



# **Spelthorne Borough Council**

Extraordinary Council Meeting  
Monday, 17 November 2025





5 November 2025

*Please reply to:*

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To the Councillors of Spelthorne Borough Council

I hereby summon you to attend a meeting of the Council to be held at The Council's Offices, Knowle Green, Staines-upon-Thames on **Monday, 17 November 2025** commencing at **7.00 pm** for the transaction of the following business.

Daniel Mouawad  
*Chief Executive*

Councillors are encouraged to wear their badge of past office at the Council meeting.

*Councillors are reminded to notify Committee Services of any Gifts and Hospitality offered to you since the last Council meeting so that these may be entered in the Gifts and Hospitality Declaration book.*

## AGENDA

Description	Page nos.
<b>1. Apologies for absence</b> To receive any apologies for non-attendance.	
<b>2. Disclosures of Interest</b> To receive any disclosures of interest from Councillors in accordance with the Council's Code of Conduct for Members.	
<b>3. Revised Policy Statement on Minimum Revenue Provision (MRP) for 2025/26</b> This is a draft report as it is to be considered by the Corporate Policy and Resources Committee on 11 November so may be subject to amendments.	7 - 24
<b>4. Debt Rescheduling proposals 2025/26</b> This is a draft report as it is to be considered by the Corporate Policy and Resources Committee on 11 November so may be subject to amendments.	25 - 36
<b>5. Asset Rationalisation to underpin the revised Medium-Term Financial Strategy</b> This is a draft report as it is to be considered by the Corporate Policy and Resources Committee on 11 November so may be subject to amendments.	37 - 50
<b>6. Reserves Strategy 2026-27</b> This is a draft report as it is to be considered by the Corporate Policy and Resources Committee on 11 November so may be subject to amendments.	51 - 66
<b>7. Medium-Term Financial Strategy 2026-27</b> This is a draft report as it is to be considered by the Corporate Policy and Resources Committee on 11 November so may be subject to amendments.	67 - 104
<b>8. Treasury Management Annual Outturn 2024/25</b> This is a draft report as it is to be considered by the Corporate Policy and Resources Committee on 11 November so may be subject to amendments.	105 - 128
<b>9. Treasury Management Half Yearly Report</b>	

This is a draft report as it is to be considered by the Corporate Policy and Resources Committee on 11 November so may be subject to amendments.

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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	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 <b>at least 5 working days before Stage 2</b> )		
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 <b>5 working days before MAT</b>	L Heron	21/10/25
S151 Officer commentary – at least <b>5 working days before MAT</b>	T. Collier	20/10/25
Confirm final report cleared by MAT		

# Corporate Policy & Resources Committee

Date of meeting – 11 November 2025

<b>Title</b>	Revised Policy Statement on Minimum Revenue Provision (MRP) for 2025/26
<b>Purpose of the report</b>	To approve a new MRP Policy Statement in line with statutory directions and make a recommendation to Council
<b>Report Author</b>	Terry Collier, Deputy Chief Executive
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Corporate Priority</b>	Prudent management of finances and resources
<b>Recommendation</b>	<b>Committee is asked to:</b> <ol style="list-style-type: none"> <li>1. Consider and agree the proposed new MRP Policy Statement for 2025/26; and</li> <li>2. Recommend that Council approve the proposed new MRP Policy Statement for 2025/26 (set out in Appendix A).</li> </ol>
<b>Reason for Recommendation</b>	Full Council needs to approve any significant changes to the MRP Policy Statement as it forms an integral part of the Council's General Fund budget and Treasury Management 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 current Policy Statement on MRP which was approved by Members in February 2025 as part of the Council's Treasury Management Strategy for 2025/26.	Statutory Directions issued by the Ministry for Housing Communities and Local Government (MHCLG) in May 2025 which alongside other requirements directs the Council to implement " <i>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</i> " (paragraph 2.6)



This is what we want to do about it	These are the next steps
<p>Approve and implement a new MRP Policy which complies in full with the requirements of:</p> <ul style="list-style-type: none"> <li>• The Local Authorities (Capital Finance and Accounting) (England) Regulations as amended in 2024,</li> <li>• Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Code, and</li> <li>• 2024 Statutory Guidance on MRP</li> </ul>	<ul style="list-style-type: none"> <li>• Approve the new Policy as set out in Appendix A</li> <li>• Implement the new Policy, recalculate MRP and adjust the Medium-Term Financial Strategy accordingly</li> </ul>

## 2 Key issues

- 2.1 This report sets out the change required to our MRP policy to address the requirement of the Best Value Directions and External Audit Concerns, ensuring that we are applying a prudent interpretation of the MRP guidance and highlights what the impact of that change has on the Council's Revenue Budget. How that impact is mitigated is then addressed in the following four reports on this agenda.
- 2.2 MRP is an annual charge made to the General Fund when capital expenditure has not been funded from asset sales, government grants, developer contributions or revenue. This is sometimes referred to as "unfinanced" capital expenditure.
- 2.3 The core legal requirement under the Local Authority (Capital Finance and Accounting) (England) Regulations 2003, as amended, is that authorities must set aside "*a prudent amount*" of MRP each year which "*recognises the cost of acquiring capital assets over a period commensurate with the benefit provided by the asset which has been obtained*".
- 2.4 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.
- 2.5 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 must 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.*

- 2.6 Local authorities are required to prepare and publish a Policy Statement as part of the annual budget setting process each year explaining how they intend to calculate MRP. In setting the annual MRP Policy local authorities are expected to follow the options set out in the Statutory MRP Guidance. Paragraph 50 of the Guidance states:

*Where a local authority changes the method(s) that it uses to calculate MRP, it should explain in its MRP Statement, why the change will better allow it to make prudent provision. The primary objective of any change cannot be to reduce the MRP charge. Any methodologies which deviate from this guidance must be accompanied with detail of how the local authority met its duty to have regard to this guidance and on what basis it deems it appropriate to depart, and an assessment of risk.*

- 2.7 Both MHCLG's Best Value Inspection and the local external audit team have identified that the Council's MRP set aside was low in previous financial years. The Statutory Direction issued in May 2025 requires the Council to implement "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".
- 2.8 The wording of this Direction consequently provides limited scope for the Council to develop, approve and implement local calculation methods which do not follow Statutory Guidance and other legal or accounting requirements in full.
- 2.9 A review of the existing MRP Policy Statement and supporting calculations requested by the Finance Commissioner 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:
- 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 September 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.

- 2.10 The report also recommended that presentational changes are made to the existing Policy Statement so that it meets new requirements set out in the 2024 Statutory Guidance, namely, to identify:
- which MRP streams have been identified and which types of unfinanced capital expenditure these relate to
  - the calculation methods applied to each asset or expenditure type,
  - the key assumptions underpinning these calculations
  - the value of MRP set aside in total and for each asset type
  - confirmation that the Council's approach follows all of the relevant sections of the Guidance and therefore represents a "prudent approach".
- 2.11 Appendix A sets out a revised Policy Statement for Members' approval, which now meets all of these requirements in full.
- 2.12 CIPFA's national Pensions and Treasury Advisor has also confirmed that the recommended approach is in line with the requirements of 2024 Statutory Guidance on MRP.
- 2.13 The new approach has also been discussed and agreed with MHCLG and the Council's external audit team and is now being put forward to Councillors for consideration and approval.

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

- 3.1 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.
- 3.2 When capital expenditure is incurred the CFR increases. When resources are set aside, the CFR reduces.
- 3.3 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."*

### **4 Financial implications**

- 4.1 The proposed changes will result in a significant increase to MRP over the next five years. Calculations of the MRP required for the Investment and Regeneration Property portfolio prepared as part of the consultant's initial

review are summarised in Table 1 below (Note: Table 1 below does not include MRP required for other elements of the CFR, namely capital loans to Knowle Green Estates and leases):

**Table 1 MRP – initial calculation**

	2025/26	2026/27	2027/28	2028/29	2029/30
	£000s	£000s	£000s	£000s	£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%

*Source: WTAS calculations based on information provided by the Council.*

- 4.2 These initial calculations suggested that in order to meet 2024 Statutory Guidance in full, MRP set aside should be increased from its current budget level of £13m to c£57m each financial year. The report acknowledges however that these calculations were provisional because at the time the work was undertaken:
- 2024/25 year-end financial statements were still being prepared, and
  - the Council's Capital Financing Requirement (CFR), which impacts MRP calculations, was still being finalised, as were the correct accounting entries for third-party loans.
- 4.3 Further work done to refine the initial calculations now suggests that the MRP budget for 2025/26 should be set at £59.9m (which includes MRP on all elements of the CFR including capital loans to Knowle Green Estates and leases) as set out in Appendix A.
- 4.4 MRP is not a cash-based transaction but set aside does affect General Fund balances. The Council does not have sufficient levels of useable reserves to absorb this additional charge beyond the current financial year unless the mitigating actions set out in Section 5 below are also approved by Members and put in place as part of the 2025/26 mid-year Budget review.

## **5 Options appraisal and proposal**

- 5.1 **Option 1: Amend the MRP Policy- recommended option.** The Council's historically low MRP charge has benefitted the General Fund but resulted in higher levels of CFR since 2017/18. This is because MRP set aside from the General Fund is used to reduce the CFR balance each year.
- 5.2 The CFR does not form part of the Council's net worth in the Balance Sheet directly, although it is calculated by reference to the Balance Sheet each year. Nevertheless, it is an important calculation which is used by MHCLG and others as a key indicator of financial stability.

- 5.3 Currently the Council's CFR exceeds £1bn, making it one of the highest in the country relative to service budgets and population size. By continuing with the current low levels of MRP set aside, the Council would retain a high CFR, adversely affecting its overall financial position in the context of the risks ahead with the investment assets portfolio.
- 5.4 **Option 2: Do not amend the Policy:** It is also acknowledged that continuing with the current calculation methods would not be in line with the requirements of 2024 Statutory Guidance on MRP, as set out in paragraph 2.8 above. Therefore, the option of not changing the MRP Policy is not recommended.
- 5.5 **Option 3: Modify the proposed revised policy.** One possible option would be to develop a local calculation method rather than follow the approach set out in Statutory Guidance. For example, it has been explored whether it could still be justified to apply an annuity approach to the BP site but that has been ruled out. However, any Policy resulting in a lower annual charge than the 2024 Guidance recommends is unlikely to be considered by MHCLG to represent "*a prudent approach*" or to comply with "*all relevant rules and guidelines*" in full.
- 5.6 Some flexibility does exist within the parameters set out in Statutory Guidance, however, all result in similar levels of set aside requirement for 2025/26. Therefore, the proposed approach as set out in Appendix A is considered to represent the most appropriate way forward. The impact of implementing the revised MRP Policy is to greatly increase the MRP charge to the Revenue Budget which means the investment asset income ceases to be sufficient to cover MRP, interest and management costs. Paragraph 6.1 expands upon the impact of this if other measures were not to be taken to mitigate. This in turn reinforces the need to look at rationalising the investment assets portfolio.

## 6 Mitigating actions

- 6.1. Increasing MRP to a prudent level, as required by the Statutory Direction will, without any additional mitigating action, extinguish all the Council's usable revenue reserves before 31 March 2027. In this situation, the S.151 Officer would be obliged to issue a s.114 Notice and the Council would need to seek Exceptional Financial Support (EFS) from MHCLG. The Council does have options to mitigate the impact of the increased MRP and these are set out in the next two reports on the Agenda.
- 6.2. EFS does not provide the Council with additional funding in the form of grant, but allows local authorities to capitalise the revenue deficit, and then fund this either from capital receipts or setting aside MRP. Therefore, effectively the Council could end up paying additional MRP on the revenue deficit which arises from increasing MRP to a prudent level.
- 6.3. The key actions which can be taken to mitigate the impact of significant MRP increases are to:
- restructure the Council's loan debt portfolio (in line with paragraph 1c of Annex A of the Statutory Direction), and

- implement an Asset Rationalisation Strategy (in line with paragraph 1b of Annex A of the Statutory Direction).
- 6.4. As these are key decisions, two separate reports have been prepared for Member approval.
- 6.5. Although the MRP Policy Statement, restructuring the Council's loan debt and implementing an Asset Rationalisation Strategy are key decisions for the Council which need to be considered and approved separately, they are inextricably linked because:
- the discount from restructuring the Council's loan debt will offset the increase in MRP and
  - capital receipts from asset sales can be applied to reduce the CFR and loan debt in future, thus reducing future years' MRP and interest charges.
- 6.6. Table 2 demonstrates that rationalisation of investment assets and housing/regeneration assets at current valuation price (excluding the BP site) could potentially reduce MRP charges by almost 50% from £59m to £30m by 2029/30. (Note: the MRP figures in Table 2 include MRP for the capital loans to Knowle Green Estates and leases).

**Table 2 – Impact of asset sales on MRP set aside**

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
<b>Current budget for MRP</b>	13	13	14	14	14
<b>Proposed budget</b>	59	56	51	51	52
<b>Proposed budget with asset sales</b>	59	41	39	30	30

Source: WTAS calculations based on information provided by the Council

- 6.7. Disposal of the BP site in 2035/36 would reduce MRP even further, to a residual amount of £7m per annum, less than the current set aside requirement of £13m each year.

## **7 Risk implications**

- 7.1. Work is still ongoing to reconcile the Council's CFR and MRP calculations back to the Balance Sheet at 31 March 2025. Any further changes could potentially affect the information presented in this report and the underlying calculations which support it.
- 7.2. Potentially, any understatement of the CFR that might be identified could increase the requirement for MRP set aside and have an adverse impact on both General Fund balances and the Council's Medium-Term Financial Plan. Currently there are two areas of potential understatement of the CFR:
- long-term debtors of £45m are reported in the Statement of Accounts. Enquiries are ongoing to confirm the purpose for which the loans were advanced and the financing of the loans. The MRP Policy Statement in



Appendix A assumes that all the loans to Knowle Green Estates have been advanced for a capital purpose, and that the assets purchased have an estimated 50-year useful life, giving rise to a MRP charge of £1m; and

- the Council records of unfinanced capital expenditure are £50m less than the CFR calculated from the balance sheet. Consequently, MRP could be around £2m higher. This has not been included in the calculations at Appendix A and would mean that the Council was not fully complying with Regulation 27, which is the obligation to charge MRP in respect of all unfinanced capital expenditure.
- 7.3. The other key risk which has been identified as that any failure to complete asset sales at current valuation prices or on the timescales now envisaged would delay the application of capital receipts and hence the reduction in MRP set aside going forward.
- 7.4. Disposal of investment properties would also remove the current gross rental income stream of c£45m each financial year.
- 7.5. These risks are explored more fully in a separate report seeking Members' approval for an Asset Rationalisation Strategy, but the two decisions are interlinked and need to be considered together.

## **8 Legal comments**

- 8.1. As a principal local authority, the Council must comply with the requirements of the Local Authorities (Capital Finance and Accounting) Regulations 2003 by setting aside a "*prudent level*" of MRP each financial year (Section 28). Although the exact method of calculation can be decided locally, authorities must "*have regard to*" Statutory Guidance issued by the Secretary of State.
- 8.2. The proposed approach as set out in this report represents a course of action which follows these requirements in full. It therefore meets the requirements of the Statutory Direction issued in May 2025, namely 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*".

## **9 S151 Officer comments**

- 9.1 Approving and implementing the policy as proposed will have significant financial implications for the Council as set out in section 3 above. These can only be ameliorated by other actions that the Council is also proposing to take which include:
- debt rescheduling,
  - realising capital receipts from asset rationalisation, and

- use of reserves.

9.2 Consequently, this report needs to be considered alongside the Revised Treasury Management Strategy and Reserves Strategy reports on this agenda.

## **10 Monitoring Officer comments**

10.1 Legal considerations are set out in section 8 above.

10.2 Budget and Treasury Management Strategy are comprised within the Policy Framework and therefore reserved to Council for decision. As a significant component of both the General Fund budget and the Treasury Management Strategy for 2025/26 any changes to the MRP Policy Statement and supporting calculations will therefore need to be approved by Full Council, however they must first be considered by the Corporate Policy and Resources Committee in line with decision-making arrangements set out in the Council Constitution.

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

## **11 Procurement comments**

11.1 None

## **12 Equality and Diversity**

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

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

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

## **14 Other considerations**

14.1 MRP changes are part of a wider strategy to implement the Statutory Direction issued by MHCLG in May 2025. Other actions to be taken include a debt rescheduling and asset rationalisation which will be the subject of separate decision-making reports.

## **15 Timetable for implementation.**

15.1 To be implemented as part of 2025/26 mid-year Budget review.

15.2 Recommendation for approval to go to Council on 17<sup>th</sup> November.



## **16 Contact**

16.1 Terry Collier, Deputy Chief Executive [T.Collier@spelthorne.gov.uk](mailto:T.Collier@spelthorne.gov.uk)>

### **Background papers and Appendices**

Appendix A – Amended MRP Policy Statement for 2025/26

## Appendix A – 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. Whilst in principle this is the case with BP lease which has five years rental uplifts linked to Consumer Prices Index, whether it was appropriate to continue to apply annuity basis for BP rather than move to a straight line was raised with MHCLG who indicated that they felt the more appropriate treatment for BP is straightline.
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 new Regulations were issued to make clearer to Councils how the Regulations should be interpreted. 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: <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.	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.
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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, as commented above the new guidance makes clearer the required interpretation of the guidance.
Loans to third parties for a capital purpose advanced on or after 7 May 2024	305	6 (2.0%)	<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 2025</b>	<b>1,167,359</b>	<b>59,956 (5.1%)</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.
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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### 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 <b>at least 5 working days before Stage 2</b> )		
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 <b>5 working days before MAT</b>	L Heron	21/10/25
S151 Officer commentary – at least <b>5 working days before MAT</b>	T.Collier	20/10/25
Confirm final report cleared by MAT		

# Corporate Policy & Resources Committee

Date of meeting – 11 November 2025

<b>Title</b>	Debt Rescheduling proposals 2025/26
<b>Purpose of the report</b>	To approve a Debt Rescheduling proposal as part of the Council's half-year Budget review
<b>Report Author</b>	Terry Collier, Deputy Chief Executive
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Corporate Priority</b>	Statutory Direction issued May 2025
<b>Recommendation</b>	<b>Committee is asked to:</b> <ol style="list-style-type: none"> <li>1. Consider and agree the proposed new Debt Rescheduling proposal for implementation during 2025/26; and</li> <li>2. Recommend that Council approve the Debt Rescheduling proposal for implementation during 2025/26.</li> </ol>
<b>Reason for Recommendation</b>	Full Council needs to approve any significant changes to the approved Treasury Management Strategy for 2025/26 as this forms an integral part of both Revenue and Capital budgets and Medium-Term Financial Plans. 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

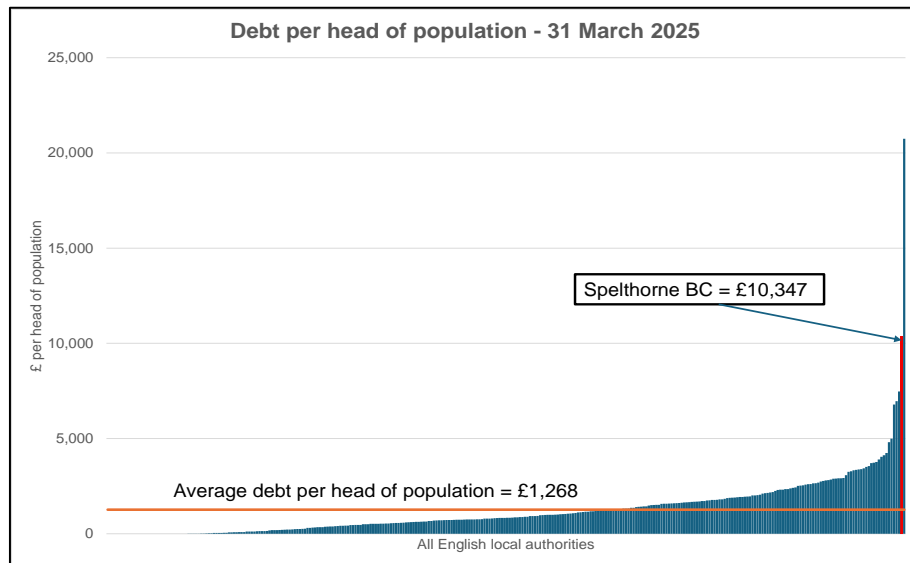
What is the situation	Why we want to do something
This report sets out proposed changes to the Council's current borrowing strategy which was approved by members in February 2025 as part of the Council's Treasury Management Strategy for 2025/26.	<ul style="list-style-type: none"> <li>• Statutory Directions issued by MHCLG in May 2025 require the Council to implement "a <i>comprehensive and strict debt reduction plan</i>". (paragraph 2.5)</li> <li>• To achieve a significant debt reduction in a way which mitigates Minimum Revenue Provision changes and avoids the Council requiring Exceptional Financial Support (paragraph 4.6)</li> </ul>

This is what we want to do about it	These are the next steps
Approve and implement debt rescheduling in line with the Direction set out above.	<ul style="list-style-type: none"> <li>• Approve the proposed debt rescheduling as set out in this report</li> <li>• Implement the debt rescheduling proposal via a process of engagement with the Ministry of Housing, Communities and Local Government (MHCLG) and the Government's Debt Management Office (DMO).</li> <li>• Rework the 2025/26 General Fund budget and Medium-Term Financial Plan accordingly. (paragraph 8.1 )</li> </ul>

## 2 Key issues

- 2.1 The proposed debt rescheduling is designed to partially offset the impact of implementing a revised Minimum Revenue Provision policy, set out in the previous report on this Agenda, which has impact of creating a much higher MRP charge to the Budget per annum. The objective of the proposed approach is to partially mitigate the impact of the higher MRP charge and to take the first step in significantly reducing the Council's outstanding debt.
- 2.2 If approved, it will immediately reduce Spelthorne's debt by approximately £360 million, bringing total outstanding debt to around £700 million. This represents a reduction in average debt per resident from roughly £10,000 to £7,000, meaning the Council's debt levels will broadly match the value of its assets.
- 2.3 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 (89% of the debt),
  - regeneration projects (3%),
  - Spelthorne Leisure Centre (4%) , and
  - loans to Council-owned companies (4%).

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



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

- 2.5 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.
- 2.6 This is because the value of external borrowing significantly outweighs the current market value of Investment Property and regeneration assets, which have fallen by c.45% since their original acquisition.
- 2.7 Since May 2025 the Council has been operating under a Statutory Direction which amongst other things requires implementation of *“a comprehensive and strict debt reduction plan, demonstrating how the capital financing requirement and external borrowing will be reduced over a realistic but expedient timescale”*.
- 2.8 Debt rescheduling is the process of renegotiating the terms of existing borrowing arrangements, in this case so that the principal amount outstanding is reduced, as a result of the discount being applied, in exchange for higher interest charges on the remaining balance of the loans.
- 2.9 The reason the Council is currently being offered discounts on all its PWLB loans which were taken out in period 2016-2022, is that when those loans were drawn interest rates were much lower (averaging 2.35%) than the PWLB is currently advancing which ranges from 5% to 6% depending on maturity. Note PWLB rates reflect a margin of 80 basis points above the equivalent rate the Government is paying out on its own borrowing through gilt rates. This means that the PWLB could earn more on the principal bound up in those loans if they were redeemed and the sums loaned out again. Effectively there is an incentive being offered for early repayment of PWLB loans. The actual discount will vary day to day and has been falling a little in last couple of weeks, in mid-October the average discount on early repayment of the Council's PWLB loans equated to approximately 35%.

- 2.10 Arlingclose, the Council's Treasury Management advisors, have recommended that the Council restructure all loans with a maturity period in excess of 20 years. Since discounts offered by PWLB are largely driven by the maturity of existing loan debt, Arlingclose have advised that there would be little benefit from restructuring loans with less than 20 years maturity because the increase in future interest charges would outweigh the discount offered on the loans. The discount as a percentage of principal increases significantly for loan maturities exceeding 10 years as shown in Table 1 below.

**Table 1 Summary of discount by loan maturity**

Loan maturity	Principal £m	Discount £m	%
5 years to 31/3/30	69	(2)	-3%
5 years to 31/3/35	82	(10)	-12%
5 years to 31/3/40	104	(23)	-22%
5 years to 31/3/45	109	(32)	-29%
5 years to 31/3/50	117	(42)	-36%
5 years to 31/3/55	152	(63)	-41%
5 years to 31/3/60	148	(68)	-46%
5 years to 31/3/65	160	(77)	-48%
5 years to 31/3/70	113	(56)	-50%
5 years to 31/3/75	3	(1)	-33%
	<b>1057</b>	<b>(374)</b>	<b>-35%</b>

### 3 Financial implications

- 3.1 Financial modelling carried out by independent consultants to inform this report has estimated the potential discount available (summarised in Table 1 above), based on data available from the PWLB website, and interest charges going forward, based on the assumption that the Council would restructure all loans maturing after 31 March 2035 by 31 March 2026.
- 3.2 The combined effect of rescheduling all debt exceeding 10 years (£906m), coupled with repayment of existing maturity loans would reduce the value of PWLB borrowing on the Balance Sheet from £1,057m at 31 March 2025 to £682m by 31 March 2026, reflecting an estimated discount (as calculated in mid-October) of £361m and taking into account in-year repayments of £14m as shown below:

**Table 2 – Debt rescheduling proposal**

	Loan debt at 31/3/2025 £m	2025/26 loan repayments £m	2025/26 restructure	Loan debt at 31/3/2026 £m
Loans maturing before 31 March 2030	73	(14)	0	59
Loans maturing before 31 March 2035	78	0	0	78
Loans maturing after 31 March 2035	906	0	(361)	545
<b>Total</b>	<b>1,057</b>	<b>(14)</b>	<b>(361)</b>	<b>682</b>

Source: WTAS calculations based on PWLB website [2025yearendvalues2.xls](#)

- 3.3 Without restructuring the Council's loan debt portfolio, the impact of increasing MRP to a prudent level, as required by the Statutory Direction would result in a forecast cumulative General Fund deficit of £46m by 31 March 2027.
- 3.4 The estimated £361m discount generated from debt restructuring significantly mitigates the impact of the increase in the MRP charge resulting in a forecast cumulative General Fund surplus, before taking into account broader Revenue Budget pressures, of approximately £14m by 31 March 2027 as shown in Table 3 below.
- 3.5 Regulation 30C of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended, require discounts from premature loan debt redemption to be credited to the General Fund over a maximum period of 10 years. Consequently the £361m discount is reflected as ten annual credits of £36m in Table 3 below.

**Table 3 Impact of debt restructuring on the General Fund**

	Gen Fund @ 31/03/2025	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	TOTAL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
MRP		60	56	51	51	52	47	47	48	48	49	48	557
Interest		29	32	34	31	31	31	31	31	31	30	29	340
Discount £360m in total		(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	0	(360)
Net operating inc/exp on Investment													
Property		(39)	(46)	(45)	(42)	(41)	(39)	(37)	(35)	(29)	(26)	(24)	(403)
<b>Net (surplus)/deficit to General Fund</b>	<b>(34)</b>	<b>14</b>	<b>6</b>	<b>4</b>	<b>4</b>	<b>6</b>	<b>3</b>	<b>5</b>	<b>8</b>	<b>14</b>	<b>17</b>	<b>53</b>	<b>100</b>
<b>Impact on Revenue Reserves at year-end</b>		<b>(20)</b>	<b>(14)</b>	<b>(10)</b>	<b>(6)</b>	<b>0</b>	<b>3</b>	<b>8</b>	<b>16</b>	<b>30</b>	<b>47</b>	<b>100</b>	

Source: WTAS calculations

- 3.6 The above modelling indicates for example that MRP (before taking into account further mitigation through asset rationalisation as set out in the next report on the Agenda) would rise in 2026-27 to £56m from current projection of £13.9m (an increase of £42m), and interest payable for the Council would rise from current £24.9m per annum (original 2025-26 Budget) to £32m in 2026-27, an increase of £7m per annum, and that this partially offset by applying one tenth of the discount or £36m. After taking into account income from the investment portfolio (before assuming any rationalisation which is addressed in the next report) of £46m, this results, excluding other pressures on the Budget and mitigations, in a potential £6m Budget deficit of £6m for 2026-27. Over the eleven year period above without mitigating actions the table is indicating a cumulative Budget deficit over the period of £100m.
- 3.7 As a result of the above, the Council would avoid the need:
- for a s.114 Notice to be issued; and
  - to seek Exceptional Financial Support from MHCLG
- 3.8 In addition, this course of action would fulfil the requirements of the Statutory Direction and would have a positive impact on the Council's financial position in terms of:



- reducing debt per head of population from its current level of £10,347 to £6,650, and
  - reducing the net liabilities position in the Balance Sheet.
- 3.9 However, if the Council did restructure loan debt on this basis, the new debt would need to be serviced going forward at an average interest rate (made up of a blend of 20 or so short to medium term loans aligned to anticipated outcomes of an asset rationalisation programme) of c5.5% (as calculated in mid October on basis of then prevailing current rates- short term rates have at time of writing since fallen to about 4.5% to 5% which if maintained reduce the refinancing cost) compared to the current fixed average rate of 2.4% on the existing debt portfolio. Note that on all published PWLB rates the Council receives a twenty basis points discount known as the certainty rate. This means that, as calculated in mid-October, the Council would need to pay circa £32m per annum interest cost going forward, based on long-term interest rates at 28<sup>th</sup> July 2025. On this basis, the annual charge to the General Fund would be c£7m more than the current budget of £24.9m.
- 3.10 The discount obtained from rescheduling, currently estimated at c£361m (see Table 2 above) would be released to the General Fund in equal annual instalments over the next 10 years as reflected in Table 3 above. MHCLG have confirmed that there is no legal requirement to pro-rata the first year's discount if rescheduling takes place part-way through the financial year.

## 4 Options appraisal and proposal

- 4.1 **Option 1: Do not reschedule debt finance – not recommended.** The decision not to pursue a debt rescheduling option would maintain a lower percentage interest rate and cash flow benefits of c£6.6m per annum. However, this approach would mean that the Council would not benefit from the discount which mitigates the impact of increasing MRP to a prudent level and would result in a s.114 Notice having to be issued and the Council having to seek Exceptional Financial Support from MHCLG.
- 4.2 In addition, by not restructuring the loan debt portfolio, the Council would not be addressing a key requirement of the Statutory Direction now in place, namely, to reduce debt.
- 4.3 Also, the Council would continue to report a negative net worth in the Balance Sheet and one of the highest debt per head of population figures in England and Wales. Both are seen by MHCLG and other stakeholders including external audit as key indicators suggesting a lack of financial resilience.
- 4.4 Such a decision would also have a detrimental impact on the General Fund position as the discount obtained from rescheduling is expected to more than outweigh any additional interest costs over the short to medium term.
- 4.5 For example, if a discount of £36m per annum was credited to the General Fund over the next 10 years, the net revenue position would be a net interest credit to the General Fund of c£4.6m per annum compared to the current budget cost of £24.8m. However, as Table 3 and paragraph 3.6 above

highlight without other mitigation measures, after taking into account the MRP movement there would be a net Budget deficit of £6m by end of 2026-27.

- 4.6 **Option 2: Undertake a debt rescheduling as proposed to utilise the PWLB discount whilst it is still significant- Recommended.** This would help to ameliorate other financial pressures on the General Fund, including but not limited to, MRP increases which are considered in more detail in a separate report. Other mitigation measures will need to be implemented as set out in the following reports on the Agenda.

## 5 Mitigating actions

- 5.1 The Council's original borrowing strategy was to repay loan principal annually at a rate of around £14-17m per annum for the next 50 years. Rescheduling debt as set out in sections 3 and 4 above would potentially replace a phased principal repayment profile with a single debt repayment of £545m in 2046. This creates a significant liquidity risk for the Council.
- 5.2 However, if debt restructuring is accompanied by an asset disposal strategy to generate capital receipts, loan repayment profiles could be "sculpted" to match the expected dates of capital receipts.
- 5.3 Current valuations for Investment Property and Surplus Assets are considered in more detail in a separate report. If these valuations were achieved, the Council could potentially generate sufficient capital receipts over the next 10 years to repay 80% of its remaining borrowing if debt rescheduling takes place. This would reduce interest charges from their current level of £24.8m down to c£6m each financial year.
- 5.4 Conversely, as set out in Table 4 below, if no rescheduling took place and asset sales generated the expected level of capital receipts over the next 10 years:
- residual borrowing would be £494m as opposed to £114m at 31 March 2035, and
  - annual interest charges would be £16m as opposed to £6m for 2036/37 and future years.

**Table 4 – Debt rescheduling – option appraisal with asset sales**



	With asset sales and debt rescheduling £m	With asset sales but no debt rescheduling £m
Debt at 31/3/2025	1,058	1,058
Debt at 31/3/2035	114	494
Interest 2025/26	29	25
Interest 2035/36	6	16

Source: WTAS calculations

## 6 Risk implications

- 6.1 The value of the discount offered has not yet been confirmed by PWLB. Discount offers are linked to gilt rates which change daily, so the timing of rescheduling activity will need to be carefully considered. At the time the modelling was done in mid-October gilt rates had been comparatively stable ranging between 4.5% and 4.75% however in the weeks since then gilt rates have been falling in response to the “mood music” in the run up to the Budget. However there is a risk that gilt rates could move significantly in response to the forthcoming Budget if markets felt the Budget announcements did not live up to expectations. Sensitivity modelling has been undertaken to underpin the model. For example:
- if the discount rate increased by 1%, then the discount would increase in total by £83m to £444m over 10 years i.e. £44m per annum, but
  - if the discount rate reduced by 1%, then the discount would reduce by £103m to £258m over 10 years ie £26m per annum as opposed to the £36m each year quoted above.
  - At the same time each 10 basis points reduction in rates would reduce the refinancing cost by roughly £700,000 per annum.
- 6.2. By comparison with the last few decades gilt rates are relatively high. Consequently, there is a risk that if the option of debt restructuring was delayed significantly, that longer maturity gilt rates could decline further which reduce the level of discount achievable, thus making the proposed approach more marginal, although impact would be partly offset by lower re-financing costs. If the forthcoming Budget on 26 November is well received by markets, this could result in gilt rates falling significantly. Additionally, HM Treasury may be looking to ease borrowing pressures on the public finances by slowing down quantitative tightening. Conversely if the Budget proposals lack credibility with the markets gilts could rise.
- 6.3. Notwithstanding the above it should be borne in mind that the rates the Council fixed are so far below current rates there is likely to remain a reasonable level of discount for the foreseeable future. As highlighted above

- the rescheduling model is underpinned by sensitivity analysis of impact of movement in interest rates on both discount available and refinancing cost.
- 6.4. It would benefit the Council to restructure at the current time whilst gilt rates are high.
  - 6.5. It should be noted that this proposal involves a shift in risk away from the current position of the Council being exposed to almost no long-term interest risk but potential liquidity risk if future income streams were to fall below financing and management costs of investment assets, to creating a higher level of interest rate risk at point of refinancing with higher short to medium term rates to be financed.
  - 6.6. In this context, it is recommended that rescheduled debt is “sculpted” (adjusting the debt repayment profiles to align with the anticipated capital receipts streams) so that repayment terms reflect the timing of expected capital receipts. However, failure to complete asset sales at current valuation prices or on the timescales envisaged would potentially mean that the Council would be unable to repay PWLB on the dates agreed. This would delay the application of capital receipts and hence the reduction in interest charges going forward. This will require ongoing close coordination between the Commercial and Finance themes’ workstreams of the Improvement and Recovery Plan.
  - 6.7. To mitigate the above risk the underlying model has built in allowance for slippage in delivery scales for asset disposals and has modelled a range for levels of receipts achieved.
  - 6.8. Late or lower than expected asset sale receipts also create the additional risk of the Council needing to either pay penalties for late loan repayments to PWLB, or, to avoid this, take on short-term borrowing at variable interest rates

## **7. Legal comments**

- 7.1. Under section 1 of the Local Government act 2003 local authorities are permitted to borrow for any purpose relevant to its functions and for prudent management of its financial affairs. The Council must also give regard to the CIPFA Prudential Code for Capital Finance in Local Authorities in exercising powers under the 2003 Act. Therefore, the proposed debt restructuring must be in line with the CIPFA Prudential Code. Having reviewed the proposals we believe the proposals are consistent with the Prudential Code.
- 7.2. The proposed approach as set out in this report represents a course of action which meets the requirements of the Statutory Direction issued in May 2025, namely, to pursue a debt reduction plan which also reduces the Council’s Capital Financing Requirement (CFR).

## **8. S151 Officer comments.**

- 8.1 Approving and implementing the rescheduling as proposed will have significant financial implications, which are set out above. However, these can be ameliorated by other actions that the Council is also proposing to take, namely:

- realising capital receipts from asset sales
- Sculpting (matching) new loan debt maturity dates to match expected sales receipts, and
- using asset sale proceeds to repay outstanding debt.

This modelling will feed into the Medium-Term Financial Strategy assumptions set out in the separate report on this Agenda.

## **9 Monitoring Officer comments.**

- 9.1 Legal considerations are set out in section 7 above.
- 9.2 Budget and Treasury Management Strategy are comprised within the Policy Framework and therefore reserved to Council for decision. As a significant component of both the General Fund budget and the Treasury Management Strategy for 2025/26 any significant changes to borrowing arrangements and interest costs will need to be approved by Full Council, however they must first be considered by the Policy and Resources Committee in line with decision-making arrangements set out in the Council Constitution.
- 9.3 The Monitoring Officer confirms that the relevant legal implications have been taken into account.

## **10 Procurement comments**

- 10.1 None

## **11 Equality and Diversity**

- 11.1 Equality, diversity, and inclusion (EDI) are central to everything that we do and are woven throughout our Strategic Plans. There are no specific issues relating to equality and diversity that need to be addressed as part of this report.

## **12 Sustainability/Climate Change Implications**

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

## **13 Other considerations**

- 13.1 The proposed Debt Rescheduling is part of a wider strategy to implement the Statutory Direction issued by MHCLG in May 2025. Other actions to be taken include a new MRP Policy Statement and Asset Disposal Strategy which will be the subject of separate decision-making reports but all three reports need to be considered in terms of their overall impact on the Council's financial position and the Council's revised Reserves Strategy.

## **14 Timetable for implementation.**

- 14.1 To be implemented as part of 2025/26 mid-year Budget review.
- 14.2 Preparatory liaison has been undertaken with the Debt Management Office (i.e. the PWLB). The intention would be complete the debt rescheduling within a week of Council confirming approval for the rescheduling. I.e. the Council would seek to redeem early £906m of PWLB debt as set out in Table 2.

## **15 Contact**

15.1 Terry Collier, Deputy Chief Executive

[T.Collier@spelthorne.gov.uk](mailto:T.Collier@spelthorne.gov.uk)>

## **16 Background papers and Appendices**

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	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 <b>at least 5 working days before Stage 2</b> )		
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 <b>5 working days before MAT</b>	L Heron	21/10/25
S151 Officer commentary – at least <b>5 working days before MAT</b>	T.Collier	20/10/25
Confirm final report cleared by MAT		

# Corporate Policy & Resources Committee

Date of meeting – 11 November 2025

<b>Title</b>	Asset Rationalisation to underpin the revised Medium-Term Financial Strategy
<b>Purpose of the report</b>	To make a decision and make a recommendation to Council
<b>Report Author</b>	Terry Collier, Deputy Chief Executive
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No Appendix 1 - Yes
<b>Exemption Reason</b>	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.
<b>Corporate Priority</b>	Statutory Direction issued May 2025
<b>Recommendation</b>	<b>Committee is asked to:</b> <ol style="list-style-type: none"> <li>1. Consider and agree the principle of Asset Rationalisation as set out in this report and recommend this to Council;</li> <li>2. Approve the commencement of the procurement of a specialist adviser through an appropriate framework;</li> <li>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;</li> <li>4. Delegate authority to the Group Head of Corporate Governance to enter into a contract with the proposed advisers.</li> </ol>
<b>Reason for Recommendation</b>	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.
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## 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	<ul style="list-style-type: none"> <li>• Approve progressing an Asset Rationalisation Strategy as set out in this report</li> <li>• Rework the 2025/26 General Fund budget and Medium-Term Financial Plan accordingly</li> <li>• Conduct a procurement exercise in line with the Procurement Act 2023, to obtain specialist support for marketing and negotiating asset sales.</li> </ul>

## 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	<u>6.0</u>
	96.0
Investment income of £40m	(40.0)
Early repayment discount credit spread over 10 years	<u>(36.0)</u>
	(76.0)
<b>Net Revenue Budget deficit/(surplus)</b>	<b>20.0</b>

## 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	<u>5.0</u> Holding costs reduce by £1m
	90.5
Investment income reduced on asset disposed £2m	(38.0)
Early repayment discount credit spread over 10 years	<u>(36.0)</u>
	(74.0)
<b>Net Revenue Budget deficit/(surplus)</b>	<b>16.5</b>

reducing the deficit by £3.5m

It can be seen 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	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£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)
<b>Net (surplus)/deficit to General Fund</b>	<b>8</b>	<b>(7)</b>	<b>(7)</b>	<b>(6)</b>	<b>(5)</b>	<b>(6)</b>	<b>(7)</b>	<b>(8)</b>	<b>(7)</b>	<b>(7)</b>	<b>15</b>	<b>(37)</b>

- 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](mailto: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		<b>27/10/25 &amp; 28/10/25</b>
Commissioner engagement (if report focused on issues of concern to Commissioners such as Finance, Assets etc)	<b>Yes</b>	<b>21/10/25</b>
Relevant Group Head review		
MAT+ review (to have been circulated <b>at least 5 working days before Stage 2</b> )		
This item is on the Forward Plan for the relevant committee		
	<b>Reviewed by</b>	
Finance comments (circulate to Finance)	<b>OO</b>	<b>21/10/25</b>
Risk comments (circulate to Lee O'Neil)	<b>LO</b>	<b>24/10/25</b>
Legal comments (circulate to Legal team)	<b>LH</b>	<b>24/10/25</b>
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 <b>5 working days before MAT</b>	<b>L Heron</b>	<b>24/10/25</b>
S151 Officer commentary – at least <b>5 working days before MAT</b>	<b>T. Collier</b>	<b>21/10/25</b>
Confirm final report cleared by MAT		

# Corporate Policy and Resources Committee

11 November 2025

<b>Title</b>	Reserves Strategy 2026-27
<b>Purpose of the report</b>	To make a recommendation
<b>Report Author</b>	Terry Collier, Deputy Chief Executive (s.151 Officer)
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Exemption Reason</b>	
<b>Corporate Priority</b>	Resilience
<b>Recommendations</b>	<b>Committee is asked to:</b>  Recommend to Council that it approves the: <ul style="list-style-type: none"><li>• Reserves Strategy for 2026-27;</li><li>• Repurposing of the earmarked Sinking Fund reserves as a revenue budget equalisation reserve</li></ul>
<b>Reason for Recommendation</b>	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
<ul style="list-style-type: none"><li>• The context of the risks the Council are facing have changed significantly</li><li>• The Council is no longer looking to hold the majority of its investment assets on a long term basis</li><li>• 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</li></ul>	<ul style="list-style-type: none"><li>• 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</li><li>• 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</li><li>• There are Budget gaps across the MTFS period which can be eased with the use of reserves</li></ul>

<p>2023 as no longer financially viable (para 2.2)</p> <ul style="list-style-type: none"> <li>• Future funding uncertainty as a result of Fair Funding and the Business Rates Reset</li> </ul>	
<p><b>This is what we want to do about it</b></p>	<p><b>These are the next steps</b></p>
<ul style="list-style-type: none"> <li>• 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</li> <li>• The other reserves will continue to be held for the purposes they have been earmarked for</li> </ul>	<ul style="list-style-type: none"> <li>• For Corporate Policy and Resources Committee to recommend the Reserves Strategy to Council for approval</li> </ul>

## 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
<b>Total Earmarked Revenue Reserves Useable by the Council</b>	35.3
Plus:	
Developer Contributions	8.4
Unapplied Revenue Grants	6.4
<b>Total Earmarked Revenue Reserves</b>	<b>50.1</b>
Plus :	
General Fund Revenue Reserve	3.9
<b>Total Revenue Reserves</b>	<b>54.0</b>
Plus Capital Reserves:	
Capital Receipts Reserve	2.7
Unapplied Capital Grants	1.8
<b>Total Reserves</b>	<b>58.5</b>

- 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 31<sup>st</sup> 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 31<sup>st</sup> 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 26<sup>th</sup> 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							
<b>Useable Earmarked Reserves at 31 March 2025</b>	<b>35,348</b>	<b>35,348</b>							

## **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 against 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 applying 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 Strategy

## **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
	<b>Total</b>	<b>35,348</b>
	Plus	
	Developer Contributions	8,319
	Unapplied Revenue Grants	6,438
	<b>Total Earmarked Revenue Reserves</b>	<b>50,105</b>
	Plus :	
	General Fund Revenue Reserve	3,895
	Equals:	
	<b>Total Revenue Reserves</b>	<b>54,000</b>
	Plus Capital Reserves:	
	Capital Receipts Reserve	2,681
	Unapplied Capital Grants	1,800
	<b>Total Usable Earmarked Revenue Reserves</b>	<b>58,481</b>

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 <b>at least 5 working days before Stage 2</b> )		
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 <b>5 working days before MAT</b>	L Heron	24/10/25
S151 Officer commentary – at least <b>5 working days before MAT</b>	T. Collier	22/10/25
Confirm final report cleared by MAT		

# Corporate Policy and Resources Committee

11<sup>th</sup> November 2025

<b>Title</b>	Medium-Term Financial Strategy 2026-27
<b>Purpose of the report</b>	To make a decision and a recommendation to Council
<b>Report Author</b>	<b><i>Terry Collier Chief Finance Officer</i></b>
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Exemption Reason</b>	N/A
<b>Corporate Priority</b>	Resilience
<b>Recommendations</b>	<b>Committee is asked to:</b>  To recommend that Council approve the: 1) Draft Medium Term Financial Strategy 2) Proposed Flexible Use of Capital Receipts Strategy
<b>Reason for Recommendation</b>	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
<p>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).</p> <p>Reasons (paragraph 2.26- 2.42) for this include:</p> <ul style="list-style-type: none"> <li>Impact of applying a compliant Minimum Revenue Provision (MRP) policy which has now also been applied to surplus housing/regeneration sites</li> <li>No longer being able to rely on a net income stream from investment assets to subsidise services</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>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)</li> </ul>

<ul style="list-style-type: none"> <li>• Uncertainty caused by Local Government Funding reform</li> <li>• Demand pressures such as need for temporary accommodation</li> <li>• 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.</li> <li>• Council as at 31/3/25 had uncommitted (excluding developer's contributions and Unapplied Grants ) available useable reserves of £35.3m</li> </ul>	<ul style="list-style-type: none"> <li>• 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</li> </ul>
<b>This is what we want to do about it</b>	<b>These are the next steps</b>
<ul style="list-style-type: none"> <li>• 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</li> <li>• Progressing Debt Restructuring</li> <li>• Assets rationalisation programme</li> <li>• Progressing the deletion of vacant posts</li> <li>• Aligning service arrangements and fees and charges with the other component authorities of the unitary</li> <li>• A robust savings programme including review of benchmarked unit costs, with specialist resources brought in to assist</li> <li>• Revised Reserves strategy applying some reserves to assist in managing the process of moving towards financial resilience</li> <li>• Appropriate capitalisation of one-off transformation expenditure relating to LGR, and the Improvement and Recovery transformation strands</li> </ul>	<ul style="list-style-type: none"> <li>• Approval for the steps and strategy (paragraph 2.75) proposed to address both the Budget Gap for 2026-27 and for the medium term</li> <li>• Approve the proposed Flexible Use of Receipts Strategy (paragraph 2.70 and Appendix B)</li> </ul>

## **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 its 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**

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

- 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	2026/27	2027/28	2028/29	2029/30
	£000s	£000s	£000s	£000s	£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 26<sup>th</sup> 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 1<sup>st</sup> 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	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	£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)
<b>Net (surplus)/deficit to General Fund</b>	<b>(34)</b>	<b>14</b>	<b>6</b>	<b>4</b>	<b>4</b>	<b>6</b>	<b>3</b>	<b>5</b>	<b>8</b>	<b>14</b>	<b>17</b>	<b>53</b>
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	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£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												(271)
Property	(44)	(38)	(36)	(22)	(20)	(20)	(22)	(23)	(23)	(23)	0	
<b>Net (surplus)/deficit to General Fund</b>	<b>8</b>	<b>(7)</b>	<b>(7)</b>	<b>(6)</b>	<b>(5)</b>	<b>(6)</b>	<b>(7)</b>	<b>(8)</b>	<b>(7)</b>	<b>(7)</b>	<b>15</b>	<b>(37)</b>

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
<b>Gross Expenditure</b>	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)	-	-
<b>Net Expenditure</b>	<b>26,781</b>		<b>26,229</b>	<b>25,038</b>	<b>26,382</b>	<b>27,113</b>
<b>Net Service Expenditure</b>						
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	-	-
<b>Net Expenditure</b>	<b>26,781</b>		<b>26,229</b>	<b>25,038</b>	<b>26,550</b>	<b>27,023</b>
Inflation and Pay	-		-	1,012	563	799
Savings	-		-	(276)	-	-
Unavoidable Expenditure	-		-	608	-	-
<b>Total Expenditure at Service Level</b>	<b>26,781</b>		<b>26,229</b>	<b>26,382</b>	<b>27,113</b>	<b>27,822</b>
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)
<b>Budget Requirement</b>	<b>26,247</b>		<b>34,817</b>	<b>21,541</b>	<b>20,405</b>	<b>26,086</b>
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)
<b>Net Budget Requirement</b>	<b>10,173</b>		<b>10,173</b>	<b>11,917</b>	<b>12,498</b>	<b>18,616</b>
Collection Fund Surplus/(deficit)	(877)		(877)	-	180	180
Income from Council Tax	(9,296)		(9,296)	(9,709)	(10,141)	(10,591)
<b>Net Position - Over/ (Under) budget</b>	<b>(0)</b>		<b>(0)</b>	<b>2,207</b>	<b>2,538</b>	<b>8,204</b>

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 1<sup>st</sup> 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%
<b>Net Expenditure - broken down as below</b>	<b>26,229</b>	<b>25,038</b>	<b>(1,191)</b>	<b>-5%</b>
<b>Net Service Expenditure</b>				
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%
	<b>26,229</b>	<b>25,038</b>	<b>(1,191)</b>	<b>-5%</b>
Inflation and Pay	-	1,012	1,012	
Savings	-	(276)	(276)	
Unavoidable Expenditure	-	608	608	
<b>Total Expenditure at Service Level</b>	<b>26,229</b>	<b>26,382</b>	<b>153</b>	<b>1%</b>
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%
<b>Budget Requirement</b>	<b>34,817</b>	<b>21,541</b>	<b>(13,277)</b>	<b>-38%</b>
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%
<b>Net Budget Requirement</b>	<b>10,173</b>	<b>11,917</b>	<b>1,744</b>	<b>17%</b>
Collection Fund Surplus/(deficit)	(877)	-	877	-100%
Income from Council Tax	(9,296)	(9,709)	(413)	4%
<b>Net Position - Over/ (Under) budget</b>	<b>(0)</b>	<b>2,207</b>	<b>2,207</b>	

## 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 31<sup>st</sup> 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 31<sup>st</sup> 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.**

<b>Table 7 - Use of Specific Reserve/Grants</b>	
<b>Strategic Planning</b>	<b>£000</b>
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
<b>Total</b>	<b>320</b>

## 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.

<b>Table 9 - Savings Identified - 2026/27</b>	<b>£000</b>
<b><u>Supported Housing Team</u></b>	
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)
<b><u>Assets</u></b>	
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)
<b>Total Savings</b>	<b>(276)</b>

## 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.

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

### **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:

<i>Risk Description</i>	<i>Mitigations</i>	<i>RAG status</i>
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	<p>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.</p> <p>With uncommitted usable reserve balances of £42m the Council could use a greater level of reserves if necessary</p>	Amber
The impact of Devolution and Local Government Reorganisation	<p>Currently the Council has a £0.5m budget for LGR costs.</p> <p>As the MTFS sets out the Council will seek to capitalise transformation costs related to LGR and fund from receipts</p>	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.	<p>Demand and inflationary growth evidence based, on the most up today date information at the time of budget setting</p> <p>Robust monthly in year monitoring to capture volatility / potential volatility to ensure mitigating actions can be implemented</p> <p>Monitoring reported through the governance channels including Corporate Risk Register/scrutiny to ensure areas of risk are transparent and addressed</p>	Amber

	Significant reserve balances which could be applied	
The Debt Rescheduling and application of PWLB discounts delayed beyond the Budget on 26 <sup>th</sup> 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 17 <sup>th</sup> November and 26 <sup>th</sup> 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 18<sup>th</sup> November and 25<sup>th</sup> 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 27<sup>th</sup> 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**

## 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 Senior 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.



## 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

## 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
<b>Total Unavoidable Expenditure Pressure - Revenue</b>			<b>608</b>	



## **Flexible Use of Capital Receipts Strategy 2025/26**

This strategy applies from the **1<sup>st</sup> April 2025** until **31<sup>st</sup> 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 1<sup>st</sup> April 2022 and 31<sup>st</sup> March 2025, has been extended to 31<sup>st</sup> March 2030. Therefore, to make eligible use of the scheme the capital receipts, and any qualifying revenue expenditure, need to be incurred between **1<sup>st</sup> April 2022** and **31<sup>st</sup> 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 (31<sup>st</sup> 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
<b>Surrey LGR</b>	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	<b>CPRC</b>
<b>Finance Theme</b>	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	<b>CPRC</b>
<b>Commercial Theme</b>	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	<b>CPRC</b>

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				
<b>Regeneration and Housing Theme</b>	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	<b>CPRC</b>
<b>Improvement and Recovery Plan</b>	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	<b>CPRC</b>

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.				
<b>Total</b>				<b>2,222</b>	

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
<b>Assets</b>			
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
<b>Total</b>	<b>2,086</b>	<b>2,300</b>	<b>215</b>
<b>Community &amp; Wellbeing</b>			
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
<b>Total</b>	<b>5,738</b>	<b>5,137</b>	<b>(601)</b>
<b>Commissioning &amp; Transformation</b>			
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

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
<b>Total</b>	<b>3,981</b>	<b>4,146</b>	<b>165</b>
<b>Finance &amp; Corporate Services</b>			
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)
<b>Total</b>	<b>5,034</b>	<b>5,001</b>	<b>(32)</b>
<b>Legal and Elections</b>			
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
<b>Total</b>	<b>1,913</b>	<b>2,068</b>	<b>155</b>
<b>Neighbourhood Services</b>			
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)
<b>Total</b>	<b>3,566</b>	<b>3,446</b>	<b>(120)</b>

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
<b>Place, Protection &amp; Prosperity</b>			
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
<b>Total</b>	<b>3,913</b>	<b>4,284</b>	<b>371</b>
<b>Total Net Expenditure</b>	<b>26,229</b>	<b>26,382</b>	<b>153</b>

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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	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 <b>at least 5 working days before Stage 2</b> )		
This item is on the Forward Plan for the relevant committee		
	<b>Reviewed by</b>	<b>Date</b>
Risk comments	LO	24/10/25
Legal comments	Yes	24/10
HR comments (if applicable)	N/a	N/a

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

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

#### Stage 2

##### Report checklist – responsibility of report owner

ITEM	Completed by	Date
Monitoring Officer commentary – at least <b>5 working days before MAT</b>	L Heron	24/10/25
S151 Officer commentary – at least <b>5 working days before MAT</b>	T.Collier	20/10/25
Confirm final report cleared by MAT		

# Corporate Policy and Resources Committee

11/11/2025

<b>Title</b>	Treasury Management Annual Outturn Report 2024/25
<b>Purpose of the report</b>	To make a decision
<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 Need Resilience Environment Service delivery
<b>Recommendation</b>	<b>Committee is asked to:</b> To approve the Treasury Management outturn position for 2024/25.
<b>Reason for Recommendation</b>	To promote effective financial management and comply with the Code of Practice (the CIPFA Treasury Management Code), last updated in 2021 and the CIPFA Prudential Code for Capital Finance, along with meeting the requirements of the Council's Financial Regulations.

## 1. Executive summary of the report

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

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

## 2. Key Issues

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

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

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

2.6 This report covers four areas:

### **Summary position including Statutory Direction**

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

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

#### **Section 2 Borrowing**

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

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

- Investment outturn 2024/25
- Commercial activity

#### **Section 4 Summary position**

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

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

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

### **3 Statutory Direction**

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

- A plan to ensure the Authority's capital, investment and treasury management strategies are sustainable and affordable, including an asset rationalisation programme for assets and commercial investments;
- A comprehensive and strict debt reduction plan, demonstrating how overall capital financing requirement and external borrowing will be reduced over a realistic but expedient timescale, reducing debt servicing costs; and
- a plan to ensure the Authority is complying with all relevant rules and guidelines relating to the financial management of the Authority, including updating the minimum revenue provision (MRP) policy.

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

## **SECTION 1 CAPITAL STRATEGY**

### **4 Capital expenditure and financing**

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

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

4.3 All capital expenditure has to be financed either:

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

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

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

**Table 1 Capital Spending and funding (prudential Indicator 1)**

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

## 5 Overall Borrowing Need

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

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

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

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

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

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

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

### **Affordability**

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

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

**Table 4 Affordability indicator (Prudential Indicator 4a)**

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

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

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

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

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

### Minimum Revenue Provision

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



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

## SECTION 2 BORROWING

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

### Borrowing outturn

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

**Table 6 Composition of borrowing at 31 March 2025**

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

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

### Debt restructuring

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

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

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

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

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

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

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

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

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

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

**Table 8 Debt maturity profile limits (Prudential Indicator 7)**

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

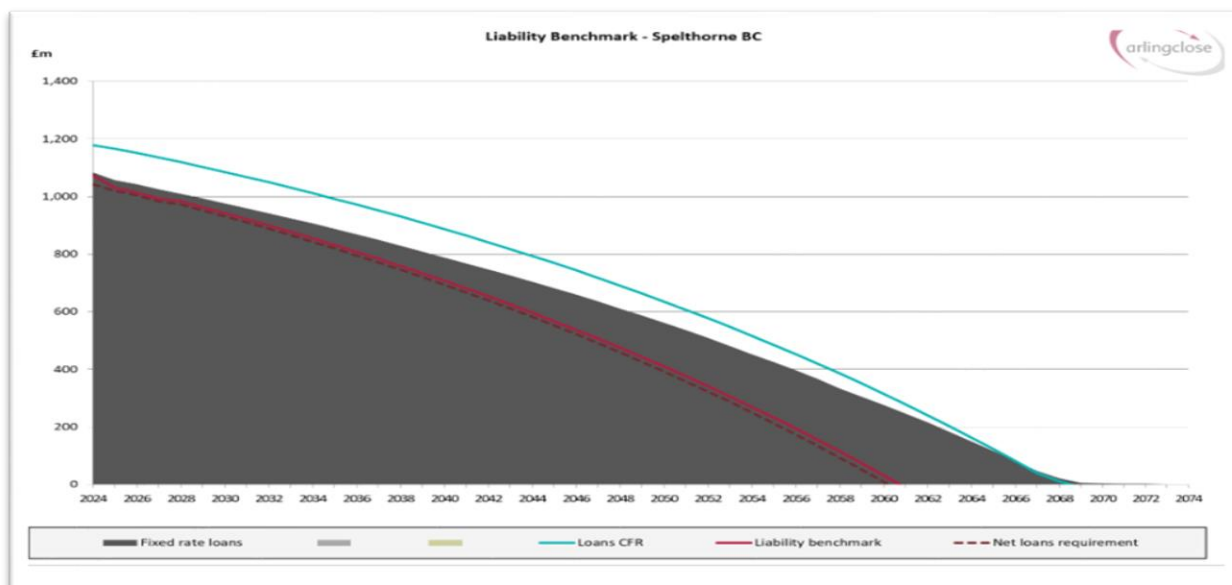
### **Borrowing in advance of need**

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

### **Liability Benchmark**

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

### **Chart 1 Liability benchmark**



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

## SECTION 3 MANAGING CASH BALANCES

### 7 Investment outturn 2024/25

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

**Table 9 Investments**

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

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

### Commercial activity

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

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

**Table 10 Net income from commercial investments to net budget requirement**

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

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

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

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

**Table 11 Council controlled companies**

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

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

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

**Table 12 Loans to Council controlled companies**

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

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

## **8 Other Issues**

### **IFRS 9 fair value of investments**

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

## **IFRS 16**

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

## **9 Options analysis and proposal**

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

## **10 Financial management implications**

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

## **11 Risk management considerations.**

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

	<b>Risk</b>	<b>Mitigation</b>
--	-------------	-------------------



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

	costs compared to approved budgets.	
--	-------------------------------------	--

## **12 Procurement**

12.1 None

## **13 Legal considerations**

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

## **14 S151 Officer Comments**

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

## **15 Monitoring Officer Comments**

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

## **16 Other considerations**

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

## **17 Equality, Diversity, and Inclusion**

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

## **18 Sustainability/Climate Change Implications**

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

## **19 Timetable for implementation.**

19.1 Not applicable.

## **20 Contact**

20.1 Peter Worth, Interim Treasury Management Accountant –  
[P.worth@spelthorne.gov.uk](mailto:P.worth@spelthorne.gov.uk) .

**Background papers: None**

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

## Appendix A

### Summary of Prudential Indicators

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

#### KEY

Exceeds PI significantly

Near but not within PI

Within or at PI level

R
A
G

## GLOSSARY

## Local Authority Treasury Management Terms

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

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

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

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



**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 <b>at least 5 working days before Stage 2</b> )		
This item is on the Forward Plan for the relevant committee	Yes	16/10/25
	<b>Review ed by</b>	<b>Date</b>
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 <b>5 working days before MAT</b>	L Heron	24/10/25
S151 Officer commentary – at least <b>5 working days before MAT</b>	T. Collier	20/10/25
Confirm final report cleared by MAT		

# Corporate Policy and Resources Committee

11 November 2025

<b>Title</b>	Treasury Management Half Yearly Report
<b>Purpose of the report</b>	To note
<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>	Financial Sustainability
<b>Recommendations</b>	<b>The Committee is asked to:</b> Note the performance of the Treasury management team during the first six months of 2025/26
<b>Reason for Recommendation</b>	Not applicable

## 1. Executive summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>This scale of activity creates risks which need to be proactively managed and Officers review liquidity and cashflow on a weekly basis.</li> <li>The Council seeks to minimise financing costs whilst maximising returns on surplus funds whilst managing risk</li> <li>The Council is under a statutory direction to reduce borrowing and set Minimum Revenue Provision at a prudent level</li> </ul>	<ul style="list-style-type: none"> <li>To provide Councillors with an understanding of the Council's borrowing and investment position part way through the financial year.</li> </ul>

<b>This is what we want to do about it</b>	<b>These are the next steps</b>
<ul style="list-style-type: none"> <li>• Comply with the Statutory Direction by amending the MRP Policy and implementing a debt reduction plan.</li> <li>• Continuing to seek professional advice from our advisers</li> </ul>	<ul style="list-style-type: none"> <li>• To closely monitor and manage the treasury management function for the next 6 months of 2025/26 and going forward</li> <li>• To approve a revised Minimum Revenue Provision (MRP) Policy for 2025/26</li> <li>• To approve a debt reduction plan</li> </ul>

## **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
<b>Capital programme</b>						
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
<b>Total capital expenditure</b>	<b>33.1</b>	<b>7.4</b>	<b>6.1</b>	<b>5.1</b>	<b>4.3</b>	<b>1.5</b>
<b>Financing</b>						
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				
<b>Total financing</b>	<b>(12.2)</b>	<b>(7.4)</b>	<b>(23.4)</b>	<b>(5.1)</b>	<b>(4.3)</b>	<b>(1.5)</b>
<b>Net financing need</b>	<b>20.9</b>	<b>0.0</b>	<b>(17.3)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

- 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 are 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)**

	<b>2024/25 Actual £m</b>	<b>2025/26 Estimate £m</b>	<b>2025/26 Forecast £m</b>	<b>2026/27 Estimate £m</b>	<b>2027/28 Estimate £m</b>	<b>2028/29 Estimate £m</b>
<b>Opening CFR</b>	<b>1,151.2</b>	<b>1,179.8</b>	<b>1,152.8</b>	<b>991.3</b>	<b>898.0</b>	<b>696.4</b>
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)
<b>Closing CFR</b>	<b>1,152.8</b>	<b>1,166.6</b>	<b>991.3</b>	<b>898.0</b>	<b>696.4</b>	<b>667.4</b>

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
<b>(Under)/over borrowing</b>	<b>(83.6)</b>	<b>(146.6)</b>	<b>(403.0)</b>	<b>(365.5)</b>	<b>(221.0)</b>	<b>(206.9)</b>

### 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
<b>Affordability ratio</b>	<b>315%</b>	<b>256%</b>	<b>318%</b>	<b>171%</b>	<b>131%</b>	<b>74%</b>

- 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
<b>Affordability ratio</b>	<b>83%</b>	<b>67%</b>	<b>83%</b>	<b>56%</b>	<b>45%</b>	<b>36%</b>

- 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.

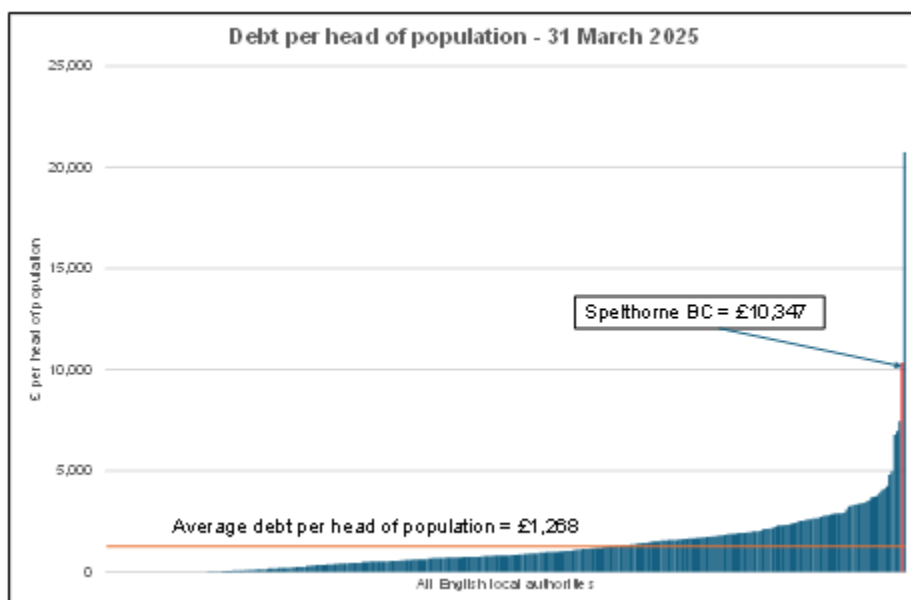
- 3.21 The report identified that the Council's previous calculation method did not follow Statutory Guidance in a number of respects and recommends that these issues should be addressed by:
- 3.22 Increasing MRP to reflect shorter asset lives of 15 to 25 years as advised by Knight Frank LLP. Previous 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
<b>Headroom to Operational boundary</b>	<b>100.8</b>	<b>150.0</b>	<b>581.7</b>	<b>167.5</b>	<b>124.6</b>	<b>69.5</b>



- 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%
<b>Total</b>				<b>1,046</b>	

### **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	30/09/2025
	£m	£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
<b>Total</b>	<b>639.1</b>	<b>594.3</b>

- 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**

	<b>2024/25 Actual %</b>	<b>Position to 30/9/2025 %</b>
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:

	<b>Risk</b>	<b>Mitigation</b>
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).
	<b>Risk</b>	<b>Mitigation</b>
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.	<p>These risks are managed through:</p> <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>
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: <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.	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%)	<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 2025</b>	<b>1,167,359</b>	<b>59,956 (5.1%)</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.
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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