To:
All members of the Corporate Policy and Resources Committee

Please reply to:
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Date: 3 November 2025

Supplementary Agenda

Corporate Policy and Resources Committee - Tuesday, 11 November 2025

Dear Councillor

I enclose the following items which were marked 'to follow' on the agenda for the Corporate Policy and Resources Committee meeting to be held on Tuesday, 11 November 2025:

Committee is asked to:

1. Consider and agree the principle of Asset Rationalisation as set out in this report and recommend this to Council;
2. Approve the commencement of the procurement of a specialist adviser through an appropriate framework;
3. Delegate authority to the S. 151 Officer and Group Head of Assets, in consultation with the Leader and the Deputy Leader, the Chair of the Commercial Assets Sub-Committee, and Chair of the Business, Infrastructure and Growth Committee, to appoint the preferred bidder from the above procurement to assist in the implementation of an Asset Rationalisation Strategy;
4. Delegate authority to the Group Head of Corporate Governance to enter into a contract with the proposed advisors.

Appendix 1 contains exempt information within the meaning of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985 and by the Local Government (Access to Information) (Variation) Order 2006 Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information) and in all the circumstances of the case, the public interest in maintaining the *exemption outweighs the public interest in disclosing the information because, disclosure to the public would prejudice the financial position of the authority in any lease, contract or other type of negotiation with the tenant or developer, who could then know the position of the Council.*

The Committee is asked to recommend to Council that it approves the:

1. Reserves Strategy for 2026-27
2. Repurposing of the earmarked Sinking Fund reserves as a revenue budget equalisation reserve.

Committee is asked to recommend that Council approve the:

1. Draft Medium Term Financial Strategy
2. Proposed Flexible Use of Capital Receipts Strategy

The Committee is asked to note the performance of the Treasury Management team during the first six months of 2025/26.

Yours sincerely

Karen Wyeth
Corporate Governance

To the members of the Corporate Policy and Resources Committee

Councillors:

J.R. Sexton (Chair)
C. Bateson (Vice-Chair)
M.M. Attewell
M. Beecher
J.R. Boughtflower
J. Button
D.C. Clarke
S.M. Doran
R.V. Geach
M. Gibson
K.M. Grant
K. Howkins
M.J. Lee
S.C. Mooney
L. E. Nichols
H.R.D. Williams

Substitute Members: Councillors: M. Bing Dong, S.N. Beatty, H.S. Boparai, M. Buck, S.A. Dunn, K.E. Rutherford and P.N. Woodward

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**	**22/10/25**
Legal comments	**LH**	**21/10/25**
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**	**21/10/25**
S151 Officer commentary – at least **5 working days before MAT**	**T.Collier**	**20/10/25**
Confirm final report cleared by MAT		

Corporate Policy & Resources Committee

Date of meeting – 11 November 2025

Title	Asset Rationalisation to underpin the revised Medium-Term Financial Strategy
Purpose of the report	To make a decision and make a recommendation to Council
Report Author	Terry Collier, Deputy Chief Executive
Ward(s) Affected	All Wards
Exempt	No Appendix 1 - Yes
Exemption Reason	Appendix 1 contains exempt information within the meaning of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985 and by the Local Government (Access to Information) (Variation) Order 2006 Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information) and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information because, disclosure to the public would prejudice the financial position of the authority in any lease, contract or other type of negotiation with the tenant or developer, who could then know the position of the Council.
Corporate Priority	Statutory Direction issued May 2025
Recommendation	**Committee is asked to:** 1. Consider and agree the principle of Asset Rationalisation as set out in this report and recommend this to Council; 2. Approve the commencement of the procurement of a specialist adviser through an appropriate framework; 3. Delegate authority to the s.151 Officer and Group Head of Assets, in consultation with the Leader and the Deputy Leader, the Chair of the Commercial Assets Sub-Committee, and Chair of the Business Infrastructure and Growth Committee, to appoint the preferred bidder from the above procurement to assist in the implementation of an Asset Rationalisation Strategy; 4. Delegate authority to the Group Head of Corporate Governance to enter into a contract with the proposed advisers.
Reason for Recommendation	Full Council needs to approve any significant changes to the approved Treasury Management Strategy, Revenue and Capital Budgets for 2025/26, and any significant changes to Council's Medium-Term Financial Strategy. The Constitution requires that

	Corporate Policy and Resources Committee makes a recommendation on matters reserved to Council for decision.

1. Executive summary of the report

What is the situation	Why we want to do something
This report sets out proposed changes to the Council's Capital Strategy for 2025/26 which was approved by Full Council in February 2025.	Statutory Directions issued by MHCLG in May 2025 require the Council to implement *"..an asset rationalisation programme for assets and commercial investments."* (paragraph 2.2)
This is what we want to do about it	**These are the next steps**
Approve the principle of Asset rationalisation and procure specialist resource to progress its implementation	• Approve progressing an Asset Rationalisation Strategy as set out in this report • Rework the 2025/26 General Fund budget and Medium-Term Financial Plan accordingly • Conduct a procurement exercise in line with the Procurement Act 2023, to obtain specialist support for marketing and negotiating asset sales.

2 Key issues

2.1. Similar to the previous report on this Agenda, relating to Debt Rescheduling, this report is setting out a proposal to commence a strategy to both address the Best Value Directions (in this case undertaking an asset rationalisation programme) and to mitigate the impact of the proposed new Minimum Revenue Provision (MRP) policy and its associated higher annual MRP charges to the Revenue Budget.

2.2. The Council owns a substantial portfolio of commercial property which currently generates net rental income in excess of £45m per year. Until recently a programme of regeneration work was also under way with projects carried at cost in Balance Sheet and classified as Assets Under Construction. Expenditure on these projects was suspended in 2023/24 with the properties consequently reclassified as Surplus Assets and held for sale. Minimum Revenue Provision charges are now being applied to those assets.

2.3. Since May 2025 the Council has been under a Statutory Direction which requires, amongst other things, that it "implements *" an asset rationalisation programme for assets and commercial investments"* together with *" 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*". The Commercial and Regeneration themes of the Improvement and Recovery Plan are developing a programme for delivering an asset rationalisation programme. This programme informs the financial modelling.

2.4. Some asset disposals are already under way with the disposal of a commercial site in Sunbury and Thameside House in Staines under offer and approved by Council. This report seeks member approval to develop a more ambitious Asset Rationalisation Strategy with the aim of completing the rationalisation of commercial and regeneration assets by 31 March 2035.

2.5 **Capital Financing Requirement (CFR)**

This report refers to the CFR throughout. The CFR measures the extent to which a local authority has incurred capital expenditure which has not been financed. Financing is the setting aside of resources to fund capital expenditure and includes: capital receipts, capital grants, developer contributions and direct funding from revenue or earmarked revenue reserves. The CFR measures the underlying need to borrow.

2.6 When capital expenditure is incurred the CFR increases. When resources are set aside, the CFR reduces.

2.7 Paragraph 36 of the Statutory MRP Guidance states that

"the MRP charge must be calculated with respect to all capital expenditure financed by debt (and which has not yet been provided for). The appropriate measure for this is CFR as this is a complete measure of all capital expenditure which has not been funded by either capital or revenue resources."

3. Financial implications

3.1 Selling Investment Property will reduce a net revenue cost to the General Fund, particularly the MRP charge. The cash generated from asset disposals can be used to:

- repay borrowing
- reduce future interest charges, and
- reduce Minimum Revenue Provision (MRP) set aside.

3.2 The following is an example showing impact of a single asset disposal in 2026/27 following a refinancing exercise. The example assumes a reduced Capital Financing Requirement to £700m and interest payable on the refinanced debt of £700m at 4.5%.

3.3 Assuming a disposal of an asset for £50m takes place in March 2026:

Investment Asset Income and Expenditure 2025/26

2025/26 - Asset Sale in March 2026

	£m
MRP over 20 years (£1,100m / 20 years)	55.0
Interest at 5% on £700m	35.0
Landlord Costs	6.0
	96.0
Investment income of £40m	(40.0)
Early repayment discount credit spread over 10 years	(36.0)
	(76.0)
Net Revenue Budget deficit/(surplus)	**20.0**

2026/27

	£m	
MRP on reduced CFR of £1,050m (£1,050m / 20 years)	52.5	MRP Reduces by £2.5m
Interest on reduced borrowing at 5%	32.5	Interest Reduces by £2.5m
Revised landlord holding costs of £5m	5.0	Holding costs reduce by £1m
	90.5	
Investment income reduced on asset disposed £2m	(38.0)	
Early repayment discount credit spread over 10 years	(36.0)	
	(74.0)	
Net Revenue Budget deficit/(surplus)	**16.5**	

reducing the deficit by £3.5m

It can seen by from the above illustrative example that whilst income from investment assets reduces following the disposal of one asset this is more than offset by savings on interest and MRP charges.

3.4 Financial modelling suggests that a combination of debt rescheduling and asset sales could cumulatively benefit the General Fund by £37m over the next 10 years even after allowing for increased MRP set aside, as set out in Table 1 below:

Table 1 –Net impact of proposed debt restructuring, MRP changes and indicative asset sales

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	2031/32 £m	2032/33 £m	2033/34 £m	2034/35 £m	2035/36 £m	Total £m
MRP	59	41	39	30	30	30	31	31	32	32	9	364
Interest	29	26	26	22	21	20	20	20	20	20	6	230
Discount £361m in total	(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	0	(360)
Net operating inc/exp on Investment Property	(44)	(38)	(36)	(22)	(20)	(20)	(22)	(23)	(23)	(23)	0	(271)
Net (surplus)/deficit to General Fund	**8**	**(7)**	**(7)**	**(6)**	**(5)**	**(6)**	**(7)**	**(8)**	**(7)**	**(7)**	**15**	**(37)**

3.5 However, it should be noted that the above modelling assumes a challenging but achievable timetable for both marketing and conveyancing process. If the timetable slips by 6 months, this would reduce the cumulative General Fund position from £37m to £12m over the same period.

3.6 Capital receipts from asset sales can also be applied to reduce the Council's CFR in line with the Statutory Direction now in place. Modelling summarised in Table 2 below, suggests that implementing the Asset Rationalisation Strategy set out above in conjunction with debt rescheduling and increased MRP set aside could reduce the Council's CFR from its current level of almost £1bn to £229m at 31 March 2036.

Table 2 - Impact of indicative asset sales on borrowing and the CFR

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Principal outstanding at year-end	588	533	475	460	445	430	415	399	383	114	114
CFR outstanding at year-end	988	892	689	662	634	605	577	547	518	236	229

MRP set aside would similarly reduce from £59m in 2025/26 to only £9m in 2035/36.

3.7 Given that the Council would still potentially have residual loan debt of £114m and CFR of £229m (see Table 2 above), it would be prudent to use all surpluses generated over the 10 year period to make additional revenue provision to reduce the CFR (over and above MRP) and to make additional repayments of loan debt. Potentially this could further reduce debt charges to c.£5m.

4 Options appraisal and proposal

4.1 A rationalisation programme of this size will be complex and will require detailed and specialist knowledge of both local and national property markets. Options available are as follows:

- **Option 1 -** Use internal resources to develop and implement an Asset Rationalisation Strategy. This is a less resilient option as increases reliance on a handful of internal skilled and experienced Assets staff

- **Option 2 recommended** – Agree the principle of implementing an Asset Rationalisation Strategy, and in order to progress this to employ the services of specialist agents to work with internal staff to market each asset and identify suitable purchasers. This is a more resilient option as reduces reliance on a handful of internal skilled and experienced assets staff and ensures the Council is achieving the best consideration for any disposals.
- **Option 3** – Agree the principle of asset and rationalisation and use internal resources to manage the process but appoint external specialists to deal with the operational aspects of rationalisation. This is a less resilient option as increases reliance on a handful of internal skilled and experienced assets staff

4.2 Using internal resources only runs the risk that the Council would be unable to achieve best consideration from asset sales because it would not have access to potential specialist markets, which a national external advisor would have and would slow the rationalisation programme through resource constraints.

4.3 Consequently, this report recommends that Option 2 is pursued and that the Council seeks external support from organisations with a successful track record of working with local authorities on asset disposal projects.

4.4 Engaging external specialist advice will incur additional cost. Regulation 23(h) of the local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, permits local authorities to charge directly attributable disposal costs (including external agents fees) against the capital receipt up to a maximum of 4% of the capital receipt. Experience at other authorities which have embarked on asset rationalisation programmes is that fees are usually less than 1% of the capital receipt.

5 Risk implications

5.1 Financial outcomes are sensitive to changes in both the timescales achieved for asset sales and to the value of disposal proceeds eventually realised. The model underpinning the proposals facilitates dynamic sensitivity analysis and scenario modelling. For example, a 25% reduction in sales values could reduce General Fund balances by up to 60% through a combination of:

- delayed reductions to MRP set aside, and
- delayed loan repayments leading to increased interest costs.

5.2 To manage and mitigate these financial risks it is recommended that the Council appoint external consultants to deal with the operational aspects of assets rationalisation. This additional capacity and specialist expertise should ensure that:

- the most favourable markets and prospective purchasers are accessed
- delays are minimised, and
- the best possible sales prices are achieved.

5.3 Further information about the proposed procurement process has been set out in Section 9.

5.4 It should also be recognised that not disposing of property that is not held for operational, or community benefit exposes the Council to some significant financial risks, as follows:

- current forecasts of future rental income assume buoyant demand for tenancies, low void levels and limited exposure to late payments or defaults. None of these factors can be guaranteed, and there are break clauses in some contracts which permit earlier termination by tenants and are likely to trigger new lease incentive arrangements.

- unanticipated future events such as pandemics, geo-political turmoil etc.
- rental income from commercial properties has historically covered interest charges and principal debt repayments as well as making a financial contribution to service delivery. Following on from the COVID-19 pandemic, this contribution has dropped considerably in recent years, and with the significant number of lease renewals and breaks coming up and is no longer being included in revenue budgets going forward.
- to remain in Grade A condition and be attractive to new and existing tenants, some properties will require extensive maintenance and improvement work, not all of which can be recovered from existing tenant service charges. These costs have yet to be fully modelled property by property (the recent business plans focused on a five year time horizon) and consequently for the purposes of the new model and are not fully reflected either in General Fund revenue and capital budgets or in the financial modelling which informs this report.
- the Council's portfolio of investment property and regeneration assets is currently estimated as having a realisable aggregate disposal value of £552m. This reflects a cumulative loss in the value of the investment property since the assets were initially purchased at a total cost (including fees and taxes) of £1.077bn. Whilst it is possible that the values of some sites might improve over time in the future, it is equally possible that some values would remain static or even reduce further, thereby creating additional revaluation losses over time. Values would remain static or even reduce further, thereby creating additional revaluation losses over time. over time. over time.
- As highlighted above, there is a risk around reliance on a small number of skilled Assets team members. Bringing in some additional external support improves resilience.
- if the rationalisation programme is not managed carefully there is a risk that the market could perceive the Council and its successor as a forced sale. To mitigate this the rationalisation programme will be delivered over the medium term, using appropriate specialist expertise and building on the experience of asset rationalisation programmes at other councils to ensure that the Council obtains best consideration from asset disposals.
- the Council's investment property portfolio contains a substantial number of voids (approximately 10.2% across the portfolio). Whilst this is below the South East regional average void rate of 18.9% (source MSCI Monthly Void Rate for Inner SE Offices 18.9% (as a % of ERV) – August 2025), it is still a substantial loss of rental income. Unless these can be re-let the Council will continue to lose potential income.
- these revaluation losses are not cash transactions, as they are taken to the Revaluation Reserve each year. However, they do affect the Council's Balance Sheet position, potentially increasing its negative net worth as currently reported at 31 March 2025.

6 Legal comments

6.1 Local authorities must follow a strict legal framework in relation to disposal of land and property. Under the Local Government Act 1972, the Council has a statutory duty to sell land at the best price reasonably obtainable, unless it has the express consent of the Secretary of State where undervalue exceeds £2m.

6.2 A "disposal" includes the sale of the freehold, granting a lease, assigning a lease and/or granting an easement. Entering into option agreements or sale and leaseback contracts are also deemed to be disposals.

6.3 In addition to the statutory framework controlling the ability to dispose of land and property, local authorities are public bodies and must follow a fair process in relation to decision-making. This must include taking account of:

- all relevant information and financial implications
- statutory duties and responsibilities
- local decision-making requirements as set out, for example, in the Council's Constitution, Financial Regulations and other codes of practice
- the duty to act reasonably and to make decisions in line with Council policies which have been properly approved.

6.4 The proposed award of the contract to the specialist external advisor must be in accordance with the Council's Contract Standing Orders and the Procurement Act 2023.

6.5 To ensure that these requirements are complied with in full it is recommended that in addition to approving the Asset Rationalisation Strategy set out in this report, each individual asset sale is also subject to member approval by reporting to the Corporate Policy and Resources Committee and to Council.

7 S151 Officer comments

7.1 Clearly as set out in the report, approving and implementing an Asset Rationalisation Strategy as proposed will have significant financial implications, which are set in this report and the proposal needs to be carefully considered. This is why appropriate expertise will be brought in to support the process. The Commercial Assets Sub-Committee, including input from its independent lay member will be closely involved in evaluating asset rationalisation proposals. Additionally Audit Committee will review and monitor the process to ensure appropriate risk mitigation arrangements are in place. Key to successful implementation of this plan will be delivering asset sales at current valuation level (at a minimum) and within the timescales assumed by the financial modelling.

7.2 It should also be noted that sales of Investment Property will remove a significant part of the stream of rental income which historically has been used by the Council to support service budgets as well as to cover loan interest costs. These changes will need to be reflected in the Medium-Term Financial Plan provided in the later report on this Agenda as part of the Council's mid-year Budget review.

8 Monitoring Officer comments

8.1 The proposed approach as set out in this report represents a course of action which intends to meet the requirements of the Statutory Direction issued in May 2025.

8.2 As the proposed Asset Rationalisation Strategy will have a significant impact on 2025/26 Revenue and Capital budgets as well as the Medium-Term Financial Plan, it represents a decision which will need to be approved by Full Council. However, the proposals included in this report must first be considered by the Corporate Policy and Resources Committee in line with decision-making arrangements set out in the Council's Constitution.

9 Procurement

9.1 A rationalisation programme of this size will be complex and will require detailed and specialist knowledge of both local and national property markets. Options available are as follows:

- Option 1 - Use internal resources to develop and implement the asset rationalisation strategy
- Option 2 - Use internal resources to manage the process but following an appropriate procurement process appoint external specialists, with specific market knowledge to deal work with the Council internal resources.

9.2 This report recommends that Option 2 is pursued and that the Council seeks external support from an organisation with a successful track record of working with local authorities on asset rationalisation projects. Given the time sensitivity in achieving the most favourable outcome and the resulting urgency of progressing this workstream, in the context of Local Government Reorganisation and the Best Value Directions, it is recommended that subject to complying with the framework conditions, the Council appoints through an appropriate framework. The specialists' key tasks would include:

- advising on how best to dispose of Council assets
- arranging condition and site surveys
- advertising land and property for sale
- proactively identifying and contacting potential purchasers and completing due diligence work
- negotiating sale prices, terms and conditions on the Council's behalf
- undertaking value for money assessments
- liaising with legal advisers, valuers etc.
- liaising with, and reporting to, Council officers and elected members.

9.3 Procurement of these services will be carried out in compliance with Council's Contract Standing Orders and with the Procurement Act 2023.

9.4 Fees paid to external consultants will be determined as part of the procurement process, which will evaluate (amongst other things):

- total fees payable as a percentage of asset sale price
- incentivisation arrangements, and
- impact (if any) on revenue budgets.

9.5 Before commencing any formal procurement procedure, the Council will consult with its existing advisers, other local authorities and independent experts with a view to:

- preparing accurate and appropriate procurement documentation, and
- identifying any suitable framework contracts that might be available or already in place.

9.6 This process is an appropriate part of the procurement procedure so long as it does not violate the key principles of non-discrimination and transparency.

10 Equality and Diversity

10.1 There are no specific issues relating to equality and diversity that need to be addressed as part of this report.

11 Sustainability/Climate Change Implications

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

12 Other considerations

12.1 Rationalisation of the Council's investment property and surplus assets portfolio is part of a wider strategy to implement the Statutory Direction issued by MHCLG in May 2025.

12.2 Other actions to be taken include a new MRP Policy Statement and Debt Rescheduling initiative which will be the subject of separate decision-making reports at November 17th Council meeting but need to be considered in terms of their overall impact on the Council's financial position, as set out above.

13 Timetable for implementation.

13.1 To be implemented as part of the Commercial Theme of the Improvement and Recovery Plan.

14 Contact

14.1 Terry Collier, Deputy Chief Executive

T.Collier@spelthorne.gov.uk>

15 **Background papers and Appendices**

None

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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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		**27/10/25 & 28/10/35**
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	
Finance comments (circulate to Finance)	**OO**	**21/10/25**
Risk comments (circulate to Lee O'Neil)	**LO**	**24/10/25**
Legal comments (circulate to Legal team)	**LH**	**24/10/25**
HR comments (if applicable)		

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**	**21/10/25**
Confirm final report cleared by MAT		

Corporate Policy and Resources Committee

11 November 2025

Title	Reserves Strategy 2026-27
Purpose of the report	To make a recommendation
Report Author	Terry Collier, Deputy Chief Executive (s.151 Officer)
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	
Corporate Priority	Resilience
Recommendations	**Committee is asked to:** Recommend to Council that it approves the: • Reserves Strategy for 2026-27; • Repurposing of the earmarked Sinking Fund reserves as a revenue budget equalisation reserve
Reason for Recommendation	Effective and sustainable use of reserves is a key element of the Council's Medium Term Financial Strategy and ensuring the Council's continued financial sustainability

1. Executive summary of the report

What is the situation	Why we want to do something
• The context of the risks the Council are facing have changed significantly • The Council is no longer looking to hold the majority of its investment assets on a long term basis • The Council has had to use £15m of reserves to write off accumulated costs spent on preparing assets for development that were originally acquired for regeneration. This strategy was ended by Full Council in October	• As risks change so the Reserves Strategy should be reviewed and refreshed to ensure that the reserves and their balances are appropriate for the risks being faced • Having a clear Reserves Strategy is particularly important in context that 2026-27 is the last year before the balances in those reserves will be passed across to the new West Surrey Unitary Council • There are Budget gaps across the MTFS period which can be eased with the use of reserves

2023 as no longer financially viable (para 2.2) • Future funding uncertainty as a result of Fair Funding and the Business Rates Reset	
This is what we want to do about it	**These are the next steps**
• Repurpose the Sinking Fund earmarked reserves to support the managed transition to the new Unitary Council and the longer-term process of offsetting the disappearance of the net subsidy from the investment assets portfolio. This will help smooth the impacts of the Medium-Term Financial Strategy • The other reserves will continue to be held for the purposes they have been earmarked for	• For Corporate Policy and Resources Committee to recommend the Reserves Strategy to Council for approval

2. Key issues

2.1 The focus of this report is on a further mitigation or transitional adjustment measure to offset the impact of significantly higher Minimum Revenue Provision (MRP) being charged to Revenue as set out in the earlier report on this Agenda, and proposes that within the available earmarked reserves, the current sinking funds reserves are re-purposed to help smooth out impacts arising from the increased MRP and other aspects of the Medium Term Financial Strategy. The report is not proposing re-purposing other earmarked reserves.

2.2 The Chartered Institute of Public Finance and Accountancy (CIPFA), in its Financial Management Code, states that “the aim of the authority’s financial reserves is to provide funding for investment in future activities and to act as a safety net in case of short-term financial challenges.”

2.3 During the 2023–24 financial year, the Council applied £15.8m from reserves to mitigate the impact of clearing accumulated capitalised costs associated with abortive housing sites. In addition, £6.5m and £7.5m are planned to be applied in 2024–25 and 2025–26 respectively to offset the impact of the Minimum Revenue Provision (MRP) on regeneration assets reclassified as surplus with effect from 1 April 2024.

Despite these applications, the Council retains a reasonable level of reserves. As at 31 March 2025, total usable (Revenue and Capital) reserves stood at ***£58.5m*** (as reported in the draft 2024–25 Statement of Accounts Balance Sheet), broken down as follows:

Summary of types of reserves and balances as at 31/3/25:

	£m
Total Earmarked Revenue Reserves Useable by the Council	35.3
Plus:	
Developer Contributions	8.4
Unapplied Revenue Grants	6.4
Total Earmarked Revenue Reserves	**50.1**
Plus :	
General Fund Revenue Reserve	3.9
Total Revenue Reserves	**54.0**
Plus Capital Reserves:	
Capital Receipts Reserve	2.7
Unapplied Capital Grants	1.8
Total Reserves	**58.5**

2.4 As shown above, earmarked (i.e. set aside for specific purposes) revenue reserves, available for application by the Council (excluding Developers' Contributions and Unapplied Revenue Grants neither of which are available to support general Revenue Budget expenditure) totalled *£35.3m* at the end of 2024–25. However, this figure must be viewed in the context of the Council's outstanding loan debt, which exceeds *£1 billion*. Appendix 1 provides a summary of reserve balances as at 31 March 2025.

2.5 Not all reserves are available for use. Some arise from statutory and accounting requirements and are therefore classified as *"unusable reserves"*. These reserves cannot be used for any other purpose and are excluded from the Reserves Strategy, as their creation, purpose, and application are prescribed and not subject to local discretion.

2.6 An effective Reserves Strategy must be regularly reviewed and adapted to reflect the evolving risks faced by the Council.

2.7 The context within which the Council holds reserves has changed significantly in recent years. Previously, the focus was on retaining investment assets on a long-term basis and managing associated risks by building up earmarked *sinking fund* reserves to support the sustainability of rental income streams.

2.8 However, in May 2025, the Council received a set of *Best Value Directions* requiring the implementation of a strict debt reduction programme and the disposal of a substantial proportion of its investment assets. Under the *Improvement and Recovery Plan*, the majority of these assets are expected to be sold over the medium term. Consequently, the original rationale for maintaining sinking fund reserves has materially altered.

2.9 Linked to these Best Value Directions, the Council is also revising its Minimum Revenue Provision (MRP) policy. This revision will significantly increase the annual MRP charge to the Revenue Budget, placing additional pressure on overall finances.

2.10 To mitigate these pressures, the Council plans to undertake a debt rescheduling exercise and implement a medium-term investment and regeneration asset disposal programme. While these measures will help, they will not fully offset the Budget pressures. Over time, the net subsidy from investment assets will reduce and eventually cease.

2.11 To bridge the short-term funding gap and allow time for the delivery of transformational savings—particularly those expected following Local Government Reorganisation (LGR)—the Council may consider using part of the re-purposed Sinking Fund Reserve balances (this is based on the assumption that Asset Rationalisation Strategy progresses in accordance with timescales anticipated). For example, if two-thirds of the 2026–27 Budget gap (currently just under £2m) were met from reserves, approximately ***£1.33m*** would be funded from reserves and ***£0.67m*** from in-year savings.

3. Options appraisal and proposal

3.1 ***Option 1 (Preferred)*** *– recommend to Council the proposed Reserves Strategy. If the proposed approach is adopted it is estimated that the projected total balances in the earmarked revenue reserves would be as set out in the table below:*

Total Estimated Balances in Useable Earmarked Revenue Reserves as at 31st March

	24-25	25-26	26-27	27-28	28-29
	£m	£m	£m	£m	£m
Estimated Balance	35.3	30	21.1	18.6	14.8

3.2 ***Option 2*** – suggest amendments to the proposed Reserves Strategy.

3.3 ***Option 3*** – do not approve a Reserves Strategy. Not recommended as this would undermine the ability to set an informed and sustainable Medium Term Financial Strategy.

4. Risk implications

4.1 As the Strategy sets out, reserves are a key risk mitigation tool. The key risks are:

- that the risks faced by the Council are not sufficiently understood to inform correctly the level of reserves balances required to act as an appropriate risk buffer.
- The purposes for which reserves are set aside are not clearly enough defined or understood.

5. Financial implications

5.1 The accumulation of usable reserves involved setting aside resources over time, which in turn enabled the Council to earn interest on these balances. Building up reserves therefore provides greater opportunities to generate investment income, whereas drawing them down reduces this potential. As noted above, the targeted use of reserves can also provide the Council with the necessary time for savings programmes to achieve their intended outcomes. Particularly in the context of the significant resource focus on Local Government Reorganisation it will be important that savings targets are realistically set to be capable of delivering savings by 31st March 2027. Beyond 31/3/27 further transformation savings will then be delivered by the new West Surrey unitary council.

6. Legal comments

6.1 The Council is under a statutory duty to make proper arrangements for the administration of its financial affairs (section 151 of the Local Government Act 1972).

6.2 Under Section 25 of the Local Government Act 2003 (LGA 2003) the Council's Chief Finance Officer is required to report on the adequacy of the financial reserves in budget calculations. Section 28 of the LGA 2003 requires the Council to review its budget calculations from time to time during the financial year and take appropriate action in the event such review reveals that there is a deterioration in the Council's financial position.

6.3 This report assists the Council to comply with the statutory requirements.

7. Corporate implications

7.1 S151 Officer comments

The S151 Officer as part of the Annual Budget process has a statutory responsibility to comment on the robustness and appropriateness of reserves balances. So having an up-to-date Reserves Strategy to inform that judgement is particularly important. As one tool in the Medium-Term Financial toolkit, use of reserves plays a key role.

8. Monitoring Officer comments

8.1 The Monitoring Officer confirms that the relevant legal implications have been taken into account.

9. Procurement comments

9.1 Not applicable.

10. Equality and Diversity

10.1 Targeted use of reserves potentially can help ease the impact of implementing savings delivery which may help with addressing equalities impacts.

11. Sustainability/Climate Change Implications

11.1 The earmarked reserves includes the Green Initiatives Fund which is used to pump prime initiatives which will deliver environmental benefits and will assist the Council in addressing its Climate Emergency priorities.

12. Other considerations

12.1 None identified.

13. Timetable for implementation

13.1 The Reserves Strategy to be considered alongside the Medium-Term Financial Strategy and will underpin the Detailed Revenue Budget to be approved on 26th February 2026.

14. Contact

14.1 Terry Collier, Chief Finance Officer

Please submit any material questions to the Committee Chair and Officer Contact by two days in advance of the meeting.

Background papers:, There are none.

Appendices:
Appendix 1 – Reserves Balances as at 31/3/25
Appendix 2 – Draft Reserves Strategy 2026-27

APPENDIX 1
Summary of Earmarked Revenue Reserves at 31.03.25

Reserves Description	Balance at 31 March 2025	Proposal	Proposal
	£'000	£'000	
Insurance Fund	50	50	
Planned Spending Funds	8,012		
Sinking Fund Earmarked Reserves	26,261	34,273	Combine with Planned Spending to make available to support Budget
Youth Council Fund	20	20	
Local Environmental Assessment Fund	154	154	
Green Belt Fund	619	619	
Harper & White House Accommodation Fund	152	152	
Woodthorpe Recreation Ground & Fordbridge Park Fund	80	80	
Useable Earmarked Reserves at 31 March 2025	**35,348**	**35,348**	

APPENDIX 2

Spelthorne Borough Council's Reserves Strategy for 2026-27

What are Reserves?

Reserves are revenue resources the Council has accumulated over time and set aside for a particular purpose as part of an integrated approach to the financial management of the Authority over the short, medium and long-term.

What the Law and the Chartered Institute of Public Finance and Accountancy (CIPFA) say about reserves:

The Local Government Act 2003 (section 25) requires local authorities, when setting their budgets and the level of Council tax, to have regard to the advice of the Chief Financial Officer, namely the officer appointed under s.151 of the Local Government Act 1972 ("the CFO"), on the adequacy of the proposed financial reserves.

The CIPFA Financial Management (FM) Code states that

- Local authorities are directed to have regard to the level of reserves when considering their budget requirement. Consequently, reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' levels of reserves is a matter for local authorities to determine. It is the responsibility (with statutory backing in England and Wales) of the CFO to advise the local authority on the appropriate level of reserves and the robustness of the estimates.
- A well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed.
- These should be maintained at a level appropriate for the profile of the authority's cash flow and the prospect of having to meet unexpected events from within its own resources.
- The budget report should include details of the earmarked reserves held, and explain the purpose of each reserve, together with the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances
- The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves

What is a Reserves Strategy?

A reserves strategy sets out the choices we make in relation to the level and purposes for which we hold the reserves we have accumulated. It is made up of three key elements:

1. Our strategic intent – what we are seeking to achieve through holding reserves;
2. Our programme – the level of reserves we hold and our plans for their use over in 2026-27 and in 2027-28 onwards when the reserves will be passed across to the successor unitary and
3. Our framework – the way we will determine the level of reserves we need, manage those reserves and plan for their use in line with best practice and statutory requirements. Together these elements set out our ambition for reserves, the nature of

that ambition and how we provide assurance.

Usable and Unusable Reserves

In accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code) our reserves are categorised in the Statement of Accounts as either usable or unusable.

The Code describes usable reserves as those that represent resources that the authority might use to support service delivery at the reporting date. Some usable reserves may have restrictions upon their use dependent upon the relevant legislative requirements.

Unusable reserves are not available to use to support service delivery at the reporting date. These reserves arise from either:

a) statutory adjustments required to reconcile balances to the amounts chargeable to council tax (or rents) for the year, in order to comply with legislation, or

b) accounting gains or losses recognised in other comprehensive income and expenditure in accordance with accounting standards adopted by the Code, rather than in the surplus or deficit on the provision of services

This strategy relates to usable reserves only.

Why do we need a Reserves Strategy?

The Council needs to keep up to date a Reserves Strategy to understand the purposes for which it is holding reserves and the risks those reserves are seeking to mitigate, and ensure that the levels of those reserves are appropriate for the risks the Council is facing

Whilst the Council, at the time of setting the Strategy, may only have a year and half of existence left as a sovereign council it has a responsibility to be mindful of the risks it will be passing on the successor unitary and how a Reserves Strategy can help mitigate some of those risks.

The Council is operating in a complex and uncertain world and faces many of the same risks as other councils. These include:

- Unforeseen events, emergencies
- General economic impacts on both the council and its residents as a result of higher inflation or higher interest rates resulting in more households presenting in need of housing support, or tenants in the Council’s assets becoming less willing to pay current rental levels
- Uncertainty of business rates income streams due to complexities and timing issues around appeals
- Fluctuations in investment returns including from investment assets

The above risks can be related to the different purposes for which the Council holds reserves:

General Contingency – the General Fund Reserve acts as a general contingency or buffer again impact of unforeseen events or emergencies

Equalisation Reserves- the Business Rates Equalisation Reserve or the Interest Rate Equalisation reserve are examples. The Sinking Funds Reserves were originally designed to equalise or smooth out the impact of dips in investment income rental streams on the Revenue Budget

Reserves to deal with timing differences between the receipt of funds and the application of funds – for example grants unapplied where the Council may receive grants in advance of meeting the criteria for applying those funds. The UK Shared Prosperity Reserve was an example of this.

Reserves to supplement risk mitigation arrangements – for example the Insurance fund reserve.

Reserves to fund future anticipated spending requirements – for example, setting aside of service charge income for Harper House and White House to build up funds which can be applied in future to assist in funding maintenance costs. Similarly, the Environmental Impact Reserve, Social Housing Initiatives Fund, and Green Belt Fighting Reserve represent funds which have been set aside or earmarked to address future specific spending requirements.

Mitigating risk relating to investment and commercial activity -

The Council through its reliance on investment assets income streams is exposed to the risk of future decline in those net income streams, potentially due to greater voids, higher rent-free incentives, increased refurbishment costs etc. The potential risk is that income reduces below financing costs and not only would the Council be able to rely on a subsidy from the income stream to support the Revenue Budget but a financing shortfall would squeeze the Revenue Budget. It was in anticipation of this risk that the Council established Sinking Funds earmarked reserves at the time of acquisition of the investment assets to seek to build up sufficient funds to offset the risk of future dips in rental income.

The Best Value intervention has directed the Council to reduce this risk for itself and the successor unitary by undertaking a comprehensive investment assets disposal programme. This means that that over the medium term the reliance on this income stream will be removed and the exposure to the risk of voids or maintaining those assets will cease. Therefore, the need to hold earmarked sinking funds reserves for the original long-term reasons has fallen away. Instead, there is now a short to medium term period of additional Revenue Budget pressure, part of which could be eased by apply some use of re-purposed Sinking Funds reserves.

How does it fit with our other strategies?

The Reserves Strategy is a key underpinning strategy for the Medium-Term Financial Strategy which identifies over the medium-term Revenue Budget pressures. Having a clear Reserves Strategy helps identify how Reserves can be used to help allow the Council and its successor unitary time to make transformational change to help close budget gaps.

Our Reserves

General Fund Balance Reserve (£3.895m as at 31/3/25)- The General Fund Balance Reserve acts as a corporate contingency to cushion the impact of unexpected events or emergencies. It also provides a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.

There is no statutory minimum for the level of General Fund Balance to be held although it is widely accepted that a minimum of 5% of net budget is best practice. In making a recommendation as to the level of General Fund Balance Reserve which should be maintained, the Section 151 Officer considers.

Useable Earmarked Reserves

As at the end of 2024-25 these totalled £47.8m with the largest component being earmarked sinking fund reserves (£26.3m) set aside to smooth potential future dips in investment income rental.

Developer's Contributions

As at end of 2024-25 these totalled £8.3million. These are received in relation to Section 106 affordable housing agreements and Community Infrastructure Levy agreements. These funds can only be used to support expenditure agreed under the agreements and are therefore not available to the Council to use for other purposes.

Capital Receipts (£2.681m as at 31/3/25)

Balance of capital receipts as at 31/3/25 was £2.7m.

Capital Receipts can only be used to fund capital expenditure or eligible expenditure under the Flexible Use of Capital Receipts Strateg**y**

Unapplied Capital Grants

As at 31/3/25 these totalled £1.8m and are only used to fund capital expenditure in accordance with the terms of the grants. The funds are not available to support the Revenue Budget.

Use of the Reserves

In 2025-26 there is an additional £7m of MRP being applied to Revenue relating to MRP on surplus assets (in line with accounting requirements that once capital projects are aborted that MRP starts to be applied). This had not been anticipated in the original budget for 2025-26 and it is proposed to make use of repurposed Sinking Funds Reserves to offset the impact on the Revenue Budget. **Movement on Usable Revenue Reserves from £41.5m to £34m.**

The Medium-Term Financial Strategy is currently projected budget gaps for 2026-27 to 2028-29 as shown in the Table below

Estimated Budget Gaps

	26-27	*27-28*	*28-29*
	£m	*£m*	*£m*
Estimated Budget Gap	2.2	2.5	8.2

It is proposed that the repurposed sinking reserves are applied to close two thirds of the gaps outlined above. The balances of the useable reserves are in this scenario anticipated to be as follows:

Estimated End of Year Useable Revenue Reserves

	24-25	*25-26*	*26-27*	*27-28*	*28-29*
	£m	*£m*	*£m*	*£m*	*£m*
Estimated Balance	35.3	30	21.1	18.6	14.8

APPENDIX 1
Summary of the purposes Reserves are currently held for

Name of Earmarked Reserve	Purpose of Earmarked Reserve	Value of Balance of Reserve as at 31/3/25 £000
Insurance Fund	A reserve for covering insurance claims, premiums, or self-insured liabilities. It provides a financial buffer for unexpected events (e.g. property damage, legal claims).	50
Planned Spending Funds	Money set aside for specific future projects or known upcoming costs, i.e, Housing Initiatives Fund, New Schemes Revenue Projects, Interest Equalisation, Bridge Street Reserve, etc. This helps the council manage financial planning and avoids sudden funding gaps. (To be combined with Sinking Funds Reserves under the revision to the Reserves Strategy)	8,012
Sinking Funds Reserves	Sinking Funds related to the management, maintenance, or development of the Council's investment properties. There are properties the Council has acquired for regeneration, housing, and investment purposes	26,261
Youth Council Fund	Supports activities, initiatives, or projects led by or for the youth council, engaging young people in local democracy and decision-making.	20
Local Environmental Assessment Fund	Reserved for environmental assessments or studies, often in relation to development projects, or conservation efforts.	154
Green Belt Fund	Supports the protection, enhancement, or management of green belt areas, open spaces meant to prevent urban sprawl and preserve nature.	619
Harper & White House Accommodation Fund	Earmarked for accommodation-related services or improvements in specific properties (Harper & White House).	152
Woodthorpe Recreation Ground & Fordbridge Park Fund	Funds set aside specifically for the upkeep, improvement, or development of these two local parks and recreation grounds.	80
	Total	**35,348**
	Plus	
	Developer Contributions	8,319
	Unapplied Revenue Grants	6,438
	Total Earmarked Revenue Reserves	**50,105**
	Plus :	
	General Fund Revenue Reserve	3,895
	Equals:	
	Total Revenue Reserves	54,000
	Plus Capital Reserves:	
	Capital Receipts Reserve	2,681
	Unapplied Capital Grants	1,800
	Total Usable Earmarked Revenue Reserves	**58,481**

Note that it is only proposed to repurpose the Sinking Fund Reserves, the other reserves will continue to be held for the earmarked purposes set aside.

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	
Finance comments (circulate to Finance)	**OO**	**21/10/25**
Risk comments (circulate to Lee O'Neil)	**LO**	**24/10/25**
Legal comments (circulate to Legal team)	**LH**	**24/10/25**
HR comments (if applicable)	**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**	**22/10/25**
Confirm final report cleared by MAT		

Corporate Policy and Resources Committee

11th November 2025

Title	Medium-Term Financial Strategy 2026-27
Purpose of the report	To make a decision and a recommendation to Council
Report Author	***Terry Collier Chief Finance Officer***
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	Resilience
Recommendations	**Committee is asked to:** To recommend that Council approve the: 1) Draft Medium Term Financial Strategy 2) Proposed Flexible Use of Capital Receipts Strategy
Reason for Recommendation	Any recommendations relating to financial strategies are considered and approved by the Corporate Policy & Resources Committee before approval by Full Council

1. Executive summary of the report

What is the situation	Why we want to do something
The Council is facing a challenging financial future with an estimated Revenue Budget gap for 2026-27 after taking into factors set out below of £2.2m (para 2.57). Reasons (paragraph 2.26- 2.42) for this include: • Impact of applying a compliant Minimum Revenue Provision (MRP) policy which has now also been applied to surplus housing/regeneration sites • No longer being able to rely on a net income stream from investment assets to subsidise services	• Council has a statutory responsibility to set a balanced budget and councillors need to ensure agreement is reached on a set of strategies which will deliver a sustainable financial position. • Statutory Directions issued by MHCLG in May 2025 require the Council to implement "A plan to achieve financial sustainability and to identify and close any short and long-term budget gaps across the period of its medium-term financial strategy (MTFS), including a robust multi-year savings plan that reflects the costs and risks identified in the BVI report and by external auditors.*"* (paragraph 2.11)

• Uncertainty caused by Local Government Funding reform • Demand pressures such as need for temporary accommodation • Medium Term Financial planning is complicated by the Surrey Local Government Reorganisation process with Spelthorne due to be replaced with a new West Surrey Unitary Council in April 2027. • Council as at 31/3/25 had uncommitted (excluding developer's contributions and Unapplied Grants) available useable reserves of £35.3m	• To ensure a sustainable financial legacy to the successor unitary authority, it needs to understand the medium-term financial challenges and agree a strategy for addressing them
This is what we want to do about it	**These are the next steps**
• To implement a coordinated set of strategies to mitigate the impact of increased MRP, to de-risk the longer-term financial exposure of the Council and the successor unitary authority and to put the Council's finances on a sustainable basis • Progressing Debt Restructuring • Assets rationalisation programme • Progressing the deletion of vacant posts • Aligning service arrangements and fees and charges with the other component authorities of the unitary • A robust savings programme including review of benchmarked unit costs, with specialist resources brought in to assist • Revised Reserves strategy applying some reserves to assist in managing the process of moving towards financial resilience • Appropriate capitalisation of one-off transformation expenditure relating to LGR, and the Improvement and Recovery transformation strands	• Approval for the steps and strategy (paragraph 2.75) proposed to address both the Budget Gap for 2026-27 and for the medium term • Approve the proposed Flexible Use of Receipts Strategy (paragraph 2.70 and Appendix B)

2. Background, what is a MTFS and what are the elements of a MTFS?

2.1 This report sets out a revised Medium Term Financial Strategy (MTFS) for the Council. It addresses the requirements of the Best Value Directions and actions in the Finance Improvement Plan.

2.2 The report is informed by the previous reports on the agenda: Changes to Minimum Revenue Provision (MRP) policy, Debt Rescheduling to mitigate the impact the increased MRP charge and Asset Rationalisation to further mitigate MRP charges and reduce risks. The MTFS draws together the implications to the Council of these changes together with changes to grants, business rates, cost pressures and other demands on the Council.

2.3 The MTFS provides a financial framework over a medium-term period within which financial stability can be achieved and sustained, setting out the financial strategies to support the delivery of the Council's Vision, key strategic outcomes, priorities and sustainable services for both the Council and the successor unitary authority.

2.4 Surrey Local Government Reorganisation (LGR) will take effect from 01.04.27 which means Spelthorne will cease to exist as an independent sovereign body from that date. However, so that the estimates can be passed to a new shadow unitary authority to be considered as part of its budget setting process for 2027/28 onwards a MTFS will still be produced.

2.5 The Strategy brings together key issues affecting the:

- Revenue Budget
- Capital Strategy
- Capital Programme

2.6 A new Flexible Use of Capital Receipts Strategy (Appendix B)

- Debt Re-Scheduling
- Treasury Management Strategy, including Revised Minimum Revenue Provision (MRP) Policy- see separate reports on this Agenda
- Reserves Strategy – see separate report on this Agenda
- Assets Rationalisation Strategy as per the Best Value Direction, see separate report on this Agenda

2.7 **Structure** of this report - this report will:

- Show our starting point

2.8 Set out how the MTFS needs to adapt to the current context including the statutory directions and external auditor recommendations and a range of pressures and changed circumstances; set out the actions we propose that we will take to mitigate those

- Summarise how the key components are designed to ensure a sustainable financial future for the remainder of Spelthorne's time and to pass on a viable financial inheritance for the unitary authority.

Budget Starting Point

2.9 When the Council set its Revenue Budget for 2025-26 and the Outline Budget for period 2026-27 to 2028-29 in February 2025, the identified budget gaps were as set out in the table below.

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Budget gap	Balanced	3.9	6.9	8.6

2.10 So, from the start of 2025-26 we have been aware that we were facing a significant budget gap for 2026-27, and this was before factoring in the additional costs of MRP.

Context for the MTFS

Impact of complying with Best Value Directions and External Auditor Recommendations

2.11 The Best Value Directions included a number of requirements in respect of financial management that are addressed in the MTFS:

- A plan to achieve financial sustainability and to identify and close any short and long-term budget gaps across the period of its medium-term financial strategy (MTFS), including a robust multi-year savings plan that reflects the costs and risks identified in the BVI report and by external auditors.
- 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.
- 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.
- A plan to reconfigure the Authority's services commensurate with the Authority's available financial resources.

2.12 The External Auditor recommendations set out in their 2023/24 Annual Audit report recommendations included:

2.13 Robust plans are approved to address the medium-term budget gaps and reinstate it transformation programme as a matter of urgency

2.14 Urgently review the options for the suspended housing projects

2.15 Root causes of budget growth are identified and explained to Members to ensure the accuracy of financial plans

2.16 The External Auditor in their 2024/25 Annual Audit report recommendations included:

2.17 The Medium-Term Financial Plan should be updated to reflect new costs and risks identified by the best value inspection; appointment of Commissioners; and adoption of an Improvement and Recovery Plan.

2.18 To update the Medium-Term Financial Plan, the Council should include all relevant additional costs associated with changes to minimum revenue provision (MRP); with asset valuations, refurbishments and upgrades; with breaks in commercial income as tenancies come up for renewal; and with the recruitment of skilled resources to lead recovery and improvement.

2.19 Best value inspectors recommended a comprehensive debt reduction strategy. We agree with this recommendation. The Council should work with commissioners to agree a comprehensive debt reduction strategy that includes consideration of asset lives and length of time over which it is realistic to carry debt.

2.20 The External Auditor’s Audit Findings Report for 2023-24 included as recommendations

2.21 There is a risk that the Council’s MRP charge is not fairly stated.

2.22 The financial impact of the Directions is set out below. The additional cost of complying with statutory MRP guidelines are mitigated by debt rescheduling and an asset rationalisation strategy. The three areas when implemented will achieve a significant reduction in debt and risk to the Council.

Pressures on the Budget

Impact of complying with rules and guidelines on MRP

2.23 Our MRP policy and calculations have been updated using revised asset lives, these are subject to a separate report (Revised MRP Policy) on this Agenda. The implication of compliance, as set out in the MRP Policy report, is approximately a £40m per annum increase in the MRP charge to Revenue, which without mitigating action would use all available revenue reserves and prompt a s114 notice and a request for Exceptional Financial Support from government. (Exceptional Financial Support merely allows the Council to borrow for revenue purposes which would in turn add additional MRP and interest charges.) Mitigating actions include debt rescheduling and a managed investment and regeneration asset rationalisation programme, as set out in separate reports on this agenda. It is important to put in place measures to mitigate the impact of the increased MRP charge as otherwise the Council would not be able to set a balanced Budget.

2.24 In order to address the concerns of External Auditors and the Best Value Directions, significant changes have been made to the Council’s MRP policy. These will have a significant impact on the Revenue Budget. The first MRP change flows from the decision of Council in October 2023 to abort the housing delivery projects on sites owned by the Council. This meant that those assets in accounting terms are now treated as surplus assets which resulted in the need to charge MRP on the assets from the following year, 2024/25. Given the nature of the assets and the fact that the Council is intending to dispose of those assets in the medium term, the assets were determined as having a useful life of five years for calculating MRP. This has resulted in an additional MRP charge of approximately £6.6m per annum to be applied to the Revenue Budget see the breakdown in Table 1 below.

Table 1: Showing Additional MRP per surplus Asset

Surplus Asset	**£000**
Oast House	3,836
Thameside House	1,712
Benwell House Phase 2	9
Whitehouse Residential	9
Victory Place	996
Total	**6,561**

2.25 The MRP Policy paper sets out following discussions with Commissioners, external auditors and other experts that the Council will now be applying MRP on a straight-line basis on its investment assets over in most cases 20 years. This results in a significant increase in annual MRP of approximately £44m increasing from £13m per annum to approximately £57m per annum in 2025/26 reducing going forward based on estimated asset rationalisation. These estimates will be refined as the asset rationalisation programme is developed and agreed. More detail is set out in the separate MRP Policy report on this Agenda. See **Table 2** below:

Table 2

	2025/26 £000s	2026/27 £000s	2027/28 £000s	2028/29 £000s	2029/30 £000s
Existing MRP budget (Option 3b with 50 yr asset lives)	13,024	13,350	13,684	14,027	14,378
MRP as % of CFR	1.10%	1.14%	1.18%	1.23%	1.27%
MRP based on straight-line approach (Option 3a) for investment property and annuity (Option 3b) for OLB	57,222	53,029	47,925	47,994	48,065
MRP as % of CFR	4.83%	4.78%	4.59%	4.81%	5.06%

2.26 The medium-term Budget projections have been updated for a number of variables, pressures and impacts and the below summarise the key parameters and assumptions:

2.27 Council Tax – assumed Spelthorne will maximise its taxbase and increase council tax rate by maximum allowed which is currently which is 2.99%. For indicative purposes a similar rate of increase has been assumed for year 2 to 4 (although the unitary authority is also likely to have an additional 2% headroom for Adult Social Care precept, and there will be a one-off transitional alignment of council tax rates in 2027-28 across the component areas of the new unitary)

2.28 Pay – an increase of 4% (plus 0.2% retrospective adjustment for 2025-26) for 2026-27, 2.5 % per annum for years 2 to 3, 2.29 Pension - based on advice from the actuaries it is anticipated employer contribution rates for the period 2026-27 to 2028-29 will fall from 24.6% to 21.6%. This is a budget saving of approximately £0.5m.

2.30 As highlighted above Application of revised MRP policy changes relating to both surplus assets and investment assets.

2.31 Fees and charges a default 5% has been assumed (but see comments later in the report on fees and charges)

2.32 Savings – an indicative assumption of £1m deleted posts savings has been built into the projection for 2026-27. Additional targeted savings of £0.5m assumed as deliverable as part year savings in 2025-26 and a further £0.67m assumed as deliverable in 2026-27 as part/full year savings.

2.33 Grant funding changes- significant changes to the local government funding system are being phased in from 2026-27, the figures in the projection reflect modelling advice from sector experts- this will be subject to change when the Provisional Funding Settlement is announced in late December. Currently we are projecting a small net increase in grant funding of £245k (4.9%).

2.34 Business Rates Reset in 2026-27, assumptions around the impact of this has been built into the projection with an increase in net retained business rates assumed of £1.871m.

Local Government Funding Reform

2.35 Planning for 2026-27 and medium-term financial planning beyond that is made particularly challenging as there will be a significant revision to the distribution of central government revenue grants to local government commencing in 2026-27, this is referred to by the Government as "Fair Funding Review 2.0", and which will be phased in over a three year period. The Government has consulted on indicative principles and based on those local government funding specialists have made projections. Council officers have reviewed the projections from the two leading sector funding specialist consultancies and has decided to base its projections on one of those specialist's projections. These figures need to be treated with a very heavy caveat, as firstly they are based on an interpretation on the principles the Government has consulted on and secondly up until the Provisional Funding Settlement is announced (expected in late December just before Christmas) the underlying methodology is still subject to change. In particular there is a risk that in response to lobbying from certain parts of the local government community that the Government will be making further amendments to the funding formulae.

2.36 In late October/early November MHCLG has indicated that it will be publishing a statement of funding principles which will provide some clarification around some of the settlement principles, for example possibly confirming the council tax limits for different categories of council.

2.37 Whilst the provisional funding settlement is again relatively late this year, in part due to the lateness of the Chancellor's Budget on 26th November, one longer term positive is that there will be a three-year settlement which once released will give councils some greater medium-term certainty. This will aid the financial planning for the new unitary authorities in Surrey (their funding allocations will be made up from combining their constituent district and boroughs' allocations, and more challenging agreeing locally a split of the funding allocations of Surrey County Council).

Business Rates Reset and Business Rates Pooling

2.38 In 2026-27 the Government is undertaking a full reset of business rates. A business rates reset establishes new baseline funding levels and business rates baselines for local authorities. The next reset is planned for 2026-27 and will be reset on basis of gross rateable values on 31/3/26 and will involve an updated assessment of need to redistribute business rates income. This process is separate from the 2026 revaluation of properties, which adjusts the rateable value of individual properties to ensure fair redistribution of liabilities among ratepayers. The details of the Business Rates reset will be confirmed as part of the Provisional Local Government Funding Settlement expected just before Christmas.

2.39 The timing of the business rates reset means that it is expected that majority of councils would be at their business rates baseline in 2026-27 and therefore there would be limited potential for gains above baseline requiring protection through a business rates retention pool. At the same time if most councils are near their baseline there is greater risk that more may fall below baseline and require safety net support. So, there is little to gain from pooling and potentially risks from so doing. So, the Surrey districts and boroughs and County Council have agreed not to create a business rates pool for 2026-27.

2.40 **Pay and Pensions**

2.41 In 2024-25 and 2025-26 the Council agreed with the local Unison Branch under the Local Pay Agreement a two-year deal with a 2.8% increase in each of 2024-25 and 2025-26. In comparison the National Pay Agreement for 2024-25 was 2.5% and for 2025-26 was 3.2%. So, in recognition that over the two years the local agreement did not keep pace with the national agreement, it is proposed that a 0.2% retrospective uplift is applied from 1st April 2025. Looking ahead to 2026-27, the last pay settlement to be negotiated by the Council, the current assumption, subject to both approval by Councillors and acceptance by union members, is that a local settlement of 4% for 2026-27 will be agreed. This will add £0.9m to the Revenue Budget.

2.42 The triennial Pensions valuation revalued the Surrey Pension Fund and identified that the Fund overall is now in surplus. This is enabling the Fund for the years 2026-27 to 2028-29 to reduce employer contribution rates. In case of Spelthorne the contribution rate will fall from 24.6% to 23.1% resulting in an annual reduction of approximately £0.5m.

The Budget Gap Challenge

2.43 All of the above pressures, particularly the increased MRP exceeding the income contribution from the investment assets results in a significant set of potential budget gaps which need to be mitigated to ensure that a balanced and sustained Budget can be set.

Mitigations and solutions available to the Council

Debt reduction and debt rescheduling

2.44 As set out in previous reports on this agenda the first two key mitigation measures are to reschedule the debt in order to apply a significant early repayment discount.

2.45 The Council borrowed over £1bn to purchase its investment and regeneration asset portfolio, with the intention of delivering a sustainable income stream which would exceed financing costs. It borrowed these funds over varying periods up to fifty years using fixed, low interest loans from the Public Works Loan Board (PWLB) which is part of the Debt Management Office in HM Treasury.

2.46 The increase in MRP, if not mitigated would undermine the viability of the Council and require exceptional financial support and the Council would not be able to set a balanced budget for 2026-27. The two key elements for mitigating this impact are set out in separate reports (Debt Rescheduling and Asset Rationalisation) on this Agenda: a significant restructuring of debt taking advantage of the discounts (equivalent to approx. 35%) available to the Council on its PWLB debt to reduce outstanding debt from £1,057m to an estimated £696m (a reduction in debt outstanding of an estimated £360m based on gilt rates on 14/10/25). This report sets out the actual level of discount achievable will be dependent on the gilt rates prevailing at the time the redemption is implemented. Table 3 below summarises the estimated impact of the debt restructuring.

Table 3: Impact of mitigating increased MRP through debt rescheduling

	Gen Fund @ 31/03/2025 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	2031/32 £m	2032/33 £m	2033/34 £m	2034/35 £m	2035/36 £m
MRP		60	56	51	51	52	47	47	48	48	49	48
Interest		29	32	34	31	31	31	31	31	31	30	29
Discount £360m in total		(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	0
Net operating inc/exp on Investment Property		(39)	(46)	(45)	(42)	(41)	(39)	(37)	(35)	(29)	(26)	(24)
Net (surplus)/deficit to General Fund	**(34)**	**14**	**6**	**4**	**4**	**6**	**3**	**5**	**8**	**14**	**17**	**53**
Impact on Revenue Reserves at year-end		**(20)**	**(14)**	**(10)**	**(6)**	**0**	**3**	**8**	**16**	**30**	**47**	**100**

Managed Asset Rationalisation Strategy

2.47 The second key mitigation measure is to progress an Asset Rationalisation Strategy, as set out in the Asset Rationalisation report earlier on this Agenda.

2.48 The refinanced debt, arising from the first mitigation measure above of re-financing, will be at higher interest rates (4.5 to 5%) and will therefore require to be aligned with a comprehensive investment and regeneration assets rationalisation programme as required by the Best Value Directions. This is set out in the Assets Rationalisation Strategy Report separately on this

Agenda. This Strategy will be worked up into a more detailed plan to come back to CPRC in January. In turn any proposals to dispose of specific assets would in each instance be subject to Councillor approval at appropriate Committee and Council. The aim would be to achieve a long-term sustainable level of debt and Capital Financing Requirement. With these mitigations it is believed that the Council (and the successor West Surrey unitary authority with respect to the financial assets and liabilities it will inherit from Spelthorne) can avoid the need for Exceptional Financial Support from Government.

2.49 Complying with the Best Value Direction to rationalise assets will reduce debt levels, MRP and consequently the cost of interest. **Table 4** below shows estimated impact of the proposed programme of assets rationalisations.

Table 4 showing impact of further mitigating through Assets Rationalisation programme

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	2031/32 £m	2032/33 £m	2033/34 £m	2034/35 £m	2035/36 £m	Total £m
MRP	59	41	39	30	30	30	31	31	32	32	9	364
Interest	29	26	26	22	21	20	20	20	20	20	6	230
Discount £361m in total	(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	0	(360)
Net operating inc/exp on Investment Property	(44)	(38)	(36)	(22)	(20)	(20)	(22)	(23)	(23)	(23)	0	(271)
Net (surplus)/deficit to General Fund	**8**	**(7)**	**(7)**	**(6)**	**(5)**	**(6)**	**(7)**	**(8)**	**(7)**	**(7)**	**15**	**(37)**

Once other pressures are fed into the budget this results in the Budget gap of £2.2m for 2026-27 rather than the £7m surplus shown above.

Medium Term Financial Strategy

2.50 The proposed MTFS incorporates the mitigation steps of debt refinancing and assets rationalisation.

2.51 The objectives of the MTFS are:

- To set a path to financial sustainability for the new unitary authority
- To reach comparable debt levels to other districts, ideally circa £100m
- A measured approach to property rationalisations, ensuring that best value is achieved
- Remove risks for the future unitary authority in respect of investment and regeneration property risks
- A compliant MRP Strategy addressing the recommendations of the Best Value Inspection report, the Best Value Directions and the recommendations of the external auditor
- To have a plan to reduce service costs to comparable levels of other district councils
- To have unqualified accounts in 2026/27
- To satisfy MHCLG that the Council has complied with all of the Best Value directions by end of 2026/27.

2.52 Since 2019/20 Spelthorne has assumed a £10m contribution to its revenue budget from investment property surpluses. With increased costs and reducing returns, explained later in this report this benefit can no longer be assumed. The £10m contribution represents approximately 30% of the Council's gross expenditure, excluding Housing Benefits. Spending is also on average 30% higher in comparison to statistically similar councils.

2.53 An element of this additional spending is in relation to the cost of homelessness in Spelthorne, due to the Council's proximity to London. In other areas, similar to other Surrey boroughs, it provides preventative services to adults in the community (Independent Living Services including Community Centres, Meals on Wheels, and Community Alarms) that in other parts of the Country are provided by County Councils.

2.54 The only way the Council would be able to make such significant reductions in its expenditure is to consolidate its service provision with other district councils and with upper tier service provision which Local Government Reorganisation in West Surrey will help to achieve.

2.55 The Council's overall MTFS will therefore help facilitate a smooth transition to Unitary Local Government in Surrey, working with other councils who will form the new council to consolidate and harmonise service provision within the overall budget envelope. The budget for 2026/27 is therefore a transitional one. Where possible the Council will identify efficiency savings and identify areas where it is charging less than others to smooth the transition for service users. In order to do this, it will use reserves, previously set aside for future spending on investment properties. It is also able to benefit in the short term from a loan discount, which in the medium term should be set aside for reducing debt levels and the impact of minimum revenue provision (MRP).

2.56 **Table 5** below summarises the current projected budget position across the MTFS period.

	2025-26 original £000		2025-26 Revised £000	2026-27 £000	2027-28 £000	2028-29 £000
Gross Expenditure	64,955		64,464	57,411	-	-
Less: Fees/Charges and Specific Grants	(16,618)		(16,679)	(17,851)	-	-
Less: Housing Benefits Grant	(21,556)		(21,556)	(14,522)	-	-
Net Expenditure	**26,781**		**26,229**	**25,038**	**26,382**	**27,113**
Net Service Expenditure						
Assets Mgt.	2,086		2,086	2,229	-	-
Commissioning & Transformation	5,742		5,738	4,889	-	-
Community & Wellbeing	3,994		3,981	3,991	-	-
Finance & Corporate Services	5,269		5,034	4,848	-	-
Legal and Elections	1,974		1,913	1,994	258	-
Neighbourhood Services	3,806		3,566	3,341	(90)	(90)
Place, Protection & Prosperity	3,911		3,913	3,746	-	-
Net Expenditure	**26,781**		**26,229**	**25,038**	**26,550**	**27,023**
Inflation and Pay	-		-	1,012	563	799
Savings	-		-	(276)	-	-
Unavoidable Expenditure	-		-	608	-	-
Total Expenditure at Service Level	**26,781**		**26,229**	**26,382**	**27,113**	**27,822**
Investment & Regeneration property	(45,581)		(41,581)	(34,564)	(32,046)	(17,456)
Minimum Revenue Provision	13,025		59,025	41,693	38,968	29,590
Loan Interest	25,425		29,425	26,254	24,218	23,866
Loan Discount	-		(36,168)	(36,168)	(36,168)	(36,168)
Prior yr exp on Housing Schemes write-off	8,710		-	-	-	-
Other Interest	(2,112)		(2,112)	(2,056)	(1,679)	(1,568)
Budget Requirement	**26,247**		**34,817**	**21,541**	**20,405**	**26,086**
General government grants	(2,053)		(2,053)	(5,279)	(5,031)	(4,559)
Business Rates	(4,910)		(4,917)	(3,800)	(2,822)	(2,858)
Appropriation to/(from) Reserves:	(9,111)		(17,674	(545)	(54)	(54)
Net Budget Requirement	**10,173**		**10,173**	**11,917**	**12,498**	**18,616**
Collection Fund Surplus/(deficit)	(877)		(877)	-	180	180
Income from Council Tax	(9,296)		(9,296)	(9,709)	(10,141)	(10,591)
Net Position - Over/ (Under) budget	**(0)**		**(0)**	**2,207**	**2,538**	**8,204**

Unavoidable expenditure of £608k is broken down in appendix A

Service expenditure is broken down into more detail in appendix C

2.57 Whist the estimated remaining gap is relatively small for 2026-27 (£2.2m), by 2028-29 the annual gap, if not addressed, rises to £8.2m (and a cumulative gap of £12.9m if the gaps are not addressed on a sustainable basis) which would not be a sustainable position for the successor unitary. If the Council sought to solely close the Budget gap by use of reserves this would consume £12.9m of reserves over the MFTS period. So, it will be important to seek to maximise savings in year 2026-27 to assist in closing that future gap. By 2028-29, the post vesting day transformation savings should be beginning to be benefitted by the new unitary.

The budget deficit is also after assuming the use of a PWLB loan discount for early repayment of loans which is then spread equally over the next 10 years, something that will need to be factored into future planning.

2.58 Paragraph 2.19 above sets out the key assumptions feeding into the above projections.

2.59 As highlighted above, under Surrey Local Government Reorganisation, Spelthorne is due to cease to exist on 1st April 2027. This complicates the medium-term financial modelling and also creates both constraints on savings and opportunities. A key constraint is the tight timescales for the lead into "Vesting Day" on 1/4/27 as this rules out the ability of the Council acting alone to implement savings initiatives such as new IT systems, reducing its office footprint, outsourcing services etc, which take a significant amount of time to implement. The opportunities are that in the medium term the process of unitarization will be a major efficiency and savings driver, but these will be reaped by the successor unitary.

2.60 The contents of this strategy are the Council's response to the significant financial and service challenges that it faces, taking on board the critical feedback received from the Best Value Inspection process and external auditors, and the need to plan ahead for the future with fewer resources.

2.61 **Table 6** summarising changes between 2025/26 revised budget and 2026/27 budget at net service expenditure level:

Table 6: Summary of Changes from 2025-26 to Draft 2026-27 Budget

	2025-26 Revised £000	2026-27 £000	Differences	%
Gross Expenditure	64,464	57,411	(7,053)	-11%
Less: Fees and Charges and Specific Grants	(16,679)	(17,851)	(1,172)	7%
Less: Housing Benefits Grant	(21,556)	(14,522)	7,034	-33%
Net Expenditure - broken down as below	**26,229**	**25,038**	**(1,191)**	**-5%**
Net Service Expenditure				
Assets Mgt.	2,086	2,229	143	7%
Commissioning & Transformation	5,738	4,889	(849)	-15%
Community & Wellbeing	3,981	3,991	10	0%
Finance & Corporate Services	5,034	4,848	(185)	-4%
Legal and Elections	1,913	1,994	81	4%
Neighbourhood Services	3,566	3,341	(225)	-6%
Place, Protection & Prosperity	3,913	3,746	(167)	-4%
	26,229	**25,038**	**(1,191)**	**-5%**
Inflation and Pay	-	1,012	1,012	
Savings	-	(276)	(276)	
Unavoidable Expenditure	-	608	608	
Total Expenditure at Service Level	**26,229**	**26,382**	**153**	**1%**
Investment & Regeneration property	(41,581)	(34,564)	7,017	-17%
Minimum Revenue Provison	59,025	41,693	(17,332)	-29%
Loan Interest	29,425	26,254	(3,171)	-11%
Loan Discount	(36,168)	(36,168)	-	0%
Prior yr exp on Housing Schemes write-off	-	-	-	
Other Interest	(2,112)	(2,056)	56	-3%
Budget Requirement	**34,817**	**21,541**	**(13,277)**	**-38%**
Revenue support and other government grants	(2,053)	(5,279)	(3,226)	157%
Business Rates	(4,917)	(3,800)	1,117	-23%
Appropriation to/(from) Reserves:	(17,674)	(545)	17,129	-97%
Net Budget Requirement	**10,173**	**11,917**	**1,744**	**17%**
Collection Fund Surplus/(deficit)	(877)	-	877	-100%
Income from Council Tax	(9,296)	(9,709)	(413)	4%
Net Position - Over/ (Under) budget	**(0)**	**2,207**	**2,207**	

Reserves

2.62 A key strand of the MTFS will be to use the Reserves the Council has available to help smooth the impacts of the MTFS.

2.63 Reserves should be maintained above a minimum level as assessed by the S151 officer as part of their Section 25 Statement on the Budget. This is the minimum level that, if there is a risk that reserves are projected to fall below, immediate corrective actions will need to be taken to bring the level of reserves back to that level.

2.64 As set out in the proposals for Local Government re-organisation in Surrey, the new unitary authorities are likely to face significant costs to implement the re-organisation and significant budget pressures going forward, as such, it is important for the future sustainability of the new unitary authorities and the services that they need to deliver that reserves in existing councils are maintained at current levels as far as possible and are not reduced unnecessarily before the implementation of local government re-organisation in Surrey.

2.65 As at 31st March 2025 the Council had £50m of useable reserves of which £8m relate to developer contributions and £6.4m related to specific unapplied Revenue Grants leaving £35.3m as Reserves generally useable by the Council. The separate Reserves Strategy report on this agenda is proposing that the Sinking Funds earmarked reserves are re-purposed, in the context that the Council is no longer looking to hold its investment assets long term, as directed by the Best Value Directions, and therefore the reserve can be made available to aid the transitional period in closing the MTFS budget gaps. Of the Budget gap of £1.9m for 2026-27 it is proposed that two thirds of the gap is funded by application of reserves and one third from additional savings to be found in-year.

2.66 *Total Estimated Balances in Earmarked Revenue Reserves as at 31st March*

	24-25	*25-26*	*26-27*	*27-28*	*28-29*
	£m	*£m*	*£m*	*£m*	*£m*
Estimated Balance	35.3	30	21.1	18.6	14.8

In order to manage anticipated financial pressures in 2026/27, £320,000 has been identified by the Strategic Planning Service as a specific allocation from reserves and grants. This funding will be utilised to meet unavoidable expenditure pressures that cannot be absorbed within the existing base budget. Further details of this allocation and its application are outlined within

Table 7 below.

Table 7 - Use of Specific Reserve/Grants	
Strategic Planning	**£000**
Environmental Impact Reserve	154
MHCLG – Custom Build Grant Local Authority	90
MHCLG – New Burdens funding for the Brownfield Register	26
Funding for Masterplan from Assets	50
Total	**320**

Savings

2.67 A key strand of the MTFS will be progressing over the remaining year and half of the Council's existence a programme to deliver savings which are achievable in that timescale, and in the context of Local Government Reorganisation process. The Finance team will be working with Group Heads and Budget heads, with some external expertise to scrutinise and drill down into unit cost benchmarking against the other councils that will form West Surrey and relevant "nearest neighbours" to better understand the Council's cost base and to identify opportunities for reducing net cost i.e. through reducing cost or increasing income. The focus will be measures which can be implemented and generated benefits within the time remaining before vesting day of the new council. This rules out significant IT systems changes, changing office footprint etc. The MTFS builds in a target assumption of additional £0.67m part year savings to be delivered in 2026-27.

2.68 Significant work has been undertaken to find upfront savings which can be built into the 2026-27. These are listed in Table 9 below and total £0.276m. This is before taking into account £1m savings relating to the deletion of vacant posts.

Table 9 - Savings Identified - 2026/27	**£000**
Supported Housing Team	
Increase In income	(12)
Increase In income	(24)
Staffing provision mainly covers White House	(76)
Out of hours call is done on a rota at a set weekly cost	(107)
Assets	
Increase in income from municipal portfolio, old library letting	(20)
Increase in income from municipal portfolio, uplifts in rent from rent reviews/lease expiries etc.	(3)
Increase in income from Knowle Green Nursery	(34)
Total Savings	**(276)**

Fees and Charges

2.69 As highlighted earlier in the report the default assumption is that for those fees and charges over which the Council has discretion to set the fee level, the fees and charges will rise by at least 5% in 2026-27. As part of the LGR transition process the Council, as part of its benchmarking analysis will be comparing its fees with the other component districts and boroughs in the new unitary authority. Where fees in the other councils for specific services differ, the Council will look to align our fees to move towards those of the other councils. This is in the expectation that when the new unitary authority sets its fees and charges it will level up rather than down the fees which will apply across its area. The Council by taking steps to align will be helping residents to adjust to the higher rates which are likely to be applicable as a result of LGR. One option which could be considered is having an additional mid-year review and have an additional revision to the Fees and Charges schedule to further move towards alignment with the likely fees and charges structure of the new unitary.

Table 10 - Services	**Fees & Charges Inflation @ 5% £'000**
Community & Wellbeing	22
Legal and Elections	1
Neighbourhood Services	84
Place, Protection & Prosperity	85
Total	**192**

Flexible Use of Capital Receipts

2.70 It is proposed that the Council puts in place a Flexible Use of Capital Receipts Policy (see Appendix B) , In accordance with Section 15(1) of the Local Government Finance Act 2003, the Secretary of State is empowered to issue Directions allowing revenue expenditure incurred by local authorities to be treated as capital expenditure. Where such a direction is made, the specified expenditure can then be funded from capital receipts under the Regulations. This will then allow the Council to capitalise as eligible expenditure, transformation expenditure relating to IRP and LGR.

2.71 It is proposed that transitional costs incurred as part of the process of moving towards the unitary authority can be treated as qualifying expenditure. The Council's share of the estimated £35m pre-vesting Surrey LGR costs is £550k. It is proposed that this is capitalised and funded from receipt. Equally elements of the Improvement and Recovery Plan which are driving transformation are potentially qualifying expenditure.

Capital Strategy

2.72 A full Capital Strategy for 2026-27 will come to Council in February 2026. In the context of local government reorganisation and Best Value Intervention, the strategy will reflect the following.

2.73 A minimal Capital Programme will be maintained with no major multi-year capital projects being commenced which would extend beyond March 2027.

2.74 Capital Programme to be financed mainly from grants and capital receipts; the Council is not looking to incur additional borrowing.

Some transformation costs will be capitalised and funded from receipts.

Summary of Key strands of the Medium-Term Financial Strategy

2.75 To summarise the key strands of the revised Medium Term Financial Strategy are:

2.76 Revised MRP policy

2.77 Debt Restructuring and application of the significant discount available to the Council on early repayment of its PWLB loans

2.78 A medium term and comprehensive Investment Assets and Housing and Regeneration assets rationalisation programme

2.79 Aligning the refinanced loans maturities with the assets rationalisations expected timescales

2.80 A robust and comprehensive review of operation costs across the organisation, including targeted use of benchmarked unit costs, with managers being supported by external expertise. Target to deliver £0.67m of savings

2.81 Deletion of vacant posts (£1m)

2.82 Capitalisation of transformation and LGR costs and applying the new Flexible Receipts Strategy to finance these capitalised costs from an element of the capital receipts being realised

2.83 Balance of the Budget gap for 2026-27 to be funded from repurposed Sinking Funds Reserves as Transformation Equalisation Reserves

2.84 A minimal and sustainable Capital Programme for 2026-27 largely to be financed from grants and receipts. Once a Shadow Authority is set up and the Structural Change Order enacted it would normally have powers, under "Section 24" to potentially be able to veto revenue expenditure on new items in excess of £100k, however in case of Spelthorne and Woking because they are under statutory intervention the Government has clarified the Section 24 rules will not apply to these two councils.

3. Options appraisal and proposal

3.1 **Option 1: Accept the proposed MTFS, approve the proposed flexible use of Capital Receipts Strategy.** The recommended option is to accept the proposed MTFS, in so doing the Council would be complying with the Best Value statutory directions and implementing one of the Finance IRP theme workstreams. The MTFS in turn provides the parameters for then working up a balanced Budget for 2026-27.

3.2 **Option 2:** Make modifications to the proposed MTFS, or to the proposed flexible use of capital receipts, or do not approve the appointment of consultants

3.3 **Option 3:** Reject the proposed MTFS. This is not recommended as would not be good financial and budget planning, would be contrary to CIPFA guidance and would be non-compliant with external audit and Best Value recommendations.

3.4 With respect to the savings strand within the proposed MTFS proposals will be reported back to Councillors on options for consideration, setting out impacts on services.

4. Risk implications

4.1 Key financial risks are included on Corporate Risk Register: The following risks should be considered when agreeing the recommendations of this report:

Risk Description	*Mitigations*	*RAG status*
The final MTFS is based on the informed sector experts modelling of the impacts of Fair Funding Review and Business Rates. Provisional Finance Settlement expected late December could have unanticipated impacts	There will still be three months from the Provisional Funding Settlement and setting of the Budget in February to refine the Council's Budget and if necessary make additional savings. With uncommitted usable reserve balances of £42m the Council could use a greater level of reserves if necessary	Amber
The impact of Devolution and Local Government Reorganisation	Currently the Council has a £0.5m budget for LGR costs. As the MTFS sets out the Council will seek to capitalise transformation costs related to LGR and fund from receipts	Amber
External factors, outside of the control of the Council, will be subject to volatility with upward volatility creating a financial risk on the final budget and MTFS.	Demand and inflationary growth evidence based, on the most up today date information at the time of budget setting Robust monthly in year monitoring to capture volatility / potential volatility to ensure mitigating actions can be implemented Monitoring reported through the governance channels including Corporate Risk Register/scrutiny to ensure areas of risk are transparent and addressed	Amber

	Significant reserve balances which could be applied	
The Debt Rescheduling and application of PWLB discounts delayed beyond the Budget on 26th November and gilt rates drop if Budget well received reducing the discount	Preparation underway to liaise with Debt Management Office (the body which manages the PWLB) to ensure that it will be possible to redeem all the relevant loans between Council approving on 17th November and 26th November	Amber
The assets rationalisations programme led by the Commercial Theme of the IRP, on which financial modelling underpinning the MTFS, proceeds more slowly and or rationalisation values prove less than anticipated	The Council is appointing through a framework its existing valuer for investment assets who is already familiar with the assets and has the specialist skills to assist with a rationalisation programme.	Amber

5. Financial implications

5.1 Financial implications are set out in the report above.

6. Legal comments

7. Section 31A of the Local Government Finance Act 1992 ("the 1992 Act") requires billing authorities to calculate their Council Tax requirements in accordance with the prescribed requirements of that section. The function of setting the Council Tax is the responsibility of Full Council. The Council is required by the 1992 Act to make estimates of gross revenue expenditure and anticipated income, leading to a calculation of a budget requirement and the setting of an overall budget to ensure proper discharge of the Council's statutory duties and to lead to a balanced budget. The budget should include sufficient allowances for contingencies and financial reserves**.**

6.1 Local authorities owe a fiduciary duty to Council tax payers, which means it must consider the prudent use of resources, including control of expenditure, financial prudence in the short and long term, the need to strike a fair balance between the interests of Council tax payers and ratepayers and the community's interest in adequate and efficient services and the need to act in good faith in relation to compliance with statutory duties and exercising statutory powers.

6.2 Section 25 of the Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance (section 151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. It is essential, as a matter of prudence that the financial position continues to be closely monitored.

6.3 Full Council is responsible for setting the overall budget framework. However, some of the proposed savings will be subject to further analysis and decision making and as such the savings are an estimate. Individual service decisions will be subject to Committee approval, taking account of the statutory framework, any requirement to consult and consideration of overarching duties, such as the public sector equality duty.

6.4 The Local Government Act 2003 and associated regulations set out rules in relation to use of capital reserves. S.15 requires local authorities to have regard to relevant statutory guidance. The statutory guidance on flexible use of capital receipts confirms that local authorities cannot borrow to finance service delivery, however they can use capital receipts from sale of assets to finance the revenue costs of reforming services. The guidance states that qualifying expenditure is expenditure on a project that is designed to generate ongoing revenue savings in the delivery of public services or transform service delivery in a way that reduces costs or demand for services in future years. The Council is expected to publish an annual Flexible Use of Capital Receipts Strategy, although this can be included in wider strategy documents.

Corporate implications

8. S151 Officer comments

8.1 The focus of this report is to pull together the pressures and uncertainties the Council is facing in setting a MTFS and to set out a set of strategies and parameters which will help ensure an ongoing sustainable future both for the Council and the successor unitary. The report sets out the parameters within which the detailed Budget for 2026-27 will need to be balanced.

9. Monitoring Officer comments

9.1 The Monitoring Officer confirms that the relevant legal implications have been taken into account.

10. Procurement comments

10.1 There are no procurement implications arising directly from this report.

11. Equality and Diversity

11.1 There are no direct diversity implications identified in this report. Moving forwards where savings are being evaluated have the potential to impact on equality and diversity, equality impact assessments will be undertaken.

12. Sustainability/Climate Change Implications

12.1 Addressing climate change priorities continues to be a priority of the Council and is likely to be priority for the new unitary. Potentially there are significant overlaps between reducing running costs and reducing use of resources such as heating, energy, materials and reducing emissions and moving towards the Council's goal of reaching net-zero. In reviewing savings opportunities, it therefore it will be important to look at alignment with climate change objectives.

13. Other considerations

13.1 There are none.

14. Timetable for implementation

14.1 Between 18th November and 25th November 2025, officers to complete the proposed redemption of longer term PWLB maturities.

14.2 Council's Budget to be set for 2026-27 on 27th February 2026.

15. Contact

Terry Collier, Chief Finance Officer

Please submit any material questions to the Committee Chair and Officer Contact by two days in advance of the meeting.

Background papers: There are none.

Appendices:

Appendix A- Unavoidable Expenditure Pressures 2026-27
Appendix B- Flexible Use of Capital Receipts Strategy
Appendix C - Net Expenditure Budget 2025/26 – 2026/27 by Group Head's Remit

Appendix A

Unavoidable Expenditure Pressure - Revenue Bids

Service	**Descriptions**	**Additional Resource Required**	**Cost £000**	**Comments**
Strategic Planning	Staines Masterplan (as required by IRP)	Consultant	50	Cost of consultancy will depend on the final output required, which will be developed through work with Members and Commissioners.
		1x FTE Senior Officer (Contractor)	80	The Officer time required to deliver the Masterplan is beyond the capacity of the Team. Resource requirements (in time and experience) for the development of the Design Code indicate that delivery of the masterplan at pace will require 1x fte at a senior level. In the current LGR environment and as evidenced by recent challenges with recruitment to fixed term roles, the most expedient route to fill this role is through the use of a contractor. The IRP requires an extensive community engagement programme for the masterplan work. As far as possible this will be managed through existing budgets and resources but may be subject to change depending on the requirements agreed in the final programme.
	Heathrow Expansion Project	1x FTE Senor Officer (Contractor)	80	The current capacity within the team is not sufficient to manage the DCO process regarding Heathrow Expansion. Based on the experience gained through the last DCO process, this will require an officer of senior level in the Strategic Planning team to oversee the day-to-day management through the process and to coordinate the input from teams across the Council. The resource requirement is likely to be greater than the previous DCO as a result of the two proposals being put forward on this occasion.

Appendix A

Unavoidable Expenditure Pressure - Revenue Bids

Service	**Descriptions**	**Additional Resource Required**	**Cost £000**	**Comments**
	(DCO process, to submission/Examination. Further resources will be required for Examination Phase)			It is likely that this funding will be met in part through cost recovery from the applicant(s), but the mechanism for this has not yet been agreed, and we must budget accordingly. This is an area where discussions are ongoing, and it is not possible to expand further at this time. There will also be a requirement to use external experts for some areas, but the cost of this is not yet known and therefore not included at this time.
			160	This bid relates only to the additional resource required by the Environmental Health (£100k) and there is also a Planning Enforcement element which will kick in once we have the Article 4 Direction covering the whole Borough in March 2026 and when we adopt a planned SPD controlling HMO growth in the Borough. Also £60k to cover increased work, which cannot be absorbed by the existing team. Any costs incurred through the Examination of the DCO will need to be funded by the LPA's and will not be subject to cost recovery.
	Affordable Housing SPD	Funding for consultant to produce SPD	50	The production of an Affordable Housing SPD has been in the future plan for the Strategic Planning team to produce in house, however, in light of the accelerated timescale set out in the IRP the team does not have capacity to produce this SPD.

Appendix A

Unavoidable Expenditure Pressure - Revenue Bids

Service	Descriptions	Additional Resource Required	Cost £000	Comments
Supported Housing Team	Solar film – Harper	Protection measures for H&S due to excess summer temps in resident rooms	7	
	Staffing Costs –White House	Increase in staff costs to include NI & Pension & overtime	60	
	Harper House – operational contracts inc Voids/ R&M	Previous budgets did not allow for void works and/or the full cost of service contracts	29	
	White House – operational contracts inc Voids/ R&M	Previous budgets did not allow for void works and/or the full cost of service contracts	59	
Assets	New municipal valuation contract		25	Entire municipal estate to be revalued for finance and LGR purposes
	Legal fees for municipal portfolio		5	Legal fees for adverse possession and boundary disputes. This has been unbudgeted to date and Finance have requested contained within budget
	Business rates for municipal portfolio		3	Old Library void pre-letting/obtaining planning. Mitigation will be implemented
	Charter Building		150	Refurbishment of reception

Appendix A

Unavoidable Expenditure Pressure - Revenue Bids

Service	Descriptions	Additional Resource Required	Cost £000	Comments
	Roundwood Avenue		65	Floor box and carpet allowance (dependent upon letting)
	Thames Tower		41	Floor box and carpet allowance (dependent upon letting)
	Refurbishment - Sinking Fund		-256	Charter Building, Roundwood Avenue, Thames Tower - Refurbishment funding
Total Unavoidable Expenditure Pressure - Revenue			**608**	

Appendix B

Flexible Use of Capital Receipts Strategy 2025/26

This strategy applies from the **1st April 2025** until **31st March 2030** but will be reviewed on an annual basis as part of the budget setting process.

1. Background and Rules of Qualification

1.1 This strategy sets out Spelthorne Borough Council's approach to the use of the Government's Direction for the Flexible Use of Capital Receipts, in accordance with Section 15(1) of the Local Government Act 2003.

1.2 The Secretary of State, through Section 15 (1) of the Local Government Act 2003, gave local authorities the power to spend up to 100% of capital receipts from the disposal of property, plant, and equipment assets on the revenue costs of reform projects. This flexibility is limited to the application of those capital receipts received in the years to which this direction applies and does not allow borrowing to finance the revenue costs of service reform.

1.3 From 2016/17 Local Authorities were given the power to use capital receipts from the disposal of property, plant and equipment assets received in the years in which this flexibility is offered, to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects. Local Authorities may not use their existing stock of capital receipts to finance the revenue costs of reform; therefore capital receipts realised before 2016/17 cannot be used flexibly under these arrangements.

1.4 The Council has the flexibility to apply capital receipts to fund transformation projects as enabled by the Secretary of State's Direction and outlined in the Government's Statutory Guidance on the flexible use of capital receipts. The current extension of flexibility would have ceased in March 2025, but it was announced by Government alongside the Provisional Settlement on 18 December 2023 that the current scheme, which currently applies to expenditure and receipts incurred between 1st April 2022 and 31st March 2025, has been extended to 31st March 2030. Therefore, to make eligible use of the scheme the capital receipts, and any qualifying revenue expenditure, need to be incurred between **1st April 2022** and **31st March 2030**.

1.5 The authority should prepare an annual strategy that includes separate disclosure of the individual projects that will be funded, or part funded through capital receipts flexibility and that the strategy is approved by Full Council or the equivalent.

1.6 This initial Strategy may be replaced by another Strategy ("the revised Strategy") at any time during the year, on one or more occasions. The initial Strategy should specify the circumstances in which a revised Strategy is to be prepared, but a revised Strategy may be prepared in other circumstances, if at any time it is considered to be appropriate. When setting a revised Strategy its impact on the local authority's Prudential Indicators shall be considered and whether it is necessary to amend the Prudential Indicators at the same time

1.7 Qualifying revenue expenditure is time-limited expenditure incurred by the Council on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or demand for services in future years for any of the public sector delivery partners. Although set-up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure, the ongoing revenue costs of the new processes or arrangements are excluded.

1.8 An important feature of this flexibility requires the Council to demonstrate the highest standards of accountability and transparency and each individual project that will be funded or part-funded in this way must be disclosed and approved by a meeting of the Council.

1.9 For 2025/26 and through to the current available extended period (31st March 2030), the Council initially proposes to use the flexibility to fund up to **£2.222m** of qualifying transformation expenditure. **Table 2** below sets out specific projects which could qualify for the use of capital receipts. Further schemes may be identified during the year which meet the use of capital receipts criteria. In this case, these schemes will be reported to a meeting of the Committee.

1.10 The Council's use of capital receipts to fund transformation projects will continue to be subject to development and approval of robust business cases. The business cases will need to demonstrate that:

(a) The initiative will transform services, generate future savings, or reduce future costs; and

(b) The costs being funded are implementation or set up costs and not on-going operational revenue costs.

2. Flexible Use of Capital Receipts Process

2.1 Flexible use of capital receipts is a means to fund one-off project costs which enable the process of transformation and the resulting benefit realisation. In applying this funding, several measures have been applied to ensure that the qualifying funding criteria are met. These include a robust approval process that is applied whenever the use of capital receipts is considered and to ensure that this funding source is only applied to qualifying expenditure.

2.2 Governance includes reporting accountability to the Committee and regular performance reporting with detailed monitoring undertaken to provide assurance over the value of qualifying spend benefits realisation and the delivery of anticipated outcomes.

2.3 This strategy seeks to allow the flexible use of capital receipts but does not determine they have to be used for the purpose set out. It provides flexibility to use capital receipts to fund the expenditure detailed if it is determined that is the best funding stream to use.

2.4 Approval of projects and allocation of funds arising from the use of flexible capital receipts will be at the discretion of the Committee in consultation with the Deputy Chief Executive (S151 officer), in accordance with this strategy.

2.5 There are a wide range of projects that could generate qualifying expenditure, and the list below is not prescriptive. Examples of projects include:

- Funding the cost of service, implementing the Council Best Value Inspection recommendations and the Improvement and Recovery Plan actions.
- Sharing back-office and administrative services with one or more other council or public sector bodies.
- Investment in service reform feasibility work, e.g., setting up pilot schemes.

- Collaboration between local authorities and central government departments to free up land for economic use.
- Funding the cost of service reconfiguration, restructuring or rationalisation where this leads to ongoing efficiency savings or service transformation.
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible.
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations.
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training.
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others); and Integrating public facing services across two or more public sector bodies (for example children's social care or trading standards) to generate savings or to transform service delivery.

3. Impact on Affordability of Prudential Borrowing

3.1 The Council will have due regard to the requirements of the Prudential Code and the impact on the prudential indicators. Capital receipts from the sale of assets are used to finance the Council's Capital Strategy. The Council currently has unallocated capital receipts which can be used to fund this Strategy, therefore the utilisation of receipts for capital receipts flexibility will not have an impact on the Council's prudential indicators.

3.2 The incremental impact on the Council's Prudential Indicators of **£2.222m** additional Capital Expenditure in 2025/26 due to its Flexible use of Capital Receipts Strategy might slightly change the CFR balances set out in Table 1 below:

Table 1 – Flexible Use of Capital Receipts change to Prudential Indicators

Prudential Indicators	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Capital Financing Requirement	991.3	898.0	696.4	667.4
Operational Boundary	1,170	700	600	530
Authorised Borrowing Limited	1,270	900	700	700

4. **Projects to be Funded from Flexible Use of Capital Receipts**

4.1 The Council intends to apply capital receipts of up to **£2.222m** in 2025/26. Projects which are likely to qualify for the capital receipts flexibility include:

Table 2 – 2025/26 Projects to be Funded from Flexible Use of Capital Receipts

Project	**Description of Project**	**Qualifying Expenditure**	**Service Transformation**	**Planned use of Capital Receipts £000**	**Committee**
Surrey LGR	Contribution towards creation of new unitary and estimated cost of £35m across Surrey pre-vesting day	Contribution towards the Surrey LGR	As set out in LGR business case	500	**CPRC**
Finance Theme	To achieve financial sustainability through disciplined planning, effective governance, and transparent porting. Reducing operating costs	Costs relating to the Financial Accounts quality assurance, MRP and technical accounting, commercial accounting, Statement of Accounts, financial accounting, Statement of Accounts- capital accounting and fixed assets register, Grant, and Funding Analysis. Savings identification and delivery	As set out in the Improvement and Recovery Plan (IRP)	165	**CPRC**
Commercial Theme	To prepare the council for unitarisation by reducing its exposure to commercial risks whilst maximising the value of its property assets and protecting the public purse.	Specific consultant work on various projects including the work re Oast House and Assets Rationalisation advisers	As set out in the Improvement and Recovery Plan (IRP)	1,100	**CPRC**

Project	Description of Project	Qualifying Expenditure	Service Transformation	Planned use of Capital Receipts £000	Committee
	Evaluation of individual assets and working up disposal programme. Social Value Portal - working up social value measures for regeneration assets Assets Rationalisation advisers				
Regeneration and Housing Theme	To develop a strategy for the council's regeneration sites which provide realistic and credible plans for the sites, increases the provision of housing, reduces homelessness, and minimises the use of temporary accommodation and assessing the viability of Knowle Green Estates company	Costs re the review and options analysis of KGE- report by end of September 2025, Commuted sum expenditure on properties, work on surveys, red book valuations Backfill elements of Head of Independent Living postholder s role so that he can assist with the homelessness review elements	As set out in the Improvement and Recovery Plan (IRP)	264	**CPRC**
Improvement and Recovery Plan	Coordinate, direct, and deliver the Council improvement and recovery plan as a result of a best value inspection and Government intervention. Spelthorne has to achieve challenging targets internally and to meet future requirements as we enter Local Government Reorganisation. This	Including Programme Director/Coordinator (£108k) and the Interim Programme Director support (£60k) and support training and assist audit office with CIPFA self-assessment (£25k).	As set out in the Improvement and Recovery Plan (IRP)	193	**CPRC**

Project	Description of Project	Qualifying Expenditure	Service Transformation	Planned use of Capital Receipts £000	Committee
	role provides an opportunity to lead on moving the Council to a position where we fulfil the "directions" as specified by the Government from the best value review.				
Total				**2,222**	

Appendix C

Net Expenditure Budget 2025/26 – 2026/27 by Group Head's Remit			
Services	**Revised 2025/26 £000s**	**Proposed 2026/27 £000s**	**Change from 2025/26 £000s**
Assets			
Asset Mgn Administration	358	392	34
Development Properties	67	159	92
Facilities Management	699	686	(12)
General Property Expenses	(81)	(76)	5
Parks Properties Project	3	3	0
Planned Maintenance Programme	1,413	1,509	96
Staines Town Centre Management	(373)	(373)	0
Total	**2,086**	**2,300**	**215**
Community & Wellbeing			
Arts Development	29	29	0
Assets Homelessness	(60)	(77)	(17)
Community Care Administration	456	488	32
Community Centres	547	561	13
Community Development	39	39	0
General Grants	239	231	(8)
Home Improvement Agency	4	(42)	(46)
Homelessness	1,360	1,540	180
Housing Benefits Admin	469	535	67
Housing Benefits Payments	113	113	0
Housing Needs	1,744	1,903	159
Leisure Administration	379	418	39
Leisure Centres	64	(656)	(720)
Meals on Wheels	120	98	(22)
Museum	(5)	(5)	0
Opal High Needs	55	113	58
Refugee Schemes	128	(274)	(402)
Resource Centre	14	13	(0)
Social Prescribing	63	127	64
Sports and Active Lifestyle	13	13	0
Sunbury Golf Club	(50)	(50)	0
Youth	19	19	0
Total	**5,738**	**5,137**	**(601)**
Commissioning & Transformation			
CServ Management & Support	1,319	1,363	43
Emergency Planning	76	76	0
Energy Initiatives	10	11	0
HR	454	489	36
Information & Comms Technology	1,294	1,312	18
Payroll	80	85	5
Project Management	721	785	63
Water Courses & Land Drainage	26	27	1

Appendix C

Net Expenditure Budget 2025/26 – 2026/27 by Group Head's Remit			
Services	**Revised 2025/26 £000s**	**Proposed 2026/27 £000s**	**Change from 2025/26 £000s**
Total	**3,981**	**4,146**	**165**
Finance & Corporate Services			
Accountancy	1,048	1,228	181
Chief Executive	245	262	17
Corporate Management	1,202	1,243	41
Corporate Publicity	449	457	8
Democratic Rep & Management	424	455	31
Deputy Chief Executives	320	351	31
Insurance	368	395	26
MAT Secretariat & Support	109	118	9
Unapportionable CentralO/heads	870	494	(377)
Total	**5,034**	**5,001**	**(32)**
Legal and Elections			
Audit	253	270	16
Committee Services	340	388	48
Corporate Governance	335	356	21
Elections	11	11	0
Electoral Registration	295	313	18
Legal	679	731	52
Total	**1,913**	**2,068**	**155**
Neighbourhood Services			
SAT	178	174	(3)
Abandoned Vehicles	4	4	0
Allotments	(22)	(24)	(2)
Bus Station	24	24	0
Car Parks	(484)	(452)	32
Cemeteries	(411)	(433)	(22)
Community Safety	325	342	17
Depot	121	123	2
Environmental Enhancements	14	14	0
Grounds Maintenance	1,832	1,853	21
Neighbourhood Serv Mgt Support	1,399	1,520	121
Parks Strategy	(12)	(12)	0
Public Halls	(22)	(24)	(2)
Refuse Collection	984	1,120	136
Staines Market	(61)	(59)	3
Street Cleaning	873	858	(15)
Waste Recycling	(1,174)	(1,582)	(408)
Total	**3,566**	**3,446**	**(120)**

Appendix C

Net Expenditure Budget 2025/26 – 2026/27 by Group Head's Remit			
Services	**Revised 2025/26 £000s**	**Proposed 2026/27 £000s**	**Change from 2025/26 £000s**
Place, Protection & Prosperity			
Building Control	21	60	39
Economic Development	230	239	9
Environmental Health Admin	1,507	1,663	156
Environmental Protection Act	145	147	2
Food Safety	1	1	0
Incubator	19	17	(1)
Land Charges	(28)	(1)	27
Licensing	95	38	(57)
Planning Development Control	888	980	92
Planning Policy	960	966	7
Public Health	5	20	16
Rodent & Pest Control	17	17	0
Taxi Licensing	(67)	(54)	14
Youth Hub	120	189	68
Total	**3,913**	**4,284**	**371**
Total Net Expenditure	**26,229**	**26,382**	**153**

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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		
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	Yes	16/10/25
	Reviewed by	**Date**
Risk comments	**LO**	**24/10/25**
Legal comments	**LH**	**24/10/25**
HR comments (if applicable)	NA	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 November 2025

Title	Treasury Management Half Yearly Report
Purpose of the report	To note
Report Author	Peter Worth, Interim Treasury Management Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Financial Sustainability
Recommendations	**The Committee is asked to:** Note the performance of the Treasury management team during the first six months of 2025/26
Reason for Recommendation	Not applicable

1. Executive summary of the report

What is the situation	Why we want to do something
• The Council has a statutory duty to present a half yearly, Treasury management report to show the performance of Treasury activities between 1 April 2025 - 30 September 2025. • The Council has both a significant debt portfolio (most of which is at fixed rates) of £1,094m (£1,062m long term and £32m of short term) and investment funds of £33m and cash balances currently averaging £2m. • This scale of activity creates risks which need to be proactively managed and Officers review liquidity and cashflow on a weekly basis. • The Council seeks to minimise financing costs whilst maximising returns on surplus funds whilst managing risk • The Council is under a statutory direction to reduce borrowing and set Minimum Revenue Provision at a prudent level	• To provide Councillors with an understanding of the Council's borrowing and investment position part way through the financial year.

This is what we want to do about it	**These are the next steps**
• Comply with the Statutory Direction by amending the MRP Policy and implementing a debt reduction plan. • Continuing to seek professional advice from our advisers	• To closely monitor and manage the treasury management function for the next 6 months of 2025/26 and going forward • To approve a revised Minimum Revenue Provision (MRP) Policy for 2025/26 • To approve a debt reduction plan

2. Key Issues

2.1 This report covers Treasury Management activity at Spelthorne Borough Council for the six months to the end of September 2025. Performance is reported throughout the report and summarised at Appendix A, using a RAG system (Red, Amber, Green).

2.2 The Council takes a prudent approach to Treasury Management, both in how it manages liquidity and how it mitigates operational, financial, and reputational risk.

2.3 The Council's Treasury Management performance has remained within its prudential indicators for the six months to end of September 2025 as outlined in the next section and summarised at Appendix A.

2.4 The key issues are to take action to comply with the Statutory Direction (next Section), namely:

- To approve an amended MRP Policy for 2025/26 to set MRP at a prudent level (see paragraphs 2.19-2.21 and Appendix B); and
- To approve a debt reduction policy including restructuring the Council's loan debt portfolio (para 2.24).

3. Report

Statutory Direction

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

3.2 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.

3.3 To meet the above three separate reports have been prepared to recommend:

- amending the Minimum Revenue Provision (MRP) policy statement for 2025/26 to increase level of MRP to a prudent level in line with statutory guidance;

3.4 restructuring all loans maturing after 10 years, which will generate a discount, currently estimated at £360m, which will offset the increase in MRP arising from increasing to a prudent level; and

3.5 procuring additional external expertise and capacity to rationalise its investment and regeneration property portfolio.

3.6 This mid-year report has been prepared on the assumption that all three of the above key decisions will be approved in order to comply with the Statutory Direction.

SECTION 1 CAPITAL STRATEGY

Capital forecast

3.7 The Capital Programme remains on track as set out in Table 1 below. In addition, two asset sales currently in progress are expected to complete before the end of the year and are forecast to generate around £22.5m in capital receipts, which is a favourable improvement on the budget of £6.5m.

Table 1 Summary capital programme (Prudential Indicator 1)

	2024/25 Actual £m	2025/26 Estimate £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Capital programme						
Housing and regeneration	31.3	4.3	4.3	0.9	0.9	0.9
Other capital expenditure	1.8	3.1	1.8	4.2	3.4	0.6
Total capital expenditure	**33.1**	**7.4**	**6.1**	**5.1**	**4.3**	**1.5**
Financing						
Capital receipts	0.0	(6.5)	(22.5)	(4.2)	(3.4)	(0.6)
Capital grants and contributions	(11.8)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Revenue contributions	(0.4)	0.0				
Total financing	**(12.2)**	**(7.4)**	**(23.4)**	**(5.1)**	**(4.3)**	**(1.5)**
Net financing need	**20.9**	**0.0**	**(17.3)**	**0.0**	**0.0**	**0.0**

3.8 The £16m improvement in capital receipts will be used to repay borrowing and applied to reduce the Capital Financing Requirement and thus reduce future years' Minimum Revenue Provision.

Overall Borrowing Need

3.9 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 its underlying borrowing need. Any capital expenditure, which is not immediately paid for through a revenue or capital resource, will increase the CFR.

3.10 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.

3.11 Table 2 shows the Council's forecast CFR. The opening balance in the forecast differs from the estimate for 2025/26, because it reflects the outturn position per the Statement of Accounts.

Table 2 Capital Financing Requirement (Prudential Indicator 2)

	2024/25 Actual	2025/26 Estimate	2025/26 Forecast	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
	£m	£m	£m	£m	£m	£m
Opening CFR	**1,151.2**	**1,179.8**	**1,152.8**	**991.3**	**898.0**	**696.4**
Capital investment	33.1	7.4	6.1	5.1	4.3	1.5
Financing						
Capital receipts	0.0	(6.5)	(107.1)	(55.8)	(166.1)	0.0
Government grants and contributions	(11.8)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Revenue contributions	(0.4)	0.0	0.0	0.0	0.0	0.0
Minimum Revenue Provision	(19.3)	(13.2)	(59.6)	(41.7)	(39.0)	(29.6)
Closing CFR	**1,152.8**	**1,166.6**	**991.3**	**898.0**	**696.4**	**667.4**

3.12 If the Council takes no action regarding the loan debt portfolio, then borrowing would remain above the CFR, which would indicate that the Council would be borrowing for a revenue purpose. However, by:

3.13 Restructuring the loans maturing after 10 years to generate an estimated discount of £360m (at August rates); and

3.14 Rationalising the investment property (except the BP site) and all the regeneration property this is estimated to be able to generate a further £329.6m (as reflected across years 25-26 to 27-28 above),

the Council's overall borrowing would reduce significantly and remain within the CFR as shown in Table 3 below.

Table 3 Borrowing compared with CFR (Prudential indicator 3)

	2024/25 Actual £m	2025/26 Estimate £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Capital Financing Requirement	1,152.8	1,166.6	991.3	898.0	696.4	667.4
Gross borrowing position	1,069.2	1,020.0	588.3	532.5	475.4	460.5
(Under)/over borrowing	**(83.6)**	**(146.6)**	**(403.0)**	**(365.5)**	**(221.0)**	**(206.9)**

Affordability

3.15 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.

3.16 By generating a discount from restructuring the loan debt portfolio and implementing an asset disposal strategy, the affordability ratio improves significantly as less of the net revenue stream is spent on servicing debt charges.

Table 4 Affordability indicator (Prudential Indicator 4a)

	2024/25 Actual £m	2025/26 Estimate £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Total capital finance charges	44.7	40.0	49.7	31.5	25.3	14.9
Net revenue stream	14.2	15.6	15.6	18.4	19.4	20.1
Affordability ratio	**315%**	**256%**	**318%**	**171%**	**131%**	**74%**

3.17 Table 4 above shows the impact of restructuring the loan debt portfolio and generating capital receipts nearly halves the ratio in 2026/27 compared with 2025/26 and the ratio further reduces to 74% by 2028/29.

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

	2024/25 Actual £m	2025/26 Estimate £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Total capital finance charges	44.7	40.0	49.7	31.5	25.3	14.9
Net revenue stream	14.2	15.6	15.6	18.4	19.4	20.1
Net operating income from investment property	39.8	44.0	44.0	38.2	36.5	21.7
Affordability ratio	**83%**	**67%**	**83%**	**56%**	**45%**	**36%**

3.19 Table 5 above Including the net operating income from the Authority's investment property portfolio considerably reduces the affordability indicator down to 36% by 2028/29. However, this remains well above the affordability ratio for comparable authorities which is less than 18%.

Minimum Revenue Provision

3.20 Following comments from both the Best Value inspection team and Grant Thornton that the Council's MRP was not at a prudent level, the Chief Finance

Officer (Deputy Chief Executive) commissioned an external review of the Council's MRP arrangements.

3.21 The report identified that the Council's previous calculation method did not follow Statutory Guidance in a number of respects and recommends that these issues should be addressed by:

3.22 Increasing MRP to reflect shorter asset lives of 15 to 25 years as advised by Knight Frank LLP. Previous calculations were based on standard asset lives of 50 years without input from registered valuers, other than initial due diligence at time of acquisition with respect to expected lifespans of the assets; including MRP on surplus assets and third-party loans which previously were omitted from the Council's MRP calculations. It should be noted that surplus assets comprise regeneration assets which were treated as on-going projects until October 2023 when the Council cancelled the projects on affordability grounds. Under the Council's MRP policy such projects were not subject to MRP until the year after they became operational;
and calculating MRP on a straight-line basis for Investment Property and on an annuity basis for other asset types. Previously MRP was calculated on an annuity basis for all categories of expenditure, which did not reflect the pattern of economic benefit that the Council currently obtains from rental income and changes in the market value of commercial properties.

3.23 A revised MRP Policy is attached at Appendix B, which fully complies with the Statutory MRP Guidance and has been consulted upon with MHCLG, CIPFA and Grant Thornton.

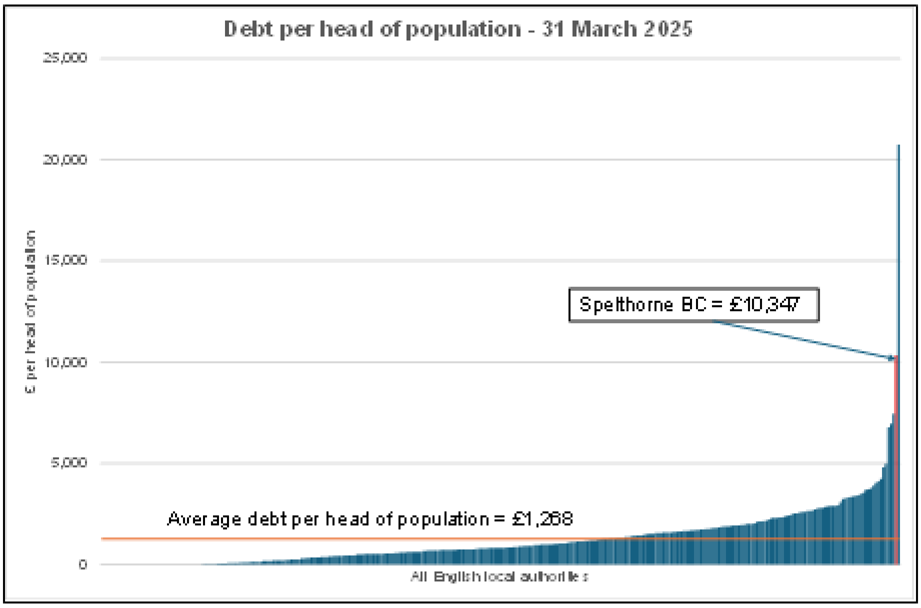
3.24 **SECTION 2 BORROWING**

Borrowing and debt restructuring

3.25 The Council's total external borrowing had reduced to £1,046.7m at 30 September 2025 – a reduction of £22.3m from the position at 31 March 2025. All borrowing is long-term fixed interest rate borrowing with the Public Works Loans Board at an average rate of 2.4%.

3.26 Nonetheless the Council's level of borrowing per head of population is the second highest amongst all English local authorities at c. £10,000, as shown in Chart 1 below.

Chart 1 Debt per head of population



Debt Reduction Strategy

3.27 In view of the unsustainably high level of borrowing highlighted in Chart 1 above and the affordability indicators at table 4 and 5 above, and to comply with the Statutory Direction to implement a strict debt reduction strategy, it is recommended that the Council:

- Restructure all loans maturing over 10 years, which will generate an estimated £360m discount; and

3.28 Use all capital receipts from the asset rationalisation strategy to repay borrowing.

3.29 The combination of the two is forecast to reduce the Council's borrowing by more than half to £460m by 31 March 2029 (see Table 3 above).

Limits on external borrowing

3.30 By implementing the debt reduction strategy set out above, the Council's borrowing limits can also be reduced from 2026/27 onwards as set out in Table 6 below.

Table 6 Borrowing Limits (Prudential indicators 5a and 5b)

	2024/25 Actual £m	2025/26 Estimate £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Authorised borrowing limit	1,270.0	1,270.0	1,270.0	900.0	700.0	700.0
Operational boundary	1,170.0	1,170.0	1,170.0	700.0	600.0	530.0
Gross borrowing position	1,069.2	1,020.0	588.3	532.5	475.4	460.5
Headroom to Operational boundary	**100.8**	**150.0**	**581.7**	**167.5**	**124.6**	**69.5**

3.31 The revised limits from 2026/27 onwards are set to provide sufficient borrowing headroom in the event that asset sales are delayed by six months. These proposed revised lower limits will be put forward, in the New Year, to Council as part of the 2026-27 Treasury Management Strategy.

Maturity structure of borrowing

3.32 Table 7 below shows that the maturity structure of the current loan debt portfolio remained within the limits set out in the 2025/26 TMS.

Table 7 Debt maturity profile limits (Prudential indicator 7)

		Lower Limit	Upper Limit	Position at 30/9/2025	
		%	%	£m	%
Under 12 months	30/09/2026	0%	10%	16	2%
1-2 Years	30/09/2027	0%	15%	16	3%
3-5 years	30/09/2030	0%	20%	51	8%
6-10 Years	30/09/2035	0%	25%	90	17%
11-20 Years	30/09/2045	0%	50%	209	36%
21-30 Years	30/09/2055	0%	75%	262	62%
31-40 Years	30/09/2065	0%	90%	314	92%
41-50 Years	30/09/2075	0%	100%	89	100%
Total				**1,046**	

SECTION 3 MANAGING CASH BALANCES

Investment position

3.33 The Council's investment position is set out in Table 8 below.

Table 8 Investment position at 30 September 2025

	31/03/2025 £m	30/09/2025 £m
Treasury investments:		
Pooled investment funds	2.9	0.0
Lending to other local authorities	8.0	14.0
Debenture with Knowle Green Estates Ltd	2.5	2.5
Treasury deposit		0.4
Loans to Knowle Green Estates and Spelthorne Direct Services Ltd	42.6	42.6
Investment property	583.1	534.8
Total	**639.1**	**594.3**

3.34 The balance of the pooled investment funds were divested in August 2025. Lending to other local authorities is generating a return of 4.1- 4.8%. The Treasury deposit is a new facility for investing overnight money.

Commercial activity

3.35 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.

3.36 Currently the Council is invested in the following activities which fall within the category of commercial activity under the Prudential Code:

3.37 An investment property portfolio valued at £534.8m estimated market value at 31 August 2025 comprising 9 office blocks both within and without the borough. (It should be noted this is not a formal Red Book valuation but a market assessment);

3.38 £42.6m of loans to two wholly owned Council subsidiary companies, the bulk of which is to Knowle Green Estates Ltd and

3.39 £1 shareholdings in the two subsidiary companies, Knowle Green Estates Ltd and Spelthorne Direct Services Ltd

3.40 The return on loans to the Council's two subsidiaries are at a small margin over the Council's cost of borrowing and are secured on the assets of the companies.

3.41 The debenture and loans to the Council's subsidiary companies are classed as non-specified investments, under the Statutory Guidance on Local Government Investments issued by the then DCLG in 2018, as they are for a period greater than 12 months. The total of £45.1m is well within the limit of £70m for non-specified investments set out in the 2025/26 TMS. The investment property portfolio is estimated to generate £46.4m in gross rental income in 2025/26. After operating costs this reduces to £39m. The forecast is for rental income to peak at c.£49.5m in 2026/27, which after operating costs would generate net income of £45.7m.

3.42 Operational performance is good as set out in Table 9 below.

Table 9 Investment property operational performance

	2024/25 Actual %	Position to 30/9/2025 %
Void rate	9.01%	9.33%
Rent collection rate	98.84%	99.86%

4. Options analysis and proposal

4.1 Not applicable.

5. Financial implications

5.1 The financial implications are detailed in the main body of the report. The ability to maximise interest returns, whilst keeping risk within acceptable tolerances, is crucial to being able to generate sufficient income to support the General Fund and the Capital Programme. Small adverse movements in interest rates can mean a significant reduction in cash returns. Therefore, it is our aim to continue to maintain flexibility with a high level of security, liquidity and minimal risk when making investment decisions.

6. Risk considerations

6.1 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.

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

	Risk	Mitigation
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).
	Risk	**Mitigation**
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	Fraud associated with cash management.	These risks are managed through: • Treasury Management Practices covering all aspects of treasury management procedures, including cashflow forecasting, documentation, monitoring, reporting and division of duties • 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.
8	Increase in capital financing costs due to inflationary forces resulting in increased cost pressures on current capital projects and higher costs compared to approved budgets.	Regular monitoring of the Capital Programme through comparison to budgets.

7. Procurement considerations

7.1 None.

8. Legal considerations

8.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 impose certain obligations with regards to financial reporting by local authorities. In exercising powers under the Local Government Act 2003 the Council is required to give regard to the CIPFA Prudential Code for Capital Finance in Local Authorities.

8.2 This report assists the Council to comply with the obligations in the relevant legislation.

8 S151 Officer comments

8.1 The report complies with the regulatory requirement for a six-month Treasury Management update report to be provided to councillors and summarises Treasury Management Activity and highlights the impact of changes to Minimum Revenue Provision approach.

9 Monitoring Officer Comments

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

10 Other considerations

10.1 The Council fully complies with best practice as set out in Chartered Institute of Public Finance and Accountancy (CIPFA) 2019 Treasury Management and Prudential Codes and in the Government's Guidance on Investments effective from April 2018.

10.2 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.

11 Equality and Diversity

11.1 No impact.

12 Sustainability/Climate Change Implications

12.1 The Council continues to review its ESG position with its advisers on a regular basis and has asked them to assist the Council to manage a transition over time towards a more environmentally sustainable portfolio.

13 Timetable for implementation

13.1 Not applicable.

Appendices:

Appendix A – Strategic Pooled Funds
Appendix B - MRP Policy

Appendix A – Summary of Prudential Indicators

PI ref	Para ref	Prudential Indicator	2024/25 Actual £m	2025/26 estimate £m	2025/26 forecast @ 30/9/2025 £m	RAG Indicator
1	2.4	Capital expenditure	33.1	7.4	7.4	G
2	2.8	Capital Financing Requirement	1,152.8	1,166.6	992.6	G
3	2.12	Net debt v. CFR - (under)/over borrowed	(83.6)	(146.6)	(404.3)	G
		Ratio of financing costs to net revenue stream (Affordability):				
4a	2.15	Excluding investment property income	315%	256%	318%	R
4b	2.16	including investment property	83%	67%	83%	R
5a	2.24	Authorised limit for external debt	1072.0	1,270.0	1,270.0	G
5b	2.24	Operational boundary for external debt	1072.0	1,170.0	1,170.0	G
6	2.29	Limit on surplus funds held for more than 364 days (i.e. non-specified investments)	56.0	70.0	70.0	G
		Maturity structure of borrowing				
7a	2.26	Upper limit under 12 months	2%	10%	2%	G
7b	2.26	Lower limit 10 years or more	85%	0%	83%	G

Appendix B – Minimum Revenue Provision Policy Statement for Spelthorne Borough Council

Introduction

1. Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') requires local authorities to 'charge to a revenue account a minimum revenue provision (MRP) for that year'. The minimum revenue provision is an annual amount set aside from the General Fund to meet the cost of capital expenditure that has not been financed from available resources, namely: grants, developer contributions (e.g. s.106 and community infrastructure levy) revenue contributions, earmarked reserves or capital receipts.

2. MRP is sometimes referred to as the mechanism for setting aside monies to repay external borrowing. In fact, the requirement for MRP set aside applies even if the capital expenditure is being financed from the Council's own cash resources and no new external borrowing or other credit arrangement has been entered into.

3. Regulation 27 of the 2003 Regulations sets out a duty for local authorities to make a Minimum Revenue Provision (MRP) and Regulation 28 requires full Council to approve a MRP Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent. This statement is designed to meet that requirement.

4. Regulation 27 (the duty to make revenue provision) was amended in April 2024 and takes effect from 7 May 2024, following a number of consultations. Key changes address some common practices used to underpay MRP, namely:

   - using proceeds from asset sales to replace the revenue charge; and
   - not making MRP on debt associated with investments.

5. In addition, the amendments to Regulation 27 include provisions for making MRP where a local authority borrows to lend the money onto a third party as a capital loan.

6. In setting a prudent level of MRP local authorities must "have regard" to guidance issued by the Secretary of State for Housing, Communities and Local Government. The latest version of this statutory MRP guidance, *Capital finance: guidance on minimum revenue provision* (5th edition), was issued by DLUHC (as it then was) in April 2024 to accompany the amendments to Capital Finance Regulations.

7. Paragraph 26 of the above statutory MRP Guidance explains that where a local authority proposes to deviate from statutory guidance and underpinning Codes of Practice, this has to be justified and agreed through the local authority's governance processes:

   > *Under statute, local authorities must have regard to these codes; "have regards to" has a specific meaning that local authorities should comply with the guidance unless, having duly considered the guidance, there is justifiable reason to depart from it. Decisions that do not "have regard to" relevant guidance may be susceptible to challenge.*

8. In setting a level which the Council considers to be prudent, the Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the Council.

9. The Guidance sets out four "possible" options for calculating MRP, as set out below,

Option	Calculation method	Applies to
1: Regulatory method	Formulae set out in 2003 Regulations (later revoked)	Expenditure incurred before 1 April 2008
2: CFR method	4% of Capital Financing Requirement	Expenditure incurred before 1 April 2008
3: Asset life method	Amortises MRP over the expected life of the asset	Expenditure incurred after 1 April 2008
4: Depreciation method	Charge MRP on the same basis as depreciation	Expenditure incurred after 1 April 2008

10. Two main variants of Option 3 are set out in the 2024 Guidance:

    (i) the equal instalment method and

    (ii) the annuity method.

11. The annuity method weights the MRP charge towards the later part of the asset's expected useful life. Whilst this method is increasingly becoming the most common MRP option for local authorities, paragraph 42 of the Informal Commentary on the Statutory MRP Guidance explains that this method could be used where the flow of benefits from an asset are expected to increase in later years and should not be used solely to resolve budgetary issues.

12. The 2024 Guidance also includes specific recommendations for setting MRP in respect of finance leases, investment properties and revenue expenditure which is statutorily defined as capital expenditure under the 2003 Regulations (also referred to as revenue expenditure funded from capital under statute or REFCUS). Examples of REFCUS include capitalised redundancy costs, loans or grants to third parties for capital purposes, and the purchase of shares in limited companies. Other approaches are not ruled out however they must meet the statutory duty to make prudent MRP provision each financial year.

13. With effect from 1 April 2024, MRP set aside requirements will also apply to "right of use" leased assets, following the introduction of IFRS 16.

Key changes from the 2024 amendments to Regulation 27

14. The key changes to Regulation 27 are:

    - explicit prohibition from using capital receipts in place of charging MRP to revenue,
    - a clear requirement to charge MRP on investments where these meet the statutory definitions of capital expenditure set out in Regulation 25,
    - a requirement to set aside MRP on all elements of the CFR.

15. Where loans have been advanced to third parties for a capital purpose on or after 7 May 2024, a local authority is now required to determine whether the loan is for a commercial purpose (i.e. principally advanced for financial return) or is a non-commercial loan:

    - for commercial loans MRP will be set aside using an asset life approach based on the expected useful life of the underlying assets being financed;
    - for non-commercial loans MRP will comprise:

(i) the principal element of any loan repayments received during the financial year and

(ii) the amount of any expected credit loss (ECL) recognised during the financial year. Any ECL recognised will not be spread over future years.

Minimum Revenue Provision (MRP) policy statement

16. Having regard to the new 2024 Guidance on MRP issued by DLUHC and the "options" outlined in that Guidance, the Council is recommended to approve the following MRP Statement to take effect from 1 April 2025:

MRP stream – General Fund	CFR at 31 3 2025 £000s	MRP 2025/26 £000s	Policy	Explanation	Change from previous policy?
Supported borrowing for capital expenditure incurred pre 2007/08	0	0	There is no MRP as the Council does not have any such borrowing	The Council has no such borrowing so no MRP requirement	The previous policy did not make clear that the Council did not hold any such borrowing and therefore no MRP would be due.
Unsupported capital expenditure incurred since 2007/08	1,069,757	57,644 (5.4%)	MRP will be calculated for: • Investment property on a straight-line basis. • All other asset categories on an annuity basis. Both approaches will use the expected useful lives of the assets (Option 3), subject to a maximum useful asset life of 50 years.	This complies with the Option 3 (Para 58(b)) of the Guidance and the requirement for maximum asset lives of 50 years.	The previous policy was based on an annuity approach which does not reflect the straight-line nature of the economic benefits provided by investment property to the Council.
MRP for "right of use" lease contracts.	2,692	607 (22.5%)	The amount of the MRP charge will be equal to the amount by which the balance sheet liability is written by the principal element of the annual payment (for leased assets)	This complies with para 80 of the MRP Guidance	The previous policy was to charge MRP on an annuity basis which did not reflect either the MRP Guidance or the pattern of expenditure under the contracts. The inclusion of liabilities in respect of right of use leased assets with effect from 1 April 2024 following the implementation of IFRS 16 will increase the amount of MRP charged but this will be offset by a reduction in the element of the unitary charge allocated to service cost.

MRP stream – General Fund	CFR at 31 3 2025 £000s	MRP 2025/26 £000s	Policy	Explanation	Change from previous policy?
Loans to third parties for a capital purpose advanced before 7 May 2024	44,846	950 (2.1%)	MRP will be calculated on a straight-line basis using the expected useful lives of the assets purchased by third parties (Option 3 – asset life), subject to a maximum useful asset life of 50 years and for modular/ prefabricated properties 40 years.	This complies with the Option 3 (Para 58(b)) of the MRP Guidance and the requirement for a maximum asset life of 50 years.	Hitherto MRP had not been charged and instead applied the principal element of any capital receipts received as MRP. In the years where with there was no principal repayment the policy was to charge MRP using the annuity method under Option 3. This policy did not comply with the statutory MRP Guidance then in force.
Loans to third parties for a capital purpose advanced on or after 7 May 2024	305	6 (2.0%)	**(a) Commercial loans** – MRP will be calculated on a straight-line basis using the expected useful lives of the assets purchased by third parties (Option 3 – asset life), subject to a maximum useful asset life of 50 years **(b) Non-commercial loans** – the principal element of loan repayments will be set aside as MRP. Where any expected credit loss is recognised in respect of that year or any previous year, the expected credit loss shall be charged to the General Fund as MRP.	This complies with the Option 3 (Para 58(b)) of the MRP Guidance and the requirement for a maximum asset life of 50 years. This complies with paras 72-78 of the MRP Guidance.	This makes the policy clearer in respect of commercial loans advanced. This makes the policy clearer in respect of non-commercial loans advanced.
General Fund CFR and MRP at 31 March 2025	**1,167,359**	**59,956 (5.1%)**			

17. Detailed policies applied to asset life identification, discount annuity rates and MRP commencement dates are set out below:

MRP stream – General Fund	Policy	Explanation	Change from previous policy?
Asset lives	Asset lives used for MRP calculations will be determined by the Council's RICS-registered valuers and will be consistent with the depreciation policies set out in the Council's annual Statement of Accounts. If no life can reasonably be attributed to an asset, such as freehold land, the estimated useful life will be taken to be a maximum of 50 years	This complies with para 65 of the MRP Guidance.	Previously standard asset lives had been used which differed from those used for depreciation calculations.
Discount rate for use when applying the annuity method for calculating MRP under Option 3	MRP will be discounted using the PWLB new loan annuity rate, relevant to the asset life period, applicable on 1 April in the year when MRP commences	The MRP Guidance does not suggest what discount rate(s) to use. By specifying the PWLB new loan annuity rate at 1 April of the year in which MRP commences this provides a clearly evidenced trail to the discount rate to be used and reflects the type of borrowing undertaken by the Council.	Previously the Council had not disclosed how it selected the discount rate used in annuity calculations.
MRP commencement	MRP should normally begin in the financial year following the one in which the expenditure was incurred. However, in accordance with the statutory MRP Guidance, commencement of MRP may be deferred until the financial year following the one in which the asset becomes operational.	This approach complies with para 63 and 64 of the MRP Guidance	No change in policy

Conclusion

18. Based on the above the Council's view is that by complying fully with the 2024 Statutory Guidance, it is making a prudent provision for MRP in line with the requirements of Regulation 28.

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