Please reply to:
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Date: 31 October 2025

Notice of meeting

Corporate Policy and Resources Committee

Date: Tuesday, 11 November 2025

Time: 7.00 pm

Place: Council Chamber, Council Offices, Knowle Green, Staines-upon-Thames TW18 1XB

To the members of the Corporate Policy and Resources Committee

Councillors:

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

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

Councillors are reminded that the Gifts and Hospitality Declaration book will be available outside the meeting room for you to record any gifts or hospitality offered to you since the last Committee meeting.

Spelthorne Borough Council, Council Offices, Knowle Green

Staines-upon-Thames TW18 1XB

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Agenda

Page nos.

1. Apologies and Substitutes

To receive apologies for absence and notification of substitutions.

2. Minutes — **To Follow**

To confirm the minutes of the meeting held on 13 October 2025 as a correct record.

Minutes to follow.

3. Disclosures of Interest

To receive any disclosures of interest from councillors in accordance with the Council's Code of Conduct for members.

4. Questions from members of the Public

The Chair, or their nominee, to answer any questions raised by members of the public in accordance with Standing Order 40.

5. Forward Plan — **5 - 10**

To consider the Forward Plan for committee business.

6. Revised Policy Statement on Minimum Revenue Provision (MRP) for 2025/26 — **11 - 28**

Committee is asked to:

1. Consider and agree the proposed new MRP Policy Statement for 2025/26; and
2. Recommend that Council approve the proposed new MRP Policy Statement for 2025/26 (set out in Appendix A).

7. Debt Rescheduling proposals 2025/26 — **29 - 40**

Committee is asked to:

1. Consider and agree the proposed new Debt Rescheduling proposal for implementation during 2025/26; and
2. Recommend that Council approve the Debt Rescheduling proposal for implementation during 2025/26.

8. Asset Rationalisation to underpin the revised Medium-Term Financial Strategy — **To Follow**

Report to follow.

9. Reserves Strategy 2026-27 — **To Follow**

Report to follow.

10. Medium-Term Financial Strategy 2026-27 **To Follow**

Report to follow.

11. Treasury Management Annual Outturn Report 2024/25 **41 - 64**

Committee is asked to approve the Treasury Management outturn position for 2024/25.

12. Treasury Management Half Yearly Report **To Follow**

Report to follow.

13. Urgent Actions

To note those urgent actions which have been taken by the Chief Executive in consultation with the Leader since the last Corporate Policy and Resources meeting on 13 October 2025.

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Spelthorne Borough Council
Services Committees Forward Plan and Key Decisions

This Forward Plan sets out the decisions which the Service Committees expect to take over the forthcoming months, and identifies those which are **Key Decisions**.

A **Key Decision** is a decision to be taken by the Service Committee, which is either likely to result in significant expenditure or savings or to have significant effects on those living or working in an area comprising two or more wards in the Borough.

Please direct any enquiries about this Plan to CommitteeServices@pelthorne.gov.uk.

Published on 1 November

Spelthorne Borough Council

Service Committees Forward Plan and Key Decisions for 1 November 2025 to 28 February 2026

Anticipated earliest (or next) date of decision and decision maker	Matter for consideration	Key or non-Key Decision	Decision to be taken in Public or Private	Lead Officer
Corporate Policy and Resources Committee 11 11 2025 Council 17 11 2025	Treasury Management Annual Outturn Report 2024/25	Key Decision	Public	Peter Worth, Interim Treasury Management Accountant
Council 17 11 2025	Asset Rationalisation to underpin the revised Medium-Term Financial Strategy	Key Decision	Public	Terry Collier, Deputy Chief Executive
Council 17 11 2025	Debt Rescheduling Proposals 2025/26	Key Decision	Public	Terry Collier, Deputy Chief Executive
Council 17 11 2025	Medium Term Financial Strategy 2026-27	Key Decision	Public	Terry Collier, Deputy Chief Executive
Council 17 11 2025	Treasury Management Half-Yearly Report	Key Decision	Public	Peter Worth, Interim Treasury Management Accountant
Council 17 11 2025	Reserves Strategy 2026-27	Key Decision	Public	Terry Collier, Deputy Chief Executive
Council 17 11 2025	Revised Policy Statement on Minimum Revenue Provision (MRP) for 2025/26	Key Decision	Public	Terry Collier, Deputy Chief Executive

Published on 1 November

Date of decision and decision maker	Matter for consideration	Key or non-Key Decision	Decision to be taken in Public or Private	Lead Officer
Corporate Policy and Resources Committee 01 12 2025	2024-25 Treasury Management Outturn	Non-Key Decision	Public	Ola Owolabi, Interim Chief Accountant
Corporate Policy and Resources Committee 01 12 2025	Affordable Housing Delivery with Commuted Sum	Non-Key Decision	Public	Karen Sinclair, Group Head - Community Wellbeing, Stephen Mortimer-Cleevely, Strategic Lead, Independent Living
Corporate Policy and Resources Committee 01 12 2025	Ashford Cemetery Lodge	Key Decision	Public	Sian Bowen, Principal Asset Manager
Corporate Policy and Resources Committee 01 12 2025	Clay Lane Remedy of Trespass	Key Decision	Private	Clive Uzoho, Lawyer, Joanne Clare, Legal Services Manager and Deputy Monitoring Officer, Coralie Holman, Group Head - Assets
Corporate Policy and Resources Committee 01 12 2025	Commercial Annual Investment Report 2024/25	Key Decision	Private	Katherine McIlroy, Asset Manager
Corporate Policy and Resources Committee 01 12 2025	Improvement and Recovery Plan Resourcing	Key Decision	Public	Daniel Mouawad, Chief Executive
Corporate Policy and Resources Committee 01 12 2025	Q2 Capital Monitoring Report	Non-Key Decision	Public	Ola Owolabi, Interim Chief Accountant

Date of decision and decision maker	Matter for consideration	Key or non-Key Decision	Decision to be taken in Public or Private	Lead Officer
Corporate Policy and Resources Committee 01 12 2025	Q2 Revenue Monitoring Report as at 30 September 2025	Non-Key Decision	Public	Ola Owolabi, Interim Chief Accountant
Corporate Policy and Resources Committee 01 12 2025	Update on Solar Canopy Project	Non-Key Decision	Public	Timothy Snook, Sustainability Officer
Members' briefing pack 17 12 2025	Report-It Data	Non-Key Decision	Public	Dan Dredge, Control and Systems Manager, Sandy Muirhead, Group Head - Commissioning and Transformation
Community Wellbeing and Housing Committee 13 01 2026 Council 26 02 2026	Annual Grant Awards 2026/27	Non-Key Decision	Part public/part private	Lisa Stonehouse, Community Development Manager
Corporate Policy and Resources Committee 19 01 2026	Budget Report	Non-Key Decision	Public	Ola Owolabi, Interim Chief Accountant
Corporate Policy and Resources Committee 19 01 2026	Debt Write-Offs	Non-Key Decision	Public	Terry Collier, Deputy Chief Executive, Sandy Muirhead, Group Head - Commissioning and Transformation
Corporate Policy and Resources Committee 19 01 2026	Determination of Council tax base for Council tax setting	Key Decision	Public	Ola Owolabi, Interim Chief Accountant

Date of decision and decision maker	Matter for consideration	Key or non-Key Decision	Decision to be taken in Public or Private	Lead Officer
Corporate Policy and Resources Committee 19 01 2026	Eclipse Leisure Centre Additional Spend	Non-Key Decision	Public	Coralie Holman, Group Head - Assets
Corporate Policy and Resources Committee 19 01 2026	Fees and Charges	Non-Key Decision	Public	Ola Owolabi, Interim Chief Accountant
Corporate Policy and Resources Committee 19 01 2026	Leisure Centre Rate Relief Application	Non-Key Decision	Public	Sandy Muirhead, Group Head - Commissioning and Transformation
Corporate Policy and Resources Committee 19 01 2026	Q2 Corporate KPI Results	Key Decision	Public	Sacha Bailey, Projects Officer, Sandy Muirhead, Group Head - Commissioning and Transformation
Corporate Policy and Resources Committee 19 01 2026	Revised proposals for Development of the mezzanine floor of Eclipse Leisure Centre	Non-Key Decision	Public	Kamal Mehmood, Strategic Lead for Leisure and Community Development
Corporate Policy and Resources Committee 19 01 2026	Service Plans	Non-Key Decision	Public	Linda Heron, Group Head - Corporate Governance, Monitoring Officer, Coralie Holman, Group Head - Assets
Corporate Policy and Resources Committee 09 02 2026 Council 26 02 2026	Capital Strategy 2026-2027	Non-Key Decision	Public	Ola Owolabi, Interim Chief Accountant

Date of decision and decision maker	Matter for consideration	Key or non-Key Decision	Decision to be taken in Public or Private	Lead Officer
Corporate Policy and Resources Committee 09 02 2026 Council 26 02 2026	Detailed Revenue Budget 2026/27	Non-Key Decision	Public	Ola Owolabi, Interim Chief Accountant
Corporate Policy and Resources Committee 09 02 2026 Council 26 02 2026	Estimated Capital Programme	Non-Key Decision	Public	Ola Owolabi, Interim Chief Accountant
Corporate Policy and Resources Committee 09 02 2026	Fees & Charges	Non-Key Decision	Public	Ola Owolabi, Interim Chief Accountant
Corporate Policy and Resources Committee 09 02 2026 Council 26 02 2026	Pay Policy 2026/27	Non-Key Decision	Public	Debbie O'Sullivan, HR Manager
Corporate Policy and Resources Committee 09 02 2026 Council 26 02 2026	Treasury Management Strategy 2026/27	Non-Key Decision	Public	Ola Owolabi, Interim Chief Accountant
Corporate Policy and Resources Committee	KGE Business Plan 2025-2028	Non-Key Decision	Public	Coralie Holman, Group Head - Assets

SPELTHORNE BOROUGH COUNCIL

Committee Report Checklist

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

Stage 1
Report checklist – responsibility of report owner

ITEM	Yes / No	Date
Councillor engagement / input from Chair prior to briefing	**Yes**	**27/10/25& 28/10/25**
Commissioner engagement (if report focused on issues of concern to Commissioners such as Finance, Assets etc)	**Yes**	**21/10/25**
Relevant Group Head review		
MAT+ review (to have been circulated **at least 5 working days before Stage 2**)		
This item is on the Forward Plan for the relevant committee		
	Reviewed by	**Date**
Risk comments	**LO**	**22/10/25**
Legal comments	**LH**	**21/10/25**
HR comments (if applicable)	N/a	N/a

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

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

Stage 2
Report checklist – responsibility of report owner

ITEM	Completed by	Date
Monitoring Officer commentary – at least **5 working days before MAT**	**L Heron**	**21/10/25**
S151 Officer commentary – at least **5 working days before MAT**	**T. Collier**	**20/10/25**
Confirm final report cleared by MAT		

Corporate Policy & Resources Committee

Date of meeting – 11 November 2025

Title	Revised Policy Statement on Minimum Revenue Provision (MRP) for 2025/26
Purpose of the report	To approve a new MRP Policy Statement in line with statutory directions and make a recommendation to Council
Report Author	Terry Collier, Deputy Chief Executive
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Prudent management of finances and resources
Recommendation	**Committee is asked to:** 1. Consider and agree the proposed new MRP Policy Statement for 2025/26; and 2. Recommend that Council approve the proposed new MRP Policy Statement for 2025/26 (set out in Appendix A).
Reason for Recommendation	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 "*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" (paragraph 2.6)*

This is what we want to do about it	These are the next steps
Approve and implement a new MRP Policy which complies in full with the requirements of: • The Local Authorities (Capital Finance and Accounting) (England) Regulations as amended in 2024, • Chartered Institute of Public Finance and Accountancy's (CIPFA's) Prudential Code, and • 2024 Statutory Guidance on MRP	• Approve the new Policy as set out in Appendix A • Implement the new Policy, recalculate MRP and adjust the Medium-Term Financial Strategy accordingly

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

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
Current budget for MRP	13	13	14	14	14
Proposed budget	59	56	51	51	52
Proposed budget with asset sales	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 17th November.

16 Contact

16.1 Terry Collier, Deputy Chief Executive 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: • Investment property on a straight-line basis. • All other asset categories on an annuity basis. Both approaches will use the expected useful lives of the assets (Option 3), subject to a maximum useful asset life of 50 years.	This complies with the Option 3 (Para 58(b)) of the Guidance and the requirement for maximum asset lives of 50 years.	The previous policy was based on an annuity approach which does not reflect the straight-line nature of the economic benefits provided by investment property to the Council.
MRP for "right of use" lease contracts.	2,692	607 (22.5%)	The amount of the MRP charge will be equal to the amount by which the balance sheet liability is written by the principal element of the annual payment (for leased assets)	This complies with para 80 of the MRP Guidance	The previous policy was to charge MRP on an annuity basis which did not reflect either the MRP Guidance or the pattern of expenditure under the contracts. The inclusion of liabilities in respect of right of use leased assets with effect from 1 April 2024 following the implementation of IFRS 16 will increase the amount of MRP charged but this will be offset by a reduction in

					the element of the unitary charge allocated to service cost.

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

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

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

Conclusion

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

SPELTHORNE BOROUGH COUNCIL

Committee Report Checklist

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

Stage 1
Report checklist – responsibility of report owner

ITEM	Yes / No	Date
Councillor engagement / input from Chair prior to briefing	**Yes**	**27/10/25 & 28/10/25**
Commissioner engagement (if report focused on issues of concern to Commissioners such as Finance, Assets etc)	**Yes**	**21/10/25**
Relevant Group Head review		
MAT+ review (to have been circulated **at least 5 working days before Stage 2**)		
This item is on the Forward Plan for the relevant committee		
	Reviewed by	**Date**
Risk comments	**LO**	**22/10/25**
Legal comments	**LH**	**21/10/25**
HR comments (if applicable)	N/a	N/a

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

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

Stage 2
Report checklist – responsibility of report owner

ITEM	Completed by	Date
Monitoring Officer commentary – at least **5 working days before MAT**	**L Heron**	**21/10/25**
S151 Officer commentary – at least **5 working days before MAT**	**T.Collier**	**20/10/25**
Confirm final report cleared by MAT		

Corporate Policy & Resources Committee

Date of meeting – 11 November 2025

Title	Debt Rescheduling proposals 2025/26
Purpose of the report	To approve a Debt Rescheduling proposal as part of the Council’s half-year Budget review
Report Author	Terry Collier, Deputy Chief Executive
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Statutory Direction issued May 2025
Recommendation	**Committee is asked to:** **1.** Consider and agree the proposed new Debt Rescheduling proposal for implementation during 2025/26; and 2. Recommend that Council approve the Debt Rescheduling proposal for implementation during 2025/26.
Reason for Recommendation	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.	• Statutory Directions issued by MHCLG in May 2025 require the Council to implement *” a comprehensive and strict debt reduction plan”. (paragraph 2.5)* • 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)

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.	• Approve the proposed debt rescheduling as set out in this report • 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). • Rework the 2025/26 General Fund budget and Medium-Term Financial Plan accordingly. (paragraph 8.1)

2 Key issues

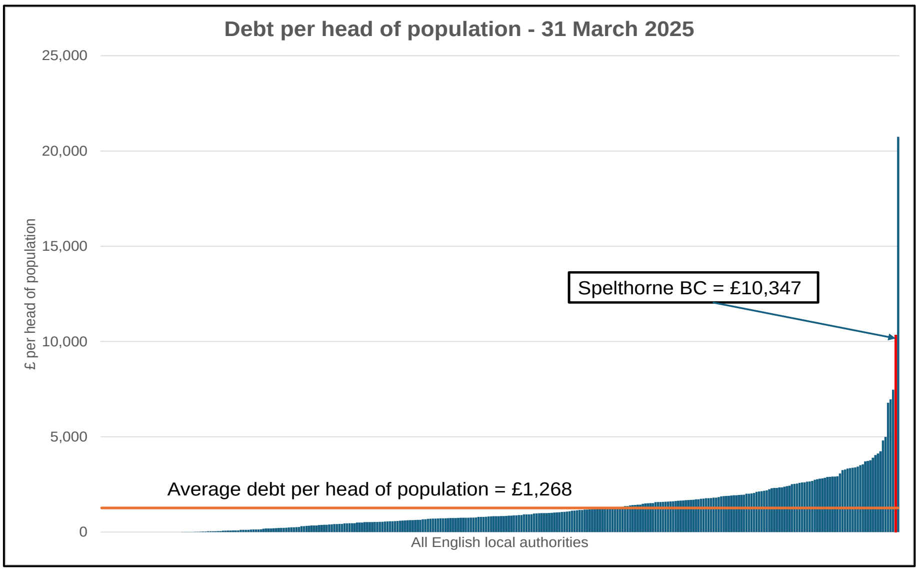
2.1 The proposed debt rescheduling is designed to partially offset the impact of implementing a revised Minimum Revenue Provision policy, set out in the previous report on this Agenda, which has impact of creating a much higher MRP charge to the Budget per annum. The objective of the proposed approach 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)*]

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%
	1057	**(374)**	**-35%**

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 Table 2 – Debt rescheduling proposal

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 2 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 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	2031/32 £m	2032/33 £m	2033/34 £m	2034/35 £m	2035/36 £m	TOTAL £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)
Net (surplus)/deficit to General Fund	**(34)**	**14**	**6**	**4**	**4**	**6**	**3**	**5**	**8**	**14**	**17**	**53**	**100**
Impact on Revenue Reserves at year-end		**(20)**	**(14)**	**(10)**	**(6)**	**0**	**3**	**8**	**16**	**30**	**47**	**100**	

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 to £32m, 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 ten 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 28th 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 in 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 3 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 3 – 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>

16 Background papers and Appendices

None.

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

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

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

Stage 2
Report checklist – responsibility of report owner

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

Version: 01, Last saved:

Corporate Policy and Resources Committee

11/11/2025

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

1. Executive summary of the report

What is the situation	Why we want to do something
• The Council has the statutory duty to present the Annual Treasury Management Outturn report to the Committee and the Council to show the performance of the Council's Treasury activities during the financial year. • The Council has both a significant debt portfolio (most of which is at fixed rates) of £1,069m (£1,042m long term and £27m of short term) and investment funds of £10.9m and cash balances currently averaging £9m at 31.03.25. • The Council currently has the potential benefit of a significant discount (averaging approximately 36% or roughly £360m) on any PWLB loans it	• Treasury Management is crucial to the Council's cash flow, investment and borrowing to mitigate the risk • To proactively look to manage down over time the Council's outstanding long-term borrowing.

repays early; this is a reflection of the low rates the loans were fixed at • This scale of activity creates risks which need to be proactively managed. • Officers review its liquidity and cashflow on a weekly basis. • The Council needs to seek to minimise financing costs whilst maximising returns on surplus funds whilst managing risk	
This is what we want to do about it	**These are the next steps**
• Mitigate risk by diversify Investment and borrowing. • Over time the Council will be looking to generate capital receipts to reduce its long-term debt balances. • Continuing to seek ongoing regular professional advice from our advisers	• To closely monitor and manage the treasury function in the new financial year 2025/26. • To accept this report.

2. Key Issues

2.1 The Council is required to produce a Treasury Management Strategy each year as part of the budget setting process. The content and layout of the strategy also needs to meet a number of specific requirements in terms of:

- Statutory requirements, principally the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, and the associated statutory Government guidance; and
- CIPFA's Code of Practice on Treasury Management, (the Treasury Management Code), and the Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

2.2 The Treasury Management Strategy sets out the Council's approach to ensuring cashflows are adequately planned to ensure that the capital programme and corporate investment plans are adequately funded, with cash being available when it is needed to discharge the Council's legal obligations and deliver Council services. It is also concerned with managing the debt position of the Council.

2.3 Under the Treasury Management Code (2021 edition), the minimum reporting requirements are that full Council should receive the following reports:

- an annual Treasury Management Strategy to be followed in the following year – approved by Council 22 February 2024;
- a mid-year treasury update report; and
- an annual report following the end of the year comparing performance for the year against the originally approved strategy (this report).

2.4 The Deputy Chief Executive/s151 officer confirms that the Council has complied with the above reporting requirements of the Treasury Management Code to give prior scrutiny to all of the above treasury management reports by the Corporate Policy and Resources Committee before they were reported to Full Council.

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

2.6 This report covers four areas:

Summary position including Statutory Direction

Section 1 Capital Strategy

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

Section 2 Borrowing

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

Section 3 Managing cash balances

- Investment outturn 2024/25
- Commercial activity

Section 4 Summary position

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

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

- purchase of buildings in Spelthorne for regeneration which are now being considered for disposal.

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

3 Statutory Direction

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

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

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

SECTION 1 CAPITAL STRATEGY

4 Capital expenditure and financing

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

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

4.3 All capital expenditure has to be financed either:

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

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

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

Table 1 Capital Spending and funding (prudential Indicator 1)

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

5 Overall Borrowing Need

5.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The CFR measures the extent to which capital expenditure incurred has not yet been financed from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so the underlying borrowing need. Any capital expenditure, which is not immediately paid for through a revenue or capital resource, will increase the CFR.

5.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges for the economic consumption of capital assets as they used.

5.3 This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments plans and cash flow requirements as they fall due. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

5.4 Table 2 below shows that the CFR for the year was lower than the original budget and key points are:

- The opening CFR was £38m lower than originally budgeted

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

Table 2 Capital Financing Requirement (Prudential Indicator 2)

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

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

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

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

Affordability

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

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

Table 4 Affordability indicator (Prudential Indicator 4a)

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

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

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

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

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

Minimum Revenue Provision

5.9 Full Council approved the MRP Policy as part of the 2024/25 Treasury Management Strategy on 22 February 2024. The MRP Policy was prepared under the framework of the 2018 edition of the DLUHC Statutory MRP Guidance.

- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2024 and the related Statutory MRP Guidance were revised in March 2024. The changes largely tighten the rules around the calculation of MRP and the reporting of what is meant by a "prudent" MRP charge. In the light of the Statutory Direction, recommendations raised by external audit, and the changes to the Capital

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

SECTION 2 BORROWING

6 Borrowing strategy and control of interest rate risk

6.1 Borrowing is undertaken to fund net unfinanced capital expenditure and naturally maturing debt and to maintain cash flow liquidity requirements. During 2024/25 the Council maintained an under-borrowed position. This meant that the capital borrowing need (the CFR) was not fully funded with loan debt, as cash was supporting the Council's reserves, balances and cashflow was used as an interim measure.

6.2 The Council's main objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term funding and asset management plans change.

Borrowing outturn

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

Table 6 Composition of borrowing at 31 March 2025

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

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

Debt restructuring

6.4 Since the rise in interest rates commencing in November 2021, the PWLB has continued to offer the Council a discount for the early repayment of these loans. As gilt rates and in turn PWLB rates (PWLB rates equal gilt rates plus 80 basis points) have risen since the period in which the Council fixed its loans interest rates, the size of the discount for early repayment of loans has risen.

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

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

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

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

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

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

Maturity structure of borrowing (Prudential Indicator 7)

6.7 Managing the maturity profile of debt is essential for reducing the Council's exposure to large, fixed rate sums falling due for re-financing within a short period, and thus potentially exposing the Council to additional unplanned cost.

6.8 **Table 8** below shows that the Council's borrowing profile remained within the limits approved in the TMS for 2024/25 and do not highlight any issues as maturity is spread across the years.

Table 8 Debt maturity profile limits (Prudential Indicator 7)

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

Borrowing in advance of need

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

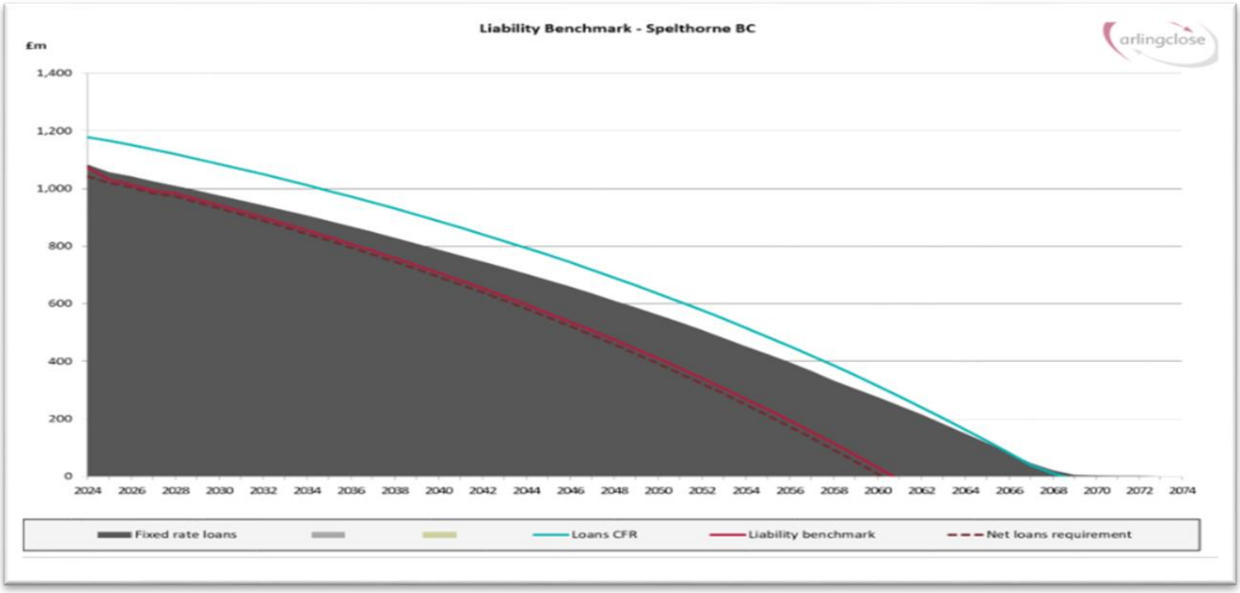
Liability Benchmark

6.10 The Treasury Management Code requires the Council to compare the existing loan portfolio against committed borrowing needs in order to understand future debt requirements. The chart covers the following four areas.

- Existing Loan Debt = current borrowing portfolio;
- Capital Financing Requirement (loans only);
- Net Loans Requirement = loan debt (less treasury management investments) forecast based on approved prudential borrowing and planned MRP;
- Liability Benchmark = Net Loans Requirement plus short-term liquidity allowance.

6.11 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing – see Chart 1 below.

Chart 1 Liability benchmark



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

6.12 In the light of the Statutory Direction to adopt a strict debt reduction plan, the liability benchmark will be revisited during 2025/26.

SECTION 3 MANAGING CASH BALANCES

7 Investment outturn 2024/25

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

Table 9 Investments

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

7.2 The Council divested of the majority of the pooled investment funds during 2024/25 to fund the completion of the Eclipse Leisure Centre, leaving a residual £2.9m invested in the CCLA LAMIT Property Fund which was liquidated in 2025/26. The pooled funds generated a return of 5.92% to end March 2025.

7.3 Pooled investment fund holdings complied with the limits set out in the TMS, namely:

- No more than £10m invested per fund at point of investment; and
- No more than £25m with any one fund manager
- The Council operates a detailed cashflow model and manages cash to ensure that no more than £50,000 is held overnight. Any surplus cash is invested overnight.

7.4 The treasury investments and loans to companies are classed as non-specified investments under the Statutory Guidance on Local Government Investments issued by the then DCLG in 2018 as they sums invested for more than 364 days. Table 9 above shows that such investments remained within the £70m limit set out in the 2024/25 TMS.

Commercial activity

7.5 As well as investing in assets owned by the Council and used in the delivery of services, the Council can also invest, where appropriate, in:

- Investment property for return
- Loans to third parties; and
- Shareholdings in companies and joint ventures.
- Such investments are statutorily defined as capital expenditure for treasury management and prudential borrowing purposes even though they do not create physical assets in the Council's accounts. Appropriate budgets in respect of these activities are agreed as part of the Council's budget setting and ongoing monitoring processes are considered as part of the Annual Investment Strategy.

- Currently the Council is invested in the following activities which fall within the category of commercial activity under the Prudential Code:
  - An investment property portfolio valued at £583.1m at 31 March 2025 comprising 9 office blocks both within and without the borough
  - £45.1m of loans to two wholly owned Council subsidiary companies, the bulk of which is to Knowle Green Estates Ltd and

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

7.6 The Statutory Guidance on Local Government Investments issued by the then DCLG in 2018 requires local authorities to develop quantitative indicators to allow Councillors and the public to assess a local authority's total risk exposure because of its investment decisions.

- The Council received, on an accruals basis, net rental income of £45.1 million from the investment property portfolio for the financial year ending 31st March 2025 against a forecast budget of £46.5 million (This is higher than the contracted rental income stated in the valuation due to insurance reimbursements, general licence income contributions from dilapidation payments, rent top-ups and amortised lease incentives).

7.7 Overall, the investment properties provided net operational income (net income less expenditure) of £39.8 million before finance costs, management set aside and sinking fund movements. After taking account of finance costs, management set aside and sinking fund movements, the investment property portfolio generated net income of £7.6 million, which was available to the revenue budget to support the cost of Council's services. These returns do not take into account annual and cumulative movements in the valuations of the assets.

7.8 Table 10 below highlights that the Council is heavily dependent on income generated from its investment property portfolio.

Table 10 Net income from commercial investments to net budget requirement

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

7.9 The value of the Council's investment property portfolio declined again in 2024/25 reflecting an overall decline in value since acquisition of 43%, indicating that overall the investment property portfolio is generating a negative return.

- Over the next two years, as predicted and advised, the Council will have to withdraw funds from its Sinking Fund Reserves to support services and the vulnerable residents in the Borough. The Budget for 2025-26 approved by Council in February 2025, anticipated a net use of the sinking funds reserves of £5.052m. This was using the sinking funds for the earmarked purpose they were designed for, as set out in the original council policy.

- As reported to 20th January 2025 Corporate Policy and Resources Committee, the Council has undertaken a major refresh of its Sinking Funds modelling. This has identified the need over the medium term to build up sinking funds balances more rapidly by 2036. The Outline Budget report to the Committee on 9th December 2024 and the Budget approved in February 2025, highlighted the proposal that from 2026-27 the Council gradually increases the net contribution into sinking funds by £1m per annum, so that by 2031 each year an additional £5m per annum is being put into the funds. This would have the effect of gradually reducing the subsidy from investment assets supporting services, which would reduce from £10m per annum to £5m per annum, i.e. it will halve over time.

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

Table 11 Council controlled companies

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

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

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

Table 12 Loans to Council controlled companies

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

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

8 Other Issues

IFRS 9 fair value of investments

8.1 Following the consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG) on IFRS 9, the Government extended the statutory override under Regulation 30K of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended, which requires local authorities to transfer all unrealised fair value movements resulting from pooled investment funds to an unusable reserve until the assets are realised (i.e. sold). The override has been extended to 31st March 2029, but does not apply to any new pooled investments from 1st April 2024.

8.2 The Council's long-term investments have an overall fair value unrealised gain of £0.055m against a total value of £2.9m. Had the statutory override not been in place, the unrealised gain would have had to have been recognised in the Comprehensive Income and Expenditure Statement and would have been a positive benefit to the General Fund.

IFRS 16

8.3 From 1st April 2024, a new International Financial Report Standard, IFRS 16, came into effect for Local Authorities. The main impact of IFRS 16 is to scrap the previous distinction between operating and finance leases for lessees and replace with the requirement to recognise all leases which convey a "right of use" to the underlying asset for more than 12 months.

8.4 As a result the value of the underlying asset has to be recognised on the balance sheet matched by the corresponding lease liability. The impact for the Council has been to recognise an additional £4.9m of assets on the balance sheet matched by a lease liability from 1 April 2024.

- There is no bottom-line impact to the General Fund as the lease rental payments due remain unaltered – the change is that lease rental is now allocated to different parts of the Consolidated Income and Expenditure Statement (CIES) in the Statement of Accounts and the principal element is recognised in the Movement in Reserves Statement in the Statement of Accounts.

9 Options analysis and proposal

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

10 Financial management implications

10.1 The financial implications are as set out in this report. The ability to maximise interest returns is paramount to generate sufficient funds to support the General Fund and even a small decline in interest rates can mean a significant reduction in cash returns. Therefore, it is our aim to continue to maintain flexibility commensurate with the high level of security and liquidity and minimal risk when making investment decisions.

- In addition to supporting the Council's Revenue Budget and Capital Programme, the Treasury Management interest budget is an important part of the revenue budget. Any savings achieved, or overspends incurred, have a direct impact on the financial performance of the budget.

11 Risk management considerations.

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

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

	Risk	**Mitigation**

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.	These risks are managed through: 11.3 Treasury Management Practices covering all aspects of treasury management procedures, including cashflow forecasting, documentation, monitoring, reporting and division of duties 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.
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 .

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	R
Near but not within PI	A
Within or at PI level	G

Appendix B

GLOSSARY

Local Authority Treasury Management Terms

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

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

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

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