Member briefing:

The financial impact
of statutory directions

27 October 2025

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SPELTHORNE
BOROUGH COUNCIL

Approach:

- the first of a number of briefings to ensure councillors understand the financial impact of complying with statutory directions
- aim in this session to explain the objectives, approach and answer questions

Why are we doing this?

1) Best Value Directions - May 2025

Ensure compliance with rules and guidelines relating to financial management including updating the Minimum Revenue Provision (MRP) policy.

A comprehensive and strict debt reduction plan, demonstrating how external borrowing will be reduced over a realistic, expedient timescale.

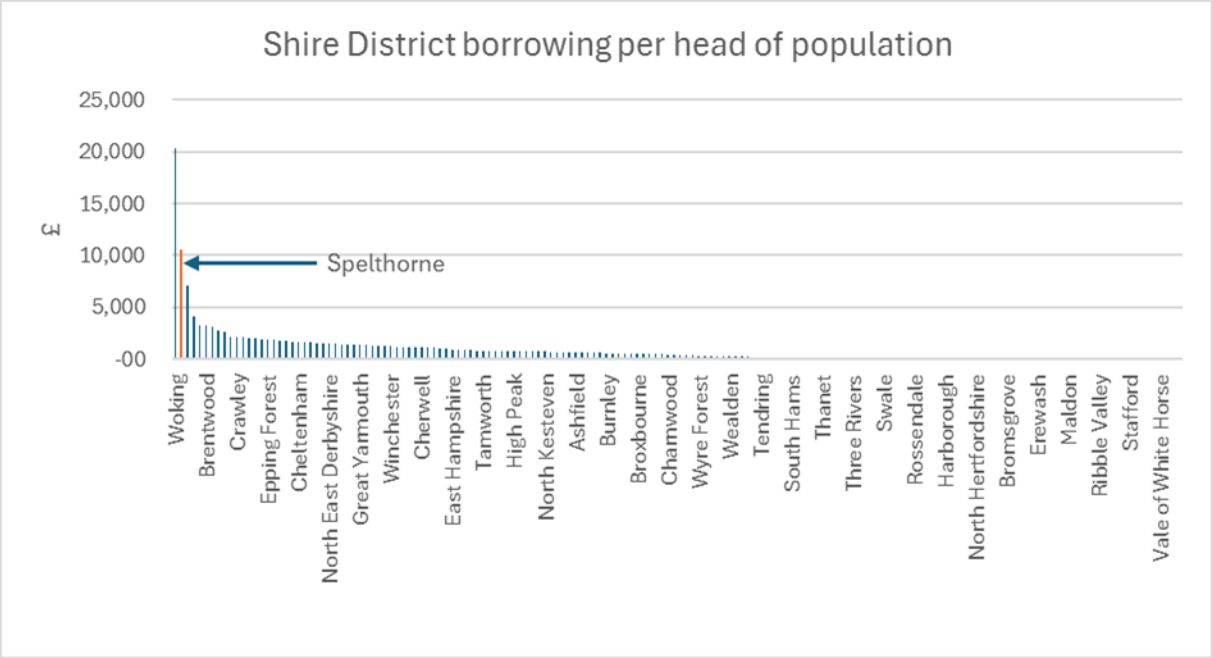
Ensure capital, investment and treasury management strategies are sustainable and affordable including an asset rationalisation programme.

2) External Audit (Grant Thornton) - Annual Audit Report recommendations

Review asset lives used by the council in its MRP calculations

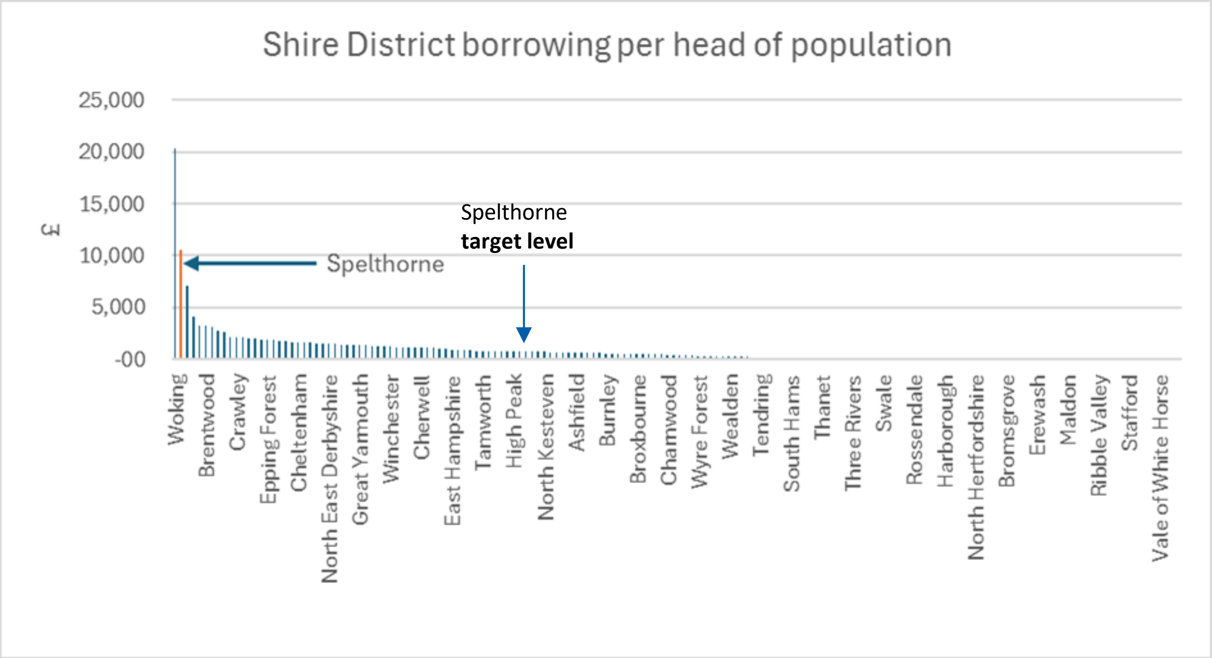
Issues

£1bn debt from investment property purchases

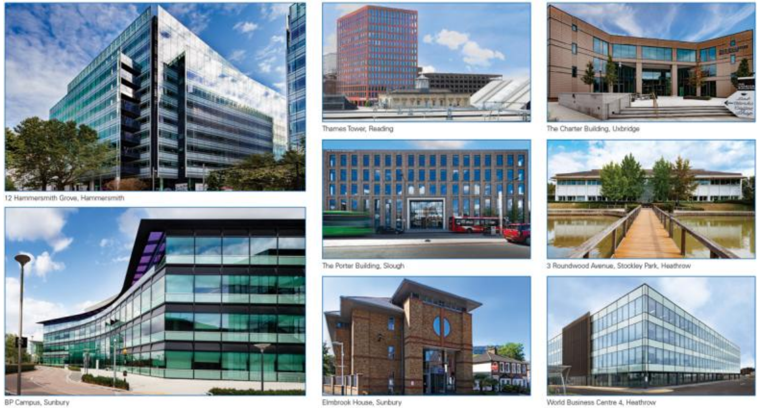


Issues

£1bn debt from investment property purchases
Ideally reduce to £100m



Investment properties



Investment properties currently generate circa **£46m pa rental income** and were planned to deliver a net budget contribution of £10m each year **BUT….**

- **£4m** budgeted underlying contribution to the Council's budget in **2025/26**
- rent income will reduce over the next 10 years as current tenancies expire
- some properties now need refurbishment – this investment has not been set as side
- assets have reduced in value by c45% since acquisition

Regeneration properties



- Sites were originally identified as being suitable for the delivery of new, mainly affordable housing
- In October 2023 due to no longer being financially viable, the Council agreed to end

  the plan to develop them and dispose of them
- Have reduced in value and £15m of costs incurred to plan for their redevelopment written off
- The sites are a financial burden due to ongoing borrowing , MRP and vacant premises costs

Objectives

to have comparable debts to other districts, ideally circa £100m

a measured approach to investment property disposals

compliant MRP strategy

De-risk future unitary

Set a path to financial sustainability

Minimum Revenue Provision (MRP)

- where capital spending has been financed from borrowing
- annual charge to revenue - similar to loan principal

- calculations **must** be in line with Statutory MRP Guidance
- based on the remaining useful life of the assets determined by an independent RICS qualified valuer

MRP set aside for investment properties

MRP has been too low at £13m pa (albeit under annuity model will rise over time), based on asset lives of 50 years

Implementing in line with statutory guidance based on valuer's asset life judgement will increase the charge to the General Fund by c£40m pa

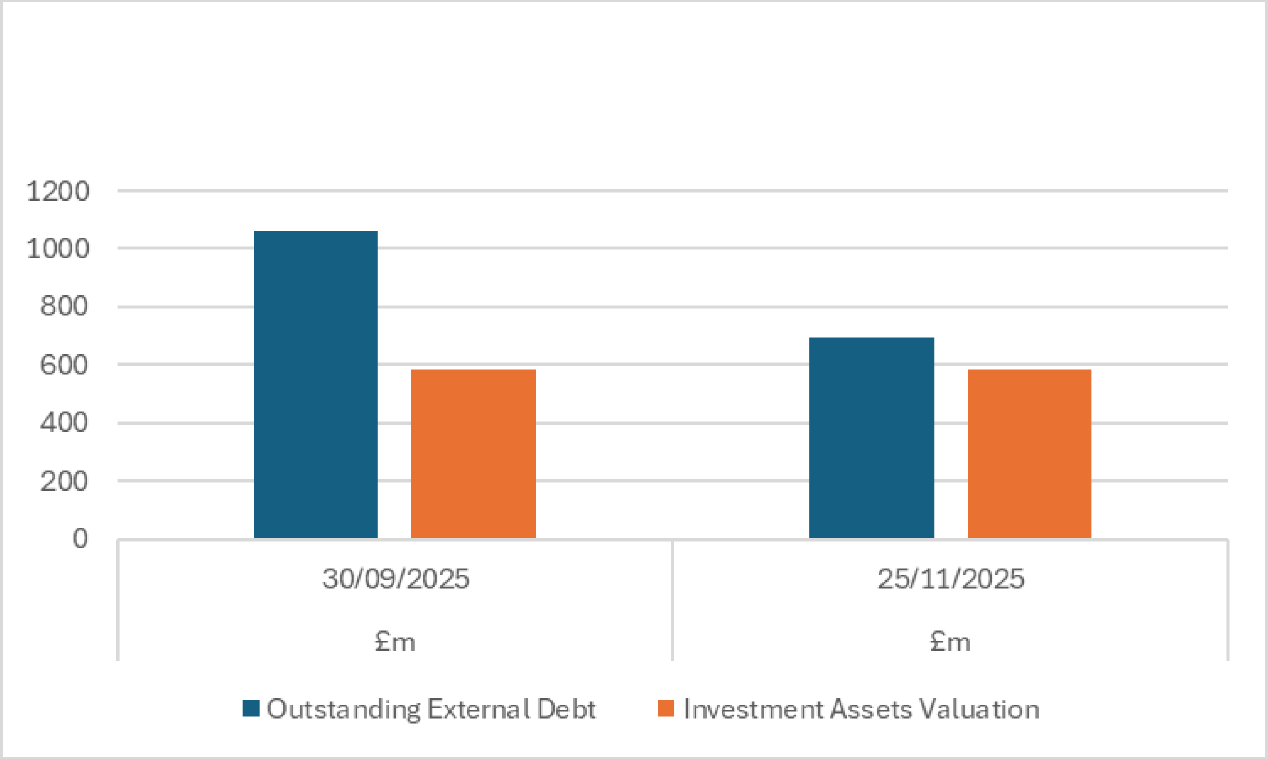
Debt restructuring (1)

opportunity: replace existing borrowing with new borrowing with different terms

aim: obtain a £360m discount in exchange for an increased rate of interest

holding low interest debt - PWLB willing to pay an incentive or discount for early repayment

Impact of rescheduling and applying discount – closing gap between outstanding debt and asset values



Asset rationalisation

Previously income from investment property covered:

- current interest
- original MRP - but not restated MRP
- loan repayments
- planned to generate £10m pa - **£4m budgeted for 2025/26**

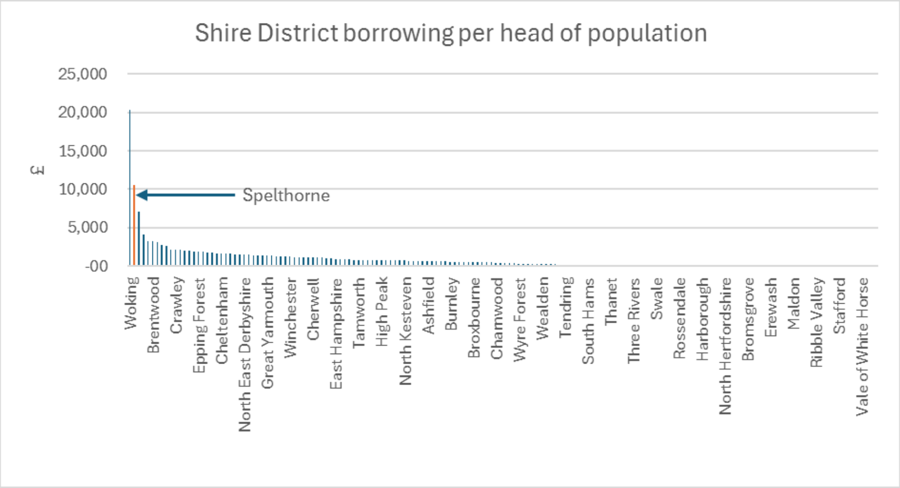
Asset rationalisation on a managed basis would enable debt to be repaid and reduce interest charges, also:

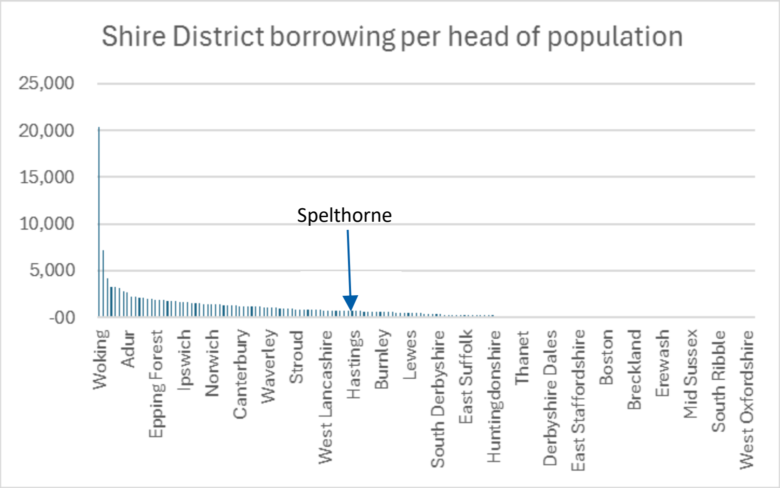
- capital receipts applied to reduce MRP
- rationalisation strategy being progressed over coming months

But: indicative sales values for investment and regeneration properties are currently less than original cost, so sales proceeds are unlikely to eliminate all external borrowing and MRP

Borrowing level change 2024 - 2035

£1bn debt from investment property purchases





From £1,000m debt → **to £100m debt**

Asset Rationalisation Principles

A managed plan using experts NOT a Fire Sale!

Experience has demonstrated that reasonable returns can be achieved through a managed medium-term programme

Rationalisation programme to be agreed by CPRC and Full Council

Financial model assumes, subject to member decisions, majority of investment assets are disposed of within the next 5 years (except BP)

Medium Term Financial Plan
to achieve financial sustainability

MRP policy and calculations updated using revised asset lives

Strategy for asset rationalisation programme.

Debt rescheduling to mitigate the impact of MRP increases

Aligning service costs to comparable authorities

Reserves available to smooth the impacts of MTFS

Member decisions to approve

- ✓ **compliant MRP policy**
- ✓ **debt re-structuring**
- ✓ **asset rationalisation strategy**
- ✓ **revised reserves strategy**
- ✓ **draft medium term financial strategy**

Timelines

11 November: Corporate Policy & Resources Committee

17 November: Full Council

- updated Treasury Management and MRP Policy
- debt Reduction Strategy
- assets Rationalisation Strategy
- updated MTFP
- updated Reserves Strategy

January 2026: Assets rationalisation plan

26 February 2026: Budget approved by Full Council

7 May 2026: Unitary shadow elections

1 April 2027: New Unitary Council is formed

Question & Answers

We'll take each topic in turn, please hold your questions until the next topic

MRP

Debt Re-Scheduling

Asset rationalisation strategy

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