

# Corporate Policy & Resources Committee

Date of meeting – 17 February 2026

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

## 1 Executive summary of the report

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

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

## 2 Key issues

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

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

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

### **3 Introduction**

#### **Background**

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

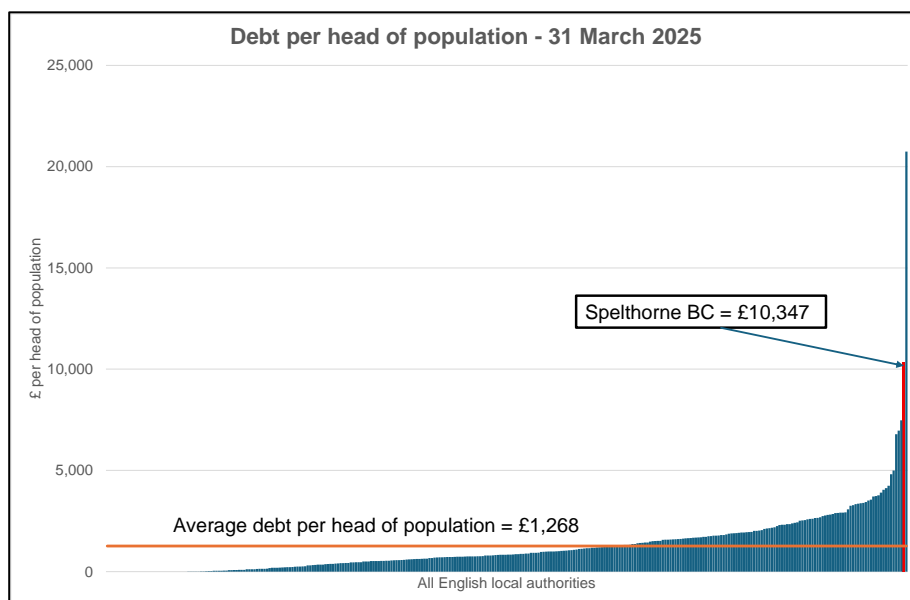
#### **Statutory Direction**

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

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

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

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



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

- 3.8 Despite the Council holding cash balances of £9m at 31 March 2025 and General Fund balances of £34m, the Balance Sheet at this date also reported a net liabilities position of over £300m.
- 3.9 This was largely because the value of external borrowing significantly outweighs the current market value of Investment Property and regeneration assets, which have fallen by c.40% since their original acquisition.
- 3.10 On 8 May 2025, the Secretary of State issued the Council with Statutory Directions requiring the Council to implement an Improvement and Recovery Plan which includes the following actions which impact on the Council's Treasury Management Strategy:
- a plan to ensure the Authority's capital, investment and treasury management strategies are sustainable and affordable, including an asset rationalisation programme for assets and commercial investments;
  - a comprehensive and strict debt reduction plan, demonstrating how overall capital financing requirement and external borrowing will be reduced over a realistic but expedient timescale, reducing debt servicing costs; and
  - a plan to ensure the Authority is complying with all relevant rules and guidelines relating to the financial management of the Authority, including updating the minimum revenue provision (MRP) policy.
- 3.11 To meet these requirements the Council approved the following three separate actions on 17 November 2025:

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

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

### **Treasury Management Policy Statement**

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

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

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

3.15 The TMS covers four main areas summarised below:

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

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

#### **Section 2 Borrowing**

- Debt reduction strategy
- Limits on external borrowing

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

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

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

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

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

## 4 TREASURY MANAGEMENT STRATEGY FOR 2026/27

### SECTION 1 – CAPITAL STRATEGY

#### Capital Spending Plans

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

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

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

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

## Table 2 Capital spending by type of expenditure

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

- 4.7 As set out in the mid-year TMS for 2025/26 approved by Council on 17 November 2025, the Council approved a Debt Reduction Strategy which will use the majority of capital receipts from the asset rationalisation strategy to repay external debt and reduce the Capital Financing Requirement (CFR) and thus reduce the Minimum Revenue Provision (MRP).
- 4.8 The risks are that slippage in the asset rationalisation programme could result in the need to:
- set aside more MRP in the short-term pending receipts being realised. Since the capital receipts are applied to assets with the shortest remaining lives, slippage can have a significant impact. For example, if there was slippage of £10m of receipts in 2025/26 this would increase MRP by £3.3m in 2026/27;
  - extend loans for longer periods pending receipts being realised.

## Commercial activity

- 4.9 As well as investing in assets used for day-to-day service delivery, the Council can also invest, where appropriate, in commercial activities such as:
- investment property designed to realise a financial return;
  - regeneration initiatives;
  - loans to third parties;
  - shareholdings in limited companies and joint ventures.
- 4.10 Such investments are treated as capital expenditure for treasury management and prudential borrowing purposes and are considered as part of the Annual Investment Strategy (see Appendix B) even if they are not managed by the Council's Treasury function.
- 4.11 Currently the Council is invested in the following activities which fall within the category of commercial activity under the CIPFA Prudential Code:
- a substantial investment property portfolio valued at £552m (at 31 March 2025);
  - loans to and equity investment in a number of Council companies summarised in Table 4 below.



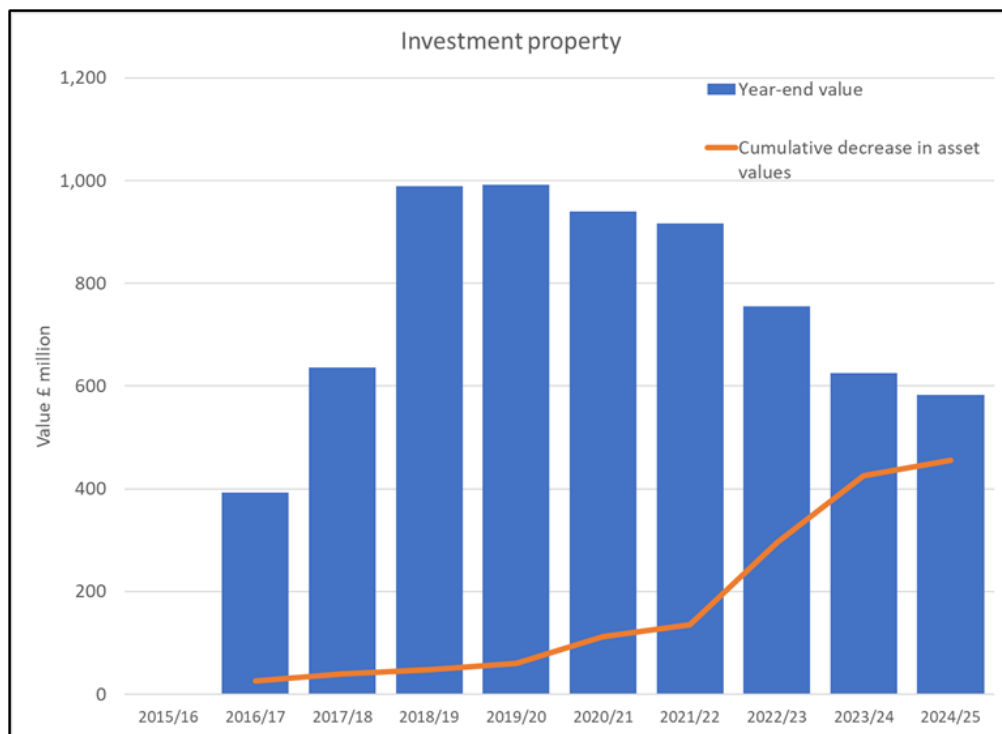
4.12 CIPFA's guidance Prudential Property Investment issued 2019 advises that the following key issues should be taken into account when acquiring and managing commercial property:

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

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

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

## Chart 1 Investment property value



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

**Table 3 Performance indicators**

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

4.15 The above measures show:

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

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

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

**Table 4 Investment in Council companies**

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

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

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

- 4.21 The CFR measures the extent to which capital expenditure has not yet been financed from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure which has not immediately been paid for through revenue resources or capital funding (such as grants, developer contributions or capital receipts), will increase the CFR.
- 4.22 In addition to capital expenditure on purchased assets, the CFR includes right of use (leased) assets. However, although these do increase the CFR, the lease contracts include an element of the charge to repay the financing provided by the lessor. At 31 March 2025, £2.5m of the CFR was in respect of right of use leases.

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

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

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

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

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

2024/25 Actual £m	2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
1,072 Gross Projected debt	713	699	560	532	518
1,170 Capital Financing Requirement	1,088	880	795	693	662
<b>98 Under/(over) borrowing</b>	<b>375</b>	<b>181</b>	<b>235</b>	<b>161</b>	<b>144</b>

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

## Affordability

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

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

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

- 4.30 For the purposes of this calculation:

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

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

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

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

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

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

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

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

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

- 4.34 Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') requires local authorities to 'charge to a revenue account a minimum revenue provision (MRP) for that year'. The MRP is an annual amount set aside from the General Fund to meet the cost of capital expenditure that has not been financed from other available resources, namely: grants, developer contributions (e.g. s.106 and community infrastructure levy) revenue contributions, earmarked reserves or capital receipts.
- 4.35 MRP is sometimes referred to as the mechanism for setting aside monies to repay external borrowing. In fact, the requirement for MRP set aside applies even if the capital expenditure is being financed from the Council's own cash resources and it arises irrespective of whether any actual debt repayments have been made or fall due.
- 4.36 Regulation 27 of the 2003 Regulations sets out a duty for local authorities to make a Minimum Revenue Provision (MRP) and Regulation 28 requires full Council to approve a MRP Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent.
- 4.37 In line with the Statutory Direction, the Council approved a revised MRP Policy in November 2025 for the 2025/26 financial year, which fully complies with the 2024 Regulations and Statutory Guidance and which has been consulted upon with both MHCLG and the Council's external auditors, Grant Thornton. It is not proposed to amend the MRP Policy any further, although it has been updated to reflect the forecast CFR at 31 March 2026 and forecast MRP for 2026/27.
- 4.38 The MRP Policy Statement for 2026/27 is attached at Appendix A.

## SECTION 2 – BORROWING

### Debt reduction strategy

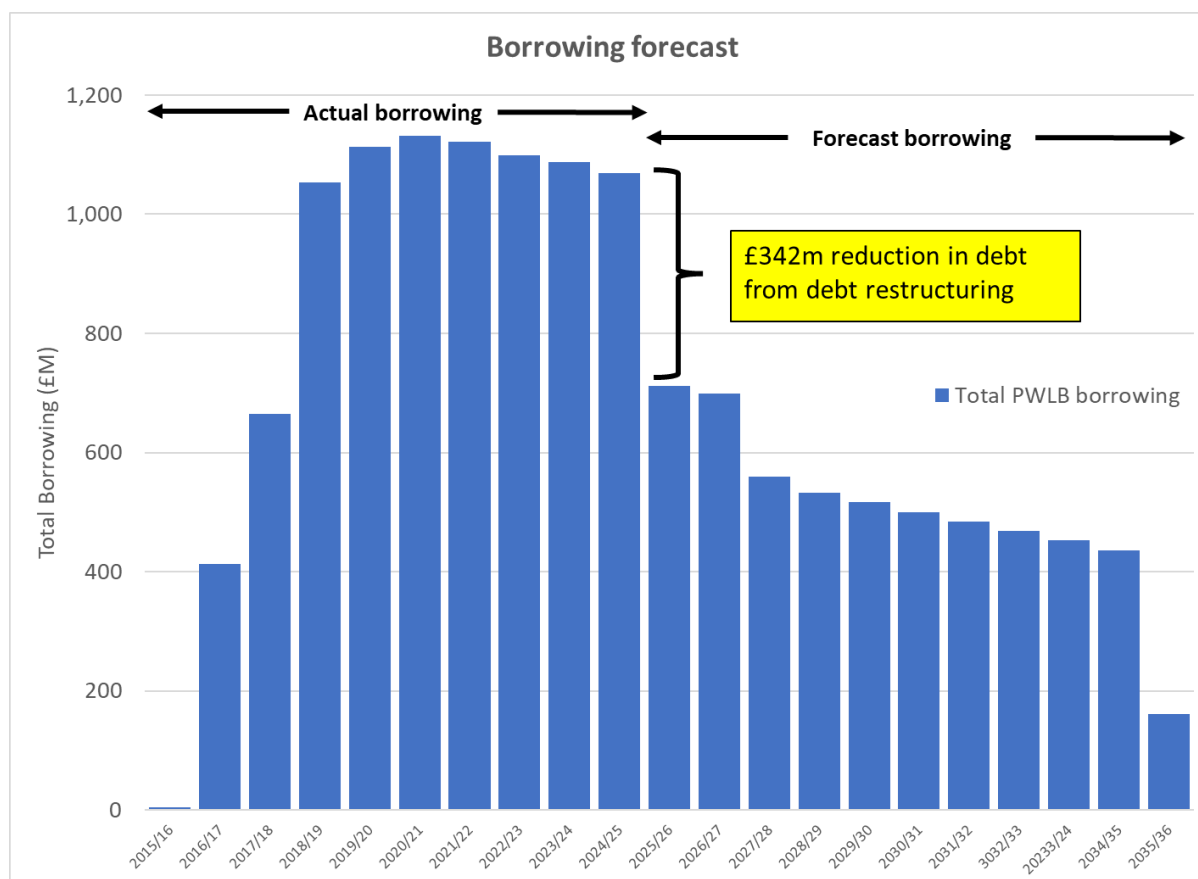
- 4.39 At 31 March 2025, the Council's overall debt was £1,057m, which was all long-term fixed interest rate borrowing from the Public Works Loans Board at an average rate of 2.4%. Whilst the overall interest rate was low, the Council's level of borrowing per head of population was the second highest amongst all English local authorities at c. £10,000.
- 4.40 In view of the unsustainably high level of borrowing highlighted in Chart 1 above and the affordability indicators reported above, and to comply with the Statutory Direction now in force, in November 2025 the Council approved a Debt Reduction Strategy as follows:
- to restructure all loans maturing over 10 years; and
  - use all capital receipts from the asset rationalisation strategy to repay borrowing.
- 4.41 £905m of loans were therefore restructured in November 2025 reducing the value of debt in the Balance Sheet by £342m (32%) down to £715m. The Council also approved the recruitment of external specialist property advisors to assist the Council with obtaining best consideration from the asset rationalisation plan.
- 4.42 The target capital receipts from asset sales over the next ten years under the asset rationalisation programme are set out in Table 10 below. However, both the value and timing of capital receipts is likely to change to reflect the advice from the external specialist property advisors when they commence work, and actual sales as they occur.

**Table 10 Target Asset Sales**

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

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

**Chart 2 Total borrowing**



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

### Limits on external borrowing

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

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

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

4.46 The limits are:

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



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

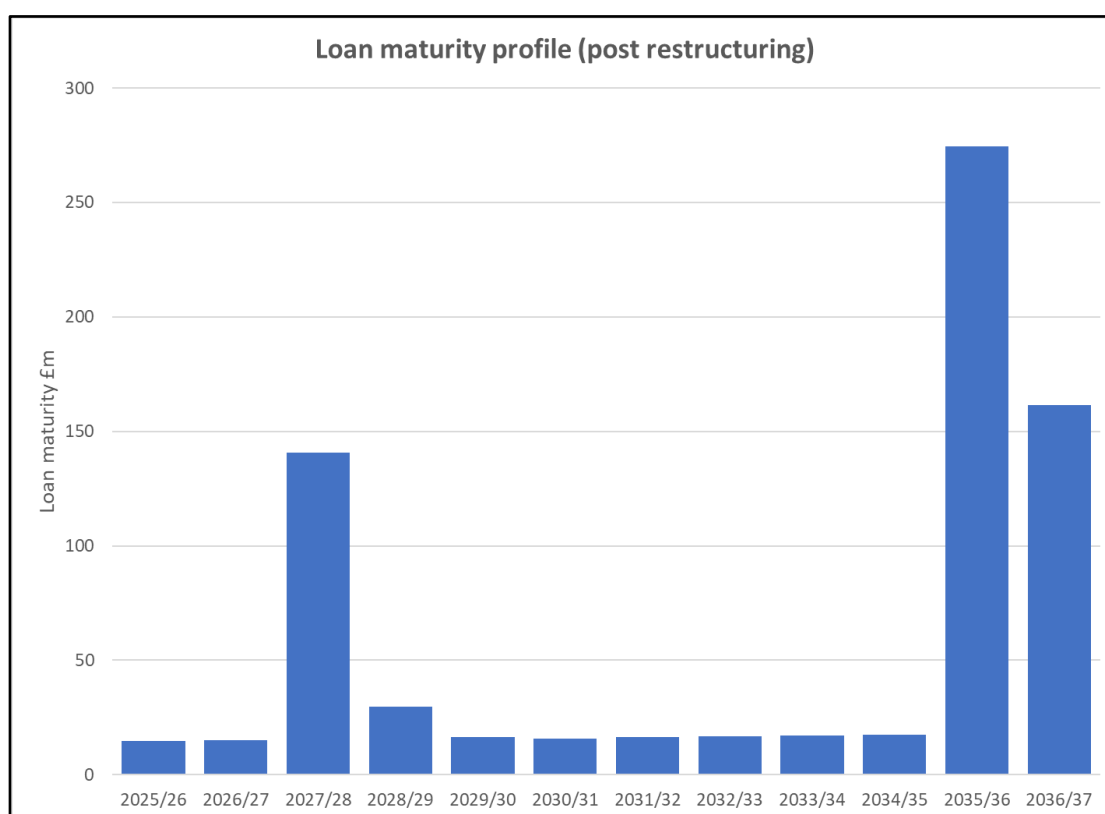
### Maturity structure of borrowing (Prudential Indicator 7)

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

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

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

### Chart 3 Maturity of borrowing



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

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

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

**Policy on borrowing in advance of need**

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

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

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

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

### **Prospects for interest rates**

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

### **Investment Strategy**

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

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

### **Balancing short and long-term investments**

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

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

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

## SECTION 4 – SUMMARY OF PRUDENTIAL INDICATORS

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

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

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

**Table 14 Summary of Prudential Indicators**

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

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

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

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

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

## 5 Options analysis and proposal

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

## 6 Risk implications

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

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

	additional costs or new borrowing (Liquidity risk).	
4	Increase in the net financing costs of the Council due to borrowing at high rates of interest.	All existing borrowing is now at a fixed rate and no new borrowing is planned
5	Higher interest rates increase borrowing making it more difficult to self-finance capital schemes. Debt servicing becomes less affordable and less sustainable and crowds out revenue spend.	No new borrowing is anticipated. All planned capital expenditure is expected to be financed from other sources as set out in Table 1.
6	Return on non-treasury investments lower than expected.	An asset rationalisation plan is now in place to dispose of investment properties with lower than anticipated returns.
7	The Council's Minimum Revenue Provision policy charges an insufficient amount to the General Fund to repay debt at a prudent level.	The Council's MRP policy has been updated and amended to align with current Statutory Guidance and reflect the economic benefits of purchased assets.
8	Associated with cash management, legal requirements and fraud.	<p>These risks are managed through:</p> <ul style="list-style-type: none"> <li>• Treasury Management Practices covering all aspects of treasury management procedures, including cashflow forecasting, documentation, monitoring, reporting and division of duties</li> <li>• All treasury management procedures are transactions are subject to inspection by internal and external auditors. The Council also employs external treasury advisors to provide information on market trends, credit rating alerts, lending criteria advice and investment opportunities.</li> </ul>
9	Increase in capital financing costs due to inflationary forces resulting in increased cost pressures on current capital projects and higher costs compared to approved budgets.	Regular monitoring of the Capital Programme through comparison to budgets.

## **7 Financial implications**

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

## **8 Legal implications**

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

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

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

## **9 Procurement considerations**

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

## **10 S151 Officer comments.**

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



- CIPFA's Treasury Management Code (2021).

## **11 Monitoring Officer comments.**

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

## **12 Equality and Diversity**

- 12.1 No direct impact arising from this report.

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

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

## **14 Timetable for implementation**

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

## **15 Contact**

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

## **16 Appendices**

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

## **17 Background papers**

- 17.1 None.

## Committee Report Checklist

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

### Stage 1

#### Report checklist – responsibility of report owner

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

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

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

### Stage 2

#### Report checklist – responsibility of report owner

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