

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

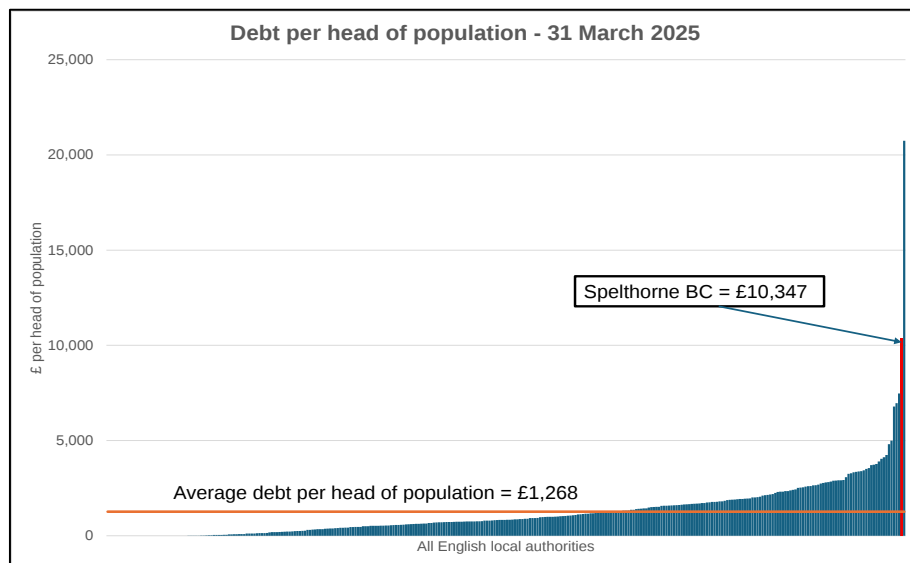
What is the situation	Why we want to do something
This report sets out proposed changes to the Council's current borrowing strategy which was approved by members in February 2025 as part of the Council's Treasury Management Strategy for 2025/26.	• Statutory Directions issued by MHCLG in May 2025 require the Council to implement "a <i>comprehensive and strict debt reduction plan</i>". (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 \(www.gov.uk\)](https://www.gov.uk/live-tables-on-local-government-finance)

- 2.5 Despite the Council holding cash balances of £9m at 31 March 2025 and General Fund balances of £34m, the Balance Sheet at this date also reported a net liabilities position of over £300m.
- 2.6 This is because the value of external borrowing significantly outweighs the current market value of Investment Property and regeneration assets, which have fallen by c.45% since their original acquisition.
- 2.7 Since May 2025 the Council has been operating under a Statutory Direction which amongst other things requires implementation of *“a comprehensive and strict debt reduction plan, demonstrating how the capital financing requirement and external borrowing will be reduced over a realistic but expedient timescale”*.
- 2.8 Debt rescheduling is the process of renegotiating the terms of existing borrowing arrangements, in this case so that the principal amount outstanding is reduced, as a result of the discount being applied, in exchange for higher interest charges on the remaining balance of the loans.
- 2.9 The reason the Council is currently being offered discounts on all its PWLB loans which were taken out in period 2016-2022, is that when those loans were drawn interest rates were much lower (averaging 2.35%) than the PWLB is currently advancing which ranges from 5% to 6% depending on maturity. Note PWLB rates reflect a margin of 80 basis points above the equivalent rate the Government is paying out on its own borrowing through gilt rates. This means that the PWLB could earn more on the principal bound up in those loans if they were redeemed and the sums loaned out again. Effectively there is an incentive being offered for early repayment of PWLB loans. The actual discount will vary day to day and has been falling a little in last couple of weeks, in mid-October the average discount on early repayment of the Council's PWLB loans equated to approximately 35%.

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

Table 1 Summary of discount by loan maturity

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

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

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

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

Table 3 Impact of debt restructuring on the General Fund

	Gen Fund @ 31/03/2025	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	TOTAL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
MRP		60	56	51	51	52	47	47	48	48	49	48	557
Interest		29	32	34	31	31	31	31	31	31	30	29	340
Discount £360m in total		(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	(36)	0	(360)
Net operating inc/exp on Investment													
Property		(39)	(46)	(45)	(42)	(41)	(39)	(37)	(35)	(29)	(26)	(24)	(403)
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 (original 2025-26 Budget) to £32m in 2026-27, an increase of £7m per annum, and that this partially offset by applying one tenth of the discount or £36m. After taking into account income from the investment portfolio (before assuming any rationalisation which is addressed in the next report) of £46m, this results, excluding other pressures on the Budget and mitigations, in a potential £6m Budget deficit of £6m for 2026-27. Over the eleven year period above without mitigating actions the table is indicating a cumulative Budget deficit over the period of £100m.
- 3.7 As a result of the above, the Council would avoid the need:
- for a s.114 Notice to be issued; and
 - to seek Exceptional Financial Support from MHCLG
- 3.8 In addition, this course of action would fulfil the requirements of the Statutory Direction and would have a positive impact on the Council's financial position in terms of:

- reducing debt per head of population from its current level of £10,347 to £6,650, and
- reducing the net liabilities position in the Balance Sheet.

3.9 However, if the Council did restructure loan debt on this basis, the new debt would need to be serviced going forward at an average interest rate (made up of a blend of 20 or so short to medium term loans aligned to anticipated outcomes of an asset rationalisation programme) of c5.5% (as calculated in mid October on basis of then prevailing current rates- short term rates have at time of writing since fallen to about 4.5% to 5% which if maintained reduce the refinancing cost) compared to the current fixed average rate of 2.4% on the existing debt portfolio. Note that on all published PWLB rates the Council receives a twenty basis points discount known as the certainty rate. This means that, as calculated in mid-October, the Council would need to pay circa £32m per annum interest cost going forward, based on long-term interest rates at 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 by end of 2026-27.

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

5 Mitigating actions

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

Table 4 – Debt rescheduling – option appraisal with asset sales

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

Source: WTAS calculations

6 Risk implications

6.1 The value of the discount offered has not yet been confirmed by PWLB. Discount offers are linked to gilt rates which change daily, so the timing of rescheduling activity will need to be carefully considered. At the time the modelling was done in mid-October gilt rates had been comparatively stable ranging between 4.5% and 4.75% however in the weeks since then gilt rates have been falling in response to the “mood music” in the run up to the Budget. However there is a risk that gilt rates could move significantly in response to the forthcoming Budget if markets felt the Budget announcements did not live up to expectations. Sensitivity modelling has been undertaken to underpin the model. For example:

- if the discount rate increased by 1%, then the discount would increase in total by £83m to £444m over 10 years i.e. £44m per annum, but
- if the discount rate reduced by 1%, then the discount would reduce by £103m to £258m over 10 years ie £26m per annum as opposed to the £36m each year quoted above.
- At the same time each 10 basis points reduction in rates would reduce the refinancing cost by roughly £700,000 per annum.

6.2. By comparison with the last few decades gilt rates are relatively high. Consequently, there is a risk that if the option of debt restructuring was delayed significantly, that longer maturity gilt rates could decline further which reduce the level of discount achievable, thus making the proposed approach more marginal, although impact would be partly offset by lower re-financing costs. If the forthcoming Budget on 26 November is well received by markets, this could result in gilt rates falling significantly. Additionally, HM Treasury may be looking to ease borrowing pressures on the public finances by slowing down quantitative tightening. Conversely if the Budget proposals lack credibility with the markets gilts could rise.

6.3. Notwithstanding the above it should be borne in mind that the rates the Council fixed are so far below current rates there is likely to remain a reasonable level of discount for the foreseeable future. As highlighted above

the rescheduling model is underpinned by sensitivity analysis of impact of movement in interest rates on both discount available and refinancing cost.

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

7. Legal comments

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

8. S151 Officer comments.

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

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

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

9 Monitoring Officer comments.

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

10 Procurement comments

- 10.1 None

11 Equality and Diversity

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

12 Sustainability/Climate Change Implications

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

13 Other considerations

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

14 Timetable for implementation.

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

15 Contact

15.1 Terry Collier, Deputy Chief Executive

T.Collier@spelthorne.gov.uk>

16 Background papers and Appendices

None.