



**To:  
All members of the  
Council**

*Please reply to:*

Contact: Karen Wyeth  
Service: Committee Services  
Direct line: 01784 446341  
E-mail: [k.wyeth@spelthorne.gov.uk](mailto:k.wyeth@spelthorne.gov.uk)  
Date: 24 February 2026

## Supplementary Agenda

### **Council - Thursday, 26 February 2026**

Dear Councillor

I enclose the following items which were marked 'to follow' on the agenda for the Council meeting to be held on Thursday, 26 February 2026:

**13. Treasury Management Strategy 2026/27**

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Report to follow – this report is to be considered by the Corporate Policy and Resources Committee at the carry-over meeting to be held on Monday 23 February 2026.

Yours sincerely

Karen Wyeth  
Corporate Governance

To the members of the Council

Councillors:

J.T.F. Doran (Mayor)  
S.A. Dunn  
M. Arnold  
M.M. Attewell  
L. Barker

T. Burrell  
J.R. Boughtflower  
J. Button  
J.P. Caplin  
R. Chandler

N. Islam  
M.J. Lee  
A. Mathur  
S.C. Mooney  
G. Neall

**Spelthorne Borough Council, Council Offices, Knowle Green**

**Staines-upon-Thames TW18 1XB**

[www.spelthorne.gov.uk](http://www.spelthorne.gov.uk) [customer.services@spelthorne.gov.uk](mailto:customer.services@spelthorne.gov.uk) telephone 01784 451499

C. Bateson  
S.N. Beatty  
M. Beecher  
S. Bhadye  
M. Bing Dong  
H.S. Boparai  
L.H. Brennan  
M. Buck

D.C. Clarke  
S.M. Doran  
R.V. Geach  
D.L. Geraci  
M. Gibson  
K.M. Grant  
S. Gyawali  
K. Howkins

L. E. Nichols  
K.E. Rutherford  
D. Saliagopoulos  
J.R. Sexton  
J.A. Turner  
B. Weerasinghe  
H.R.D. Williams  
P.N. Woodward

# Council

Date of meeting – 26 February 2026

<b>Title</b>	Treasury Management Strategy 2026/27
<b>Purpose of the report</b>	As part of the annual budget-setting process the Council has a statutory duty to approve a Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy Statement before the year to which they relate.
<b>Report Author</b>	Peter Worth, Interim Treasury Management Accountant
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Corporate Priority</b>	Community Addressing Housing Needs Resilience Environment Services Statutory Direction issued May 2025
<b>Recommendation</b>	<b>Council</b> is asked to approve the Treasury Management Strategy for 2026/27 including: <ol style="list-style-type: none"> <li>1. The Annual Investment Strategy for 2026/27</li> <li>2. The Minimum Revenue Provision Policy Statement for 2026/27; and</li> <li>3. The Prudential Indicators for 2026/27.</li> </ol>
<b>Reason for Recommendation</b>	To promote effective financial management relating to the Council’s borrowing and investment powers contained in the Local Government Act 2003 and associated regulations and guidance: <ul style="list-style-type: none"> <li>• The Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended;</li> <li>• CIPFA Prudential Code and Treasury Management Code of Practice</li> <li>• MHCLG Investment Guidance (2018) and MRP Guidance (2024)</li> </ul> <p>To comply with the Statutory Directions issued 8 May 2025.</p>

## 1 Executive summary of the report

What is the situation	Why we want to do something
The Council has a significant debt portfolio, which despite obtaining a £342m discount in 2025/26 from restructuring still remains high at £715m. Capital charges resulting from this debt portfolio have a significant impact on the Council’s revenue budget and overall financial position.	All local authorities are required by law to approve a treasury management strategy (TMS), investment strategy and Minimum Revenue Provision policy before the year to which they apply as part of the budget setting process. The TMS combines all three requirements and demonstrates how the Statutory Direction regarding reducing

	borrowing and setting a prudent level of MRP are being addressed in practice.
<b>This is what we want to do about it</b>	<b>These are the next steps</b>
Approve and implement a debt reduction plan in line with the Direction and approve the Treasury Management Strategy for 2026/27.	Review and approve the Treasury Management Strategy for 2026/27..

## 2 Key issues

- 2.1 The Treasury Management Strategy (TMS) for 2026/27 – 2029/30 sets out the Council’s approach to ensuring cashflows are adequately planned and managed. It forms a key part of the Council’s budget setting process and reflects both the requirements of the Statutory Direction issued in May 2025, and the key financial decisions made by Full Council in November 2025.
- 2.2 In light of local government reorganisation in Surrey, the Statutory Directions, and the Council’s October 2023 decision to cease the direct development and funding of housing and regeneration capital schemes (except for Local Authority Housing Fund acquisitions), the Council’s capital spending plans are limited. These plans focus on completing existing projects, delivering essential works, and using Round 3 Local Authority Housing Fund grant funding, alongside developer contributions, to provide temporary accommodation in the borough. The TMS for 2026/27 therefore assumes there will be no additional borrowing.
- 2.3 In November 2025, the Council approved a Debt Reduction Strategy as follows:
- to restructure all loans maturing over 10 years; and
  - use all capital receipts from the asset rationalisation strategy to repay borrowing.
- 2.4 £905m of loans were therefore restructured in November 2025, reducing the value of debt in the Balance Sheet by £342m and agreeing fixed rate terms for all replacement loans to eliminate interest risk. The Council has also approved the recruitment of external specialist property advisors to assist the Council with implementation of an asset rationalisation plan, focussing on the sale of investment properties.
- 2.5 Forecasts of MRP have been based on assumed level of capital receipts from the asset rationalisation strategy. In particular, the forecast assumes that £22.5m of capital receipts will be generated in 2025/26, which will be applied to reduce the Council’s Capital Financing Requirement at 31 March 2026, which will reduce MRP by c.£7m in 2026/27. However, if £22.5m is not fully achieved either due to sales slipping into the next financial year, or not achieving target sales value, then MRP in 2026/27 would increase. For example, if there is slippage of £10m in capital receipts, this would increase MRP in 2026/27 by £3.3m.
- 2.6 As at 15 December 2025 the Council held cash balances and short-term investments totalling £37.2m. Of this balance, £30m is invested with other local authorities for periods of time not exceeding 12 months, with the balance held in money market funds and bank accounts. The medium-term cashflow forecast is that balances will remain around this level for the remainder of 2025/26 but reduce to an average balance of £13.5m during 2026/27. Based on these projections the Council expects

to continue to lend surplus monies out to other authorities as this currently provides the best short-term return with good security and minimal risk.

- 2.7 The Council has also advanced long-term loans to subsidiary companies, totalling £44.8m at 31 March 2025. These loans have been advanced on a non-commercial basis, were initially financed from external borrowing and do not generate a financial return. Given the Statutory Direction to reduce borrowing the Council is not in a position to advance further loans to either company before its demise on 31 March 2027 but anticipates that repayments of existing loans will take place as they fall due.

### 3 Introduction

#### Background

- 3.1 The Council is required to set a balanced annual revenue budget. The timing and nature of income and expenditure within the budget needs to be understood and managed so that cash is available when it is required (**Liquidity**). This is a key function of the Council's day-to-day Treasury Management operation.
- 3.2 The second key function is funding the Council's capital investment plans, which is the key driver for the borrowing needs of the Council. This may involve, for example:
- arranging new or replacement loans;
  - the planned use of cash balances,
  - ensuring that existing and new borrowing is affordable.
- 3.3 The Treasury Management Strategy (TMS) for 2026/27 – 2029/30 sets out the Council's approach to ensuring cashflows are adequately planned. Any surplus monies are invested in low risk counterparties (**Security**), providing access to funds when required (**Liquidity**) before considering optimising investment return (**Yield**).
- 3.4 The Council's Treasury Management Strategy has been set in line with:
- the Local Government Act 2003;
  - the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended;
  - Statutory Guidance on Minimum Revenue Provision issued by MHCLG 2024;
  - Statutory Guidance on Local Government Investments issued by the then DCLG (now MHCLG) 2018;
  - the Prudential Code issued by CIPFA 2021;
  - the Treasury Management Code of Practice issued by CIPFA 2021.
- 3.5 The strategy also has regard to:
- the Markets in Financial Instruments Directive II (MiFID II);
  - International Financial Reporting Standard (IFRS) 9 Financial Instruments; and
  - the UK Money Markets Code issued by the Bank of England April 2021.

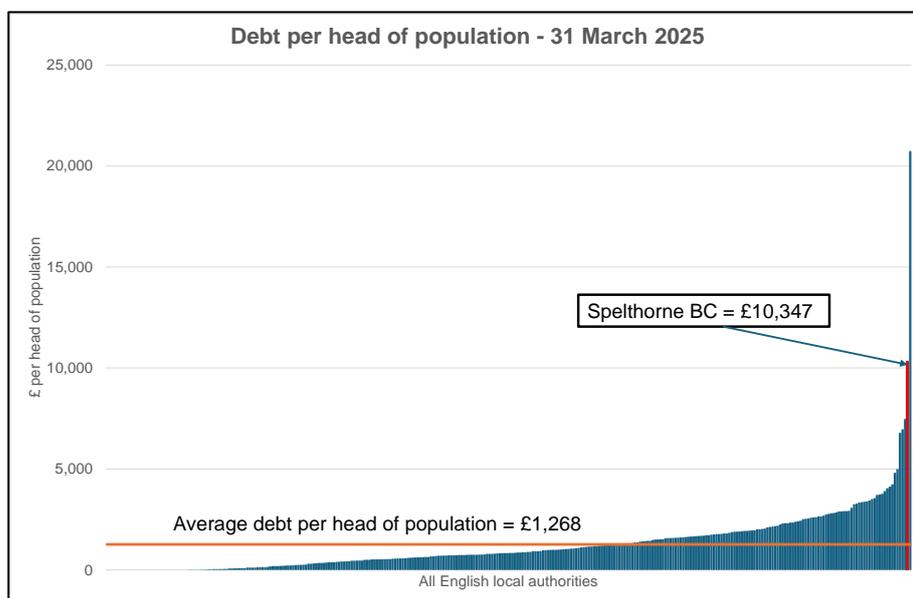
#### Statutory Direction

- 3.6 Spelthorne Borough Council was debt-free until 2016/17. Borrowing transactions totalling over £1bn took place between 2016 and 2022, mainly to provide funding for:
- Investment Property acquisitions,

- regeneration projects,
- Spelthorne Leisure Centre, and
- loans to Council-owned companies.

3.7 Consequently, at 31 March 2025, the Council's debt per head of population was the second highest of all English local authorities:

**Chart 1 Debt per head of population at 31 March 2025**



Source: [Live tables on local government finance - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

3.8 Despite the Council holding cash balances of £9m at 31 March 2025 and General Fund balances of £34m, the Balance Sheet at this date also reported a net liabilities position of over £300m.

3.9 This was largely because the value of external borrowing significantly outweighs the current market value of Investment Property and regeneration assets, which have fallen by c.40% since their original acquisition.

3.10 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:

- 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.

3.11 To meet these requirements the Council approved the following three separate actions on 17 November 2025:

- restructuring all loans maturing after 10 years, which has generated a discount of £342m. This process was completed in November 2025 and will largely offset the impact on the Revenue Budget of the increase in MRP; and
- procuring additional external expertise and capacity to manage the disposal of the entire investment and regeneration property portfolio. This process is nearing completion and the Council expects advisors to be in place by 1 March 2026.
- Amending the Minimum Revenue Provision (MRP) Policy Statement for 2025/26 to increase MRP to a prudent level in line with statutory guidance. This new policy is set out in Appendix A

3.12 The TMS for 2026/27 has been written taking the above into account.

### **Treasury Management Policy Statement**

3.13 In setting the Treasury Management Strategy, the Treasury Management Code recommends that an organisation's Treasury Management Strategy adopts the following to define the policies and objectives of its treasury management activities:

- (a) The Council defines its treasury management activities as the management of the authority's borrowing, investments, and cash flows including its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.
- (b) The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority and any financial instruments entered into, to manage these risks.
- (c) The Council acknowledges that effective treasury management will provide support towards achievement of its business and service objectives. It is therefore committed to the principles of achieving best value for money in treasury management, and to employing suitable, comprehensive performance measurement techniques within the context of effective risk management.

3.14 Appendix E to this TMS sets out how the Council follows the key requirements of the Treasury Management Code in practice.

3.15 The TMS covers four main areas summarised below:

#### **Section 1 Capital Strategy**

- Capital spending plans
- Commercial activity
- Capital Financing Requirement (CFR)
- Affordability
- Minimum Revenue Provision (MRP) policy statement

#### **Section 2 Borrowing**

- Debt reduction strategy
- Limits on external borrowing

- Maturity structure of borrowing
- Policy on borrowing in advance of need

### **Section 3 Managing cash balances**

- The current cash position and cash flow forecast
- Prospects for interest rates
- Investment Strategy
- Council policy on investing and managing risk
- Balancing short- and long-term investments

### **Section 4 Summary of Prudential Indicators**

- 3.16 The Annual Investment Strategy (AIS) at Appendix B provides more detail on how the Council's surplus cash is to be invested in 2026/27 and future years. In particular, the approved schedules of specified and non-specified investments have been revised to comply with MHCLG Guidance and the Council's actual investment activities.

## 4 TREASURY MANAGEMENT STRATEGY FOR 2026/27

### SECTION 1 – CAPITAL STRATEGY

#### Capital Spending Plans

- 4.1 The Council's capital spending plans are the key driver of treasury management activity. The financial impact of the capital spending plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm that capital spending plans are affordable in terms of both initial funding and ongoing revenue impact.
- 4.2 Table 1 below summarises the Council's capital spending plans and its current expectations as to how this will be financed.
- 4.3 In view of local government reorganisation within Surrey and the moratorium on significant new capital spending approved by Council in September 2023, capital spending plans for the Council are limited to:
- completing existing projects and planned essential work
  - utilising grant funding obtained from Round 3 of the Local Authority Housing Fund and section 106 developer contributions to acquire properties to provide temporary accommodation in the borough.
- 4.4 The Council has ceased all capital projects which would have required additional borrowing.
- 4.5 Any projects ongoing at 1 April 2027 will transfer to the successor authority. Spending plans for 2027/28 to 2029/30 are indicative only and will be subject to decision-making by the new authority.

**Table 1 Capital spending and funding plans (Prudential Indicator 1)**

2024/25 Actual £m		2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m	Total £m
	<b>Gross expenditure</b>						
32	Community, Wellbeing and Housing		6	7	1	1	16
1	Environment and Sustainability		1	1	0	0	2
0	Business, Infrastructure and Growth		0	0	2	2	4
0	Commissioning and Transformation		2	1	1	0	5
<b>33</b>	<b>Total expenditure by Committee</b>		<b>9</b>	<b>9</b>	<b>4</b>	<b>3</b>	<b>27</b>
	<b>Funding</b>						
(12)	Capital grants		(2)	(3)	(1)	(1)	(9)
0	Capital Receipts		(4)	(1)	(2)	(1)	(8)
0	Developer contributions		0	(4)	0	0	(4)
0	CIL		(1)	(1)	0	0	(3)
0	Earmarked Reserves		(1)	0	(1)	(0)	(2)
0	Direct Revenue Financing		0	0	0	0	0
<b>(12)</b>	<b>Total funding</b>		<b>(9)</b>	<b>(9)</b>	<b>(4)</b>	<b>(3)</b>	<b>(27)</b>
<b>21</b>	<b>Borrowing requirement</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

- 4.6 Table 2 below sets out the capital spend by type of expenditure. More detail on the capital programme is set out in the Capital Strategy report for 2026/27.

**Table 2 Capital spending by type of expenditure**

2024/25 Actual £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m	Total £m
<b>Gross Expenditure</b>						
0	1	1	1	1	1	7
21	1	4	0	0	0	5
8	4	1	0	0	0	5
0	0	0	0	0	0	0
1	0	0	0	0	0	1
0	0	0	0	0	0	0
0	0	0	2	1	0	4
0	0	0	0	0	1	1
0	1	0	1	0	0	1
2	0	0	0	0	0	0
0	1	1	0	0	0	2
0	0	1	0	0	0	1
<b>33</b>	<b>9</b>	<b>9</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>27</b>

4.7 As set out in the mid-year TMS for 2025/26 approved by Council on 17 November 2025, the Council approved a Debt Reduction Strategy which will use the majority of capital receipts from the asset rationalisation strategy to repay external debt and reduce the Capital Financing Requirement (CFR) and thus reduce the Minimum Revenue Provision (MRP).

4.8 The risks are that slippage in the asset rationalisation programme could result in the need to:

- set aside more MRP in the short-term pending receipts being realised. Since the capital receipts are applied to assets with the shortest remaining lives, slippage can have a significant impact. For example, if there was slippage of £10m of receipts in 2025/26 this would increase MRP by £3.3m in 2026/27;
- extend loans for longer periods pending receipts being realised.

### Commercial activity

4.9 As well as investing in assets used for day-to-day service delivery, the Council can also invest, where appropriate, in commercial activities such as:

- investment property designed to realise a financial return;
- regeneration initiatives;
- loans to third parties;
- shareholdings in limited companies and joint ventures.

4.10 Such investments are treated as capital expenditure for treasury management and prudential borrowing purposes and are considered as part of the Annual Investment Strategy (see Appendix B) even if they are not managed by the Council's Treasury function.

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

- a substantial investment property portfolio valued at £552m (at 31 March 2025);
- loans to and equity investment in a number of Council companies summarised in Table 4 below.

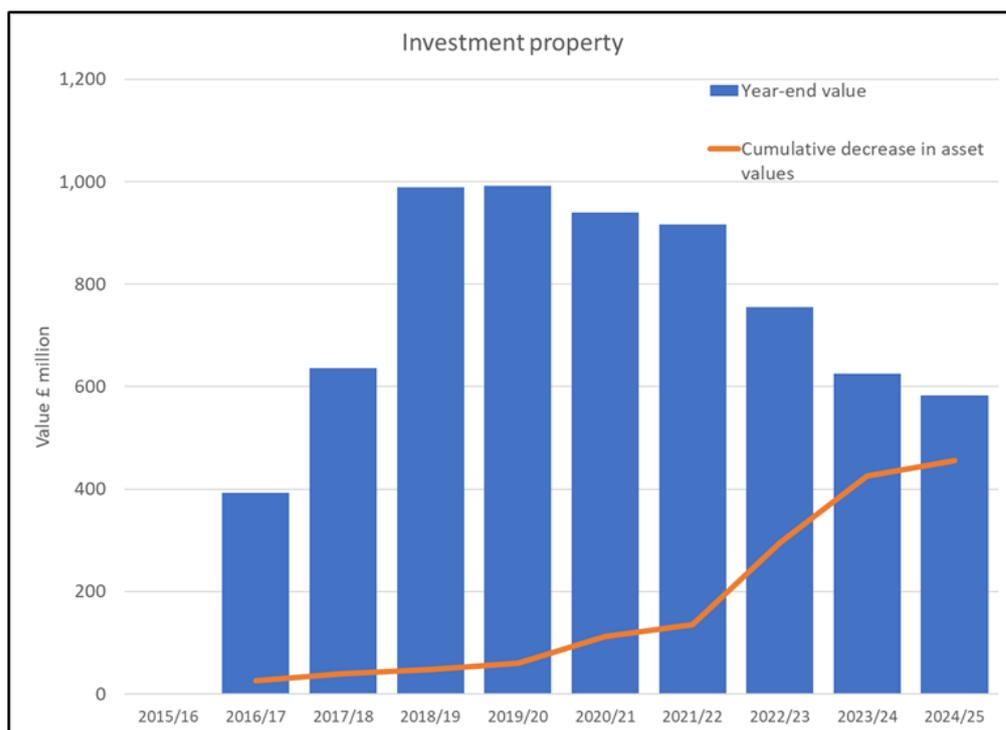
4.12 CIPFA’s guidance Prudential Property Investment issued 2019 advises that the following key issues should be taken into account when acquiring and managing commercial property:

Key issue	Actions taken
Transparency and democratic accountability - proposals should be compliant with the investment strategy;	Since Spring 2024, the Assets Team have produced an annual Investment Strategy and 5 year business plans updated annually for each asset. The 2026/27 Treasury Management Strategy also includes key prudential indicators on investment property.
Contribution – the contribution that investments make toward service delivery should be disclosed;	Now reported in Table 8
Performance indicators should be published to allow Members and the public assess the authority’s risk exposure	Performance indicators are now set out in Table 2 below
Security – there should be a process in place for assessing risk of loss before entering into a transaction, including any security obtained	All new property acquisitions ceased 5 years ago and the Council is now in the process of rationalising the existing portfolio. All proposed new commercial tenancies are subject to financial checks using Dun and Bradstreet and are reported to the Commercial Assets Sub-Committee (CASC) for approval before letting takes place.
Liquidity – the investment strategy should set out the procedures for accessing funds invested in property when needed	The Council has approved the appointment of external property advisors to assist with rationalising the investment property portfolio in line with the Statutory Direction during 2025/26.
Proportionality – procedures for assessing the maximum amount that the revenue budget could reasonably support in terms of rent shortfalls	Risk of loss of rental income included in the Council’s corporate risk register
Capacity, skills and culture – capacity of Members and officers to manage an investment property portfolio	The current Assets Team have appropriate property management qualifications, skills and expertise. In addition, the CASC has regular briefings from an independent property expert

4.13 Gross rental income from the investment property portfolio totalled £44.5m in 2024/25 and after deducting direct operating costs the portfolio generated a contribution to the General Fund £39.6m. However, this does not take account of the fact that the assets:

- were entirely funded through borrowing, so incur both interest charges and MRP; and
- have fallen in value by 43% since they were acquired originally as shown in Chart 1 below.

## Chart 1 Investment property value



4.14 The DCLG Statutory Guidance on Local Government Investments (3<sup>rd</sup> edition published in 2018) requires local authorities to develop quantitative indicators to allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions. Set out in Table 3 below is a range of key performance indicators recommended in the Guidance.

**Table 3 Performance indicators**

Indicator	Benchmark	Performance
Debt to net service expenditure	less than 25%	3443%
Commercial income to net service expenditure	less than 25%	149%
Investment cover ratio	more than 3	1.19
Loan to value ratio	less than 80%	164%
Benchmark returns	5.0%	-14.7%

4.15 The above measures show:

- the debt taken on to purchase investment property is disproportionately high compared to revenue budgets for day-to-day service delivery;
- the Council is overly reliant on income generated from the investment property to support service delivery;
- the investment cover ratio measures the extent to which investment income net of expenses covers the associated interest cost. Good practice is that this should be in excess of 3 and that 2 is the minimum acceptable amount. The Council's investment cover ratio is below this amount;
- the loan to value ratio exceeds 100%. This is because the Council used borrowing to finance the initial investment and property values have fallen since the acquisition dates. Currently, the Council is at risk of realising losses of £442m from disposing of the investment portfolio at current values;
- the rate of return on investment on the investment property portfolio is a negative 14.7%. Although the Council did not set a target rate of return for each

property at the date of purchase, local authority pension funds with direct property investments typically have benchmark targets of around 5%.

- 4.16 The Council is now under Statutory Direction requiring it to rationalise its asset base. In December 2025 it approved the appointment of external specialist property advisors to help advise on which assets should be sold and the most appropriate marketing methods to adopt. This course of action should enable the Council to dispose of investment property for best consideration, comply with the Statutory Direction and mitigate any further risk of capital loss.
- 4.17 The Council's investment in companies is summarised in Table 4 below. The Council has Board representation on all companies. However, whilst the Corporate Policy and Resources Committee acts as shareholder committee for Knowle Green Estates, there is no overall coordination of oversight of the Council's involvement in companies. Good practice is to have a Shareholders Committee, or equivalent, so that all of the companies' activities are managed holistically and reported to Members on a regular and consistent basis.

**Table 4 Investment in Council companies**

Company name	Share ownership	Nominal value	Net worth at		Loans o/s at	
			31/3/2025	31/3/2025	31/3/2025	31/3/2025
		£	£000s		£000s	
Knowle Green Estates Ltd	100%	1	17,512		44,565	
Spelthorne Direct Services	100%	1	72		249	
Applied Resilience Ltd	10%	10	42		0	
The Post House Ltd	93%	13	0		N/A	
<b>Total</b>			<b>17,626</b>		<b>44,814</b>	

- 4.18 The two primary companies of the Council are Knowle Green Estates Ltd and Spelthorne Direct Services Ltd. Both companies are active. The Council is not dependent on income generated by either company as they were established primarily to deliver service policy objectives, not to maximise financial return.
- 4.19 Both companies generated trading losses in 2024/25. In the case of Knowle Green Estates, the company has generated an operating loss for the past 6 years but has experience revaluation gains on its housing portfolio, which could, if necessary, be crystallised to assist with cashflow via asset sales. The Council as shareholder has recently commissioned an independent review of KGE's viability and options for the future.
- 4.20 Spelthorne Direct Services has generated an operating profit in previous years, and the Council expects these loans to be repaid within the next 5 years.

### **Capital Financing Requirement (CFR)**

- 4.21 The CFR measures the extent to which capital expenditure 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 has not immediately been paid for through revenue resources or capital funding (such as grants, developer contributions or capital receipts), will increase the CFR.
- 4.22 In addition to capital expenditure on purchased assets, the CFR includes right of use (leased) assets. However, although these do increase the CFR, the lease contracts include an element of the charge to repay the financing provided by the lessor. At 31 March 2025, £2.5m of the CFR was in respect of right of use leases.

- 4.23 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the CFR indebtedness in line with each asset's life, and charges the economic consumption of capital assets to the General Fund as they are used over time.
- 4.24 Capital receipts from asset sales can also be applied to reduce the CFR instead of financing new items of capital expenditure.
- 4.25 Table 5 below shows that the CFR is forecast to reduce by £506m over the period to 2029/30. This is because:
- the Council has ceased all capital projects which would have required additional borrowing (see Table 1 above);
  - has increased MRP set aside to a prudent level in 2025/26 in line with the Statutory Direction, which is forecast to reduce the CFR by £210m over the period to 2029/30; and
  - is forecast to generate £293m of capital receipts from the asset rationalisation programme, which will further reduce the CFR.

**Table 5 Capital Financing Requirement forecast (Prudential Indicator 2)**

2024/25 Actual £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
1,169	1,170	1,088	880	795	693
20	0	0	0	0	0
(19)	(59)	(53)	(37)	(35)	(31)
0	(23)	(155)	(48)	(67)	0
<b>1,170</b>	<b>1,088</b>	<b>880</b>	<b>795</b>	<b>693</b>	<b>662</b>

- 4.26 It should be noted that the 2024/25 figure of £1,170m for the CFR is based on the Balance Sheet as at 31 March 2025, and is £17m higher than the £1,153m disclosed in Note 35 of the unaudited statement of accounts. MRP has been calculated based on the lower figure for the purposes of this report as the CFR includes £76m of Assets under Construction which do not attract MRP. Work is ongoing to reconcile Note 35 to the Balance Sheet.
- 4.27 The Prudential Code expects that actual borrowing should, not in most cases, be greater than the Council's CFR. Table 6 below confirms that the Council's gross debt is not forecast to exceed the total of the CFR throughout the period to 2029/30.

**Table 6 Borrowing compared to the CFR (Prudential Indicator 3)**

2024/25 Actual £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
1,072	713	699	560	532	518
1,170	1,088	880	795	693	662
<b>98</b>	<b>375</b>	<b>181</b>	<b>235</b>	<b>161</b>	<b>144</b>

- 4.28 It should be noted that there is time lag between the estimated receipt of capital receipts and the application of those to reduce loan debt. This is because the maturity of the new loans taken out in November 2025 as part of the debt restructuring exercise have been set 3 months after the end of the year when the capital receipts are expected to allow for slippage in receipts.

## Affordability

4.29 The objective of the affordability indicator is to ensure that the level of investment in capital assets proposed remains within sustainable limits. In particular, it highlights the impact of capital financing costs (i.e. MRP and interest) on the Council's revenue budget. Table 7 below sets out the expected ratio of capital financing costs to income for the General Fund:

**Table 7 Ratio of capital financing costs to income (Prudential Indicator 4a)**

2024/25 Actual £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
16 Net Revenue Stream	16	16	15	15	16
42 Capital financing costs	50	50	34	31	27
<b>254% Ratio</b>	<b>309%</b>	<b>319%</b>	<b>231%</b>	<b>206%</b>	<b>173%</b>

4.30 For the purposes of this calculation:

- capital financing costs are defined by the Prudential Code as the total of loan interest, MRP and lease payments net of interest receivable and discounts on debt redemption and rescheduling, and
- the net revenue stream is defined as council tax, business rates and non-specific grant income.

4.31 The forecast reduction in this ratio between 2024/25 and 2029/30 reflects the Council's decision to pursue debt reduction and asset rationalisation strategies in November 2025. However, the ratio of capital financing charges to the net revenue stream at 31 March 2030 remains high at 169%. Many comparator authorities are currently reporting a ratio of 18% or less.

**Table 8 Ratio of capital financing costs to income including net income from investment property (Prudential Indicator 4b)**

2024/25 Actual £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
16 Net Revenue Stream	16	16	15	15	16
40 Net operating income from investment property	39	43	33	29	21
42 Capital financing costs	50	50	34	31	27
<b>74% Ratio</b>	<b>91%</b>	<b>85%</b>	<b>71%</b>	<b>71%</b>	<b>73%</b>

4.32 Table 8 above shows that including the net operating income from the investment property portfolio substantially reduces the ratio of capital financing costs to income reported in Table 7 above. However this still remains well above the ratio reported by most comparable authorities.

**Table 9 Proportion of net income from investment property to net income (Prudential Indicator 4c)**

2024/25 Actual £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
16 Net revenue stream	16	16	15	15	16
40 Net operating income from investment property	39	43	33	29	21
<b>243% Proportion of net income from investment property to net revenue</b>	<b>238%</b>	<b>275%</b>	<b>226%</b>	<b>191%</b>	<b>138%</b>

4.33 The Prudential Code requires local authorities with commercial and service investments to report the proportion of net income from investment property to the net revenue stream. The intention of this indicator is to show the net financial impact on the Council of its entire non-treasury investment income. Table 9 reinforces the earlier comments about the disproportionate scale of the investment property portfolio compared to the rest of the Council and the need to rationalise this activity in line with the Statutory Direction now in place.

#### **Minimum Revenue Provision Policy Statement**

4.34 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 MRP is an annual amount set aside from the General Fund to meet the cost of capital expenditure that has not been financed from other available resources, namely: grants, developer contributions (e.g. s.106 and community infrastructure levy) revenue contributions, earmarked reserves or capital receipts.

4.35 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 it arises irrespective of whether any actual debt repayments have been made or fall due.

4.36 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.

4.37 In line with the Statutory Direction, the Council approved a revised MRP Policy in November 2025 for the 2025/26 financial year, which fully complies with the 2024 Regulations and Statutory Guidance and which has been consulted upon with both MHCLG and the Council's external auditors, Grant Thornton. It is not proposed to amend the MRP Policy any further, although it has been updated to reflect the forecast CFR at 31 March 2026 and forecast MRP for 2026/27.

4.38 The MRP Policy Statement for 2026/27 is attached at Appendix A.

## SECTION 2 – BORROWING

### Debt reduction strategy

4.39 At 31 March 2025, the Council's overall debt was £1,057m, which was all long-term fixed interest rate borrowing from the Public Works Loans Board at an average rate of 2.4%. Whilst the overall interest rate was low, the Council's level of borrowing per head of population was the second highest amongst all English local authorities at c. £10,000.

4.40 In view of the unsustainably high level of borrowing highlighted in Chart 1 above and the affordability indicators reported above, and to comply with the Statutory Direction now in force, in November 2025 the Council approved a Debt Reduction Strategy as follows:

- to restructure all loans maturing over 10 years; and
- use all capital receipts from the asset rationalisation strategy to repay borrowing.

4.41 £905m of loans were therefore restructured in November 2025 reducing the value of debt in the Balance Sheet by £342m (32%) down to £715m. The Council also approved the recruitment of external specialist property advisors to assist the Council with obtaining best consideration from the asset rationalisation plan.

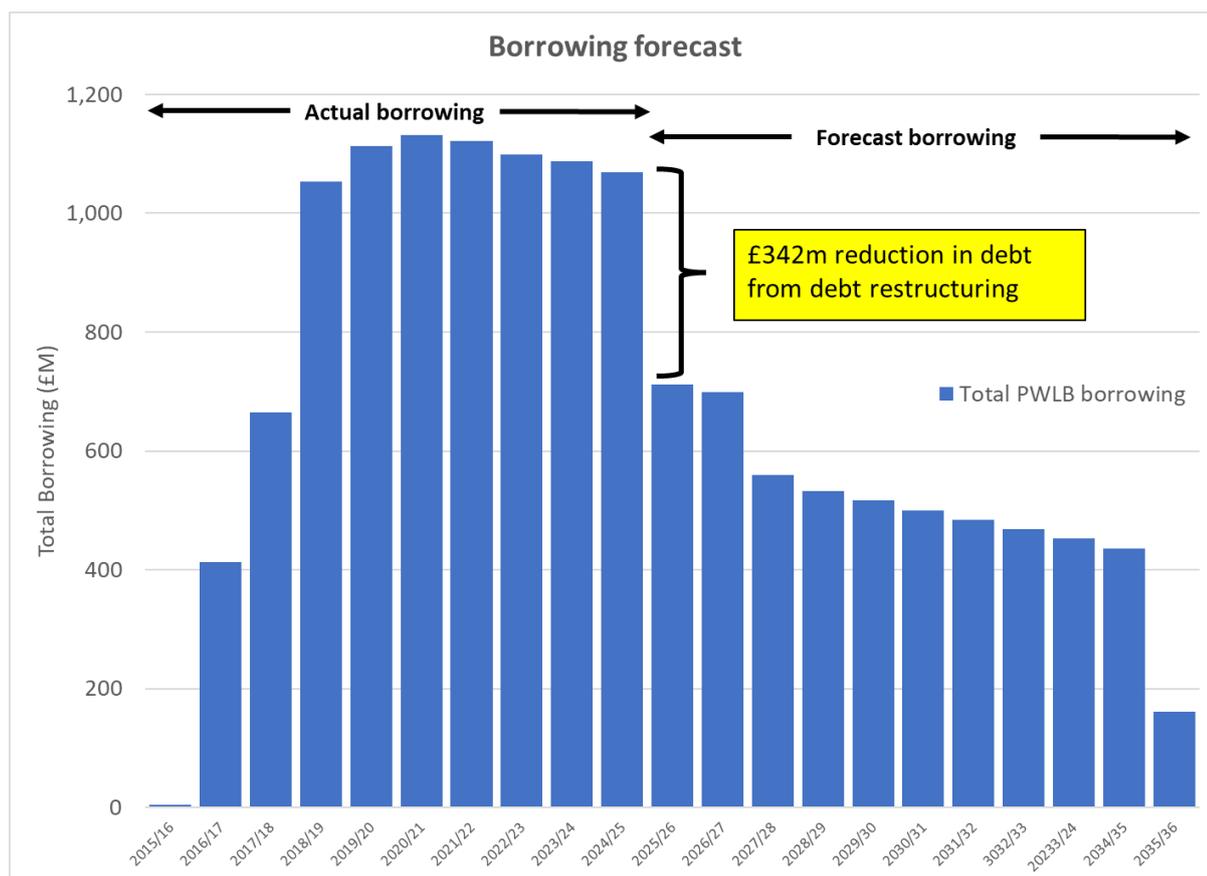
4.42 The target capital receipts from asset sales over the next ten years under the asset rationalisation programme are set out in Table 10 below. However, both the value and timing of capital receipts is likely to change to reflect the advice from the external specialist property advisors when they commence work, and actual sales as they occur.

**Table 10 Target Asset Sales**

	£000s
2025/26	23
2026/27	155
2027/28	48
2028/29	67
2029/30	0
2034/35	252
<b>Total</b>	<b>544</b>

4.43 The combination of debt restructuring and asset sales is forecast to reduce borrowing substantially as shown in Chart 2 below.

## Chart 2 Total borrowing



4.44 There are no proposals to undertake further debt restructuring before the demise of the Council, because there is little financial benefit from restructuring the loans maturing within the next 10 years.

### Limits on external borrowing

4.45 The Prudential Code requires the Council to set two limits on its total external debt, as set out in Table 11 below.

**Table 11 Overall borrowing limits (Prudential Indicators 5a and 5b)**

2024/25 Actual £m		2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
	<b>Authorised Borrowing Limit:</b>					
1,170	Borrowing and other long-term liabilities	1,088	880	795	693	662
	<b>Operational boundary</b>					
1,069	Borrowing	748	699	560	532	517
2	Other long-term liabilities (leases)	1	0	0	0	0
<b>1,072</b>	<b>Operational Boundary</b>	<b>748</b>	<b>699</b>	<b>560</b>	<b>532</b>	<b>518</b>

4.46 The limits are:

- Authorised Limit for External Debt (Prudential Indicator 5a)** – This is the limit prescribed by section 3(1) of the Local Government Act 2003 representing the maximum level of borrowing which the Council may incur. It reflects the level of external debt which, while not desired, could be afforded in the short term, but may not be sustainable in the longer term. This has been set at the level of the forecast CFR in Table 4. The Authorised Limit has been set at the same level as the forecast CFR as borrowing should not be expected to exceed the CFR.

- **Operational Boundary (Prudential Indicator 5b)** – This is the limit which external debt is not normally expected to exceed. The boundary is based on current debt plus anticipated net financing need for future years plus a tolerance of 5% on gross projected debt. Given that borrowing is all on fixed terms and no new borrowing is planned, it is unlikely that the tolerance will be needed unless capital receipts are not generated in accordance with the target asset sales set out in Table 9 above.

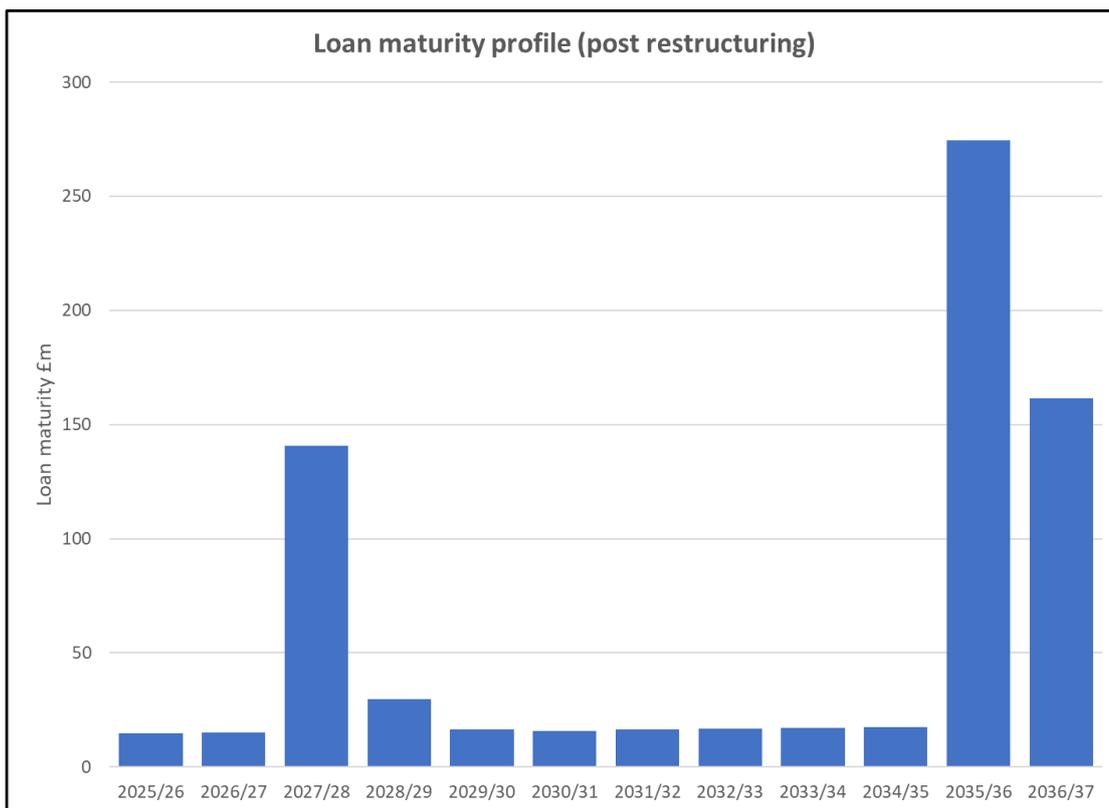
### Maturity structure of borrowing (Prudential Indicator 7)

4.47 Managing the maturity profile of debt is essential for reducing the Council’s exposure to large fixed rate sums falling due for refinancing within a short period, and thus potentially exposing the Council to additional cost.

4.48 Chart 3 below shows the maturity of the Council’s borrowing following the loan restructuring exercise in November 2025. The peaks of loan maturity reflect the anticipated flow of capital receipts from the asset rationalisation plan. Current forecasts are that there will remain c.£161m of loan debt outstanding in 2036/37 upon completion of the asset rationalisation plan. This has been left to mature in 2036/37 so that the successor authority has flexibility to:

- re-finance or redeem the borrowing; or
- re-visit the current Council’s current asset rationalisation plan.

**Chart 3 Maturity of borrowing**



4.49 Table 12 below sets out the upper and lower limits for debt. The profile of principal repayments highlighted in Chart 3 above remains within these limits.

**Table 12 Debt maturity profile limits (Prudential Indicator 7)**

Actual maturity at %		Upper Limit %	Lower Limit %
2%	Under 12 months	5%	0%
1%	1-2 years	20%	0%
4%	3-5 years	10%	0%
8%	6-10 years	50%	0%
20%	11-20 years	25%	0%
25%	21-30 years	0%	0%
29%	31-40 years	0%	0%
11%	41-50 years	0%	0%
<b>100%</b>			

**Policy on borrowing in advance of need**

- 4.50 The Statutory Guidance on Local Government Investments states that local authorities must not borrow more than or in advance of their needs purely to profit from investing the extra sums borrowed.
- 4.51 The Council is under Statutory Direction to implement a strict debt reduction policy and the capital financing plans summarised in Table 1 do not include any new borrowing. Consequently, the Council will not be taking out any new loans, borrowing for investment purposes or borrowing in advance of need.

## **SECTION 3 – MANAGING CASH BALANCES**

### **The current cash position and cashflow forecast**

- 4.52 As at 15 December 2025 the Council held cash balances and short-term investments totalling £37.2m. Of this balance £30m is invested with other local authorities for periods of time not exceeding 12 months.
- 4.53 The medium-term cashflow forecast is that balances will remain around this level for the remainder of 2025/26, but reduce to an average balance of £13.5m during 2026/27. Treasury officers will work closely with the Corporate Finance team to monitor slippage within the capital programme, the asset rationalisation programme and income through the Collection Fund, which will impact on cashflow levels.
- 4.54 Investment decisions will be made with reference to the Council's core cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

### **Prospects for interest rates**

- 4.55 On 18<sup>th</sup> December 2025 the Bank of England cut base rate to 3.75% and is expected to cut rates to around 3.25% to 3.5% by mid to late 2026. Money Market Funds are forecast to generate returns of around 3.75% in the forthcoming year. Whilst higher returns can be obtained for longer term investment, the Council is able to invest for terms of 3-6 months only based on current cashflow forecasts.
- 4.56 Inter-local authority lending continues provide returns of around 4.20%. As this is better than alternative short-term investment options and achieves security of capital, it is likely that this will remain the preferred investment option in 2026/27.

### **Investment Strategy**

- 4.57 The DCLG Statutory Guidance on Local Government Investments (2018 edition) requires local authorities to publish an Annual Investment Strategy which should be approved by full Council. This is reported at Appendix B and forms an integral part of the Treasury Management Strategy for 2026/27.
- 4.58 The Guidance emphasises that priority is given to maintaining security of capital invested firstly and ensuring the liquidity of funds invested are available for expenditure when needed, before any consideration of yield.
- 4.59 The Statutory Guidance applies to both financial and non-financial investments. Regarding non-financial investments, the Council is under Statutory Direction to rationalise its investment property portfolio and has approved the recruitment of external specialist property advisors to ensure that it achieves best consideration in relation to asset sales. In line with the Debt Reduction Strategy approved by Members in November 2025, capital receipts generated from asset sales will be used to reduce borrowing and only invested on a short-term basis until principal loan repayments fall due.
- 4.60 Financial (i.e. cash-based) investments are managed by the Council's treasury officers. Lending to other local authorities maintains the security of capital invested as local authorities are tax-backed and no authority has ever defaulted. The treasury team monitor liquidity through a cashflow model which forecast cashflow needs weekly over the next 6 months and monthly for the next 5 years.

4.61 Based on the current cashflow projections the strategy will be to continue to lend surplus money out to other local authorities, as these currently provide the best short-term returns with good security of the sums invested.

### Balancing short and long-term investments

- 4.62 In previous years, the Council has advanced long-term loans to its two subsidiaries (Knowle Green Estates Ltd and Spelthorne Direct Services Ltd) totalling £44.8m at 31 March 2025 (see Table 3 above).
- 4.63 The loans to Knowle Green Estates are 50 year annuity loans fixed at the rates the Council was originally borrowing for prior to restructuring the loan debt portfolio in November 2025. There was no margin added to allow for credit risk or a return to the Council.
- 4.64 The loan to Spelthorne Direct Services is at a fixed rate of 5%, but with a flexible repayment schedule and no clear final repayment date.
- 4.65 Loans to both companies have been advanced on a non-commercial basis and are classed as soft loans.
- 4.66 All the loans, including the £2.5m debenture to Knowle Green Estates, are for capital purposes. Consequently, the Council incurs a Minimum Revenue Provision charge on the loans which have been financed from borrowing. The combination of MRP and interest mean that these loans do not generate a net financial return to the Council.
- 4.67 Given the Statutory Direction to reduce borrowing, the Council is not in a position to advance further loans to either company before its demise on 31 March 2027. It is currently anticipated that repayments of existing loans will take place as they fall due. After 31 March 2027, the terms of any future loans to third parties will be the responsibility of the successor authority (West Surrey).
- 4.68 For 2025/26 the Council set an upper limit of £70m for all financial investments (loans and cash deposits) held for more than 12 months. The total advanced to the Council's two subsidiaries of £44.8m is well within this limit. However potentially some loans to other local authorities could be extended beyond 12 months depending on the Council's cashflow requirements. Therefore, it is not proposed to amend the current £70m limit.

**Table 13 Investment limits (Prudential Indicator 6)**

	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
Upper limit for principal sums invested more than 364 days	70	70	70	70	70

## SECTION 4 – SUMMARY OF PRUDENTIAL INDICATORS

4.69 The purpose of prudential indicators (PIs) is to provide a reference point or “dashboard” so that senior officers and Members can:

- easily identify whether approved treasury management policies are being applied correctly in practice and,
- take corrective action as required.

4.70 The Prudential Code identifies 7 key Prudential Indicators which have been reported in context throughout the Treasury Management Strategy alongside appropriate commentary as required. For completeness they are also reported in Table 14 below.

**Table 14 Summary of Prudential Indicators**

PI ref	Para ref	Prudential Indicator	2024/25 Actual £m	2025/26 Forecast £m	2026/27 Proposed £m	2027/28 Proposed £m	2028/29 Proposed £m
1	4.5	Capital expenditure	33	9	9	4	3
2	4.25	Capital Financing Requirement	1,170	1,088	880	796	694
3	4.27	Net Debt vs CFR - under/(over) borrowed	99	376	181	236	162
4a	4.29	Ratio of financing costs to net revenue stream	254%	309%	319%	206%	166%
4b	4.31	Ratio of financing costs to net revenue stream including net income from investment property	74%	91%	85%	63%	57%
4c	4.32	Ratio of net income from investment property to net revenue stream	243%	238%	275%	226%	191%
5a	4.45	Authorised limit for external debt	1,170	1,088	880	796	694
5b	4.45	Operational debt boundary	1,072	748	699	560	532
6	4.68	Limit on surplus funds held for more than 364 day (i.e. non-specified investments)	70	70	70	70	70
7	4.49	Maturity structure of borrowing					
		Upper limit under 12 months	2%	5%	5%	5%	5%
		Lower limit 10 years or more	85%	10%	10%	10%	10%

4.71 The Council’s S151 officer has a responsibility to ensure that appropriate PIs are set and monitored and that any breaches are reported to Members.

4.72 The S151 Officer has confirmed that the PIs identified in last year’s Treasury Management Strategy have been complied with and does not envisage at this stage that there will be any difficulty in achieving compliance with the proposed indicators for 2026/27. However, the value and timing of asset sales will have a significant impact on the PIs reported above in relation to:

- CFR levels and MRP set aside
- rental income generated from commercial properties, and
- the value of capital charges as a proportion of the Council’s net revenue budget.

4.73 Members will receive regular reports during 2026/27 on current asset sale forecasts and the impact this will have on the Council’s financial position and the PIs reported above.

## 5 Options analysis and proposal

- 5.1 **Option 1** – the preferred option – is to approve this Treasury Management Strategy which has been updated to reflect both local government reorganisation and the key financial decisions made by Full Council in November 2025. This course of action meets the requirement to have a Treasury Management and Investment Strategy and an MRP Policy Statement approved ahead of the start of the financial year to which it relates, as part of the Council’s budget setting process.
- 5.2 **Option 2** is to amend the Treasury Management Strategy for 2026/27. Given the demise of the Council with effect from 1 April 2027 it is recommended that any changes made do not expose either the current or successor authority to an unacceptable level of financial risk.
- 5.3 **Option 3** is not to approve a Treasury Management Strategy for 2026/27. This is not recommended as the Council would be in breach of statutory requirements.

## 6 Risk implications

- 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 set out in the Treasury Management Strategy and this should:
- include any use of financial instruments for the prudent management of those risks, and
  - ensure that priority is given to security and liquidity when investing.
- 6.2 The principal risks associated with treasury management are set out below together with the mitigating arrangements currently in place:

	<b>Risk</b>	<b>Mitigation</b>
1	The key risk is slippage in the generation of capital receipts - both delays in sales completing before 31 March and not achieving expected sale values	The Council has engaged specialist external property advisors to manage the asset rationalisation programme. This will provide both additional staff capacity but also assure the Council that it is obtaining best consideration from any asset disposals.  In addition, the Council has engaged additional external legal support which will provide additional capacity to deal with conveyancing
2	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.
3	That the Council will commit too much of its investments in fixed term investments and might have to recall investments prematurely resulting in possible	Ensuring that a minimum proportion of investments are held in short-term investments for cashflow purposes.

	additional costs or new borrowing (Liquidity risk).	
4	Increase in the net financing costs of the Council due to borrowing at high rates of interest.	All existing borrowing is now at a fixed rate and no new borrowing is planned
5	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.	No new borrowing is anticipated. All planned capital expenditure is expected to be financed from other sources as set out in Table 1.
6	Return on non-treasury investments lower than expected.	An asset rationalisation plan is now in place to dispose of investment properties with lower than anticipated returns.
7	The Council's Minimum Revenue Provision policy charges an insufficient amount to the General Fund to repay debt at a prudent level.	The Council's MRP policy has been updated and amended to align with current Statutory Guidance and reflect the economic benefits of purchased assets.
8	Associated with cash management, legal requirements and fraud.	These risks are managed through: <ul style="list-style-type: none"> <li>• Treasury Management Practices covering all aspects of treasury management procedures, including cashflow forecasting, documentation, monitoring, reporting and division of duties</li> <li>• 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.</li> </ul>
9	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 Financial implications

7.1 Financial implications are detailed in the main body of the report and will be taken into consideration when setting and reporting budget proposals for 2026/27.

## 8 Legal implications

8.1 The Local Government Act 2003 provides that a local authority has the power both to borrow and invest money for any purpose relevant to its functions and for the prudent management of its financial affairs. The Act requires the

Council to determine and to keep under review how much money it can afford to borrow. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, provide that, in complying with this duty, the Council must have regard to the Prudential Code for Capital Finance in Local Authorities published by CIPFA.

- 8.2 The CIPFA Treasury Management Code of Practice 2021 and the MHCLG Statutory Guidance on Local Government Investments 2018 both require the Section 151 officer (Director of Finance) to present an Annual Treasury Management Strategy Statement, which includes an Annual Investment Strategy, for the forthcoming year for approval by the Full Council before the beginning of each financial year.
- 8.3 The Council is also required to have regard to the CIPFA Treasury Management Code of Practice and to approve a Treasury Management Policy Statement setting out the overarching framework for treasury management services within the Council.
- 8.4 The statement set out in section 4 of this report together with Appendices A to E is designed and structured to meet these requirements.
- 8.5 The CIPFA Prudential Code for Capital Finance in Local Authorities sets out various indicators that are to be used to support capital expenditure plans and treasury management decisions. The prudential and treasury indicators have to be set by the Full Council when the budget is set and are monitored during the year. The prudential indicators are included in section 4 of this report.
- 8.6 The Council is also required to approve a Treasury Management Policy Statement setting out the overarching framework for treasury management services within the Council. This statement is set out at paragraph 3.13 of this report and Appendix 5 sets out how the Council complies.
- 8.7 This Committee has a responsibility to make recommendations concerning treasury management to the Council.

## **9 Procurement considerations**

- 9.1 None directly resulting from this report. Procurement of specialist external property advisers to support the Council's asset rationalisation programme has been carried out in accordance with Council procurement policies and with the Public Contracts Regulations 2015. Outcomes of that exercise will be separately reported to members for approval.

## **10 S151 Officer comments.**

- 10.1 The Council fully complies with best practice and statutory requirements as set out in the following:
  - The Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended in 2024;
  - MHCLG Statutory Guidance on Minimum Revenue Provision (2024);
  - DCLG Statutory Guidance on Local Government Investments (2018)
  - CIPFA's Prudential Code (2021); and

- CIPFA's Treasury Management Code (2021).

## **11 Monitoring Officer comments.**

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

## **12 Equality and Diversity**

- 12.1 No direct impact arising from this report.

## **13 Sustainability/Climate Change Implications**

- 13.1 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.

## **14 Timetable for implementation**

- 14.1 To be implemented as part of setting the budget for 2026/27.

## **15 Contact**

- 15.1 Terry Collier, S.151 Officer  
[T.Collier@spelthorne.gov.uk](mailto:T.Collier@spelthorne.gov.uk)>

## **16 Appendices**

- A. Minimum Revenue Provision (MRP) Policy
- B. Annual Investment Strategy
- C. Approved Counterparty List
- D. Approved Countries for Investments
- E. CIPFA Treasury Management Code requirements including:
  - a. Treasury Management Scheme of Delegation
  - b. Treasury Management role of s.151 officer

## **17 Background papers**

- 17.1 None.

## Committee Report Checklist

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

### Stage 1

#### Report checklist – responsibility of report owner

ITEM	Yes / No	Date
Councillor engagement / input from Chair prior to briefing	Y	12/1/26
Commissioner engagement (if report focused on issues of concern to Commissioners such as Finance, Assets etc)	Y	9/2/26
Relevant Group Head review	Y	28/1/26
MAT+ review (to have been circulated <b>at least 5 working days before Stage 2</b> )	Y	16/1/26
This item is on the Forward Plan for the relevant committee	Y	23/12/25
	Reviewed by	Date
Risk comments	LO	16/1/26
Legal comments	LH	14/01/26
HR comments (if applicable)	N/a	N/a

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

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

### Stage 2

#### Report checklist – responsibility of report owner

ITEM	Completed by	Date
Monitoring Officer commentary – at least <b>5 working days before MAT</b>	L Heron	14/01/26
S151 Officer commentary – at least <b>5 working days before MAT</b>	T.Collier	9/1/25
Confirm final report cleared by MAT		

## Appendix A

### Minimum Revenue Provision (MRP) 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 (now MHCLG) 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 2026 £000s	MRP 2026/27 £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	1,043,605	51,871 (4.97%)	MRP will be calculated for: <ul style="list-style-type: none"> <li>Investment property on a straight-line basis.</li> <li>All other asset categories on an annuity basis.</li> </ul> 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.	1,927	476 (24.70%)	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.
Loans to third parties for a capital purpose advanced before 7 May 2024	31,584	727 (2.30%)	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.

MRP stream – General Fund	CFR at 31 3 2026 £000s	MRP 2026/27 £000s	Policy	Explanation	Change from previous policy?
Loans to third parties for a capital purpose advanced on or after 7 May 2024	11,266	53 (0.47%)	<p><b>(a) Commercial loans</b> – 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</p> <p><b>(b) Non-commercial loans</b> – 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.</p>	<p>This complies with the Option 3 (Para 58(b)) of the MRP Guidance and the requirement for a maximum asset life of 50 years.</p> <p>This complies with paras 72-78 of the MRP Guidance.</p>	<p>This makes the policy clearer in respect of commercial loans advanced.</p> <p>This makes the policy clearer in respect of non-commercial loans advanced.</p>
<b>General Fund CFR and MRP at 31 March 2026</b>	<b>1,088,381</b>	<b>53,127 (4.88%)</b>			

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.

MRP stream – General Fund	Policy	Explanation	Change from previous policy?
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.

## APPENDIX B

### ANNUAL INVESTMENT STRATEGY

#### Investment policy

1. The Council's investment policy has regard to the following:
  - MHCLG Guidance on Local Government investments (the "Guidance")
  - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
  - CIPFA Treasury Management Guidance Notes 2021
2. The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The above guidance from MHCLG and CIPFA places a high priority on the management of risk and paragraph 51 of the Prudential Code 2021 states that an authority must not borrow to invest primarily for financial return.
3. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:
  - i. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification which avoids concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
  - ii. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings where applicable.
  - iii. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
  - iv. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.
    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit at the start of the investment of up to one year.

- **Non-specified investments** are any financial investments that are not loans and do not meet the criteria to be treated as specified investments. These tend to be lower credit quality than specified investments and carry a higher degree of credit risk.
- v. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.
  - vi. This authority has engaged **external consultants**, (see paragraph 4-7 Appendix E), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
  - vii. All investments will be denominated in **sterling**.
  - viii. In line with accounting standards, particularly IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.
4. This authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

### **Creditworthiness Policy**

5. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.
6. After this main principle, the Council will ensure that:
  - it maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security. This is set out in the specified and non-specified investment sections below; and
  - it has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
7. The Interim Chief Executive will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those which determine which types of investment instrument are either specified or non-specified as they provide an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used. A list of approved counterparties is set out in Appendix C.

8. Credit rating information is supplied by the Council's treasury advisors, Arlingclose Ltd. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing.
9. The Council takes into account the following relevant matters when proposing counterparties:
  - the financial position and jurisdiction of the institution;
  - the market pricing of credit default swaps for the institution;
  - any implicit or explicit Government support for the institution;
  - Standard & Poor's, Moody's and Fitch's short and long term credit ratings;
  - sovereign ratings to select counterparties from only the most creditworthy countries; and
  - core Tier 1 capital ratios.
10. Changes to the credit rating will be monitored and, in the event, that a counterparty is downgraded and does not meet the minimum criteria specified in Appendix C, the following action will be taken immediately:
  - no new investments will be made;
  - existing investments will be recalled if there are no penalties; and
  - full consideration will be given to recall or sale of existing investments which would be liable to penalty clause.

### **Specified and Non-specified investments**

11. The MHCLG Guidance on Local Government Investments made under section 15(1) of the Local Government Act 2003, places restrictions on local authorities around the use of specified and non-specified investments.
12. A specified investment is defined as an investment which satisfies all of the conditions below:
  - the investment and any associated cash flows are denominated in sterling;
  - the investment has a maximum maturity of one year;
  - the investment is not defined as capital expenditure; and
  - the investment is made with a body or in an investment scheme of high credit quality; or with the UK Government, a UK Local Authority or parish/community council.
13. Specified investments currently held by the Council comprise loans to local authorities, money market funds and monies held in bank accounts.
14. Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised

for use. The Council is currently invested in the following non-specified investments:

- **Investment property** – largely office property in the Heathrow Business Area. The Council is under Statutory Direction to divest such assets and has approved an asset rationalisation plan.
  - **Loans** - The Council has advanced long-term loans to its two subsidiary companies (Knowle Green Estates Ltd and Spelthorne Direct Services Ltd). Given the Statutory Direction to reduce borrowing and the imminent abolition of the Council on 31 March 2027, the Council will not be making any further such advances.
  - **Shareholdings in limited companies** – The Council currently invests in trading vehicles which the Council has set up to undertake particular functions. These are not held primarily as investments but to fulfil Council service objectives. Given the imminent demise of the Council from 31 March 2027 it is not envisaged that there will be any need for new companies to be established.
15. For any such investments, specific proposals will be considered by the Director of Finance after taking into account of the following:
- cash flow requirements
  - investment period
  - expected return
  - the general outlook for short to medium term interest rates
  - creditworthiness of the proposed investment counterparty
  - other investment risks.
16. The nominal value of financial investments (loans and cash balances) held for more than 12 months (i.e. non-specified investments) will be capped at £70m (see Table 12 above).

### **Country of Domicile**

17. Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.
18. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA. The list of countries that qualify using this credit criteria as at the date of this report is shown in Appendix D. This list will be kept under review and any proposed changes to the policy reported to Council.

### **Schedule of investments**

19. The criteria for providing a pool of high quality short and long-term, cash-based investment counterparties along with the time and monetary limits for institutions on the Council's counterparty list are set out in Appendix C.

### **Other considerations**

20. Sector limits will be monitored regularly for appropriateness, to help mitigate concentration risk. This is the risk of having a significant proportion of the Council's investments in one sector of the market and that market failing.
21. To ensure sufficient liquidity, detailed cashflow forecasts will be kept by the Treasury team to provide as accurate a picture as possible of the movement and timing of income and expenditure and the resulting daily cash balances.
22. When considering placing investments or temporary borrowing, officers will refer to the cashflow forecast to determine the best duration for the transaction.
23. Under the Markets in Financial Derivatives II Directive (MiFID II), the Council would be classed as a retail investor with an option to opt-up to professional status. The Council opted up to professional status in 2017. Given the size and range of the Council's treasury management activities, the interim Chief Executive believes this to be the most appropriate status.

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## APPENDIX C

### Approved counterparty list

	Minimum credit criteria	Max % of total investments/ £ per institution	Max. maturity period
<b>Specified Investments</b>			
DMADF – UK Government	N/A	100%	6 months*
Money market funds: CNAV and VNVAV	AAA	100%	Daily Liquidity
Local authorities	N/A	100%/£5m	Up to 1 year
Lloyds Bank plc (the Council's bankers)	A+	£10m £5m	Overnight deposits Up to 1 year
Term deposits with banks and rated building societies	A+		Up to 1 year
Current and Ex - Government Supported banks	A+	50%	Up to 1 year
<b>Non-specified investments</b>			
Loans to Council owned subsidiary companies	n/a	£45m	50 years

\* DMO – is the maximum period offered by the Debt Management Office of HM Treasury

#### Changes from 2025/26

The following categories of counterparty have been deleted because the Council does not use these: unsecured banks, corporates and registered providers. In addition, the option to use pooled funds and Real Estate Investment Trusts has been deleted as the Council has wound these up and does not envisage having funds available to invest for the remainder of its existence.

In practice, for the remaining period of the Council's existence it is expected that investments will be short-term only (i.e. less than 364 days) primarily as loans to other local authorities, investment in money market funds and cash held overnight with the Council's bankers.

Given the Council's abolition from 31 March 2027, the only long-term investments permitted are the existing loans to Knowle Green Estates Ltd and Spelthorne Direct Services Ltd and no new advances can be made given the Statutory Direction to have a strict debt reduction policy.

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## APPENDIX D

### APPROVED COUNTRIES FOR INVESTMENTS

1. This list is based on those countries which have sovereign ratings of AA or higher, (based on the lowest rating from Fitch, Moody's and S&P).

Lowest available rating	Approved Country
AAA	Australia Canada Denmark Germany Luxembourg Netherlands Norway Singapore Sweden Switzerland USA
AA+	Finland Hong Kong USA
AA	Abu Dhabi (UAE) Belgium Qatar United Kingdom

#### Changes from 2025/26

The previous TMS omitted any mention of the approved countries for investment. This is one element of determining creditworthiness, hence its inclusion. In practice, for the remaining period of the Council's existence investments will be in the UK via either loans to other local authorities, money held overnight with either the DMO or the Council's bankers or money market funds based in the UK.

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## **APPENDIX E**

### **CIPFA TREASURY MANAGEMENT CODE**

1. The Council has formally adopted CIPFA's Code of Practice on Treasury Management 2021 and complies with the requirements of the Code as detailed in this Appendix. There are no changes to the requirements formally adopted in the 2017 update with regard to reporting which are summarised below:
  - Maintaining a Treasury Management Policy Statement setting out the policies and objectives of the Council's treasury management activities.
  - Maintaining a statement of Treasury Management Practices that sets out the manner in which the Council will seek to achieve these policies and objectives.
  - Presenting the Full Council with an annual TMSS statement, including an annual investment strategy and Minimum Revenue Provision policy for the year ahead (this report) a half year review report and an annual report (stewardship report) covering compliance during the previous year.
  - A statement of delegation for treasury management functions and for the execution and administration of statement treasury management decisions. (see below)
  - Delegation of the role of scrutiny of treasury management activities and reports to a specific named body. At Spelthorne Borough Council this role is undertaken by the Corporate Policy and Resources Committee

#### **Knowledge and Skills**

2. The Council uses the knowledge and skills of its officers when considering treasury investment and borrowing decisions and where necessary it also relies on the expert knowledge of specialist external advisors.
3. Finance staff are professionally qualified to advise the Council on all areas of finance. Included within the team is an officer with specialist knowledge of treasury management. All finance staff undertake Continuous Professional Development and maintain knowledge and skills through regular technical updates from appropriate bodies and attending specialist courses. Staff follow the Treasury Management Practices approved by the interim Chief Executive.
4. A programme of training for members on Treasury Management is being developed and will be open to all Members to assist in their understanding of the treasury function during 2026/27.

#### **Treasury management consultants**

5. The Council uses Arlingclose Ltd as its external treasury management advisors in relation to conventional treasury management activities such as borrowing and placement of residual cash.
6. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions

will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

7. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.
8. The scope of investments within the Council's operations currently includes both conventional treasury investments and more commercial type investments, such as investment properties. An appropriately qualified and experienced in-house team is in place to manage investment properties and external specialist property advisors are being appointed to support the Council's asset rationalisation plans.

### **Treasury Management Delegations and Responsibilities**

9. The respective roles of the Council, Corporate Policy and Resources Committee and Section 151 officer are summarised below. Further details are set out in the Treasury Management Practices.

#### **(i) Full Council**

- Approval of annual strategy, mid-year review and Annual Report

#### **(ii) Interim Chief Executive (s151 Officer)**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

#### **(iii) Corporate Policy and Resources Committee with responsibility for scrutiny**

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

## **THE TREASURY MANAGEMENT ROLE OF THE INTERIM CHIEF EXECUTIVE (SECTION 151 OFFICER)**

### **The S151 (responsible) officer**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

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