

Council

Date of meeting – 26 February 2026

Title	Capital Strategy and Capital Programme 2026/27 – 2029/30
Purpose of the report	To approve the Capital Strategy and Capital Programme as set out in this report
Report Author	Terry Collier, Chief Finance Officer
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Addressing Housing Needs Resilience Environment Services Statutory Direction issued May 2025
Recommendation	Council is asked to: Consider and approve the proposed Capital Strategy and Capital Programme for 2026/27 - 2029 as set out in this report.
Reason for Recommendation	The Council is required to set a revenue and capital budget. The revenue budget is set as part of the Medium-Term Financial Strategy (MTFS), and the Capital Programme is set as part of this strategy document. Capital expenditure is defined as expenditure that is predominantly incurred on buying, constructing or improving physical assets, such as land, buildings, infrastructure and equipment.

1 Executive summary of the report

What is the situation	Why we want to do something
Councils have a statutory responsibility to refresh and approve a Capital Strategy each year before the start of the financial year. This includes approving and updating the Capital Programme rolled forward a further year, The Government announced its decision to reorganise local government in Surrey, which means that the Council will be abolished on 31 March 2027 and merge with a number of neighbouring authorities to form the new West Surrey unitary authority.	The Capital Strategy and Capital Programme forms a key part of the budget setting process for 2026/27. This document is designed to meet that requirement and has been updated to reflect: • upcoming local government reorganisation • Statutory Directions issued in May 2025, and • key financial decisions made by Full Council in November 2025. It recommends that new capital spending is restricted to essential items only.

The Council is under Statutory Direction to implement a strict debt reduction policy and to rationalise its asset base.	
This is what we want to do about it	These are the next steps
Members are asked to review and approve the 2026/27 Capital Strategy as set out in the report.	Council to approve the new Strategy as set out in this report, noting that any projections beyond 31 March 2027 are only indicative and will depend on the successor authority.

2 Key issues

- 2.1 The Capital Programme set out in the Capital Strategy forms a key part of the Council's budget setting process.
- 2.2 Up to September 2023, the Council had an ambitious capital programme involving a number of major projects, which included the acquisition of a number of investment properties and assets acquired for regeneration within the borough fully funded by borrowing of around £1.1billion.
- 2.3 The Council suspended the capital programme in October 2023 on affordability grounds. Subsequently the Secretary of State issued the Council with Statutory Directions in May 2025 which, in particular, require the Council to implement:
 - a plan to ensure the Authority's capital, investment and treasury management strategies are sustainable and affordable, including an asset rationalisation programme for assets and commercial investments.
 - a comprehensive and strict debt reduction plan, demonstrating how overall capital financing requirement and external borrowing will be reduced over a realistic but expedient timescale, reducing debt servicing costs.
- 2.4 The Council will be abolished with effect from 1 April 2027, when it transfers into the successor West Surrey unitary authority.
- 2.5 In view of the above the Capital Programme is largely limited to completion of current ongoing projects. However as reported in the 2025/26 Q2 Capital Monitoring Report there is some growth in the Capital Programme as the Council was successful in obtaining grant funding from the Local Authority Housing Fund (LAHF) Round 3 to part fund acquisition of housing for temporary accommodation in the borough.
- 2.6 Financing the capital programme in 2025/26 and implementing the Council's debt reduction plan are predicated on using £26.5m of capital receipts in 2025/26, £4m of which relates to receipts brought forward from 2024/25. Failure to achieve expected receipts will impact MRP in 2026/27. For example, if capital receipts generated were either late or less than anticipated by £10m, this would increase MRP in 2026/27 by £3.3m.

Report

Policy and contextual background

- 2.7 The starting-point for the Capital Strategy are the Council's five priorities set out in the Corporate Plan, namely
- Community
 - Addressing Housing Need
 - Resilience
 - Environment, and
 - Services
- 2.8 The Capital Strategy plays a major part in supporting the delivery of the Corporate Plan.
- 2.9 Over the period 2016-2019, the Council embarked on an ambitious capital programme which invested £1.1 billion in investment property in order to generate returns which would:
- support Council services
 - support regenerating and transforming the borough; and
 - deliver affordable housing within the borough.
- 2.10 The above commercial investment programme ceased in 2020 and the development programme was suspended in October 2023 on affordability grounds and in May 2025 the Secretary of State issued Statutory Directions requiring the Council to implement:
- a plan to ensure the Authority's capital, investment and treasury management strategies are sustainable and affordable, including an asset rationalisation programme for assets and commercial investments.
 - a comprehensive and strict debt reduction plan, demonstrating how overall capital financing requirement and external borrowing will be reduced over a realistic but expedient timescale, reducing debt servicing costs.

The Council's assets

- 2.11 The Council has total long-term assets of £731m at 31 March 2025 as shown in Table 1 below:

Table 1 Asset portfolio

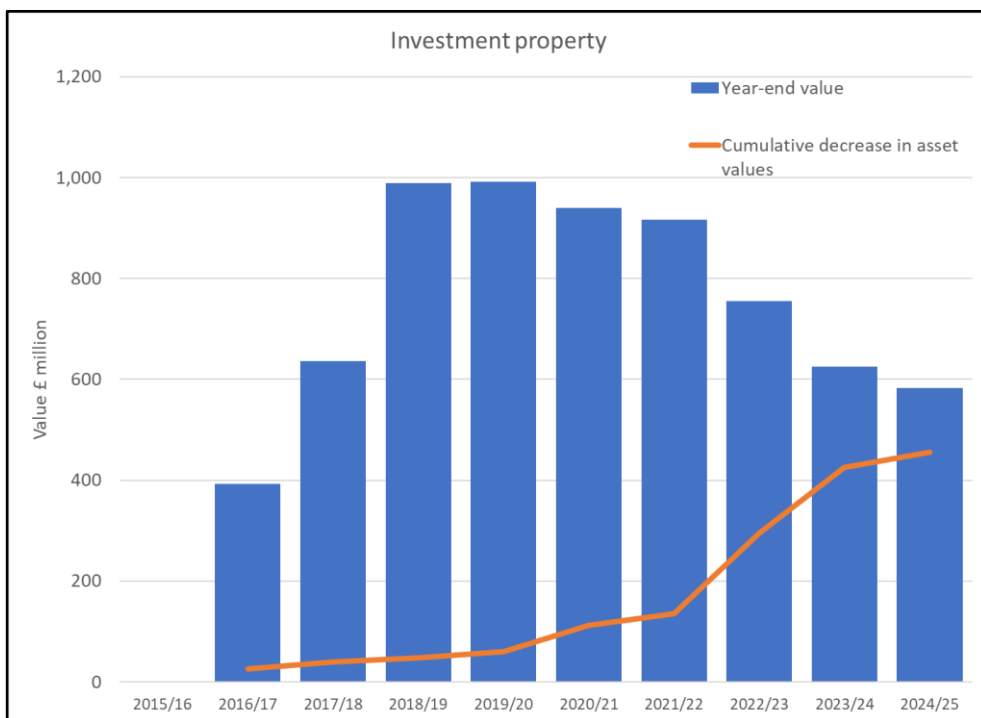
Asset type	£m
Investment property	583
Land and buildings	128
Surplus assets	13
Right of Use Assets	5
Vehicles, plant and equipment	2
Assets under Construction	0
Heritage assets	0
Community assets	0
Total	731

- 2.12 The Council also receives and spends c. £1m per annum grant funding in respect of Disabled Facilities adaptations. This is classified as REFCUS (Revenue Expenditure Funded from Capital Under Statute) for accounting purposes and not carried on the Council's Balance Sheet. It is therefore not included in Table 1 above, but forms part of the capital programme.
- 2.13 The Council's Capital Programme had been split over three key areas in previous years:
- Strategic acquisitions to acquire property for investment return to make a contribution to the Council's revenue position;
 - Acquisitions to aid the regeneration of key sites within the borough; and
 - operational to meet service delivery objectives, reduce carbon footprint and promote service efficiency.

Investment property

- 2.14 The Council's investment property portfolio is 95% concentrated in one sector, namely, office accommodation in the surrounding area of Heathrow airport. Properties are located both inside and outside the Council boundary.
- 2.15 The investment property portfolio has generated significant cashflow benefits for the Council in terms of rental income but has fallen in value by £456m (i.e. 43%) since acquisition in 2016/2019 as shown in Chart 1 below. This is an average of £51m (i.e. 7.3%) per annum.

Chart 1 Investment Property value



- 2.16 In view of the need to reduce the high level of borrowing and the negative rate of return from the investment property portfolio, the Council will be undertaking an asset rationalisation programme in line with the Statutory Direction in May 2025 and decisions made by Full Council in December 2025.
- 2.17 To this end the Council is in the process of procuring external specialist property advice to manage the disposals in a rational manner and to obtain best consideration from disposals.

Regeneration – Surplus Assets

- 2.18 The Council has acquired 11 sites in the borough for regeneration, but concerns over the affordability of redeveloping these sites resulted in suspension of the regeneration programme in October 2023.
- 2.19 These assets have subsequently been classed as surplus assets and will be included within the asset rationalisation plans with a focus on achieving regeneration and housing outcomes on the sites.
- 2.20 The regeneration assets were held within Assets under Construction pending funding coming available to develop the assets. Whilst held as Assets under Construction the assets did not attract a Minimum Revenue Provision (MRP) as they were not in operational use. However, with the cessation of the programme in October 2023, the assets became surplus to requirements and attracted MRP from the 2024/25 financial year.

Operational assets

- 2.21 Operational assets mainly consist of:
- vehicles for refuse collection, street cleaning and similar services;
 - land and buildings, primarily the Eclipse Leisure Centre, the council depot in Ashford and council offices at Knowle Green; and
 - Right of Use assets.
- 2.22 Right of Use assets are assets funded from leases for more than 12 months and comprise vehicles and some plots of land.
- 2.23 The Capital Strategy for operational assets is focussed on:
- vehicle replacement with electric vehicles as part of the Council's de-carbonisation policy; and
 - ongoing investment in ICT to maintain fit for purpose service delivery.

Governance

- 2.24 The main forum for reviewing all financial aspects of the Capital Programme is the Corporate Policy and Resources Committee who make recommendations to Council as part of its wider remit for budget setting and financial review.
- 2.25 The Corporate Policy and Resources Committee also review the strategic direction of the Capital Programme and Capital Strategy to ensure that:
- outcomes are aligned with Council policy and Statutory Directions issued by the Secretary of State;
 - new spending proposals are supported by a viable Business Case and represent good Value for Money;
 - capital spending is affordable in terms of both initial funding requirements and subsequent revenue impacts.

- 2.26 The Commercial Assets Sub-Committee oversees the management of investment properties and makes recommendations to the Corporate Policy and Resources Committee.

Summary of the Capital Programme 2025/26 to 2029/30

- 2.27 The Capital Programme set out below has been updated to reflect the Council's own spending plans up to reorganisation in 2027 and to provide an indication for the new authority of minimum spending requirements up to 2030.
- 2.28 Proposed spending and funding is summarised in Table 2 below which shows spend by Committee. A more detailed analysis of spending by project and by Committee is provided in Appendix A for 2025/26 and 2026/27 for the Council. Appendix B sets out the detailed indicative forecast capital programme for 2027/28 to 2029/30, which will be subject to review by the successor authority.

Table 2 Proposed Capital Programme 2025/26 to 2029/30

2024/25 Actual £000s		2025/26 Forecast £000s	2026/27 Estimate £000s	2027/28 Estimate £000s	2028/29 Estimate £000s	2029/30 Estimate £000s	Total £000s
	Gross expenditure						
31,209	Community, Wellbeing and Housing	6,183	6,496	1,387	1,387	1,160	16,613
1,226	Environment and Sustainability	700	1,150	210	140	0	2,200
461	Business, Infrastructure and Growth	302	356	1,561	1,406	0	3,625
222	Commissioning and Transformation	1,429	1,123	850	0	1,300	4,702
33,118	Total expenditure by Committee	8,614	9,125	4,008	2,933	2,460	27,140
	Funding						
(12,081)	Capital grants	(2,426)	(2,677)	(1,387)	(1,387)	(1,100)	(8,977)
	Capital Receipts	(4,087)	(1,183)	(1,561)	(1,406)	0	(8,237)
	Developer contributions	0	(3,850)	0	0	0	(3,850)
	CIL	(720)	(1,059)	0	0	(1,300)	(3,079)
	Earmarked Reserves	(1,321)	(356)	(1,000)	(80)	0	(2,757)
(357)	Direct Revenue Financing	(60)	0	(60)	(60)	(60)	(240)
(12,438)	Total funding	(8,614)	(9,125)	(4,008)	(2,933)	(2,460)	(27,140)
20,680	Borrowing requirement	0	0	0	0	0	0

- 2.29 Table 3 below shows the broad categories of spend.

Table 3 Proposed Capital Programme analysed by category

2024/25 Actual £000s		2025/26 Forecast £000s	2026/27 Estimate £000s	2027/28 Estimate £000s	2028/29 Estimate £000s	2029/30 Estimate £000s	Total £000s
	Gross expenditure						
	DFG adaptations	1,329	1,387	1,387	1,387	1,160	6,650
21,449	Acquisition of housing for Temporary Accommodation	1,200	3,850	0	0	0	5,050
8,196	Completion of existing works at Leisure Centres	3,654	1,000	0	0	0	4,654
60	Wheelie bins and waste bin replacements	115	60	60	60	0	295
1,045	Vehicle and equipment replacements	413	290	150	80	0	933
121	Car-park management systems	172	0	0	0	0	172
461	Property improvements	302	356	1,561	1,406	0	3,625
	River Thames Scheme (RTS)	0	0	0	0	1,300	1,300
222	ICT infrastructure	613	0	850	0	0	1,463
1,564	Loans to third parties						0
	Transformation	816	1,123	0	0	0	1,939
	Upgrading sports facilities	0	1,059				1,059
33,118	Total expenditure	8,614	9,125	4,008	2,933	2,460	27,140

- 2.30 In drawing up the above Programme, the emphasis has been on ensuring that only schemes which can be funded from available capital sources are included. This is to minimise any further external borrowing as part of the Council's debt reduction strategy and in line with the Statutory Direction.
- 2.31 Table 3 below summarises the proposed changes to the Capital Programme recommended in view of the Government's announcement to abolish the Council with effect from 1 April 2027. A detailed list of the deleted projects is set out in Appendix C.
- 2.32 The Capital Programme has been reviewed to focus solely on projects which are either completion of current projects or planned essential work.
- 2.33 The key changes are:
- reduction in planned vehicle replacements of £2.2m ahead of local government reorganisation (LGR);
 - reduction in ICT investment of £1.1m ahead of LGR;
 - the addition of £1m to capitalise revenue costs arising from implementation of the Improvement and Recovery Plan (IRP) and LGR transition costs. These costs will be funded under the Flexible Use of Capital Receipts powers;
 - the deferral of carbon reduction initiatives totalling £2.2m under property improvements from 2026/27 and 2027/28, into 2027/28 and 2028/29 for the new authority; and
 - the deferral of the Council's contribution of £1.3m towards to the River Thames Scheme from 2027/28 to 2029/30 in view of slippage to date on this project.
- 2.34 There is no impact on borrowing because all the Capital Programme is fully funded without the need for any external borrowing.

Table 4 Summary of the reductions in the Capital Programme

	2025/26 Forecast £000s	2026/27 Estimate £000s	2027/28 Estimate £000s	2028/29 Estimate £000s	2029/30 Estimate £000s	Total £000s
Original budget						
DFG adaptations	1,654	1,160	1,160	1,160	1,160	6,294
Acquisition of housing for Temporary Accommodation	1,000	3,850	0	0	0	4,850
Completion of existing works at Leisure Centres	3,788	1,000	0	0	0	4,788
Wheelie bins and waste bin replacements	115	60	60	60	0	295
Vehicle and equipment replacements	413	1,786	295	540	0	3,034
Car-park management systems	242	0	0	0	0	242
Property improvements	532	1,037	1,561	0	0	3,130
River Thames Scheme (RTS)	0	0	2,600	0	0	2,600
ICT infrastructure	619	801	541	11	0	1,972
Loans to third parties	0	0	0	0	0	0
Transformation	816	0	0	0	0	816
Total expenditure	9,179	9,694	6,217	1,771	1,160	28,021
Revised budget						
DFG adaptations	1,329	1,387	1,387	1,387	1,160	6,650
Acquisition of housing for Temporary Accommodation	1,200	3,850	0	0	0	5,050
Completion of existing works at Leisure Centres	3,654	1,000	0	0	0	4,654
Wheelie bins and waste bin replacements	115	60	60	60	0	295
Vehicle and equipment replacements	413	290	150	80	0	933
Car-park management systems	172	0	0	0	0	172
Property improvements	302	356	1,561	1,406	0	3,625
River Thames Scheme (RTS)	0	0	0	0	1,300	1,300
ICT infrastructure	613	0	850	0	0	1,463
Loans to third parties	0	0	0	0	0	0
Transformation	816	1,123	0	0	0	1,939
Upgrading sports facilities	0	1,059	0	0	0	1,059
Total expenditure	8,614	9,125	4,008	2,933	2,460	27,140
Change	(565)	(569)	(2,209)	1,162	1,300	(881)

Key projects

2.35 The only two key projects are:

- the ongoing acquisition of housing for temporary accommodation funding from the Local Authority Housing Fund (LAHF). The Council was successful in obtaining grant funding of £1m to support a £1.9m acquisition programme in 2025/26 under LAHF Round 3; and
- a further acquisition of housing for temporary accommodation of £3.85m to be funded from developer contributions.

Capital Funding

- 2.36 The Council is required to have a funded capital programme that is affordable. i.e. all capital expenditure should have a source of funding and if that source is borrowing, the cost of borrowing should be built into a balanced revenue budget.
- 2.37 The key sources of funding for the Council are:
- Grants, mainly Disabled Facilities Grant, and Local Authority Housing Fund;
 - Developer contributions (from section106 agreements and the Community Infrastructure Levy);
 - Capital receipts;
 - Direct revenue funding (either by charging direct to revenue budgets or by utilising earmarked reserves); and
 - Borrowing.

Grants

- 2.38 These are predominantly government grants and are usually provided to the Council to fund specific schemes or programmes. The majority of grants which the Council receives for capital are from the Ministry of Housing, Communities and Local Government for disabled facilities grant and the Local Authority Housing Fund (LAHF).
- 2.39 Capital grants usually have conditions attached which require the grant to be used for specific schemes and potentially require repayment in the event that they are not used for the purpose intended or within a set timetable.

Section 106 agreements

- 2.40 S.106 agreements are made under the section 106 of the Town and Country Planning Act 1990 whereby the planning authority place an obligation on the developer to undertake an obligation as part of the planning permission, and the developer agrees to pay a contribution to the authority for the authority to undertake the works to discharge the obligation.
- 2.41 These sums cannot be used for alternative purposes and have to be spent within a set period of time set out in the agreement.
- 2.42 The Council's proposed Capital Programme for 2025/26 includes £180,000 of section 106 funding which will be used to fund the Council's contribution toward the Sandhills Meadow Bridge, in Shepperton. In addition, a commuted sum of £3.85m in respect of a section 106 contribution will be used to fund acquiring further temporary accommodation in 2026/27.

Community Infrastructure Levy

- 2.43 The Community Infrastructure Levy (CIL) is a planning charge introduced by the Planning Act 2008. The Council started charging CIL in May 2016. Developers must pay a levy linked to planning applications – this is based on a Council approved policy and charging schedule. Unlike Section106 receipts, CIL income is not earmarked to

specific initiatives and can be used to fund a range of different capital projects including infrastructure projects of Surrey County Council.

Capital receipts

- 2.44 Capital receipts are generated from the sale of non-current assets (e.g. land and buildings). The use of capital receipts is statutorily prescribed, such that they can only be used primarily to fund capital expenditure or repay borrowing or (in specific circumstances) fund transformation initiatives. The Council holds all capital receipts corporately, which ensures that they can be used to fund the overall capital programme.
- 2.45 As set out in the Mid-Year Treasury Management Strategy approved by Council 17 November 2025, capital receipts generated from the asset rationalisation strategy will be used primarily to repay existing external debt. The capital programme originally included £6.5m and £4.2m to fund capital expenditure in 2025/26 and 2026/27 respectively. Reducing the scope of the capital programme in the light of LGR has allowed the use of capital receipts to be reduced to £3m to fund capital spend in 2025/26, primarily to fund the remaining capital spend on the Eclipse Leisure Centre, and £1m in 2026/27 to fund transformation costs under the Flexible Use of Capital Receipts strategy.

Revenue funding

- 2.46 The Council can, if it chooses to, fund capital expenditure via its revenue budget. For example, in 2024/25, the Council made direct revenue contributions to capital of £0.4m. This can be through in-year underspends, earmarked reserves or via the General Fund.
- 2.47 At 1 April 2025 the Council held earmarked revenue reserves of £50.1m comprising £35.3m of reserves earmarked for specific purposes, £8.3m of developer contributions and £6.4m of unapplied revenue grants. In December 2025, the Council approved a reserves strategy for 2026/27 and the re-purposing of earmarked sinking fund reserves to support estimated revenue budget shortfalls in 2025/26 and 2026/27 respectively.
- 2.48 Any funding of the capital programme via revenue resources has to be considered in light of the Council's overall revenue budget and the Medium-Term Financial Plan. This could, for example, include applying some of the Extended Producer Responsibility Grant as a revenue contribution towards funding capital waste management expenditure.
- 2.49 The proposed Capital Budget set out in Table 1 includes £1.13m funding from earmarked reserves to fund residual capital spend on property improvements of £0.54m and £0.59m to fund ICT projects in 2025/26, and a further £0.48m in 2026/27 to complete two further projects. There is no proposed further use of revenue reserves proposed in 2026/27

Borrowing

- 2.50 Borrowing to fund capital expenditure is normal practice in both the private and public sector. In local government the prudential regime has operated since 2003/04 under which local authorities must take responsibility to ensure that borrowing is both affordable and sustainable for the revenue budget and the council taxpayer.

- 2.51 Borrowing can take the form of internal or external borrowing. External borrowing is where the Council borrows money from the open market such as from banks or the Government via the Public Works Loans Board or other local authorities. The timing and nature of any new borrowing taken out will be informed by cashflow modelling and must be in line with the Treasury Management Strategy approved by members at the start of each financial year.
- 2.52 Internal borrowing is a temporary position where the Council uses its cash balances instead of externally borrowing at that point in time. If not used for internal borrowing, these cash balances would be invested on a medium to long-term basis providing the Council with a return on investment. However, the Council does not have any surplus internal borrowing at the present time as all surplus cash resources have been used in previous years.
- 2.53 The Council's Capital Financing Requirement (CFR) is a key financial indicator calculated by reference to all capital expenditure incurred to date which has been financed from either internal or external borrowing. The CFR is published in the Statement of Accounts and included in the Treasury Management Strategy and in-year Treasury Management reports.
- 2.54 As Table 2 above highlights, the funding of the proposed Capital Programme relies on available resources without any recourse to incurring borrowing. This is in line with the Statutory Direction to reduce loan debt.

Revenue Implications of the Capital Programme

- 2.55 All borrowing incurs capital financing charges, namely interest costs and a Minimum Revenue Provision (MRP). Capital financing charges also include any premiums or discounts arising from debt rescheduling or refinancing transactions.
- 2.56 MRP is an amount which the Council is statutorily required to set aside to repay borrowing to the extent that the Council's CFR remains positive, irrespective of whether any actual debt repayments have been made or fall due. Although it is not a cash-based transaction, MRP charges affect revenue budgets and reduce General Fund balances each financial year.
- 2.57 All capital financing charges must be treated as a revenue cost and built into the Council's budget plans. In essence the more the Council borrows, the greater the call on the revenue budget, so it is important that borrowing is set at a level which is both affordable and sustainable in revenue budget terms.
- 2.58 As the proposed Capital Programme is fully funded, there are no additional capital financing charges (i.e. MRP or interest), which would impact on revenue budgets for 2025/26 and future years. Nonetheless the Council has historically borrowed over £1 billion to fund the acquisition of investment properties and regeneration assets, which still has to be paid for.
- 2.59 Table 4 below sets out the current forecast for capital charges between 2025/26 and 2029/30, together with the expected net rental income from investment properties. It should be noted that this table reflects important changes agreed by Full Council in November 2025 as follows:

- The Council restructured its existing loan debt portfolio in November 2025 reducing the value of long-term borrowing on the balance sheet by over 30%. This generated a discount of £343m, which is being amortised to the General Fund over 10 years as required by Regulation 30C of the Local Authorities Capital Finance and Accounting) (England) Regulations 2003, as amended.
- MRP set aside has been increased to reflect the revised MRP Policy Statement adopted by Full Council in November 2025. MRP is expected to reduce over the 5-year period as capital receipts are generated from the asset rationalisation programme described above.
- Generation of capital receipts through asset sales will allow the Council to repay borrowing which will reduce interest charges accordingly. As assets are sold, however, the net operating income from the investment property portfolio is also expected to reduce as set out in Table 5 below.

Table 5 Capital Financing charges

	2025/26 £000s	2026/27 £000s	2027/28 £000s	2028/29 £000s	2029/30 £000s	Total £000s
MRP	59,428	53,127	37,078	34,663	30,842	215,138
Interest	27,198	32,886	32,575	32,239	31,881	156,779
Discount £343m in total	(34,261)	(34,261)	(34,261)	(34,261)	(34,261)	(171,305)
Net operating inc/exp on Investment Property	(38,767)	(42,854)	(32,828)	(28,682)	(21,488)	(164,619)
Net (surplus)/deficit to General Fund	13,598	8,898	2,564	3,959	6,974	35,993

- 2.60 It should be recognised, however, that these estimates will be subject to further change during 2026/27 as specialist external property advisors are appointed who will advise the Council on which assets should be sold, how best to market them and the likely timing and value of the sale prices which will be achieved.
- 2.61 It should be noted that because the Council uses an asset-life method for calculating MRP, and capital receipts are allocated to those assets with the shortest remaining residual lives, delays or changes to the forecast value of capital receipts can have a substantial impact on MRP for future years.
- 2.62 For example, if there was slippage of £10m in generating capital receipts in 2025/26 either through sales slipping into 2026/27 or sales not achieving expected asset values, this would increase MRP by £3.3m in 2026/27.

3 Options

- 3.1 **Option 1** (preferred) is to approve this Capital Strategy, which has now been updated to reflect both local government reorganisation and the key financial decisions made by Full Council in November 2025. This course of action meets the statutory requirement to have a Capital Strategy approved ahead of the start of the financial year to which it relates, as part of the Council's budget-setting process.
- 3.2 **Option 2** is to amend the Capital Strategy and Capital Programme for 2026/27 to 2029/30. Given the demise of the Council with effect on 31 March 2027, it is recommended that any revisions to the Capital Strategy should be limited to completing outstanding projects and ongoing planned maintenance/replacements.

- 3.3 **Option 3** is to not accept the draft Capital Strategy. This is not recommended as the Council would be in breach of statutory requirements.

4 Risk management

- 4.1 Capital projects require careful management to mitigate the potential risks that can arise. Effective monitoring, management and mitigation of these key risks is a key part of managing the Capital Strategy, which are set out below.

Delivery risk

- 4.2 The funding of the Capital Programme and the Council's debt reduction strategy is heavily dependent on the generation of capital receipts to plan. For 2025/26, £26.5m of capital receipts are expected to be used (£4m to fund the capital programme and £22.5m to reduce borrowing, and thus future years' MRP charges).
- 4.3 Given that the Council is under Statutory Direction to reduce borrowing, incurring additional borrowing in the event of lower capital receipts is not an option. Therefore, the capital programme would need to be reduced or the Council would reduce the use of the capital receipts to repay debt. If capital receipts generated in 2025/26 were either delayed until after the year-end or less than anticipated by £10m, this would increase MRP in 2026/27 by £3.3m.

Interest rate risk

- 4.4 The restructuring of the loan debt in November 2025 fixed the interest rates for the reduced borrowing arising from the restructuring, thus eliminating interest rate risk for the next 10 years. Any decisions about borrowing after 31 March 2027 will be the responsibility of the successor authority, West Surrey Council.

Inflation risk

- 4.5 Inflation risk largely affects construction projects. Since the proposed capital programme does not include any new construction projects this risk is largely eliminated.

Legislative risk

- 4.6 Capital schemes need to comply with the latest regulatory requirements, changes to which can impact construction costs and sometimes can be applied retrospectively. This risk is mitigated by officers being aware of legislative changes in the pipeline and including contingency provisions in contracts.

Commercial risk

- 4.7 The Council's Capital Programme has historically relied on operating income from the investment property portfolio to mitigate capital financing charges and contribute toward the cost of services. A major commercial risk is declining asset values. As Chart 1 above highlights, the Council's investment property portfolio has fallen in value by £455m (i.e. 43%) since acquisition.
- 4.8 The Statutory Guidance on Local Government Investments (2018 edition issued by the then Department for Communities and Local Government) requires local authorities to

prioritise security of capital when making any investment. The Guidance has statutory force. Paragraph 39 of the Guidance states that:

Where the fair value of non-financial investments (i.e. investments in directly held property) is no longer sufficient to provide security against loss, the Strategy should provide detail of the mitigating actions that the local authority is taking or proposes to take to protect the capital invested.

- 4.9 The Council is under Statutory Direction to rationalise the investment property portfolio. The Council is in the process of appointing specialist external property advisors to help manage the orderly disposal of the Council's investment property portfolio in line with the Statutory Direction. This will mitigate the risk of further loss of capital, but will also crystallise the risk of cash flow and budget reductions arising from the loss of rental income.
- 4.10 Balancing the loss of rental income against reductions in capital financing charges will be a key financial challenge for the Council in the run-up to reorganisation in 2027. Members will therefore receive regular reports on changes to the current sales forecast and the impact this will have on the relationship between capital receipts, capital financing charges and rental income

5 Financial implications

- 5.1 Financial implications are set out in the main body of this report.

6 Legal comments

- 6.1 Part 1 of the Local Government Act 2003 sets out requirements in relation to capital finance. The associated regulations – the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, require the Council to have “regard to” statutory guidance as issued by the Secretary of State from time to time and CIPFA's Prudential Code and Treasury Management Code when carrying out its duties under Part 1 of the Local Government Act 2003.
- 6.2 The Prudential Code requires the Council to prepare a Capital Strategy.
- 6.3 This report has been prepared in accordance with statutory requirements.
- 6.4 This Committee has a responsibility to make recommendations concerning the budget to the Council.

7 S151 Officer comments.

- 7.1 Approving and implementing the draft Capital Strategy forms an essential part of the annual budget setting process. It is positive that the Capital Programme being proposed does require taking out any additional borrowing to finance the Programme.

8 Procurement comments

- 8.1 None directly arising from this report. Specialist external property advisors to support the asset rationalisation programme will be appointed in line with the Council's existing procurement requirements and all applicable legislation.

9 Equality and Diversity

- 9.1 The Capital Programme impacts on all residents across the Borough. The Disabled Facilities Grant (DFG) programme assists vulnerable people to continue to live independently in their homes and communities.

10 Sustainability/Climate Change Implications

- 10.1 There are no climate change implications arising directly from this report.

11 Other considerations

- 11.1 None.

12 Timetable for implementation.

- 12.1 The Capital Strategy once approved by Council on 26th February 2026 will feed into the 2026/27 budget.

13 Contact

- 13.1 Terry Collier, Chief Finance Officer

T.Collier@spelthorne.gov.uk>

14 Background papers and Appendices

- Appendix A –Detailed Capital Programme 2025/26 and 2026/27 for Spelthorne Council
- Appendix B - Indicative Detailed Capital Programme forecast for 2027/28 to 2029/30
- Appendix C – Schemes deleted from the Capital Programme

Committee Report Checklist

Please submit the completed checklists with your report. If final draft report does not include all the information/sign offs required, your item will be delayed until the next meeting cycle.

Stage 1

Report checklist – responsibility of report owner

ITEM	Yes / No	Date
Councillor engagement / input from Chair prior to briefing	Y	12/1/26
Commissioner engagement (if report focused on issues of concern to Commissioners such as Finance, Assets etc)	Y	26/1/26
Relevant Group Head review	Y	28/1/26
MAT+ review (to have been circulated at least 5 working days before Stage 2)	Y	16/1/26
This item is on the Forward Plan for the relevant committee	Y	23/12/25
	Reviewed by	Date
Risk comments	LO	14/01/26
Legal comments	LH	13/01/26
HR comments (if applicable)	N/a	N/a

For reports with material financial or legal implications the author should engage with the respective teams at the outset and receive input to their reports prior to asking for MO or s151 comments.

Do not forward to stage 2 unless all the above have been completed.

Stage 2

Report checklist – responsibility of report owner

ITEM	Completed by	Date
Monitoring Officer commentary – at least 5 working days before MAT	L Heron	13/02/26
S151 Officer commentary – at least 5 working days before MAT	T.Collier	28/1/26
Confirm final report cleared by MAT		