Appendix A

Treasury Management Outturn Report 2025/26

Introduction

1.1. This report covers four areas:

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Summary position

1.2. Prudential Indicators (PIs) are reported throughout the report and summarised at Appendix A with a Red, Amber, Green notation where figures highlighted green and with a ‘G’ were within the PI level.

1.3. The Council has significantly high levels of external borrowing totalling £718m as at 31st March 2026 (Table 4) reflecting a £352m reduction from previous year. Long term borrowing has been used to

- fund the acquisition of investment properties in previous years, which are now being disposed of in line with the Statutory Direction;
- part fund the purchase of properties for resettlement of refugee families and part-fund Temporary Accommodation using the Local Authority Housing Fund (LAHF) provided to offset some of the (about 40% to 50%) cost of purchase;

- purchase of buildings in Spelthorne for regeneration which are now being considered for disposal; and
- financing the construction of the Eclipse Leisure Centre

1.4. In the run-up to Surrey local government reorganisation (LGR) on 1 April 2027, the Council's Capital Programme was reduced in 2025/26 and has been reduced also in 2026/27 to minimise the risk of long-term liabilities being entered into before LGR. Also the aim has been to continue to avoid entering into schemes which would require additional new borrowing both in 2025/26 and 2026/27

1.5. The Council has embarked on an asset rationalisation plan with the aim of generating capital receipts to enable paying off some of the long-term debt and reduce future capital financing charges.

Statutory Direction

2.1. The Secretary of State issued the Council with a Statutory Direction on 8 May 2025 requiring the Council to implement an Improvement and Recovery Plan which includes the following actions which impact on the Council's Treasury Management Strategy:

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

2.2. As a consequence of the above, the Treasury Management Strategy (TMS) for 2025/26 approved by the Council 27 February 2025 was updated at the mid-year TMS report in November 2025 to approve a revised MRP Policy.

2.3. In addition, the Council restructured £905m of PWLB loans in November 2025. This generated £342m of discount and significantly reduce borrowing by 34%, bringing overall borrowing down to £718m at 31 March 2026.

2.4. Also the Council approved the appointment of Knight Frank to advise the Council on marketing the disposal of the investment property portfolio, which commenced in March 2026.

SECTION 1 CAPITAL STRATEGY

Capital expenditure and financing

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

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

3.3. All capital expenditure has to be financed either:

- Immediately through the application of capital or revenue resources (i.e. capital receipts, capital grants, revenue contributions etc.). Application of these resources avoids the need to borrow; or
- Where insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need. This will be reflected in an increase in the Council's Capital Funding Requirement (CFR).

3.4. Table 1 below shows actual capital expenditure against the original plan and how this was financed. Capital expenditure was lower than originally planned largely resulting from rigorously reviewing schemes in the run-up to LGR. Overall Table 1 shows a significant reduction in the total financing need compared with 2024/25 of £55m.

Table 1 Capital Spending and funding (Prudential Indicator 1)

		2025/26		
2024/25 Actual		**Original estimate**	**Outturn**	**Variance**
£m		**£m**	**£m**	**£m**
	Expenditure			
31.3	Housing and Regeneration	4.3	3.8	(0.5)
1.8	Other capital expenditure	3.1	2.0	(1.1)
33.1		**7.4**	**5.8**	**(1.6)**
	Funding			
0.0	Capital receipts	(6.5)	(9.6)	(3.1)
(11.8)	Capital grants and contributions	(0.9)	(2.7)	(1.8)
(0.4)	Revenue contributions	0.0	(0.6)	(0.6)
(12.2)		**(7.4)**	**(12.9)**	**(5.5)**
20.9	**Total financing need before MRP**	**0.0**	**(7.1)**	**(7.1)**
(19.3)	Minimum Revenue Provision (MRP)	(13.2)	(59.6)	(46.4)
1.6	**Total financing need after MRP**	**(13.2)**	**(66.7)**	**(53.5)**

Overall Borrowing Need

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

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

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

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

- the outturn opening CFR although £16m lower than originally budgeted, was restated by £22.5m whilst preparing the 2025/26 Statement of Accounts in order to reconcile the CFR to balance sheet at 31 March 2025. This was in response to an audit recommendation from Grant Thornton from their 2024/25 audit;

MRP was £46m higher than originally budgeted. This was due to revising the MRP Policy in November 2025 to comply with the Statutory Direction.

Table 2 Capital Financing Requirement (Prudential Indicator 2)

2024/25 Actual		2025/26 Original estimate	2025/26 Outturn
1,151.2	**Opening CFR**	**1,179.8**	**1,163.9**
	Restatement of opening balance		22.5
	Restated opening balance		**1,186.4**
	Capital Investment		
31.3	Property, Plant & Equipment	4.2	3.8
	Investment properties	0.1	0.1
0.2	Intangible assets		0.3
1.6	Revenue Expenditure Funded from Capital under Statute	3.1	1.6
33.1	**Total Capital investment**	**7.4**	**5.8**
	Sources of finance:		
0.0	Capital receipts	(6.5)	(9.6)
(0.8)	Government grants and contibutions	(0.9)	(2.7)
(0.4)	Revenue contributions	0.0	(0.6)
(19.3)	Minimum Revenue Provision	(13.2)	(59.6)
(20.5)	**Total sources of finance**	**(20.6)**	**(72.5)**
1,163.8	**Closing CFR**	**1,166.6**	**1,119.7**

3.9. Table 3 below shows that the Council's borrowing has remained within the constraint of the CFR. Table 3 shows that the debt restructuring in November 2025 significantly reduced gross borrowing. However, as the Council generates capital receipts from asset sales, these will be used to both repay external borrowing and be applied to reduce the CFR – both in line with the Statutory Direction.

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

	31/03/2025 Actual	31/03/2026 Budget	31/03/2026 Actual
	£m	£m	£m
Capital Financing Requirement	1,163.8	1,166.6	1,119.7
Gross borrowing position	1,069.2	1,042.3	717.5
(Under)/over borrowing	**(94.6)**	**(124.3)**	**(402.2)**

Affordability

3.10. The objective of the affordability indicator is to ensure that the level of investment in capital assets proposed remains within sustainable limits and, in particular, highlight the impact of capital financing costs (i.e. MRP and interest) on the Council's "bottom line". The financing costs reflect current commitments and the capital outturn to date. The net revenue stream is defined in paragraph 96 of the Prudential Code as taxation and non-specific grant income as reported in the Authority's Comprehensive Income and Expenditure Statement.

Table 4 Affordability indicator (Prudential Indicator 4a)

	2024/25	2025/26		
	Outturn	Estimate	Forecast	Outturn
	£m	£m	£m	£m
Total capital financing costs	44.7	40.0	50.9	56.2
Net revenue stream	14.2	18.0	16.3	18.2
Affordability Indicator	**315%**	**222%**	**313%**	**309%**

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

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

	2024/25	2025/26		
	Outturn	Estimate	Forecast	Outturn
	£m	£m	£m	£m
Total capital financing costs	44.7	40.0	50.9	56.2
Net revenue stream	14.2	18.0	16.3	18.2
Net operating income from investment property	43.0	47.2	38.8	42.3
	78%	**61%**	**92%**	**93%**

3.12. Including the net operating income from the Authority's investment property portfolio considerably reduces the affordability indicator down to 93%. However, this remains well above the affordability ratio for comparable authorities which is less than 18%. This is one of the reasons for the Statutory Direction requiring the Authority to implement a treasury management strategy which is sustainable and affordable.

Minimum Revenue Provision

3.13. Full Council approved a revised MRP Policy as part of the 2025/26 half-yearly Treasury Management report on 11 December 2025 to comply with the Statutory Direction. The revised MRP Policy fully complies with the Local Authorities (Capital Finance and Accounting) (England) Regulations 2024 and the related Statutory MRP Guidance which were revised in March 2024.

SECTION 2 BORROWING

Borrowing strategy and control of interest rate risk

4.1. Borrowing is undertaken to fund net unfinanced capital expenditure and naturally maturing debt and to maintain cash flow liquidity requirements.

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

Borrowing outturn

4.3. At 31 March 2026, the Council's borrowing totalled £719m, including leases, as set out in Table 6 below.

Table 6 Composition of borrowing at 31 March 2026

Borrowing type	Balance at 31/3/2025	Balance at 31/3/2026	Movement
	£m	£m	£m
Public Works Loans Board (PWLB)	1,061.2	717.5	(343.7)
Short-term - Other Local Authorities	8.0	0.0	(8.0)
Total loans	**1,069.2**	**717.5**	**(351.7)**
Right of use leases	2.4	1.9	(0.5)
Total borrowing	**1,071.6**	**719.4**	**(352.2)**

Debt restructuring

4.4. During 2025/26 to comply with the Statutory Direction to reduce borrowing, the Council restructured £905m of borrowing which generated a discount of £342m. The discount generated is being credited back to the General Fund over 10 years in line with statutory requirements. The replacement borrowing has all been taken out on fixed interest rates over loan maturities timed to match the estimated receipt of capital receipts from asset disposals.

4.5. This approach has de-risked the Council from interest rate risk which would have faced the Council if it had taken out short-term borrowing from other sources, such as local authorities

4.6. As there was no similar impact on the CFR, this has led to the Council having a significant under-borrowed position at 31 March 2026. As the asset disposal plans generate capital receipts, these will be used to reduce the CFR and repay borrowing thus bringing down both measures.

Limits on external borrowing

4.7. The Prudential Code requires local authorities to set two limits on total external debt as set out in Table 6 below. 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. Once this has been set, the Council does not have the power to borrow above this level.

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

4.8. Table 7 shows that during 2025/26, the Council has maintained gross borrowing within both its Operational Boundary and its Authorised Limit.

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

Limits for 2025/26	TMS approved Feb 2025	Revised mid-year
	£m	£m
Authorised Limit	1,270	1,270
Operational Boundary	1,170	1,170
Maximum Borrowing position during year		1,072
Outturn borrowing position		719

Maturity structure of borrowing (Prudential Indicator 7)

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

4.10. Table 8 below shows that because of the debt restructuring exercise in November, the maturity profile was significantly shortened. Although the restructured debt profile exceeded the upper limits, the revised loan maturities have been timed to coincide with the expected capital receipts from the Council's asset disposal plan. The revised loan maturity also includes leeway for slippage in the generation of capital receipts to mitigate the need for any temporary borrowing, and reflect a pessimistic view to anticipated capital receipts.

Table 8 Debt maturity profile limits (Prudential Indicator 7)

	Lower Limits	Upper Limit	Actual borrowing maturity	
	%	%	£m	%
Under 12 months	0%	10%	13.5	2%
1-2 years	0%	15%	139.8	21%
3-5 years	0%	20%	60.8	30%
6-10 years	0%	25%	340.2	77%
11-20 years	0%	50%	163.2	100%
21-30 years	0%	75%		
31-40 years	0%	90%		
41-50 years	0%	100%		
			717.5	

Borrowing in advance of need

4.11. The Council has not borrowed more than, or in advance of its needs, purely to profit from the investment of the extra sums borrowed. On the contrary, it is operating a strict debt reduction policy rather than considering new borrowing.

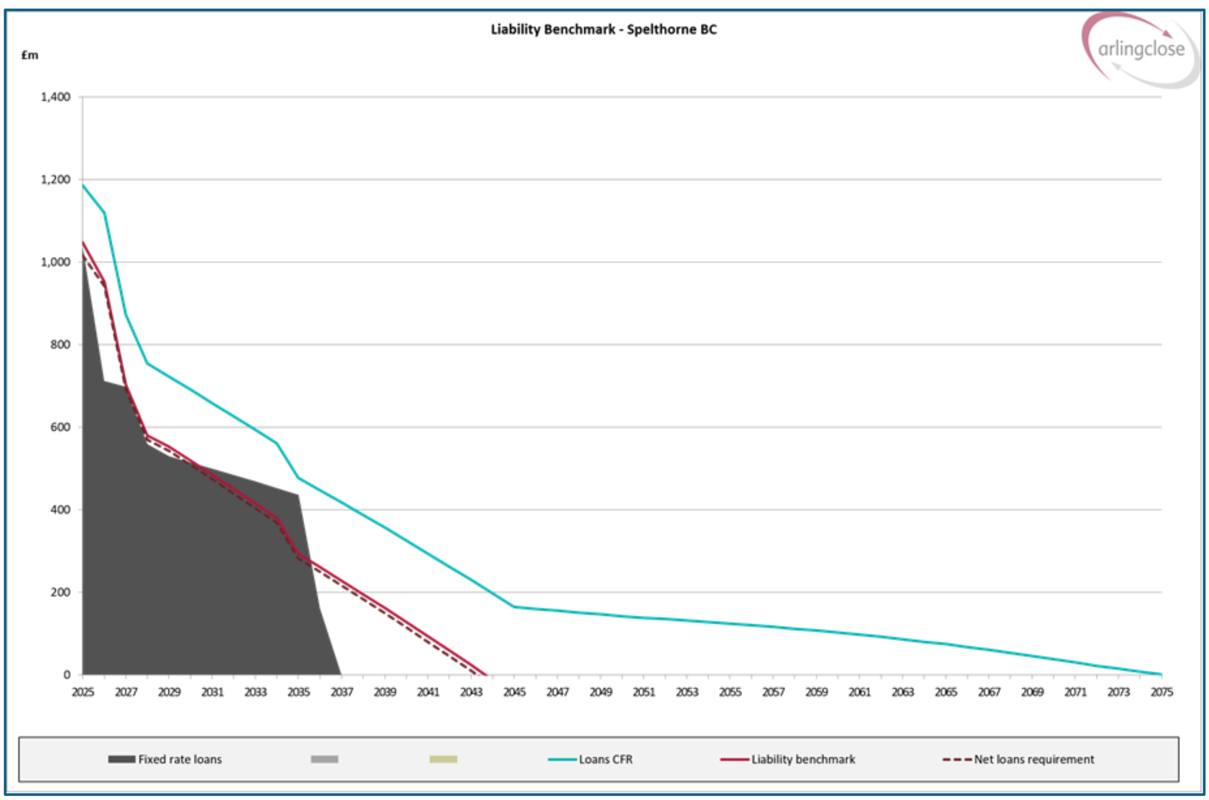
Liability Benchmark

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

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

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

Chart 1 Liability benchmark



4.14. The liability benchmark indicates that the level of borrowing is forecast to be within the forecast CFR through to 2036/37. It should be noted that the forecast CFR is based on the latest forecast of asset disposals. It is heavily dependent on the Council achieving the forecast capital receipts from the asset disposal plan. If disposals are not achieved, then the CFR will be higher than forecast in Chart 1 above.

4.15. It should be noted that when the Council's debt was restructured in November 2025, £435m of borrowing was scheduled to fall due over the period 2035/36 and 2036/37. This was a deliberate policy to allow West Surrey flexibility in its future treasury management arrangements rather than fettering it with a lot of long-term borrowing. It may be that by then the new authority may have rationalised its overall asset base and generated further capital receipts which could be used to repay borrowing. Alternatively, the new authority may re-finance the borrowing but at lower rates than are currently available.

4.16. In the light of the Statutory Direction to adopt a strict debt reduction plan, the liability benchmark will be revisited during 2026/27.

SECTION 3 MANAGING CASH BALANCES

Investment outturn 2025/26

5.1. The Council's investment position at the end of 2025/26 is summarised in Table 9 below.

Table 9 Investments

	2024/25 Actual	2025/26 Actual	Movement
	£m	**£m**	**£m**
Treasury investments:			
Pooled investment funds	2.9	0.0	(2.9)
Lending to other local authorities	13.0	17.1	4.1
Money Market Funds	4.3	4.1	(0.2)
Loans to Knowle Green Estates and Spelthorne Development Services	45.1	44.9	(0.2)
Investment Property	624.3	526.1	(98.2)
Total	**689.6**	**592.2**	**(97.4)**

5.2. The Council liquidated the residual £2.9m invested in the CCLA LAMIT Property Fund during 2025/26. It should be noted that the investment property balance at 31 March 2025 was restated by £37.6m from £586.7m to £624.3m to correct a mis-classification identified during the preparation of the 2025/26 Statement of Accounts

5.3. The only significant treasury investments in 2025/26 are all short-term – either loans to other local authorities or money held in money market funds. Investments all complied with the limits set out in the 2025/26 TMS, namely:

- no more than £10m with any single organisation except the UK Central Government; and
- no more than £5m invested with any local authority without a credit rating, which in practice caps lending to local authorities at £5m per local authority.

5.4. The Council operates a detailed cashflow model and manages cash to ensure that no more than £50,000 is held overnight. Any surplus cash is invested overnight.

5.5. The treasury investments and loans to companies are classed as non-specified investments under the Statutory Guidance on Local Government Investments issued by the then DCLG in 2018 as they are sums invested for more than 364 days. Table 9 above shows that such investments remained within the £70m limit set out in the 2025/26 TMS.

Commercial activity

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

- Investment property for return
- Loans to third parties; and

- Shareholdings in companies and joint ventures.

5.7. Such investments are statutorily defined as capital expenditure for treasury management and prudential borrowing purposes even though they do not create physical assets in the Council's accounts. Appropriate budgets in respect of these activities are agreed as part of the Council's budget setting and ongoing monitoring processes are considered as part of the Annual Investment Strategy.

5.8. Currently the Council is invested in the following activities which fall within the category of commercial activity under the Prudential Code:

- An investment property portfolio valued at £526.1m at 31 March 2026 comprising 12 properties both within and without the borough;
- £44.9m of loans to two wholly owned Council subsidiary companies, the bulk of which is to Knowle Green Estates Ltd and
- £1 shareholdings in the two subsidiary companies, Knowle Green Estates Ltd and Spelthorne Direct Services Ltd

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

5.10. The detailed performance of the Council's investment property portfolio was reported to the Commercial Assets Sub-Committee on 16 June 2026.The summary performance is set out in Table 10 below, which shows a significant level of net rental income being generated from the portfolio.

Table 10 Investment Property performance

	2025/26		
	Revised Budget	**Outturn**	**Movement**
	£m	**£m**	**£m**
Rental Income	(48.4)	(46.8)	1.6
Less Landlord costs	7.2	4.4	(2.8)
Net rental income receivable	**(41.2)**	**(42.4)**	**(1.2)**
MRP and interest	71.8	71.8	0.0
Net (Surplus)/Deficit	**30.6**	**29.4**	**(1.2)**

5.11. However, the £71.8m cost of servicing the borrowing associated with the investment portfolio exceeds the net rental receivable of £42.3m resulting in a net cost to the Council of £29.5m in 2025/26, with an average deficit of £33m per annum projected (disregarding the asset disposal programme now underway) over the six year period to 2031/32.

5.12. As has been previously reported the value of the investment property has fallen substantially since the assets were originally acquired. As at 31 March 2026 the overhanging debt (i.e. the difference between the Capital Financing Requirement and the value of the assets) was £370m. The debt is being serviced through a substantial Minimum Revenue Provision (MRP) set aside each year. Provided that the Council adheres to the asset rationalisation plan already in train, the anticipated capital receipts generated will substantially reduce the level of MRP and the overall cost to the Council of maintaining the investment portfolio.

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

Table 11 Council controlled companies

Net Worth 31/3/2025	Company name	Share ownership	Nominal Value	Net Worth 31/3/2026
£000s			**£**	**£000s**
16,670	Knowle Green Estates Ltd	1	1	9,138
72	Spelthorne Direct Services Ltd	1	1	88
16,742				**9,226**

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

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

Table 12 Loans to Council controlled companies

Balance at 31/3/2025		Average interest rate	Balance at 31/3/2026
£000s		**%**	**£000s**
44,449	Knowle Green Estates Ltd - loans	0	42,381
2,500	Knowle Green Estates Ltd - debenture	0	2,500
207	Spelthorne Direct Services Ltd	0	160
47,156	**Total**		**45,041**

5.16. The Council has recognised an expected credit loss of £4.7m for the loans advanced to Knowle Green Estates Ltd as the value of the freehold assets held at 31 March 2026 has fallen below the balance of the loans advanced at the same date. The company has not generated an operating surplus since inception, and only is going concern through ongoing support from the Council, currently in the form of £0.9m of cashflow loans advanced in the past two years and a £2.5m debenture provided.

5.17. In line with the Statutory Direction, the Council engaged Savills to undertake a review of the financial viability of the company which reported back in March 2026. In summary, the review recommended transferring the housing assets to the Council to then transfer them onto the successor West Surrey unitary authority on 1 April 2027 and commence winding the company up.

SECTION 4 – SUMMARY OF PRUDENTIAL INDICATORS

6.1 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.

6.2 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 13 below.

Table 13 Summary of Prudential Indicators

PI ref	Para ref		2024/25 Actual	2025/26 Estimate	2025/26 Outturn	RAG Indicator
			£m	£m	£m	
1	3.4	Capital expenditure	33.1	7.4	5.8	G
2	3.8	Capital Financing Requirement	1,163.8	1,166.6	1,119.7	G
3	3.9	Net debt v. CFR - (under)/over borrowed	(94.6)	(124.3)	(402.2)	G
		Ratio of financing costs to net revenue stream (Affordability):				
4a	3.1	excluding investment property income	315%	313%	309%	R
4b	3.11	including investment property income	78%	92%	93%	R
5a	4.8	Authorised limit for external debt		1,270	1,270	G
5b	4.8	Operational boundary for external debt		1,170	1,170	G
6	5.5	Limit on surplus funds held for more than 364 days (i.e. non-specified investments	65.3	70.0	66.1	G
		Maturity structure of borrowing				
7a	4.1	upper limit under 12 months		10%	2%	G
7b	4.1	lower limit 10 years or more		0%	100%	G

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

6.3 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. It should be noted that the two affordability indicators are unsustainably high. Until the Council’s borrowing level is reduced to a level reflecting the size of the Council’s taxbase, these indicators will continue to exceed the Prudential Indictor significantly.

6.4 The S151 Officer confirms that the PIs identified in the 2025/26 Treasury Management Strategy as amended in November 2025/26 have been complied with as summarised in Table 13 above.