

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	Yes	27/10/25 & 28/10/25
Commissioner engagement (if report focused on issues of concern to Commissioners such as Finance, Assets etc)	Yes	21/10/25
Relevant Group Head review		
MAT+ review (to have been circulated at least 5 working days before Stage 2)		
This item is on the Forward Plan for the relevant committee		
	Reviewed by	Date
Risk comments	LO	24/10/25
Legal comments	Yes	24/10
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	24/10/25
S151 Officer commentary – at least 5 working days before MAT	T.Collier	20/10/25
Confirm final report cleared by MAT		

Corporate Policy and Resources Committee

11/11/2025

Title	Treasury Management Annual Outturn Report 2024/25
Purpose of the report	To make a decision
Report Author	Peter Worth, Interim Treasury Management Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Addressing Housing Need Resilience Environment Service delivery
Recommendation	Committee is asked to: To approve the Treasury Management outturn position for 2024/25.
Reason for Recommendation	To promote effective financial management and comply with the Code of Practice (the CIPFA Treasury Management Code), last updated in 2021 and the CIPFA Prudential Code for Capital Finance, along with meeting the requirements of the Council's Financial Regulations.

1. Executive summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none">The Council has the statutory duty to present the Annual Treasury Management Outturn report to the Committee and the Council to show the performance of the Council's Treasury activities during the financial year.The Council has both a significant debt portfolio (most of which is at fixed rates) of £1,069m (£1,042m long term and £27m of short term) and investment funds of £10.9m and cash balances currently averaging £9m at 31.03.25.The Council currently has the potential benefit of a significant discount (averaging approximately 36% or roughly £360m) on any PWLB loans it	<ul style="list-style-type: none">Treasury Management is crucial to the Council's cash flow, investment and borrowing to mitigate the riskTo proactively look to manage down over time the Council's outstanding long-term borrowing.

<p>repays early; this is a reflection of the low rates the loans were fixed at</p> <ul style="list-style-type: none"> • This scale of activity creates risks which need to be proactively managed. • Officers review its liquidity and cashflow on a weekly basis. • The Council needs to seek to minimise financing costs whilst maximising returns on surplus funds whilst managing risk 	
This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"> • Mitigate risk by diversify Investment and borrowing. • Over time the Council will be looking to generate capital receipts to reduce its long-term debt balances. • Continuing to seek ongoing regular professional advice from our advisers 	<ul style="list-style-type: none"> • To closely monitor and manage the treasury function in the new financial year 2025/26. • To accept this report.

2. Key Issues

- 2.1 The Council is required to produce a Treasury Management Strategy each year as part of the budget setting process. The content and layout of the strategy also needs to meet a number of specific requirements in terms of:
- Statutory requirements, principally the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, and the associated statutory Government guidance; and
 - CIPFA's Code of Practice on Treasury Management, (the Treasury Management Code), and the Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).
- 2.2 The Treasury Management Strategy sets out the Council's approach to ensuring cashflows are adequately planned to ensure that the capital programme and corporate investment plans are adequately funded, with cash being available when it is needed to discharge the Council's legal obligations and deliver Council services. It is also concerned with managing the debt position of the Council.
- 2.3 Under the Treasury Management Code (2021 edition), the minimum reporting requirements are that full Council should receive the following reports:
- an annual Treasury Management Strategy to be followed in the following year – approved by Council 22 February 2024;
 - a mid-year treasury update report; and
 - an annual report following the end of the year comparing performance for the year against the originally approved strategy (this report).
- 2.4 The Deputy Chief Executive/s151 officer confirms that the Council has complied with the above reporting requirements of the Treasury Management Code to give

prior scrutiny to all of the above treasury management reports by the Corporate Policy and Resources Committee before they were reported to Full Council.

2.5 There was no training for members on treasury management during the year, although the group leaders attend the quarterly briefings provided by the Council's treasury management advisors, Arlingclose.

2.6 This report covers four areas:

Summary position including Statutory Direction

Section 1 Capital Strategy

- Capital expenditure and financing
- Overall borrowing need
- Affordability
- Minimum Revenue Provision

Section 2 Borrowing

- Borrowing strategy
- Borrowing outturn 2024/25
- Debt restructuring
- Limits on external borrowing
- Maturity structure of borrowing
- Borrowing in advance of need
- Liability benchmark

Section 3 Managing cash balances

- Investment outturn 2024/25
- Commercial activity

Section 4 Summary position

- Prudential Indicators (PIs) are reported throughout the report and summarised at Appendix A with a Red, Amber, Green notation where figures highlighted green and with a 'G' where within the PI level.
- The Council has significantly high levels of external borrowing totalling £1,069m as at 31st March 2025 (Table 4) reflecting a £18m reduction from previous year. Long term borrowing has been used to fund the acquisition of investment properties:
 - part fund the purchase of properties for resettlement of refugee families using the Local Authority Housing Fund (LAHF) provided to offset some of the (about 40% to 50%) cost of purchase,
 - part-fund Temporary Accommodation using the Local Authority Housing Fund (LAHF) provided to offset some of the (about 40% to 50%) cost of purchase,
 - part finance spend on the new Eclipse Leisure Centre (initial £10m of the financing) – the remainder was funded

by redeeming the Council's pooled investments in January 2025, thus avoiding further external borrowing to fund the Eclipse,

- purchase of buildings in Spelthorne for regeneration which are now being considered for disposal.
- The Council's Capital Programme will continue to be reviewed and reduced beyond 2025-26, which will significantly reduce the need for future long term additional borrowing. In future years, the Council will also be looking to generate capital receipts to enable paying off some of the long-term debt and reduce future capital financing charges.

3 Statutory Direction

3.1 Since the 31 March 2025, the Secretary of State issued the Council with Statutory Directions on 8 May 2025 requiring the Council to implement an Improvement and Recovery Plan which includes the following actions which impact on the Council's Treasury Management Strategy:

- 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; and
- a plan to ensure the Authority is complying with all relevant rules and guidelines relating to the financial management of the Authority, including updating the minimum revenue provision (MRP) policy.

3.2 As a consequence of the above, the Treasury Management Strategy (TMS) for 2025/26 approved by the Council 27 February 2025 will be updated at the mid-year TMS report.

SECTION 1 CAPITAL STRATEGY

4 Capital expenditure and financing

4.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators reported below and designed to aid decision-making by Members.

4.2 Capital expenditure is expenditure generally incurred on asset which will yield a benefit to the Council over the long-term and various statutorily defined items, which would normally be charged to revenue, such as loans to third parties for a capital purpose

4.3 All capital expenditure has to be financed either:

- Immediately through the application of capital or revenue resources (i.e. capital receipts, capital grants, revenue contributions etc.). Application of these resources avoids the need to borrow; or

- Where insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need. This will be reflected in an increase in the Council's Capital Funding Requirement.

4.4 Table 1 below shows actual capital expenditure against the original plan and how this was financed. Capital expenditure was higher than originally planned largely due to slippage on the Eclipse Leisure Centre and the LAHF Properties from 2023/24. However, overall the Table shows a reduction in the total financing need compared with 2023/24.

Table 1 Capital Spending and funding (prudential Indicator 1)

2023/24 Actual £m		2024/25		
		Original estimate £m	Outturn £m	Variance £m
	Expenditure			
39.7	Housing and Regeneration	0.0	31.3	31.3
1.4	Other capital expenditure	4.4	1.8	(2.6)
41.1		4.4	33.1	28.7
	Funding			
0.0	Capital receipts	(0.3)	0.0	0.3
(4.5)	Capital grants and contributions	(0.3)	(11.8)	(11.5)
(1.6)	Revenue contributions	(0.9)	(0.4)	0.5
(6.1)		(1.5)	(12.2)	(10.7)
35.0	Total financing need before MRP	2.9	20.9	18.0
(12.4)	Minimum Revenue Provision (MRP)	(13.2)	(19.3)	(6.1)
22.6	Total financing need after MRP	(10.3)	1.6	11.9

5 Overall Borrowing Need

- 5.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The CFR measures the extent to which capital expenditure incurred has not yet been financed from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so the underlying borrowing need. Any capital expenditure, which is not immediately paid for through a revenue or capital resource, will increase the CFR.
- 5.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges for the economic consumption of capital assets as they used.
- 5.3 This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments plans and cash flow requirements as they fall due. External debt can also be borrowed or repaid at any time, but this does not change the CFR.
- 5.4 Table 2 below shows that the CFR for the year was lower than the original budget and key points are:
- The opening CFR was £38m lower than originally budgeted

- Capital expenditure was £27m higher largely due to slippage on the Eclipse Leisure Centre; and
- MRP was £6m higher than originally budgeted due to the impact of commencing MRP on abortive housing sites which are now treated as surplus assets.

Table 2 Capital Financing Requirement (Prudential Indicator 2)

	2023/24 Actual £m	2024/25 Budget £m	2024/25 Actual £m
Opening CFR	1,128.5	1,189.2	1,151.2
Capital investment			
Property, Plant and Equipment	39.8	4.4	31.3
Intangible assets	0.2		0.2
Revenue Expenditure funded from Capital under Statute	1.2		1.6
Total capital investment	41.2	4.4	33.1
Sources of Finance			
Capital Receipts	0.0	(0.3)	0.0
Government grants and contributions	(4.5)	(0.9)	(11.8)
Revenue contributions	(1.6)	(0.9)	(0.4)
Minimum Revenue Provision*	(12.4)	(13.2)	(19.3)
Total sources of finance	(18.5)	(15.3)	(31.5)
Closing CFR	1,151.2	1,178.3	1,152.8

- 5.5 Table 3 below shows that the Council's borrowing has remained within the constraint of the CFR.

Table 3 Borrowing compared to the CFR (Prudential Indicator 3)

	31/03/2024 Actual £m	31/3/25 Budget £m	31/03/2025 Actual £m
Capital Financing Requirement	1,151.2	1182.5	1,152.8
Gross borrowing position	1,088.1	1,072.0	1,069.2
(Under)/over borrowing	(63.1)	(110.5)	(83.6)

Affordability

- 5.6 The objective of the affordability indicator is to ensure that the level of investment in capital assets proposed remains within sustainable limits and, in particular, highlight the impact of capital financing costs (i.e. MRP and interest) on the Council's "bottom line". The financing costs reflect current commitments and the capital outturn to date. The net revenue stream is defined in paragraph 96 of the

Prudential Code as taxation and non-specific grant income as reported in the Authority's Comprehensive Income and Expenditure Statement.

Table 4 Affordability indicator (Prudential Indicator 4a)

	2023/24 Outturn £m	2024/25 Estimate £m	2024/25 Outturn £m
Total capital financing costs	36.6	36.6	44.7
Net revenue stream	13.0	14.0	14.2
Affordability indicator	282%	262%	315%

- 5.7 Table 4 above shows that the ratio of capital financing costs to the net revenue stream is over 3 times the Authority's net revenue stream. However, this omits the impact of the net operating income generated from the Council's investment property portfolio.

Table 5 Affordability including investment property net income (Prudential Indicator 4b)

	2023/24 Outturn £m	2024/25 Estimate £m	2024/25 Outturn £m
Total capital financing costs	36.6	36.6	44.7
Net revenue stream	13.0	14.0	14.2
Net operating income from investment property	37.6	37.6	39.8
Affordability indicator	72%	71%	83%

- 5.8 Including the net operating income from the Authority's investment property portfolio considerably reduces the affordability indicator down to 70-80%. However, this remains well above the affordability ratio for comparable authorities which is less than 18%. This is one of the reasons for the Statutory Direction requiring the Authority to implement a treasury management strategy which is sustainable and affordable.

Minimum Revenue Provision

- 5.9 Full Council approved the MRP Policy as part of the 2024/25 Treasury Management Strategy on 22 February 2024. The MRP Policy was prepared under the framework of the 2018 edition of the DLUHC Statutory MRP Guidance.
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2024 and the related Statutory MRP Guidance were revised in March 2024. The changes largely tighten the rules around the calculation of MRP and the reporting of what is meant by a "prudent" MRP charge. In the light of the Statutory Direction, recommendations raised by external audit, and the changes to the Capital

Finance Regulations in 2024, the MRP Policy for 2025/26 will be updated as part of the mid-year TMS report for 2025/26.

SECTION 2 BORROWING

- 6** Borrowing strategy and control of interest rate risk
- 6.1** Borrowing is undertaken to fund net unfinanced capital expenditure and naturally maturing debt and to maintain cash flow liquidity requirements. During 2024/25 the Council maintained an under-borrowed position. This meant that the capital borrowing need (the CFR) was not fully funded with loan debt, as cash was supporting the Council's reserves, balances and cashflow was used as an interim measure.
- 6.2** The Council's main objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term funding and asset management plans change.

Borrowing outturn

- At 31 March 2025, the Council's borrowing totalled £1,072m including leases as set out in Table 6 below.

Table 6 Composition of borrowing at 31 March 2025

Borrowing type	Balance at 31 March 2024 £m	Balance at 31 March 2025 £m	Movement £m
PWLB	1,057	1,061	4
Short-term - Other Local Authorities	31	8	(23)
Total Loans	1,088	1,069	(19)
Right of Use Leases	0	3	3
Total borrowing	1,088	1,072	(16)

- 6.3** Overall this shows a reduction in loan debt of £19m. The increase in PWLB borrowing reflect replacing £4m of short-term borrowing with a £4m maturity loan in 2024/25.

Debt restructuring

- 6.4** Since the rise in interest rates commencing in November 2021, the PWLB has continued to offer the Council a discount for the early repayment of these loans. As gilt rates and in turn PWLB rates (PWLB rates equal gilt rates plus 80 basis

points) have risen since the period in which the Council fixed its loans interest rates, the size of the discount for early repayment of loans has risen.

- On 31 March 2025, the applicable discount rate was 4.85%, resulting in a potential reduction in the repayment liability of £377 million. Consequently, the Council could have opted to settle the outstanding £1,058 million loan balance for £681 million- i.e. the discount of £377m is equivalent to a reduction of 35.6% on the nominal outstanding debt. It should be noted that all PWLB lending, and discount rates are subject to change twice daily, in accordance with prevailing market conditions. In comparison to the theoretical cost of repaying early the entire debt portfolio of £1,058m if the investment assets were disposed of as a complete portfolio in line with their current balance sheet valuation (£583m) there would potentially be a shortfall of £86m.
- Limits on external borrowing** The Prudential Code requires local authorities to set two limits on total external debt as set out in Table 7 below. The limits are:

6.5 **Authorised limit for external debt (Prudential Indicator 5a)** – this is the limit prescribed by section 3(1) of the Local Government Act 2003 representing the maximum level of borrowing which the Council may incur. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but may not be sustainable in the longer term. Once this has been set, the Council does not have the power to borrow above this level.

6.6 **Operational boundary (Prudential Indicator 5b)** – this is the limit which external debt is not normally to exceed from day-to-day operations.

Table 7 shows that during 2024/25, the Council has maintained gross borrowing within both its Operational Boundary and its Authorised Limit. The outturn limits reflect revisions to the limits made during 2024/25.

Table 7 Overall borrowing limits (Prudential Indicators 5a and 5b)

	Treasury Management Strategy approved Feb 2024	In year revised Treasury Management Strategy limits
Limits for 2024/25		
Authorised Limit	1,167	1,270
Operational Boundary	1,067	1,170
Maximum Borrowing Position during year		1,072

Maturity structure of borrowing (Prudential Indicator 7)

- 6.7 Managing the maturity profile of debt is essential for reducing the Council's exposure to large, fixed rate sums falling due for re-financing within a short period, and thus potentially exposing the Council to additional unplanned cost.
- 6.8 **Table 8** below shows that the Council's borrowing profile remained within the limits approved in the TMS for 2024/25 and do not highlight any issues as maturity is spread across the years.

Table 8 Debt maturity profile limits (Prudential Indicator 7)

	Lower Limit %	Upper Limit %	Actual borrowing maturity	
			£m	%
Under 12 Months	0%	10%	24	2%
1 – 2 Years	0%	15%	13	4%
3 -5 years	0%	20%	43	8%
6-10 years	0%	25%	82	15%
11-20 years	0%	50%	213	35%
21-30 years	0%	75%	269	60%
31-40 years	0%	90%	308	89%
41-50 years	0%	100%	117	100%
Total			1,069	

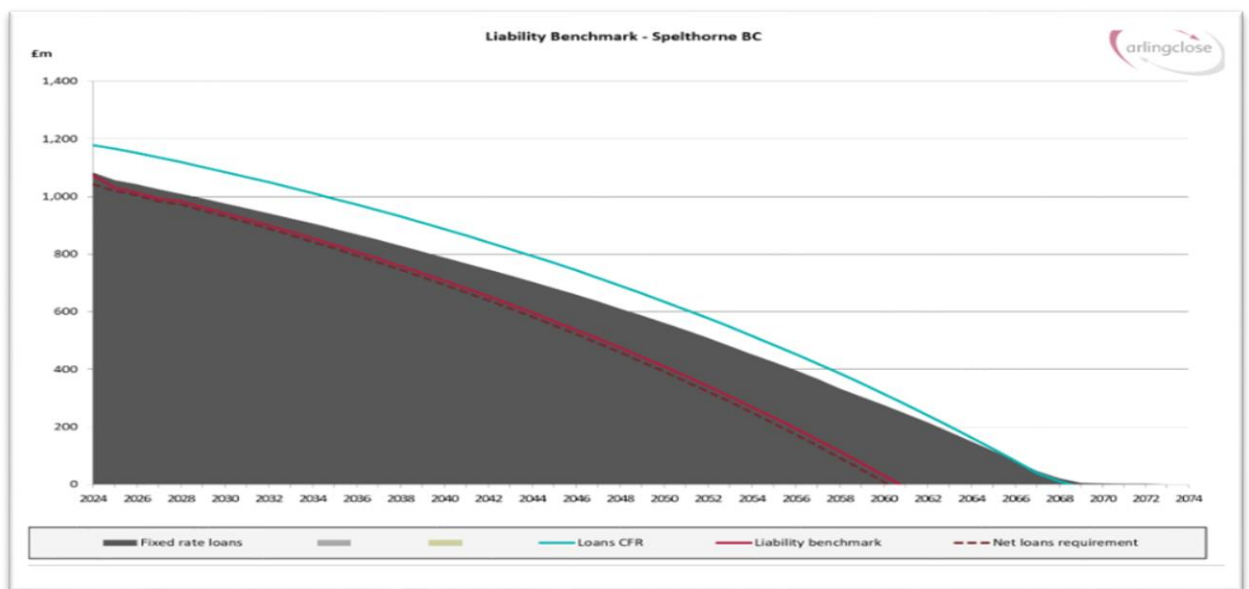
Borrowing in advance of need

- 6.9 The Council has not borrowed more than, or in advance of its needs, purely to profit from the investment of the extra sums borrowed.

Liability Benchmark

- 6.10 The Treasury Management Code requires the Council to compare the existing loan portfolio against committed borrowing needs in order to understand future debt requirements. The chart covers the following four areas.
- Existing Loan Debt = current borrowing portfolio;
 - Capital Financing Requirement (loans only);
 - Net Loans Requirement = loan debt (less treasury management investments) forecast based on approved prudential borrowing and planned MRP;
 - Liability Benchmark = Net Loans Requirement plus short-term liquidity allowance.
- 6.11 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing – see Chart 1 below.

Chart 1 Liability benchmark



- The liability benchmark indicates that the required level of borrowing is forecast to be £1,064.80m as at 31 March 2025 after taking into account other resources such as usable reserves and the minimum level of cash for liquidity of £32.0m. The Council's actual 2024/25 debt portfolio (most of which is at fixed rates) is £1,066m (£1,058m long term and £8m of short term) and investment funds of £10.9m and cash balances currently averaging £9m.
- 6.12 In the light of the Statutory Direction to adopt a strict debt reduction plan, the liability benchmark will be revisited during 2025/26.

SECTION 3 MANAGING CASH BALANCES

7 Investment outturn 2024/25

- 7.1 The Council's investment position at the end of 2024/25 is summarised in Table 9 below.

Table 9 Investments

	2023/24 Actual £m	2024/25 Actual £m	Movement £m
Treasury Investments:			
Pooled investment funds	35.1	2.9	(32.2)
Lending to other local authorities	0.3	8.0	7.7
Loans to Knowle Green Estates and Spelthorne Development Services	31.1	45.1	14.0
Investment property	625.4	583.1	(42.3)
Total	691.9	639.1	(52.8)

- 7.2 The Council divested of the majority of the pooled investment funds during 2024/25 to fund the completion of the Eclipse Leisure Centre, leaving a residual £2.9m invested in the CCLA LAMIT Property Fund which was liquidated in 2025/26. The pooled funds generated a return of 5.92% to end March 2025.
- 7.3 Pooled investment fund holdings complied with the limits set out in the TMS, namely:
- No more than £10m invested per fund at point of investment; and
 - No more than £25m with any one fund manager
 - The Council operates a detailed cashflow model and manages cash to ensure that no more than £50,000 is held overnight. Any surplus cash is invested overnight.
- 7.4 The treasury investments and loans to companies are classed as non-specified investments under the Statutory Guidance on Local Government Investments issued by the then DCLG in 2018 as they sums invested for more than 364 days. Table 9 above shows that such investments remained within the £70m limit set out in the 2024/25 TMS.

Commercial activity

- 7.5 As well as investing in assets owned by the Council and used in the delivery of services, the Council can also invest, where appropriate, in:
- Investment property for return
 - Loans to third parties; and
 - Shareholdings in companies and joint ventures.
 - Such investments are statutorily defined as capital expenditure for treasury management and prudential borrowing purposes even though they do not create physical assets in the Council's accounts. Appropriate budgets in respect of these activities are agreed as part of the Council's budget setting and ongoing monitoring processes are considered as part of the Annual Investment Strategy.
 - Currently the Council is invested in the following activities which fall within the category of commercial activity under the Prudential Code:
 - An investment property portfolio valued at £583.1m at 31 March 2025 comprising 9 office blocks both within and without the borough
 - £45.1m of loans to two wholly owned Council subsidiary companies, the bulk of which is to Knowle Green Estates Ltd and

- £1 shareholdings in the two subsidiary companies, Knowle Green Estates Ltd and Spelthorne Direct Services Ltd
- 7.6 The Statutory Guidance on Local Government Investments issued by the then DCLG in 2018 requires local authorities to develop quantitative indicators to allow Councillors and the public to assess a local authority's total risk exposure because of its investment decisions.
- The Council received, on an accruals basis, net rental income of £45.1 million from the investment property portfolio for the financial year ending 31st March 2025 against a forecast budget of £46.5 million (This is higher than the contracted rental income stated in the valuation due to insurance reimbursements, general licence income contributions from dilapidation payments, rent top-ups and amortised lease incentives).
- 7.7 Overall, the investment properties provided net operational income (net income less expenditure) of £39.8 million before finance costs, management set aside and sinking fund movements. After taking account of finance costs, management set aside and sinking fund movements, the investment property portfolio generated net income of £7.6 million, which was available to the revenue budget to support the cost of Council's services. These returns do not take into account annual and cumulative movements in the valuations of the assets.
- 7.8 Table 10 below highlights that the Council is heavily dependent on income generated from its investment property portfolio.

Table 10 Net income from commercial investments to net budget requirement

	2024/25 Budget £000	2024/25 Actual £000	2025/26 Budget £000
Total net income from commercial investments	8,985	7,605	12,723
Net Budget Requirement	8,628	7,296	10,173
Proportion of net revenue stream	104%	104%	125%

- 7.9 The value of the Council's investment property portfolio declined again in 2024/25 reflecting an overall decline in value since acquisition of 43%, indicating that overall the investment property portfolio is generating a negative return.
- Over the next two years, as predicted and advised, the Council will have to withdraw funds from its Sinking Fund Reserves to support services and the vulnerable residents in the Borough. The Budget for 2025-26 approved by Council in February 2025, anticipated a net use of the sinking funds reserves of £5.052m. This was using the sinking funds for the earmarked purpose they were designed for, as set out in the original council policy.
 - As reported to 20th January 2025 Corporate Policy and Resources Committee, the Council has undertaken a major refresh of its Sinking Funds modelling. This has identified the need over the medium term to build up sinking funds balances more rapidly by 2036. The Outline Budget report to the Committee on 9th December 2024 and the Budget approved in February 2025, highlighted the proposal that from 2026-27 the Council gradually increases the net contribution into sinking funds by £1m per annum, so that by 2031 each year an additional £5m per annum is being

put into the funds. This would have the effect of gradually reducing the subsidy from investment assets supporting services, which would reduce from £10m per annum to £5m per annum, i.e. it will halve over time.

7.10 The Council's investment in companies is summarised in Table 11 below:

Table 11 Council controlled companies

Net Worth 31/3/2024 £000s	Company name	Share ownership	Nominal value £	Net worth 31/3/2025 £000s
5,649	Knowle Green Estates Ltd	1	1	16,670
84	Spelthorne Direct Services Ltd	1	1	67
5,733				16,737

7.11 The Council is not dependant on income generated by the companies, as they are not making a substantial return and were set up to deliver service policy objectives for the Council.

7.12 The Council has continued to advance loans to its two subsidiary companies, Knowle Green Estates and Spelthorne Development Services. Loans have been advanced at a small margin over PWLB – see Table 12 below

Table 12 Loans to Council controlled companies

Balance at 31/3/2024 £000s	Company name		Average interest rate %	Balance at 31/3/2025 £000s
29,749	Knowle Green Estates Ltd - loans		3.37%	44,449
2,500	Knowle Green Estates Ltd - debenture		0.00%	2,500
268	Spelthorne Direct Services Ltd		5.00%	208
32,517				47,157

7.13 The Council has not recognised an expected credit losses against either counter-party as the loans are secured by charges over the properties.

8 Other Issues

IFRS 9 fair value of investments

- 8.1 Following the consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG) on IFRS 9, the Government extended the statutory override under Regulation 30K of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended, which requires local authorities to transfer all unrealised fair value movements resulting from pooled investment funds to an unusable reserve until the assets are realised (i.e. sold). The override has been extended to 31st March 2029, but does not apply to any new pooled investments from 1st April 2024.
- 8.2 The Council's long-term investments have an overall fair value unrealised gain of £0.055m against a total value of £2.9m. Had the statutory override not been in place, the unrealised gain would have had to have been recognised in the Comprehensive Income and Expenditure Statement and would have been a positive benefit to the General Fund.

IFRS 16

- 8.3 From 1st April 2024, a new International Financial Report Standard, IFRS 16, came into effect for Local Authorities. The main impact of IFRS 16 is to scrap the previous distinction between operating and finance leases for lessees and replace with the requirement to recognise all leases which convey a “right of use” to the underlying asset for more than 12 months.
- 8.4 As a result the value of the underlying asset has to be recognised on the balance sheet matched by the corresponding lease liability. The impact for the Council has been to recognise an additional £4.9m of assets on the balance sheet matched by a lease liability from 1 April 2024.
- There is no bottom-line impact to the General Fund as the lease rental payments due remain unaltered – the change is that lease rental is now allocated to different parts of the Consolidated Income and Expenditure Statement (CIES) in the Statement of Accounts and the principal element is recognised in the Movement in Reserves Statement in the Statement of Accounts.

9 Options analysis and proposal

- 9.1 This report deals with the Treasury Management Outturn, and the outcome plays a significant part in supporting the delivery of all the Council’s corporate priorities.

10 Financial management implications

- 10.1 The financial implications are as set out in this report. The ability to maximise interest returns is paramount to generate sufficient funds to support the General Fund and even a small decline in interest rates can mean a significant reduction in cash returns. Therefore, it is our aim to continue to maintain flexibility commensurate with the high level of security and liquidity and minimal risk when making investment decisions.
- In addition to supporting the Council’s Revenue Budget and Capital Programme, the Treasury Management interest budget is an important part of the revenue budget. Any savings achieved, or overspends incurred, have a direct impact on the financial performance of the budget.

11 Risk management considerations.

- 11.1 The Local Government Act 2003, the Prudential Code and the Treasury Management Code of Practice include a key principle that the Council’s appetite for risk is included in their annual Treasury Management Strategy, and this should include any use of financial instruments for the prudent management of those risks and should ensure that priority is given to security and liquidity when investing.

- 11.2 The principal risks associated with treasury management are set out below:

	Risk	Mitigation
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1	Loss of investments as a result of failure of counterparties	Limiting the types of investment used, setting lending criteria for counterparties, and limiting the extent of exposure to counterparties.
2	That the Council will commit too much of its investments in fixed term investments and might have to recall investments prematurely resulting in possible additional costs or new borrowing (Liquidity risk).	Ensuring that a minimum proportion of investments are held in short-term investments for cashflow purposes.
3	Increase in the net financing costs of the Council due to borrowing at high rates of interest.	Planning and undertaking borrowing and lending considering assessments of future interest rate movements, and by undertaking mostly long-term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs).
4	Higher interest rates increase borrowing making it more difficult to self-finance capital schemes. Debt servicing becomes less affordable and less sustainable and crowds out revenue spend.	To pause, delay or defer capital schemes. Also consider opportunities to borrow in the future at current interest rates.
5	Return on non-treasury investments lower than expected.	Review and analysis of risk prior to undertaking non-treasury investments.
6	The Council's Minimum Revenue Provision policy charges an insufficient amount to the General Fund to repay debt at a prudent level.	Align the Minimum Revenue Provision policy to the service benefit derived from the Council's assets.
7	Associated with cash management, legal requirements and fraud.	<p>These risks are managed through:</p> <p>11.3 Treasury Management Practices covering all aspects of treasury management procedures, including cashflow forecasting, documentation, monitoring, reporting and division of duties</p> <p>11.4 All treasury management procedures are transactions are subject to inspection by internal and external auditors. The Council also employs external treasury advisors to provide information on market trends, credit rating alerts, lending criteria advice and investment opportunities.</p>
8	Increase in capital financing costs due to inflationary forces resulting in increased cost pressures on current capital projects and higher	Regular monitoring of the Capital Programme through comparison to budgets.

	costs compared to approved budgets.	
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12 Procurement

12.1 None

13 Legal considerations

- 13.1 The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 (LGA 2003) and associated regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs (sections 1 and 12 of LGA 2003). The Regulations in section 15 of the LGA 2003 also specify that authorities should have regard to the CIPFA Treasury Management Code, the CIPFA Prudential Code and the MHCLG Investment Guidance when carrying out their treasury management functions.
- 13.2 The report is in accordance with the requirements of the CIPFA Treasury Management Code, the CIPFA Prudential Code and complies with the Council's statutory obligation under the LGA 2003 to have regard to these Codes.
- 13.3 This report also assists the Council to monitor its investments and borrowing.

14 S151 Officer Comments

- The report addresses the requirement to report on the previous year's Treasury Outturn position. The report was intentionally delayed in order to align with the Statement of Accounts process and to agree a revised MRP approach which addressed external auditor and Best Value Inspection concerns, as set out in the earlier report on this Agenda relating to MRP.

15 Monitoring Officer Comments

- 15.1 The Monitoring Officer confirms that all relevant legal implications have been taken into account.

16 Other considerations

- 16.1 The Council fully complies with best practice as set out in CIPFA's 2023 Treasury Management and Prudential Codes and in the Government's Guidance on Investments.
- 16.2 Nothing in the Council's current strategy is intended to preclude or inhibit capital investment in local projects deemed beneficial to the local community and which have been approved by the Council.

17 Equality, Diversity, and Inclusion

- 17.1 Equality, diversity, and inclusion (EDI) are central to everything that we do and are woven throughout our Strategic Plans.

18 Sustainability/Climate Change Implications

18.1 The Council had been discussing with its advisers how to transition its portfolio of medium-term investments towards an Environmental, Social and Governance compliant basis. However, that is no longer relevant following the decision in October 2024 to draw down the medium-term investment funds.

19 Timetable for implementation.

19.1 Not applicable.

20 Contact

20.1 Peter Worth, Interim Treasury Management Accountant –
P.worth@spelthorne.gov.uk .

Background papers: None

- **Appendices:**
Appendix A – TM Prudential Indicators
Appendix B – Glossary - Local Authority Treasury Management Terms.

Appendix A

Summary of Prudential Indicators

PI ref	Para ref	Prudential Indicator	2023/24 Actual £m	2024/25 estimate £m	2024/25 Actual £m	RAG Indicator
1	3.4	Capital expenditure	41.1	4.4	33.1	G
2	3.8	Capital Financing Requirement	1,151.2	1,182.5	1,152.6	G
3	3.10	Net debt v. CFR - (under)/over borrowed	(63.1)	(110.5)	(83.4)	G
		Ratio of financing costs to net revenue stream (Affordability):				
4a	3.11	Excluding investment property income	282%	262%	315%	R
4b	3.12	including investment property	72%	71%	83%	R
5a	4.8	Authorised limit for external debt		1,270.0	1,072.0	G
5b	4.8	Operational boundary for external debt		1,170.0	1,072.0	G
6	5.5	Limit on surplus funds held for more than 364 days (i.e. non-specified investments)	66.5	70	56	G
		Maturity structure of borrowing				
7a	4.10	Upper limit under 12 months		10%	2%	G
7b	4.10	Lower limit 10 years or more		0%	85%	G

KEY

Exceeds PI significantly

Near but not within PI

Within or at PI level

R
A
G

GLOSSARY

Local Authority Treasury Management Terms

Terms	Descriptions
Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets.
Borrowing	Usually refers to the stock of outstanding loans owed, and bonds issued.
CFR	Capital Financing Requirement. A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and MRP.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
CIPFA	The Chartered Institute of Public Finance and Accountancy (CIPFA) is a UK-based international accountancy membership and standard-setting body. The only such body globally dedicated to public financial management.
Collective investment scheme	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment, or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
Covered bond	Bond issued by a financial institution that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds.
CPI	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee.
Deposit	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.

Terms	Descriptions
Diversified income fund	A collective investment scheme that invests in a range of bonds, equity, and property in order to minimise price risk, and also focuses on investments that pay income.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DMADF	Debt Management Account Deposit Facility – a facility offered by the DMO enabling councils to deposit cash at very low credit risk. Not available in Northern Ireland.
MHCLG	Ministry of Housing, Communities & Local Government - The Ministry of Housing, Communities and Local Government is central to the mission-driven government, from fixing the foundations of an affordable home to handing power back to communities and rebuilding local governments.
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
Equity	An investment which usually confers ownership and voting rights
Floating rate note (FRN)	Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA
FTSE	Financial Times stock exchange – a series of indices on the London Stock Exchange. The FTSE 100 is the index of the largest 100 companies on the exchange, the FTSE 250 is the next largest 250 and the FTSE 350 combines the two.
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
Income Return	Return on investment from dividends, interest and rent but excluding capital gains and losses.
GILT	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
LIBID	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR.
LOBO	Lender's Option Borrower's option

Terms	Descriptions
MMF	Money Market Funds. A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity.
MPC	The Monetary Policy Committee (MPC) decides what monetary policy action the Bank of England will take to keep inflation low and stable.
MRP	Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (“MRP”) , although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Ministry of Housing, Communities and Local Government’s Guidance on Minimum Revenue Provision (“the MHCLG Guidance”) most recently issued in April 2024.
OBR	The Office for Budget Responsibility was created to provide independent and authoritative analysis of the UK's public finances. It is one of a growing number of official independent fiscal watchdogs around the world.
PMI	Purchasing Managers' Index (PMI) - A composite PMI is the weighted average of manufacturing and service sector PMIs for a given geography or economy, produced by IHS Markit. Weights are derived from official data relating to each sector's contribution to GDP (value added).
Pooled Fund	Scheme in which multiple investors hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as ‘pooled funds’).
Price Risk Indicator	Price risk is the risk of a decline in the value of a security or an investment portfolio excluding a downturn in the market, due to multiple factors. Investors can employ a number of tools and techniques to hedge price risk, ranging from relatively conservative decisions (e.g., buying put options) to more aggressive strategies (e.g., short selling).
PWLB	Public Works Loan Board – a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Quantitative easing (QE)	Process by which central banks directly increase the quantity of money in the economy to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money.
SME	SME finance is the funding of small and medium-sized enterprises and represents a major function of the general business finance

Terms	Descriptions
	market – in which capital for different types of firms are supplied, acquired, and costed or priced.
SONIA	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
Short-dated	Usually means less than one year.
TMSS	Approved Council's Treasury Management Strategy Statement
Total return	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.
VRP	The Council is required to pay off an element of the accumulated general fund capital spend each year (the Capital Financing Requirement (CFR) through a revenue charge (the minimum revenue provision - MRP), and it is also allowed to undertake additional voluntary payments (Voluntary Revenue Provision - VRP).