undertaken, view the [Capital Programme](#).
- 4.6 All capital expenditure must be financed from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The Council intends to ensure its Capital Strategy and Capital Programme is consistent with the requirements of the new terms of the Public Works Loan Board. The planned financing of the above expenditure is as follows:

Where our borrowing comes from

Will need updating to reflect draft 2021-22 Capital Programme

	2020/21 AS AT END OF Nov 20 £'000	2020/21 REMAINDER OF YEAR £'000	2020/21 FORECAST £'000	2021/22 BUDGET £'000	2022/23 BUDGET £'000	2020-22 TOTAL £'000
Public Works Loan Board	0	77,678	77,678	67,000	29,000	173,678
Of which to be used for refinancing existing debt	0	0	0	0	0	0
Other sources	49,890	8,385	58,275	35,480	25,290	119,045
Of which to be used for refinancing existing debt	0	0	0	0	0	0
Total PWLB and other sources	49,890	86,063	135,953	102,480	54,290	292,723
Of which to be used for refinancing existing debt	0	0	0	0	0	0
Of which to be used funding new long term borrowing	49,890	86,063	135,953	102,480	54,290	292,723

Table 4. Source of borrowing

Historical Background

4.7 Excluding the emergency COVID-19 funding provided in 2020, since 2013 the Council has seen a year-on-year reduction in the funding we receive from central government. In response in 2014 the Council put in place a transformation programme called “Towards A Sustainable Future” which included growing long term sustainable income streams to make up for the loss of grant. The Council had to take a view on how to offset the loss of general Revenue Support Grant, with these the only viable options:

- (1) Grow income
- (2) Reconfigure, reduce or deliver services in a different way
- (3) A combination of both the above

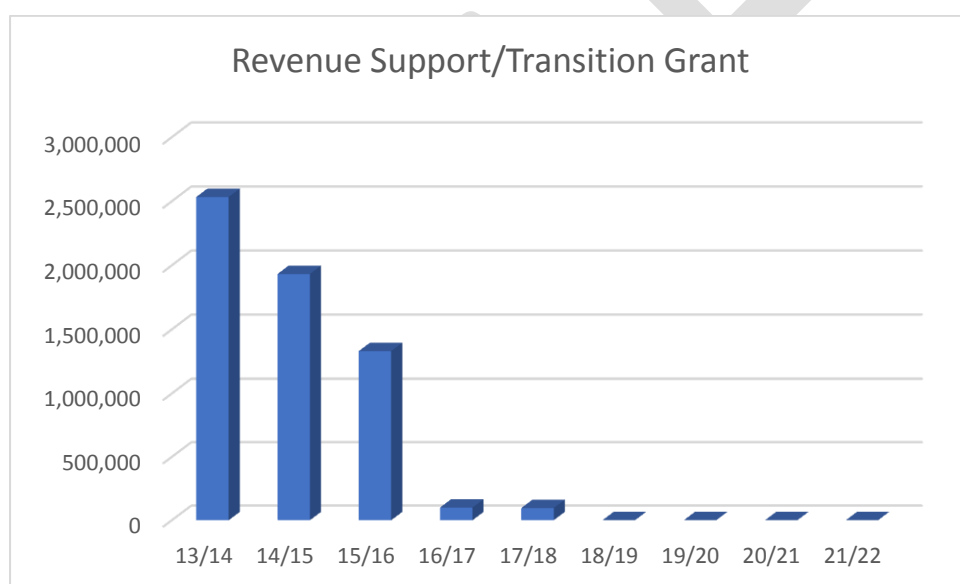


Illustration 1: Reduced Government funding

Our investment so far

4.9 Although this Capital Strategy looks forward, it is worth noting the significant level of investment activity that the Council has already undertaken. *Appendix 1* sets out the historical background to our acquisitions up to 2018, including our first major acquisition - the BP international campus in Sunbury. Information is included to explain why we set out on this journey, our previous ‘Towards a Sustainable Future’ programme, and our activity up to 2018. Since 2018 the Council has ceased purchasing investment properties and its focus is

on delivery housing and regeneration within the Borough and delivering schemes such as the new Leisure Centre.

- 4.9 Total commercial investments are currently valued at £959m, providing a net income yield of 5.20%. The Council has chosen, after taking account of interest and repayment of debt, to accept a net surplus contribution of 1% and to set aside a significant contribution into sinking funds to ensure we have funds available in future to cover voids and refurbishments. This is a comparable net return to that being achieved by pension funds on commercial assets.

Assets	Town	Sector	Purchase Price £m	Purchase Date	2020 Valuation £m
BP Campus, Sunbury Business Park	Sunbury	Offices	385	Sept 2016	391.73
12 Hammersmith Grove	London	Offices	170	Jan 2018	165.90
Charter Building	Uxbridge	Offices	136	Aug 2018	131.20
Thames Tower	Reading	Offices	119	Aug 2018	126.80
The Porter Building	Slough	Offices	66	Aug 2018	69.90
World Business Centre 4	Heathrow	Offices	47	Sept 2017	45.80
3 Roundwood Avenue	Heathrow	Offices	21	July 2017	20.10
Elmbrook House	Sunbury	Offices	7	Dec 2016	7.24
Station Road	Sunbury	Offices	0.4	Mar 2018	0.36
Total			951.4		959

Table 5: The Council's commercial assets portfolio

Regeneration portfolio

The Council now has an ambitious housing and regeneration programme underway

Assets	Town	Sector	£m	Purchase Date	2020 Valuation £m
Communications House	Staines	Offices	11	July 2018	14.5
Summit Centre	Sunbury	Offices	14	Sept 2019	13.5
Elmsleigh Centre	Staines	Retail	39.33	Feb 2020	39.33
Total			64.33		67.33

Table 6: The Council's Regeneration portfolio

4.10 On our commercial asset acquisitions, the overall initial net yield is 5.20%. As there are upwards only reviews to either market rent or indexation of the rental every five years on most of the assets, the yield is likely to rise over time. After taking account of paying off loan instalments each year, interest, supervision costs and setting aside sinking funds to cover future potential costs (such as refurbishments of assets on lease expiry and rent-free periods), the net surplus contribution to the Council's Revenue Budget in 2021/22 will be **£9.4m** per annum. *Appendix 2* set out the Council's Strategic Property Investment Parameters

5 The focus on housing and homelessness

- 5.1 Historically the Council was concerned with generating sufficient revenue to safeguard its basic services. The focus now is on providing affordable housing. Housing is one of the Council's four strategic priorities in the **Corporate Plan**, reflecting the significant pressures the Borough is facing, with relatively high numbers of families in temporary accommodation, insufficient affordable housing provided by Registered Providers of social housing and a severe shortage of affordable private rental housing supply.
- 5.2 Going back to the 1990s, the Council used to provide traditional council housing. In the 1990s, it was decided to transfer the council housing stock to what was then Spelthorne Housing Association and is now part of A2Dominion. The main reason for the transfer of properties at the time was the need to bring the properties up to an acceptable state of repair, which the Council could not afford at the time. Since then, the Council has not had a direct role in developing new homes; this has been carried out by A2Dominion and other Registered Providers, as well as private developers. Fluctuation in the delivery of new housing has been dictated by the economy and the availability of grant funding to subsidise affordable housing.
- 5.3 The Council's Housing Strategy 2020 – 2025 contains three strategic priorities which will contribute to achieving the overall vision of 'ensuring best quality homes in a thriving and sustainable community'. Additionally, the Council is required to have a Homelessness Strategy, which outlines the Council's approach to preventing homelessness.
- 5.4 In common with many other local authorities in the South East, Spelthorne has a growing demand for genuinely affordable housing and is facing a number of key challenges:

- **Increasing numbers on the Housing Register and a lack of availability of existing affordable housing:** Over the past five years, the number of available social housing vacancies offered to the Council for re-letting has reduced by 21% See *Appendix 3 Table H2*, with the numbers on the Council's Housing Register now almost one third higher than five years ago See *Appendix 3 Table H1*, The growing numbers on the Council's housing register, and the lack of new supply affordable housing highlights the increasing challenges of meeting the needs of the most vulnerable in our community. The Covid-19 pandemic continues to have a significant effect on local residents, particularly those employed at Heathrow Airport.
- **High rates of statutory homelessness:** almost two thirds of households include children, and almost a quarter have some form of physical or mental ill health. See *Appendix 3 Table H3*. The Council is accepting a homeless duty to an increased number of households since the Homelessness Reduction Act 2018 came into force.
- **High use of emergency and temporary housing for homeless households:** The average occupancy of temporary accommodation at the end of each quarter in the five years to 2019/20 was 110 households. See *Appendix 3 Table H4*. For example, the average cost to the Council to accommodate one homeless household in emergency housing is approximately £6,750 per annum.
- **Worsening affordability issues:** whilst the ratio of the median house price to the median wage improved nationally and regionally, it worsened at borough level in 2019/20. Median wages have been affected in a similar way – improving nationally and regionally in 2019/20, but falling at a borough level. Spelthorne is still less affordable for local people compared to other areas in the South East and England overall- See *Appendix 3 Table H5*
- **Lack of new-build affordable housing:** The net increase of provisions over the past five years has been just 185 units (with none on 2019/20) an average of 37 per year See *Appendix 3 Table H6*. The greatest need is for two bedroom four person homes, with waits for affordable housing for this type running into years.

The effect of our proximity to London

- 5.5 As well as the evident demand for affordable housing from local residents, there is also considerable pressure from London. The cost of housing in London is even higher than in Spelthorne, and London boroughs are actively placing homeless households from their boroughs into Spelthorne, as well as 'block booking' emergency accommodation facilities within Spelthorne for their homeless people, placing further demand on the already strained private sector.

Heathrow

- 5.6 Expansion plans are currently paused, pending the outcome of a judicial review of the Government's Airports National Policy Statement, which underpins the need for a third runway. The COVID -19 pandemic has also had a catastrophic impact on the aviation industry, which is likely to be felt for several years after the initial effects of the pandemic have eased. Heathrow Airport Limited (HAL) has not formally withdrawn its expansion plans but if the outcome of the judicial review means they can proceed to submit the Development Consent Order there is uncertainty as to if or when this would take place. HAL's current work has focused on recovery.
- 5.7 Some joint work has already been undertaken across several Councils to understand the potential impact of any future expansion of Heathrow on the need for additional housing. Early indications are that it will not have a significant impact on the need for additional permanent housing in the short, medium or longer term. Any emerging data will be fed into the strategy as required. However, there will be shorter term impacts from construction workers who require accommodation for the term of the expansion (up to 2050) which may affect the ability of the Council to access the private sector market as readily

Key worker accommodation

- 5.8 The Covid-19 pandemic has once again highlighted the need to deliver appropriate housing and services to key workers in our community. Whilst housing affordability is a significant issue in general, it acutely affects key workers, who help to run the essential local services such as schools, hospitals, doctors' surgeries and fire stations. According to Government statistics released in 2019, the latest records available, the median income for employed households within Spelthorne is £33,597, although the same for essential local workers is much less at £27,159. Whilst the median income at borough level is higher than regional and national median incomes, when compared to local house prices, it highlights the significant affordability issues that local residents face. We know anecdotally that key worker staff are moving further and further away from Spelthorne into Hampshire and Berkshire and commuting to work. This means that when they look for their next promotion they are more likely to look in those areas; this is another factor leading to loss of workforce. Whilst some key workers are being recruited from London, one of the main factors which will keep them in Spelthorne is availability of affordable housing.
- 5.9 In 2020, the Council commissioned an independent study of the housing needs of local key workers, in order to inform the basis of a key worker housing scheme to be delivered by the Council through our housing company Knowle Green Estates Ltd. The study used a local agreed definition of key workers:

- **Health and social care:** Doctors, nurses, midwives, paramedics, social workers, care workers, other frontline health & social care staff.
- **Education and childcare:** Childcare, support and teaching staff, specialist education professionals [including FE teachers and Early Years/nursery teachers; Local authority Therapists, including Occupational Therapists and Speech and Language Therapists; and Local authority Educational Psychologists].
- **Public safety and national security:** Police and support staff; Armed forces personnel¹; Fire and rescue service employees; Prison and probation staff.

The study concluded that:

- An estimated 24% of employed Spelthorne residents aged between 16 and 64, totally around 12,000, are key workers
- The majority of these key workers are in education and health, followed by social care and lastly public order
- Just under half have at least one child
- Approximately 12% of key workers in Spelthorne are in need of affordable accommodation, around half of which are in education

Strategic objectives

5.10 In 2018, Government and CIPFA guidance to local authorities changed with regards to borrowing to invest in commercial properties. The Council has carefully considered this guidance and this Capital Strategy reflects both that guidance and our strategic objectives of borrowing to support housing investment.

Subsidies are key

5.11 As affordable housing is provided at up to 80% of the market rate, subsidies are essential to make it viable. A private developer who pays market rate for land, finance, supplies and labour has to sell their properties at market rate to make a profit. When Spelthorne Council is acting as the developer, even if we forgo the profit element, it is still difficult to deliver truly affordable housing.

5.12 Housing for rent can pay for itself over a period of time because of the rental income which it generates. However, the Council needs to be in a position to forward fund such developments and the cost of finance for the acquisition, development and construction

¹ Retaining this status “for a period after discharge” according to the Armed Forces Covenant.

stages is prohibitive for councils unless they receive Government subsidy. This is similar to the way Housing Associations operate – having a market rate product to sell and rent, the surplus of which subsidises the affordable elements of their business.

- 5.13 The bottom line is that, even with the Government grant funding available through Homes England, affordable housing developments need significant capital investment and cash flow to deliver.

Spelthorne's Housing Development Programme

- 5.14 Spelthorne has a pipeline of properties for residential development with the aim of delivering 50% affordable housing across the portfolio, with an emphasis on maximising the delivery of two-bedroom four person units. Wherever possible, rents will be capped at the relevant Local Housing Allowance.

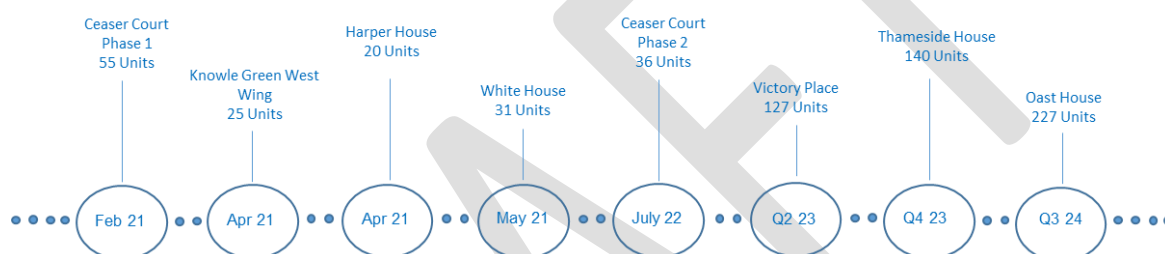


Illustration 2: Projected funding

Knowle Green Estates Ltd (KGE)

- 5.15 The Council formed its housing company in 2016 when we acquired Harper House in Ashford for emergency accommodation. Demolition of this property began in January 2020 in order to redevelop the site to provide brand new fit for purpose temporary accommodation for 20 families.
- 5.16 We also identified a need to promote our own affordable housing schemes, and KGE is the vehicle we use to deliver them to residents. We currently have a number of projects in the pipeline which will deliver 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).
- 5.17 KGE, recognising the scale of its ambitions, has recruited two additional experienced Non-Executive Directors with residential management and financial experience and expertise to strengthen the Knowle Green Estates Board.

Development costs

- 5.18 As our various housing delivery schemes come on stream, this will in the short term add some financing costs into the revenue budget. However in the longer term the council will receive a net margin or surplus representing the difference between the rates it accesses loan finance at and the market rates at which its housing delivery company Knowle Green Estates will repay loans to the Council at.

6 The focus on regeneration and economic development

- 6.1 Economic development and recovery from the economic impacts of the COVID-19 Pandemic is another one of the Council's four strategic priorities and reflects the importance that the Council places on stimulating more investment, jobs and visitors to Spelthorne in order to further the overall prosperity of the Borough and its residents. How we look to achieve this is set out in the Economic Strategy. Importantly, a vibrant economy also provides income through our share of business rates, helping the Council to be financially sustainable. Where and how we invest our capital plays a central role in terms of economic development.
- 6.2 It is true for all local authority areas that, if they do not pay close attention to the economic development and vitality of their area, they will move backwards as other areas around them move forwards. In previous years, the Council has made significant changes to Staines-upon-Thames which have revitalised the town centre. These include contributing to the development of the Two Rivers shopping centre, pedestrianisation of the High Street and the upgrading of the Riverside area around Memorial Gardens and Market Square.
- 6.3 The Council has significant landholdings in Staines-upon-Thames, and has made a number of acquisitions in line with our investment parameters to further cement our position. We bought back the long leaseholds of both Communications House, the Elmsleigh Centre and Thameside House so we now have control over a key portion of the town centre close to the River Thames. The Council also acquired Hanover House, which sits on the River adjacent to Bridge Street car park and represents a major redevelopment opportunity. The Council has entered into a development agreement with the Arora Group for a high end hotel complex development on the River Thames waterfront. We will continue to acquire properties but only where it makes strategic sense to do so for regeneration purposes. A recent example is the acquisition in 2019 of the Oast House, and the adjoining car park and a number of buildings on Kingston Road.

- 6.4 Further work needs to be done in Staines-upon-Thames and that there is considerable scope for improvement around Sunbury Cross and Ashford. So the aspirations of the Council should therefore be bold and ambitious. We have followed this ambition through by acquiring the Summit Centre in Sunbury (2019).

Planning to meet housing need

- 6.5 The current review of the Council's Local Plan initially identified a need to create around 606 housing units each year over the next 15 years. As part of its Issues and Options Consultation in summer 2018, the Council consulted on four main ways to meet this significant requirement for new housing:

- Brownfield development
- Green belt development
- Staines development
- Combination development

- 6.6 The Issues and Options stage was followed by a Preferred Options consultation between November 2019 and January 2020. This took forward the fourth option (combination) that was agreed by Cabinet to meet our housing need, with intensification of brownfield sites, additional development in Staines (facilitated by a masterplan) and some limited release of weakly performing Green Belt sites. Since the consultation, it has been agreed that Spelthorne will prepare its Local Plan on the basis of a revised methodology for calculating housing need that was consulted on by the Government. This brings our housing need down to 489 homes per year. It is anticipated this will mean removal of some or all of the previously identified Green Belt allocations from the Plan and a greater focus on finding opportunities to maximise brownfield sites, particularly in Staines.

The Strategic Housing Availability Assessment (SLAA) 2019 estimates that the 5-year housing land supply in the Borough is 3,343 units on 52 sites. Over 1,500 of these units are expected to be delivered in Staines-upon-Thames, with at least 400 to be delivered on Council-owned sites. In the medium term (next 6 to 15 years), Council-owned sites could deliver another 750 units (with other sites not owned by Spelthorne bringing forward approximately 250).

- 6.7 The preferred approach of focusing on Staines-upon-Thames as the major residential opportunity area requires a Masterplan to be developed as part of the new Local Plan which will focus in detail on where and how this new development can best be accommodated, in order to ensure we achieve a sustainable (financial, environmental and social) solution for the town.. This is now known as the Staines Development Framework and consultants

working with officers and Members have now reached the Issues and Options stage.

Progress has been delayed due to the pandemic and it is expected that the Framework will be completed by mid 2021.

6.8 The Council's landholdings within the town centre (including our strategic acquisitions) provide a clear opportunity to bring forward at least 1,420 units ((50% affordable) in the next 10 years. In the next five years, the level of investment that the Council aims to make is likely to be a minimum of £300m. As the land owner, we are confident that we can deliver this level of residential development whilst retaining sufficient car parking to sustain the town centre (though some sites may well be reconfigured to make more efficient use of the land that we have). The consultants are engaging with landowners and developers, including Knowle Green Estates, where schemes are in the pipeline but are likely to be consented or commenced prior to adoption of the Framework to ensure its outputs are not prejudiced.

6.9 The SLAA has identified that, within the town centre, the Council is able to develop the following housing units as a minimum (within the immediate confines of the town centre):

Thameside House	flatted	140 units	Years 1 - 5
Hanover House and Bridge Street car park	mixed use	75 Units and 150-250 bed space hotel	Years 1 – 5
Riverside car park (subject to re-provision)	flatted	100 units	Years 6 – 10
Elmsleigh Centre and adjoining land	mixed use	650 units	Years 11 - 15

Table 7: Minimum housing units identified to develop

6.10 The Council is currently part of a consortium promoting a light rail link to Heathrow from Staines-upon-Thames – the Southern Light Rail (SLR). A proposal was made to the Department for Transport setting out the details of the scheme, and making clear that it will be entirely privately funded (this is known as a market-led proposal). There are a number of potential investors and it is not envisaged at this stage that the Council will be contributing to the capital cost of c£375m. Heathrow agreed in 2019 that the SLR was its first Innovation Partner and work is progressing on how this scheme can be moved forwards.

7 The focus on green initiatives and climate change

- 7.1 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.
- 7.2 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
- 7.3 A Green Fleet review is underway which will inform future decisions and options on our vehicle transition. We are committed to reviewing the refuse collection fleet in 2023 and aspire to transition 50% to electric or hydrogen at this time with the remaining fleet replaced by 2027.
- 7.4 The decarbonisation of our buildings will require further investment in energy efficiency and renewable energy measures. To meet climate change targets we also need to adopt the use of sustainable materials in our builds and other efficiency measures e.g. on water use (Nov 2020) the Council is proactively undertaken studies which will inform future investment requirements for our buildings in relation to energy.
- 7.5 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.



7.6 The River Thames Scheme will reduce flood risk to people living and working near the Thames, enhance the resilience of nationally important infrastructure, contribute to a vibrant local economy and maximise the social and environmental value of the river. The scheme which involves the building of channels to take the extra flow in a flood will protect and reduce flooding to residents and businesses in Spelthorne. The aspiration for the River Thames Scheme is to be more than just a flood scheme through also providing opportunities for landscape enhancement, habitat creation and recreational opportunities. The River Thames Scheme is expected to cost (including contingencies) £640 million. Partners have committed to funding their share of the scheme and are finalising the mechanisms to do this. Surrey County Council has agreed to provide £270 million for long term flood risk management work. This includes a £237 million contribution to the River Thames Scheme, enabling the next steps of the scheme's delivery. To date Spelthorne has committed £49k per year in revenue costs towards the development of the scheme given its importance to reducing flood risk in the Borough and protecting our communities. In early discussions partners agreed a contribution to the capital costs as well. This was identified as £1.3M for Spelthorne and with the scheme progressing as now expected this spend would take place between 2023 and 2025 - most likely with the Development Consent Order for permission to build together with the build timetable this will be in 24/25.

8 How we finance our capital spend

8.1 As referred to in Table 4, Section 3, above, we finance our capital expenditure from a range of sources. These include:

- Revenue Contributions to Capital – beginning in 2018-19, we are now funding £750,000 per annum of our capital programme from the Council's Revenue Budget contribution. This covers most of the capital items which are not funded by grant or will not generate revenue savings or revenue income streams. This puts these elements of the Capital Programme on a more sustainable basis
- Grants – principally Disabled Facilities Grant. The Council will also seek to explore grant funding opportunities for its housing and development schemes and has successfully bid for grant assistance from Homes England for its single person hostel and family emergency accommodation schemes

- Community Infrastructure Levy (CIL) - the Council will apply our share of CIL to support capital schemes which meet the CIL criteria
- S106 funds (planning contributions from developers) – we will use s106 funds to support affordable housing schemes
- Capital receipts – these are generated from either the Council's share of Right to Buy proceeds on housing stock, which used to belong to the Council before the transfer to Spelthorne Housing Association (now A2D) in the 1990s, or from sales of other assets. As Knowle Green Estates starts to make larger principal repayments this will be capital receipts which can then be used by the Council to help finance capital expenditure
- Borrowing – mainly from the Public Works Loans Board (PWLB) at fixed rates. Some borrowing on a shorter term basis from other local authorities. In future, further borrowing will be focused on financing directly housing and regeneration within the Borough and service projects such as the new Leisure Centre

However, it is the case that PWLB and loans from other councils will continue to be a very important funding source. In November 2020, the Government published its response to the consultation on Public Works Loan Board Terms, dropping with immediate effect the margin on its loan rates by 100 basis points but requiring authorities to confirm that when applying for PWLB finance that they do not plan to purchase any commercial assets within next three years primarily for income. This Council has no plans to purchase any such assets in the coming years. The loans rates reduction will help make any new Council housing and regeneration delivery and the leisure centre more affordable to finance from borrowing

9 How we manage risk and ensure sound decision-making

- 9.1 The Council needs to ensure that we have clear ways of mitigating the risks that are inherent in acquiring property and in bringing forward development. We must also show that we have the right decision-making processes in place with robust checks and balances (this is called governance). *Appendix 4* sets out our risk management approach in more detail.

Risks

- 9.2 From a risk management perspective, and in order to ensure the Council's investments are as safe as possible, we have employed a range of due diligence techniques, including:
- Evaluation of tenants by external global property advisers
 - Using industry-standard information sources such as the credit rating agency Dunn and Bradstreet

- Modelling the impact of tenant failure (and securing parent company guarantees where necessary) and setting aside money from investments to establish sinking funds to cover worst-case scenarios and possible future voids
- Maintaining assets to ensure they are fit for purpose
- Key Performance Indicators (KPI's) see *Appendix 7*

9.3 The Council will keep the performance of our portfolio of commercial assets under continuous review. We have developed a series of Key Performance Indicators, (*Appendix 7*) to ensure the portfolio is performing as we want it to and is monitored. This will allow us to take appropriate action as required.

9.4 Under the Council's constitution, risk management is overseen by the Audit Committee, which reviews the Corporate Risk Register at each meeting. The Council is currently refreshing its corporate Risk Policy and approach to maintaining the Corporate Risk Register. The Corporate Risk Register is also reviewed by Cabinet. Risk management is an integral aspect of the Council's project methodology, with projects required at initiation to identify risks and how they mitigate them, and to maintain a project risk register. The approach to risk management includes planning and identification, monitoring and review for all risks and projects throughout their lifecycle. The Corporate Risk Register includes details of commercial investments. A key focus of our approach to commercial assets is to ensure that we understand the full range of risks – including the financial robustness of tenants and guarantors, legal risks, and physical and locational risks – so that we put in place appropriate risk mitigation measures. Increasingly with climate change we need to be aware of how a changing climate may impact on our buildings particularly in terms of cooling, and associated costs/carbon impact.

Skills

9.5 The changing nature of our portfolio has meant that we have enhanced our property team to ensure that we have with the right mix and level of skills and commercial experience. The Council also employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions (including treasury management). The cost of strengthening our property team has been met through funding and management set-asides from investment income. There is now an 11-strong asset management team which includes a manager of the property unit formerly employed by BAA who brings considerable expertise in the commercial property market around Heathrow; a development manager with significant experience of building residential property in the private sector; and a property manager formerly at a commercial fund. In October 2019 the Council undertook a training session on risk management for members of

audit committee. During 2021 we will be doing some refresher training sessions on risk management for officers and councillors.

- 9.6 The Council will ensure that the assets team continues to grow in proportion to the size of our investment and development activity. We have added further resources to our in-house finance and legal teams to support this acquisition and development activity. We also encourage our professional staff to complete ongoing continuous professional development, ensuring expertise levels are maintained. We have increased the resilience of our insurance functioning by bringing in, from 1 October 2020, London Borough of Sutton's larger insurance team to provide support on claims handling management in respect of the Municipal portfolio. This gives us access to a larger pool of expertise.
- 9.7 Where we do not have the necessary knowledge and skills within the Council, we use external advisers and consultants that are specialists in their field. These include Clyde and Co (legal), Cushman and Wakefield (property and valuation), Dunn and Bradstreet, Arlingclose Limited (treasury management), Deloitte and Carter Jonas (valuation and financial evaluation). This ensures that we have access to experts who can help us to operate in line with our risk appetite. We also seek to ensure that our councillors' knowledge on our approach to investments (both treasury management and commercial) is appropriately maintained. A training session on treasury management for councillors was provided in January 2021

Governance

- 9.8 The Council needs to ensure that we consider all opportunities in a managed way, and that we do so as transparently as we can (bearing in mind we are making commercially sensitive decisions). The Council is committed to following local government guidelines and we take appropriate legal and technical advice to ensure we are always doing so.
- 9.9 Under the current Cabinet system all property acquisitions are currently overseen by a group of senior councillors and officers. This group forms a Property and Investment Committee (PIC), which is a sub-committee of Cabinet including the Leader of the Council, one of the Deputy Leaders and portfolio holder for Assets and the portfolio holder for Finance. Councillors are involved at key stages of the process (which is set out at the end of *Appendix 4*).
- 9.10 Following the change of Administration and moving to no overall political control the Council is looking to significantly increase transparency around decision making. This includes strengthening governance arrangements at key stages throughout any acquisition or development to ensure the appropriate level of councillor oversight.

- 9.11 This is linked to and sits alongside a move away from a Cabinet model of governance to a Committee System, with five main committees plus four others. It is currently proposed that Assets (acquisitions and developments) will be reporting to the Policy and Resources Committee. Under this new system the aim is to ensure that acquisitions are thoroughly scrutinised, and development projects are kept under review at key 'project gateways' and progress against budgets are monitored. A Sub Committee will be set up with Councillors to undertake this critical role with external advisors providing advice where necessary..
- 9.12 The Council has recently finished consulting with residents on this proposed move to a Committee System. If approved by Council, this will come into effect from May 2021. The governance arrangements set out above will continue until this point in time. Any changes as a result of this move will require this capital strategy to be updated 'in year' to reflect this.
- 9.13 As part of the Council's preparations for implementing the new CIPFA Financial Management Code, in February 2020 the Council ran a workshop with CIPFA to review the extent to which its governance arrangements are contributing towards resilience. In November 2020, at the Council's invitation, the LGA undertook a review of our finance and property arrangements to help the Council identify further opportunities for improvement. We will shortly be publishing the positive and constructive LGA Finance Peer Review report and putting in place an action plan to address its recommendations. The Council completed a Self-Assessment against the CIPFA FM Code which it reported to the Audit Committee and it will keep the self-assessment under regular review.

10 How we ensure we have enough money day-to-day and maximise return on investment

- 10.1 Treasury management is all about keeping sufficient but not excessive cash available to meet the Council's spending needs, whilst managing the risks involved. Surplus cash is invested until required, and a shortage of cash is met by borrowing – this avoids 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.

Current borrowings

- 10.2 Based on acquisitions and investment decisions up to 31 December 2020, the Council currently has £1,085m borrowing (£1,114m full year forecast) (finance to provide figures at an average interest rate of 2.2%, and £36.8m pooled and medium-term treasury investments

at an average rate of 4.7%. *Appendix 5* sets out in detail how this is achieved with the headline information set out below.

Factors shaping our borrowing decisions

- 10.3 From a borrowing point of view, the Council needs to achieve a low but certain cost of finance whilst retaining flexibility should plans change in future. This requires striking a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known, but higher. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. This is the approach that the Council takes.
- 10.4 In addition to the above, 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. *Appendix 5* provides more detail on the boundary and the limit.
- 10.5 The Council's policy on treasury investments is to prioritise security and liquidity over yield – in other words, we 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, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely.
- 10.6 In addition to debt of **£1,085m** detailed above, the Council is committed to making future payments to cover the pension fund deficit (valued at **£51.128m**). We have also set aside **£2m** to cover risks of business rates appeals, and **£6m** per annum into sinking funds to cover future liabilities on our investment properties.
- 10.7 Sound treasury management also has to consider the impact on the Revenue budget. Although capital expenditure is not charged directly to the Revenue Budget, interest payable on loans and Minimum Revenue Provision (i.e. repayment of loans) / loans fund repayments are charged to Revenue, and this is offset by any investment income (details of the revenue implications of capital expenditure can be found in the 2021/22 revenue budget).
- 10.8 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 for up to 50 years, or longer (in one recent example 70 years) into the future. The Chief Finance Officer is satisfied that the proposed Capital Programme and recent capital expenditure decisions are prudent, affordable and sustainable. 50-year forecasting is undertaken on an expected and worst case basis for commercial assets to estimate future liabilities – this ensures that future

risk is evaluated and sufficient funds are set aside in sinking funds to meet those liabilities. It is the responsibility of the Section 151 Officer to agree what, how and when monies held in the Sinking Fund account are spent on our commercial investment assets. This ensures our sinking funds are protected. Since the first COVID-19 lockdown in March updated 10 year expected and worst case scenarios for the sinking funds have been reviewed on a weekly basis to ensure that despite the impacts of COVID-19 the Sinking Funds are more than sufficient to insulate the revenue budget and council tax payers from the impacts of any short term reductions in rental income.

- 10.9 The Council has approved the maintenance of our operational assets on a more sustainable basis by increasing the planned maintenance budget by £750,000 per annum over last two financial years and addressing a number of backlog maintenance issues at the Council Offices as part of a refurbishment project. The Council has also put the funding of our Capital Programme on a more sustainable basis.

APPENDICES

1. **Historic background**
2. **Investment parameters**
3. **Housing information**
4. **Risks and decision making**
5. **Treasury Management**
6. **Our Commercial Activity**
7. **Key Performance indicators**