Corporate Policy and Resources Committee

17th February 2026

Title	Draft Detailed Revenue Budget and Medium-Term Financial Strategy 2026/27 – 2028/29
Purpose of the report	To make a decision and a recommendation to Council
Report Author	**Terry Collier - Chief Finance Officer**
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	Community Addressing Housing Needs Resilience Environment Services Statutory Direction issued May 2025
Recommendations	The Committee is asked to: 1. Consider the statutory Section 25 and Section 26 report of the Chief Finance Officer (Section 151Officer) in Appendix J in determining: (a) The proposed budget for 2026/27; (b) The medium-term financial plans for 2026/27 – 2028/29; (c) The robustness of estimates and reserves projections 2. Note, the level of projected reserves at 31.03.26 is £32.2m and available earmarked reserves forecast to be available are £21.7m as set out in Appendix F; 3. Recommend that the Council approve: 3.1 The General Fund Revenue Budget for 2026/27 including: a) The General Fund Budget Requirement of £19.318m for 2026/27. See Appendix A for full details. b) Growth and pressures of £1.252m for 2026/27. Please see Table 2, paragraph 2.28, for full details. c) Proposed savings of £5.752m for 2026/27. See Appendix D for full details.

	3.2 An increase in the Council's element of the Council Tax for a Band D property by £6.64 per annum for 2026/27 (2.90%) giving a Band D Council Tax of £235.50 per year, excluding the precepts from Surrey County Council, and the Surrey Police and Crime Commissioner. 3.3 Notes the following Council tax increases and precepts as detailed in Appendix I a) Surrey County Council has increased Council Tax for a Band D property to £1,938.42 per annum, a 4.99% increase on 2025/26, resulting in a precept of £80,014,295; b) The Police and Crime Commissioner for Surrey has increased Council Tax for a Band D property to £352.57 per annum, a £15 or 4.4% increase on 2025/26, resulting in a precept of £14,553,420 c) This results in an overall Band D Council Tax of £2,526.49 for Spelthorne Residents an increase of £113.71, 4.5%. d) The Spelthorne Council element of the Council Tax is 9.3% of the total bill for Spelthorne residents. 3.4The calculations for determining the Council Tax requirement for the year 2026/27 in accordance with the Local Government Finance Act 1992 as set out in the Council Tax Resolution in Appendix I. 3.5 The Fees and Charges for 2026/27 as set out in Appendix H. 3.6 Continuing the complete disregard of war pension / armed forces pension income from benefit calculations as set out in paragraph 2.22 of this report.
Reason for Recommendation	Approval of the Council's Revenue Budget is reserved to Council. Council has a statutory responsibility to set a balanced budget

1. Executive summary of the report

What is the situation	Why we want to do something
• The Council is facing a challenging financial future with an estimated revenue budget gap for 2026/27 before taking into account savings and the use of reserves.	• The Council has a statutory responsibility to set a balanced budget, and councillors need to ensure agreement is reached on a set of strategies which will deliver a sustainable financial position.

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<td>Reasons (paragraph 2.23 - 2.28) for this include:

Impact on Revenue Budget of applying a compliant Minimum Revenue Provision (MRP) policy.
Council no longer being able to rely on a net income stream from investment assets to subsidise services.
Medium term funding reductions arising from Local Government Funding reform.
Demand pressures such as needed for further temporary accommodation.
Uncommitted reserves are projected to be £21.7m at 31.03.26 of which £11.6m is proposed to be used to balance the 2026/27 revenue budget. Please see Table 9 in paragraph 2.64 for details.
Based on unit costs benchmarking the Council is high spending in comparison to statistical neighbours

Medium term financial planning is complicated by the Surrey Local Government Reorganisation process with Spelthorne due to be replaced with a new West Surrey Council in April 2027.</td>
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Statutory Directions issued by MHCLG in May 2025 require the Council to implement “A plan to achieve financial sustainability and to identify and close any short and long-term budget gaps across the period of its medium-term financial strategy (MTFS), including a robust multi-year savings plan that reflects the costs and risks identified in the Best Value Inspection report and by external auditors (paragraph 2.9).”
To ensure a sustainable financial legacy to the successor unitary authority, it needs to understand the medium-term financial challenges and agree a strategy for addressing them.

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<td>This is what we want to do about it</td>
<td>These are the next steps</td>
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Progress an assets rationalisation programme to reduce debt, MRP charges and associated risks.
Progress the deletion of vacant posts that have minimal impact on service provision, unless highlighted in this report.
Align service arrangements and fees and charges with the other component authorities of the new unitary council some of which are generally higher
Implement savings of £39.9m that have been built into the 2026/27 budget, including £1m to be identified in-year. Please see Appendix D and Table 3, paragraph 2.42, for details.
Appropriate capitalisation of one-off transformation expenditure relating to

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Recommend to Council on 26th February 2026 to approve the draft Budget for 2026/27 and Medium Term Financial Strategy for 2026/27- 2028/29.
To progress through the generation of in-year savings options for consideration by Councillors

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LGR, and the Improvement and Recovery transformation workstreams. • Apply the revised Reserves Strategy to use £11.6m of available revenue reserves to close the budget gap (after taking into account savings and capitalisation of transformation costs).	

2. Background: requirements for setting a balanced budget and ensuring a sustainable medium-term financial strategy (MTFS)

2.1.1 This report sets out the draft Budget proposals for Spelthorne Borough Council for 2026/27 and an updated MTFS for the Council. It addresses the requirements of the statutory directions and actions of the Improvement and Recovery Plan approved by Council. This Budget provides the detailed financial plan for the last financial year of the Council's existence.

2.2 The MTFS provides a financial framework over a medium-term period, extending beyond the end of the Council's existence, within which financial stability can be achieved and sustained. It sets out the financial strategies to support the delivery of the Council's vision, key strategic outcomes, priorities and sustainable services for both the Council and the successor unitary West Surrey Council.

2.3 The report is informed by the changes to the Minimum Revenue Provision (MRP) policy and Debt Rescheduling approved at 17.11.25 Full Council, and the planned asset rationalisation programme to further mitigate MRP charges and reduce risks. The draft Budget and updated MTFS draw together the implications to the Council of these changes together with changes to grants, business rates, cost pressures and other demands.

2.4 Surrey Local Government Reorganisation (LGR) will take effect from 1 April 2027 which means Spelthorne will cease to exist as an independent sovereign body from that date. However, a MTFS will still be produced so that the estimates can be passed to a new shadow unitary authority to be considered as part of the baseline for its budget setting process from 2027/28 onwards.

2.5 The Budget and MTFS bring together key issues affecting the:

- Revenue Budget
- Capital Strategy and Capital Programme – see separate report on the Agenda
- Treasury Management Strategy, including revised MRP policy - see separate report on this Agenda
- Reserves Strategy – see Appendix F

Structure of this report

2.6 This report will:

- Outline our starting position and set out how Spelthorne's Budget and MTFS need to adapt to the current context including the statutory Best Value directions and external auditor recommendations;
- The Budget and MTFS is also framed by the context of the Surrey Local Government Reorganisation process with Spelthorne Borough Council merging into West Surrey Council on 1st April 2027. This makes financial projections beyond 2026/27 indicative, but at the same time reinforces the importance of leaving a sustainable medium-term financial position to pass across to the new council;
- Overall proposed approach of the Council to closing the budget gap;
- Set out the key pressures impacting on the Council's financial position;
- Set out the proposed actions, including savings and efficiencies being built into the Budget, approach to fees and charges being proposed to help mitigate the pressures;
- After taking into account savings realistically available to offset pressures, highlight the resulting Budget Gap for 2026/27;
- Summarise the resulting projected Budget Gaps over the period 2026/27 to 2028/29 and explain how key components such as management of reserves' balances are designed to ensure a sustainable financial future for the remainder of Spelthorne's time and to pass on a viable financial plan for the new unitary council.

Budget Starting Point

2.7 At the time of setting the 2025/26 Budget in February 2025, projections provided to Council set out a significant budget gap for 2026/27, and this was before factoring in the additional costs of significantly increased MRP as a result of implementing a new compliant MRP Policy (as referenced in paragraph 2.3). The Budget Gaps identified when the Council set its revenue budget for 2025/26 and the Outline Budget for period 2026/27 to 2028/29 in February 2025, identified the following revenue budget gaps:

	2026/27 £m	2027/28 £m	2028/29 £m
Budget gap	3.9	6.9	8.6

2.8 It can be seen from the above that the Council even before the impact of applying MRP and refinancing changes, was facing a challenging budget process for 2026/27.

Context for the MTFS

Impact of complying with Statutory Directions and External Auditor Recommendations

2.9 A key context for the Council and its budget position is the Best Value Intervention which happened in May 2025. The Statutory Directions, issued by the Ministry of Housing, Communities and Local Government (MHCLG) included a number of requirements in respect of financial management that are addressed in the MTFS:

- A plan to achieve financial sustainability and to identify and close any short and long-term budget gaps across the period of its medium-term financial strategy (MTFS), including a robust multi-year savings plan that reflects the costs and risks identified in the Best Value Inspection report and by external auditors.
- A plan to ensure the Authority's capital, investment and treasury management strategies are sustainable and affordable, including an asset rationalisation programme for assets and commercial investments.
- A comprehensive and strict debt reduction plan, demonstrating how overall capital financing requirement and external borrowing will be reduced over a realistic but expedient timescale, reducing debt servicing costs.
- A plan to ensure the Authority is complying with all relevant rules and guidelines relating to the financial management of the Authority, including updating the minimum revenue provision (MRP) policy.
- A plan to reconfigure the Authority's services commensurate with the Authority's available financial resources.

2.10 The External Auditor recommendations set out in their 2023/24 Annual Audit report included:

- Robust plans are approved to address the medium-term budget gaps and reinstate it transformation programme as a matter of urgency
- Urgently review the options for the suspended housing projects
- Root causes of budget growth are identified and explained to Members to ensure the accuracy of financial plans

2.11 The External Auditor in their 2024/25 Annual Audit report recommendations included the following recommendations:

- The Medium-Term Financial Plan should be updated to reflect new costs and risks identified by the best value inspection; appointment of Commissioners; and adoption of an Improvement and Recovery Plan.
- To update the Medium-Term Financial Plan, the Council should include all relevant additional costs associated with changes to minimum revenue provision (MRP); with asset valuations, refurbishments and upgrades; with breaks in commercial income as tenancies come up for renewal; and with the recruitment of skilled resources to lead recovery and improvement.

2.12 The financial impact of implementing the statutory directions and external auditor recommendations are included in the draft Budget.

2.13 The additional cost of complying with statutory MRP guidelines are largely mitigated by debt rescheduling and adopting an asset rationalisation strategy. Since 2019/20, Spelthorne had been assuming a £10m contribution per annum to its revenue budget from investment property surpluses. With increased costs and reducing returns, this benefit can no longer be assumed. The £10m contribution represented approximately 30% of the Council's gross expenditure, excluding Housing Benefits. Spending is also on average 30% higher in comparison to statistically similar councils.

2.14 Grant funding changes- significant changes to the local government funding system are being phased in from 2026/27. The Provisional Funding Settlement was announced in late December, showing a significant increase in 2026/27 and then yearly reductions of funding over the following two financial years as shown by Table 1, below. The increase in 2026/27 is partially offset by £0.836m reduction in business rates income projected to be retained in 2026/27.

Table 1 Grant Funding change for the MTFS period

	2025-26	2026-27	2027-28	2028-29
Grants	**£'000**	**£'000**	**£'000**	**£'000**
Core Spending Power Guarantee	1,728	0	0	0
Revenue Support	116	5,406	4,448	3,453
New Homes Bonus	12	0	0	0
National Insurance Contribution	197	0	0	0
100% income protection	0	392	886	1,415
Total	**2,053**	**5,798**	**5,334**	**4,868**
Yearly change £'000 - Increase/(Decrease)		**3,745**	**(464)**	**(466)**
Yearly change % Increase/(Decrease)		**182%**	**(8%)**	**(9%)**

2.15 Whilst the provisional funding settlement was again relatively late this year, in part due to the lateness of the Chancellor's Budget on 26th November, one longer term positive is that there is a three-year settlement which gave councils increased medium-term certainty. This will aid the financial planning for the new West Surrey Council. (their funding allocation will be made up from combining their constituent district and boroughs' allocations, and the split of the funding allocations of Surrey County Council).

Business Rates Reset and Business Rates Pooling

2.16 In 2026/27, the government is implementing a full reset of business rates. A business rates reset establishes new baseline funding levels for local authorities. The reset is on basis of gross rateable values on 31.03.26 and will involve an updated assessment of need to redistribute business rates income. This process is separate from the 2026 revaluation of properties, which adjusts the rateable value of individual properties to ensure fair redistribution of liabilities among ratepayers.

2.17 There is little to gain from business rate pooling (this is where a combination of districts and boroughs combine with their county council to offset the potential to pay a levy on business rates growth above the baseline. In 2026/27, all councils should be relatively close to the baseline) and potentially risks from so doing, so the Surrey districts and boroughs and County Council have agreed not to create a business rates pool for 2026/27. This means in contrast to previous years Spelthorne will not be in the Surrey Business Rates Pool as there will be no pool to join.

There is a net underlying movement of £0.836m in retained business rates from £4.910m to £4.704m.

Overall Approach to Closing the Budget Gap

2.18 In seeking to close the budget gap through implementing proportionate efficiencies and savings, the Council will be careful not to pre-empt decisions for the incoming West Surrey Council. The Council, in considering further savings during 2026/27, will not for example be looking to close or reduce Community Centres provision as the unitary will want to have the discretion to consider best how to maximise synergies from having Community Centres in the same council as statutory adult social services.

2.19 Therefore, the Council **will not**, as part of savings options to be considered:

- reduce the number of community centres
- reduce the leisure centre provision
- reduce the amount of parks and open spaces being provided
- remove the Spelride service

2.20 The generation of savings within the budget will in turn facilitate the funding of policy priorities of the Council, such as tackling Homes in Multiple Occupation, retaining the Jobs and Skills Hub, and progressing the Staines Masterplan. There is therefore an element of prioritisation with the draft Budget.

2.21 Given the scale of the budget gap, it important to increase Council Tax to the maximum level without requiring a referendum. It is therefore recommended that Council Tax should increase by 2.9% in 2026/27. The same rate of increase has been assumed for year 2 to 4 (although the unitary authority is also likely to have an additional 2% headroom for Adult Social Care precept). The combined impact, in 2026-27, of a rise in council tax base of 1.62% and a proposed increase of 2.9% equates to a £0.425m increase in council tax income.

There will be a harmonisation of council tax rates in 2027/28 across the new unitary council. The calculation of the rate is based on a weighted average of council tax levels using the council tax base for the boroughs in West Surrey. Spelthorne is slightly below the weighted average, around 0.1% for the current County and Borough charge. This means the starting point before any increase in 2027/28 will be approximately £2,176.35 as opposed to this year's proposed charge for both of £2,173.95, £2.43 more.

2.22 The Council believes it is sensible and appropriate to re-confirm the Council's position with respect to the complete disregard of war pension/armed forces pension income from benefit calculations. If the full amount is disregarded, the cost of this measure falls on the local authority as only the first £10.00 is disregarded by central government. Spelthorne have agreed to do this for our Council tax support scheme. The Council have always disregarded the full amount since the housing benefit scheme came into existence along with practically every other local authority, the cost to the authority in the last subsidy claim was £1,738. The Council intend to continue to make this disregard for 2026/27.

Pressures

2.23 An element of the additional spending in 2026/27 is in relation to the cost of homelessness in Spelthorne, due to the Council's proximity to London. The draft 2026/27 budget accounts for an increase in costs of c£0.200m to cover pressures in this area. Similar to other Surrey boroughs, the Council provides preventative services to adults in the community (Independent Living Services including Community Centres, Meals on Wheels, and Community Alarms) that in other parts of the country are provided by County or Unitary Councils.

2.24 As had been anticipated, the impact of the national Business Rates Reset for Spelthorne has been adverse, with an estimated net decrease in retained business rates of £0.843m (previously £4.9m). 2026/27 has seen a significant number of changes to the way the business rates retention scheme operates nationally including a full reset of how much business rates councils are allowed to retain.

Impact of complying with rules and guidelines on MRP

2.25 The MRP policy and calculations have been updated using revised asset lives. The implication of compliance, as set out in the MRP Policy report to Full Council on 17.11.25, is a £40m pressure for 2026/27 (ie MRP for 2026 at £53m is £40m more than the £13m MRP for 2025/26). This is dependent on assumed asset disposals in 2025/26.

Without mitigating action to fund this cost pressure would have used all available revenue reserves, prompted a s114 notice and a request for Exceptional Financial Support from government as the Council would not have been able to balance the 2026/27 Budget. Exceptional Financial Support merely allows the Council to capitalise revenue spending which in turn adds additional MRP and interest charges. It is not additional grant.

2.26 Mitigating actions include debt rescheduling approved at Full Council on 17.11.25 and a managed investment and regeneration asset rationalisation programme.

Other Pressures

2.27 The Council has provisionally agreed a local pay settlement for its staff of 4% for 2026/27 under the Local Pay Agreement with the local Unison branch which will add £1.024m to the revenue budget. A 2.5% per annum increase has been assumed for 2027/28 and 2028/29 based on Bank of England projections around inflation and wage growth.

2.28 The table overleaf shows the main pressures for each year:

Table 2 Budget pressure area for the MTFS period

Pressures	2026/27	Comment
	£'000s	
Service Area		
Pay Agreement	1,024	Local settlement of 4% for 2026/27 and a backdated settlement of 0.2% for 2025-26.
Third Party Inflation	281	2% inflation for third party service providers.
Unavoidable Growth	1,252	Please see Appendix C for full details.
Subtotal Service Area	**2,557**	
Corporate Items		
Discount on Early Loan Redemption	(34,261)	Discount on Early Loan Redemption
Minimum Revenue Provision	40,103	Implementation of the New MRP Policy
Sinking Fund Contributions	5,052	Contribution to be ended in 2026-27
Loan Interest Payment	7,461	Increase reflects restructuring of loan portfolio in 2025-26.
Interest receivable	99	Various interest receivable covering lending activity.
Reduction in Collection Fund Surplus	76	
Subtotal Corporate Items	**18,529**	
Total	**21,086**	

The Budget Gap Challenge

2.29 All of the above pressures result in a budget gap which needs to be mitigated to ensure that a balanced and sustained budget can be set.

Debt rescheduling

2.30 Rescheduling all loans maturing over 10 years totalling £905m in November 2025 has enabled the Council to reduce its outstanding loan debt by £342m from £1,057m at 31 March 2025 to £715m – a 32% reduction.

2.31 The £34m annual discount generated from restructuring the debt will be credited to revenue over a 10-year period in line with Local Authority Capital Financial Regulations.

Savings

2.32 A key strand of the Budget in order to limit the extent to which reserves are drawn down will be progressing over the remaining year of the Council's existence a programme to deliver savings which are achievable in that timescale, and in the context of Local Government Reorganisation.

2.33 The generation of savings within the budget in turn facilities the funding of policy priorities of the Council such as tackling Homes in Multiple Occupation, retaining the Jobs and Skills Hub, and progressing the Staines Masterplan. There is therefore an element of prioritisation in the draft Budget.

2.34 The Finance team will be working with Group Heads and Budget heads, and with some external expertise to scrutinise and drill down into unit cost benchmarking against the other councils that will form West Surrey and relevant "nearest neighbours" to better understand the Council's cost base and to identify opportunities for reducing net cost i.e. through reducing cost or increasing income. The focus will be measures which can be implemented and generate benefits within the time remaining before vesting day of the new council. This rules out significant IT systems changes, changing office footprint etc. The MTFS builds in a target assumption of additional £1m part year savings to be delivered in 2026/27.

2.35 The only way the Council would be able to make such significant reductions in its expenditure is to consolidate its service provision with other district councils and with upper tier service provision which Local Government Reorganisation in West Surrey will help to achieve.

2.36 An assumption of £1m deleted posts savings has been built into the projection for 2026/27.

2.37 Employers' pension contributions (these are revalued every three years for each local government pension fund) based on advice from the actuaries for the Surrey Local Government Pension Fund, it has been confirmed that employer contribution rates for the period 2026/27 to 2028/29 will fall from 24.6% to 23.1%. This is a budget saving of £0.550m per annum.

2.38 Investment & Regeneration covers the council's regeneration asset and investments. The saving of £2.120m is mainly due to reduced landlord costs that cover refurbishment and management costs.

2.39 A significant amount of work has been undertaken to find upfront savings which can be built into the 2026/27 budget. These are listed in Appendix D and total £39.9m. This includes taking into account £1m savings relating to the deletion of vacant posts.

2.40 **Table 3** overleaf, shows the impact of savings per area. Across Revenue line covers savings form pension £0.550m, referenced above and savings to be allocated of £1m.

Table 3 Budget Savings

Area	£'000
Supported Housing Team	219
Environment Enhancements	98
Parks	107
Commissioning & Transformation	383
Community & Wellbeing	150
Assets	965
Place, Protection & Prosperity	100
Finance & Corporate Services	61
Pension - Employer Contributions	550
Savings target to be achieved by the Council in 2026/27	1,000
Investment & Regeneration property	2,120
Total	**5,752**

Use of specific grants to support individual services

2.41 In order to manage a £320k financial pressure in the Strategic Planning Service, an amount has been allocated from reserves and grants, this is set out in table 4, below.

The allocation is part of the overall reserve allocation stated in Tables 9 and 10 in paragraph 2.64.

Table 4 - Use of Specific Reserves/Grants	
Strategic Planning	**£000**
Environmental Impact Reserve	154
MHCLG – Custom Build Grant Local Authority Grant	90
MHCLG – New Burdens funding for the Brownfield Register	26
Funding for Masterplan from Assets	50
Total	**320**

Fees and charges

2.42 The default assumption is that for those fees and charges over which the Council has discretion to set the fee level, the fees and charges will rise by at least 5% in 2026/27. As part of the LGR transition process, the Council will be undertaking benchmarking analysis to compare its fees with the other component districts and boroughs in the new unitary authority.

2.43 Where fees in the other councils for specific services differ, the Council will look to align our fees to move towards those of the other councils. An example of this, which the Council has acted on is Meals on Wheels charges where the Council is moving its fees closer to the West Surrey average. This is in the expectation that when the new unitary authority sets its fees and charges, it will level up rather than level down the fees which will apply across its area. The Council, by taking steps to align, will be helping residents to adjust to the higher rates which are likely to be applicable as a result of LGR. Fees projections are shown in Appendix H, and a summary in table 5 below.

Table 5 Summary of Fees and charges changes,

Committees	2025/26 Budget £'000	2026/27 Draft £'000	Movement Increase/ (Decrease) £'000
Business Infrastructure & Growth Committee	204	205	0
Community Wellbeing & Housing Committee	1,876	2,093	217
Corporate Policy & Resources Committee	580	505	(75)
Environment & Sustainability Committee	4,187	4,240	53
Total	**6,847**	**7,043**	**196**

Mitigations and solutions available to the Council

Budget Gap Covered by Reserves

2.44 The Council legally needs to set a balanced budget, ideally it would do this by reducing costs to match available resources. However, given the significant budget pressures set out in this report resulting from implementing a compliant MRP policy this is not possible. As such the Council will use £8.8m of reserves to balance the 2026/27 budget.

Budget Gap after pressures, savings, grant changes and use of reserves

2.45 Table 6 overleaf shows how budget pressures, savings and grant changes set out in this report result in a budget gap and the proposed use of reserves to close it. For details of the gap are available in Appendix A/B.

Table 6 Budget Gap

Budget Gap	£'000
Council Tax Increase	(425)
Grants change	(3,745)
Business rates change	836
Pressures	21,086
Savings	(5,752)
Fees and Charges	(196)
Change in use of reserves	(3,009)
Gap	**8,796**
Use of reserves	(8,796)
Net Gap	**0**

2.46 The budget deficit is after assuming the use of a PWLB loan discount of £342m for early repayment of loans which is then spread equally over the next 10 years. The expiry of this will need to be factored into future financial planning.

2.47 **Table 7** below summarises the changes between the 2025/26 revised budget and 2026/27 budget at net service expenditure level:

Flexible Use of Capital Receipts

2.48 The Council in December 2025 approved a Flexible Use of Capital Receipts Policy (see Appendix G), In accordance with Section 15(1) of the Local Government Finance Act 2003, the Secretary of State is empowered to issue Directions allowing revenue expenditure incurred by local authorities to be treated as capital expenditure. Where such a direction is made, the specified expenditure can then be funded from capital receipts under the Regulations. This will then allow the Council to capitalise as eligible expenditure, transformation expenditure relating to IRP and LGR.

2.49 It is proposed that transitional costs incurred as part of the process of moving towards the unitary authority can be treated as qualifying expenditure. The Council’s share of the estimated £35m pre-vesting Surrey LGR costs is £0.557m. It is proposed that this is capitalised and funded from receipt. Equally, elements of the Improvement and Recovery Plan, which are driving transformation, are qualifying expenditure. In total, expenditure of £1.133m is proposed to be capitalised and funded from reserves.

Table 7: Summary of Changes from 2025/26 to Draft 2026/27 Budget

	2025/26 Original Budget £000		2026/27 Draft Budget £000	Difference Increase/ (Decrease) £000
Gross Expenditure	64,955		57,771	(7,184)
Less: Fees/Charges and Specific Grants	(16,618)		(18,368)	(1,750)
Less: Housing Benefits Grant	(21,556)		(14,522)	7,034
Net Expenditure	**26,781**		**24,882**	**(1,900)**
Broken down by Service Area				
Assets Mgt.	2,086		1,923	(163)
Commissioning & Transformation	5,742		5,235	(507)
Community & Wellbeing	3,994		4,079	85
Finance & Corporate Services	5,269		4,017	(1,252)
Legal and Elections	1,974		2,043	69
Neighbourhood Services	3,806		3,082	(724)
Place, Protection & Prosperity	3,911		4,504	592
Total Expenditure at Service Level	**26,781**		**24,882**	**(1,900)**
Investment & Regeneration property	(45,581)		(42,629)	2,952
Net Rental Income receivable	*(41,199)*		*(43,319)*	*(2,120)*
Sinking Fund and Mng Costs	*(4,382)*		*690*	*5,072*
Minimum Revenue Provision	13,025		53,127	40,103
Loan Interest	25,425		32,886	7,461
Loan Discount	-		(34,261)	(34,261)
Prior yr exp on Housing Schemes write-off	8,710		-	(8,710)
Interest Receivable	(2,112)		(2,013)	99
Budget Requirement	**26,247**	**-**	**31,991**	**5,744**
General Government Grants	(2,053)		(5,798)	(3,745)
Business Rates	(4,910)		(4,074)	836
Appropriation to/(from) Reserves:	(9,110)		(2,801)	6,309
Net Budget Requirement	**10,173**		**19,318**	**9,145**
Collection Fund (Surplus)/Deficit	(877)		(801)	76
Income from Council Tax	(9,296)		(9,721)	(425)
Net Position - Over/ (Under) budget	**0**		**8,796**	**8,796**
Appropriation from reserves to close the budget gap	(0)		(8,796)	(8,796)
Balance at Year-end	**-**		**-**	**-**

2.50 Appendix E shows a more detailed view of Total Expenditure at Service Level budget movements by services within each area. Appendix B shows the Budget movements since the draft MTFS of 11th December 2025.

Medium Term Financial Strategy (MTFS)

2.53 The objectives of the MTFS are to look beyond the 2026/27 year detailed Budget and are:

- To set a path to financial sustainability for the new unitary authority
- To significantly reduce debt levels through asset rationalisation

  An ongoing measured approach to asset rationalisation to continue beyond 2026/27 into the medium-term, ensuring that best value is achieved, this includes addressing the follow aspects:

- Remove risks for the future unitary authority in respect of investment and regeneration property risks

- Assuming a compliant MRP Policy continues to be applied addressing the recommendations of the Best Value Inspection report, the Statutory Directions and the recommendations of the external auditor
- To have a plan to reduce service costs to comparable levels of other district councils
- To have an unqualified audit opinion on the 2026/27 statement of accounts to give assurance to West Surrey Council
- To satisfy MHCLG that the Council has complied with all of the Statutory Directions by the end of 2026/27.

Table 8 overleaf summarises the current projected budget position across the MTFS period.

Table 8 Service Area Budget projection across MTFS period

	2025/26 Original Budget £000		2026/27 Draft Budget £000	2027/28 Draft Budget £000	2028/29 Draft Budget £000
Gross Expenditure	64,955		57,771	55,706	54,802
Less: Fees/Charges and Specific Grants	(16,618)		(18,368)	(19,040)	(19,499)
Less: Housing Benefits Grant	(21,556)		(14,522)	(14,522)	(14,522)
Net Expenditure	**26,781**		**24,882**	**22,144**	**20,782**
Broken down by Service Area					
Assets Mgt.	2,086		1,923	2,023	2,126
Commissioning & Transformation	5,742		5,235	5,397	5,562
Community & Wellbeing	3,994		4,079	3,031	3,112
Finance & Corporate Services	5,269		4,017	1,688	(146)
Legal and Elections	1,974		2,043	2,381	2,464
Neighbourhood Services	3,806		3,082	2,994	2,907
Place, Protection & Prosperity	3,911		4,504	4,629	4,757
Total Expenditure at Service Level	**26,781**		**24,882**	**22,144**	**20,782**
Investment & Regeneration property	(45,581)		(42,629)	(30,363)	(23,912)
Net Rental Income receivable	*(41,199)*		*(43,319)*	*(31,073)*	*(24,642)*
Sinking Fund and Mng Costs	*(4,382)*		*690*	*710*	*730*
Minimum Revenue Provision	13,025		53,127	37,078	34,663
Loan Interest	25,425		32,886	28,804	26,152
Loan Discount	-		(34,261)	(34,261)	(34,261)
Prior yr exp on Housing Schemes write-off	8,710		-	-	-
Interest Receivable	(2,112)		(2,013)	(1,759)	(1,658)
Budget Requirement	**26,247**	**-**	**31,991**	**21,643**	**21,766**
General Government Grants	(2,053)		(5,798)	(5,334)	(4,868)
Business Rates	(4,910)		(4,074)	(2,000)	(2,358)
Appropriation to/(from) Reserves:	(9,110)		(2,801)	(514)	(514)
Net Budget Requirement	**10,173**		**19,318**	**13,795**	**14,026**
Collection Fund (Surplus)/Deficit	(877)		(801)	-	-
Income from Council Tax	(9,296)		(9,721)	(10,153)	(10,604)
Net Position - Over/ (Under) budget	**0**		**8,796**	**3,642**	**3,422**
Appropriation from reserves to close the budget gap	(0)		(8,796)	(3,642)	(3,422)
Balance at Year-end	**-**		**-**	**-**	**-**

2.55 The estimated remaining budget gap for 2026/27 of £8.8m reduces in the following years.

2.56 If the Council sought to solely close the Budget gap over the MTFS period 2026/27 – 2028/29 by use of reserves this would consume £19.7m of reserves. Leaving a balance of total reserves of £14.242m and £2.033m of earmarked revenue reserves as per Table 9 below. Further savings will need to be identified following LGR to ensure that the new Council can operate without using reserves which is not sustainable.

2.57 As highlighted above, under Surrey Local Government Reorganisation, Spelthorne is due to cease to exist on 1st April 2027. With the Council's abolition, there is little scope for the Council to reap the benefits from savings initiatives, but the work done now will generate benefits over the medium-term for the successor authority.

Reserves

2.58 A key strand of the MTFS for both Spelthorne and West Surrey councils will be to use the reserves the Council has available to help smooth the impacts of the financial challenges across the MTFS period.

2.59 Reserves should be maintained above a minimum level as assessed by the S151 Officer as part of his Section 25 Statement on the Budget (see Appendix J). This is the minimum level that, if there is a risk that reserves are projected to fall below, immediate corrective action will need to be taken to bring the level of reserves back to that level.

2.60 As set out in the proposals for Local Government re-organisation in Surrey, the new unitary authorities are likely to face significant costs to implement the re-organisation and significant budget pressures going forward. Therefore, it is important for the future sustainability of the new unitary authorities and the services that they need to deliver, that reserves are maintained at current levels and are not reduced unnecessarily before the implementation of LGR.

2.61 As at 31 March 2025, the Council held £56.2m in revenue reserves. Of this, £8.3m related to developer contributions (CIL), £3m formed part of the Business Rates Equalisation Reserve set aside to fund future deficits, and £0.065m and £0.149m have been earmarked in the Bronzefield and Building Control reserves respectively to meet future commitments.

2.62 This left £40.9m of earmarked revenue reserves available at the start of 2025/26 that the Council could use to support its budget.

2.63 The Reserves Strategy in Appendix F shows repurposing the Sinking Funds and other uncommitted earmarked reserves, reflecting the fact that the Council is no longer planning to hold its investment assets long term in line with the Statutory Directions. As a result, these reserves will be released to support the transition period and help close the MTFS budget gaps.

2.64 As shown in Table 9 below, using £24.0m of reserves in 2025/26 to cover the originally planned use of reserves of £10.3m and the projected overspend of £13.7m (based on Q3 monitoring). This leaves an estimated balance of £32.2m in available reserves as at 31 March 2026. Tables 10 provides an analysis of projected reserve levels over the MTFS period.

Table 9 Total Estimated Balances in Earmarked Revenue Reserves as at 31 March 2026

Movement in Earmarked Reserves Summary to end of 2025-26			
	Earmarked Reserves	**Ringfenced Reserves/General Fund**	**Total Reserves**
	£'000	**£'000**	**£'000**
Opening Balances			
Developer Contributions (CIL) Reserves		8,319	
Business Rates (element to cover future deficits, Bronzefield and Building Control Reserves		3,000	**11,319**
General Fund Reserve		4,065	**4,065**
Available Earmarked Reserves	40,862		**40,862**
Total Reserves at 31.03.25	**40,862**	**15,384**	**56,246**
2025/26 Approved Usage Earmarked	(5,452)		**(5,452)**
Q3 Projected Outturn at 31st December 2025	(13,689)		**(13,689)**
2025/26 Approved Usage CIL		(1,871)	**(1,871)**
2025/26 Approved Usage Business Rates		(3,000)	**(3,000)**
Projected use of reserves – 2025/26	**(19,141)**	**(4,871)**	**(24,012)**
Projected reserves at 31.03.26	**21,721**	**10,513**	**32,234**
Of which			
Earmarked			*21,721*
CIL			*6,448*
Business Rates			*0*
General Fund Reserve			*4,065*
Projected Reserves at 31.03.26			***32,234***

Table 10 Projected Earmarked Reserves over MTFS period 2026/27 – 2028/29

	Earmarked Reserves Use	**Earmarked Reserves Balance**	**Ringfenced Reserves Use**	**Ringfenced Reserves Balance**	**Total Reserve Balance**
	£000	**£000**	**£000**	**£000**	**£000**
Balance at 31.03.26		**21,721**		**10,513**	**32,234**
In year contributions			2,600		
In year use 2026/27	(2,801)		(2,674)		
To close 2026/27 deficit	(8,796)				
Balance at 31.03.27		**10,124**		**10,439**	**20,563**
In year contributions			1,100		
In year use 2027-28	(514)		(215)		
To close 2027/28 deficit	(3,642)				
Balance at 31.03.28		**5,968**		**11,324**	**17,292**
In year contributions			1,100		
To close 2028/29 deficit	(514)		(215)		
Deficit 2028/29	(3,422)				
Balance at 31.03.29		**2,033**		**12,209**	**14,242**

In year contributions are drawn for committed and dedicated areas of spend known in advance during the year. To close the budget deficit, it is used at year to cover the potential budget gap which it is accurate only at year end.

Capital Strategy

2.65 A full Capital Strategy for 2026/27 will come to Council in February 2026. In the context of local government reorganisation and Best Value Intervention, the strategy will reflect the following:

- Maintain a minimal Capital Programme with no major multi-year capital projects being commenced which would extend beyond March 2027.
- Financing the Capital Programme is mainly from grants and capital receipts, thus avoiding the need to borrow in line with the Statutory Direction to implement a strict debt reduction policy.
- Capitalising some transformation costs which will allow them to be funded from capital receipts.

3 Options appraisal and proposal

3.1 Option 1: Accept the proposed Budget and updated MTFS. The recommended option is to accept the proposed MTFS, in so doing the Council would be complying with the statutory directions and implementing one of the actions from the "Improving Financial Sustainability" theme of the Improvement and Recovery Plan. The MTFS in turn provides the parameters for then working up a balanced budget for 2026/27.

3.2 Option 2**:** Make modifications to the proposed budget ensuring that any amendments still result in a balanced budget.

3.3 Option 3: Reject the proposed budget. This is not recommended as councils have a statutory obligation to set a balanced budget annually.

3.4 With respect to the savings strand within the proposed budget, proposals will be reported back to Councillors on options for consideration, setting out impacts on services.

4 4 Risk implications

4.1 Key financial risks are included on the Corporate Risk Register: The following risks should be considered when agreeing the recommendations of this report:

Risk Description	*Mitigations*	*RAG status*
The impact of Devolution and Local Government Reorganisation	Currently the Council has a £0.557m budget for LGR costs. As the Budget and updated MTFS sets out the Council will capitalise transformation costs related to LGR and fund from capital receipts	Amber
External factors, outside of the control of the Council, will be	Demand and inflationary growth evidence based on	Amber

Risk Description	*Mitigations*	*RAG status*
subject to volatility with upward volatility creating a financial risk on the Budget and MTFS.	the most up today date information at the time of budget setting Robust monthly in year monitoring to capture volatility / potential volatility to ensure mitigating actions can be implemented Monitoring reported through the governance channels including Corporate Risk Register/scrutiny to ensure areas of risk are transparent and addressed Significant reserve balances which could be applied	
That the target level of in-year savings proves undeliverable	Council to consider a broad range of savings sufficient in value and scope to deliver target. Savings delivery to be informed by data analysis, input from managers, and engagement with councillors	Amber
The assets rationalisation programme from which financial modelling underpins the Budget and updated MTFS, proceeds more slowly and or rationalisation values prove less than anticipated. Slippage in delivery of receipts or values has potential to have significant impact on MRP provision required to be charged to Revenue and in turn the Budget gap. Financing the capital programme in 2025/26 and reducing MRP charges in 2026/27 are predicated on using £26.5m of capital receipts in 2025/26. Failure to achieve expected asset values will impact MRP in 2026/27. For example, if capital receipts	The Council is appointing through a framework a specialist that has the skills to assist with an asset rationalisation programme.	Amber

Risk Description	*Mitigations*	*RAG status*
generated were either late or less than anticipated by £10m, this would increase MRP in 2026/27 by £3.3m.		

5 Financial implications

5.1 Financial implications are set out in the report above.

6. Legal comments

6.1 Section 151 of the Local Government Act 1972 requires that every local authority make arrangements for the proper administration of their financial affairs.

6.2 Section 31A of the Local Government Finance Act 1992 ("the 1992 Act") requires billing authorities to calculate their Council Tax requirements in accordance with the prescribed requirements of that section. The function of setting the Council Tax is the responsibility of Full Council. The Council is required by the 1992 Act to make estimates of gross revenue expenditure and anticipated income, leading to a calculation of a budget requirement and the setting of an overall budget to ensure proper discharge of the Council's statutory duties and to lead to a balanced budget. The budget should include sufficient allowances for contingencies and financial reserves.

6.3 Section 30(6) of the 1992 Act requires the Council to agree its budget and Council Tax resolutions before 11 March 2026.

6.4 Local authorities owe a fiduciary duty to Council tax payers, which means it must consider the prudent use of resources, including control of expenditure, financial prudence in the short and long term, the need to strike a fair balance between the interests of Council tax payers and ratepayers and the community's interest in adequate and efficient services and the need to act in good faith in relation to compliance with statutory duties and exercising statutory powers.

6.5 Section 25 of the Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance (section 151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. It is essential, as a matter of prudence that the financial position continues to be closely monitored**.**

6.6 Full Council is responsible for setting the overall budget framework. However, some of the proposed savings will be subject to further analysis and decision making and as such the savings are an estimate. Individual service decisions will be subject to Committee approval, taking account of the statutory framework, any requirement to consult and consideration of overarching duties, such as the public sector equality duty.

6.7 The Local Government Act 2003 and associated regulations set out rules in relation to use of capital reserves. S.15 requires local authorities to have regard to relevant statutory guidance. The statutory guidance on flexible use of capital receipts confirms that local authorities cannot borrow to finance service delivery, however they can use capital receipts from sale of assets to finance the revenue costs of reforming services. The guidance states that qualifying expenditure is expenditure on a project that is designed to generate ongoing revenue savings in the delivery of public services or transform service delivery in a way that reduces costs or demand for services in future years. The Council is expected to publish an annual Flexible Use of Capital Receipts Strategy, although this can be included in wider strategy documents.

Corporate implications

7. S151 Officer comments

7.1 The Council has a statutory duty to set a balanced budget. The focus of this report is to pull together the pressures and uncertainties the Council is facing in setting a balanced budget and to set out a set of strategies and parameters which will help ensure an ongoing sustainable future both for the Council and the successor unitary. The report sets out the proposals for a balanced Budget for 2026/27 will need to be balanced. In order to achieve a balanced budget in total it has been necessary to use £11.5m of reserves. This level of reserves usage could be sustained one year beyond 2026/27 before the reserves would be exhausted. Hence essential that through the unitary transformation process significant longer-term savings are achieved.

8. Monitoring Officer comments

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

9. Procurement comments

3. There are no procurement implications arising directly from this report.

10. Equality and Diversity

10.1 There are no direct diversity implications identified in this report. Moving forwards where savings are being evaluated have the potential to impact on equality and diversity, equality impact assessments will be undertaken.

11 Sustainability/Climate Change Implications

11.1 Addressing climate change priorities continues to be a priority of the Council and is likely to be priority for the new unitary. Potentially there are significant overlaps between reducing running costs and reducing use of resources such as heating, energy, materials and reducing emissions and moving towards the Council's goal of reaching net-zero. In reviewing savings opportunities, it therefore it will be important to look at alignment with climate change objectives.

12 Other considerations

12.1 There are none**.**

13. Timetable for implementation

13.1 The Council's Budget is due to be approved on 26th February 2026.

14. Contact

Terry Collier, Chief Finance Officer, T.Collier@spelthorne.gov.uk

Please submit any material questions to the Committee Chair and Officer Contact by two days in advance of the meeting.

Background papers: There are none*.*

Appendices:

Appendix A - Summary of General Fund Revenue 2025/26 to 2028/29 by Committee
Appendix B - 2026/27 General Fund Revenue Budget Movement since 11th December 2025 Version - Group Head Structure
Appendix C - Unavoidable Revenue Expenditure Pressures 2026/27
Appendix D - General Fund Revenue Savings 2026/27
Appendix E -Yearly Revenue Budget Movements
Appendix F - Reserves Strategy
Appendix G - Flexible Capital Receipts Strategy
Appendix H - Draft Fees and Charges - Statutory & Discretionary
Appendix I - Council Tax Resolution 2026/27
Appendix J - Robustness of Reserves and Estimates, S151 Officer’s comments
Appendix K- Local Government Finance Glossary
Appendix L - What is the Minimum Revenue Provision (MRP)

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**	**09/02/2026**
Commissioner engagement (if report focused on issues of concern to Commissioners such as Finance, Assets etc)	**Y**	**09/02/2026**
Relevant Group Head review	**Y**	**06/02/2026**
MAT+ review (to have been circulated **at least 5 working days before Stage 2**)	**Y**	**06/02/2026**
This item is on the Forward Plan for the relevant committee		
Finance comments (circulate to Finance)	**Y**	**31/1/26**
Risk comments (circulate to Lee O'Neil)	**Y**	**04/02/26**
Legal comments (circulate to Legal team)	**LH**	**04/02/26**
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 **5 working days before MAT**	**L Heron**	**04/02/26**
S151 Officer commentary – at least **5 working days before MAT**	**T. Collier**	**31/1/26**
Confirm final report cleared by MAT	**T.Collier**	**06/02/26**