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Up to £1 where sold

Examination of a Surrey Borough’s 2nd highest UK debt

8 December 2024



The review into Spelthorne Borough Council’s £1 billion debt and whether it is upholding its duty to provide best value to residents has been extended. In May, the government wrote to the heavily leveraged local authority, the second most indebted borough council in the country, over concerns surrounding its debt conditions and financial management arrangements. It has now written again to say it is extending its deadline until January 31, 2025, with the scope of the inspection remaining unchanged. The Government first began engaging with Spelthorne Borough Council in May 2022 over its capital risk, and the review covers concerns over how the council is governed, the strength of its audits, scrutiny and risk arrangements, and in particular its finances. Its debt is second only to bankrupt Woking among borough councils.

A Spelthorne Borough Council spokesperson said of the delay: “The snap general election earlier this year interrupted the appointment of the Best Value Inspection team. The delayed appointments have had a knock-on impact on the original timeline, which has resulted in this extension.” The council’s extremely high levels of debt and borrowing, as of March 2023, stood at £1.1 billion, which is 87.1 times the borough’s core spending power (CSE) and 52.4 times its total service expenditure. By comparison, the average CSE for councils such as Spelthorne is 5.6. Spelthorne has followed a similar path to other Surrey authorities such as Woking, Runnymede, and Surrey Heath, borrowing vast amounts to fund regeneration projects in the hope of creating long-term revenues. Many councils have used this to stave off real-term cuts to their spending power and maintain services residents value. The problem arises, as in Woking’s case, when local authorities can no longer afford to pay back their loans, or if income from the investments is too low. While Spelthorne Borough Council has not yet reached that stage, the Government is seeking assurances that its long-term position is secure.

Between December 2016 and August 2018, Spelthorne Borough Council bought eight investment properties for a cost of about £1 billion. It borrowed largely from the Public Works Loans Board to generate income that supports its revenue budget, enabling it to maintain a wide range of discretionary services. As of December 31, 2022, the council’s total borrowing stood at some £1.1 billion, with £1.08 billion from the Public Works Loans Board—the same body that lent to Woking Borough Council and numerous others. The council plans to borrow a further £332 million between 2023 and 2027, with most of this spread across the next two financial years, and has set its authorised borrowing limit at £1.45 billion for the next four years. The Government has also highlighted a KPMG Public Interest Report on the council’s 2017/18 accounts, published in November 2022, which raised concerns about Spelthorne’s investments and stated the auditor’s view that the authority acted unlawfully in borrowing to purchase three properties in 2017/18.

The vast majority of Spelthorne’s property portfolio, 95 percent, consists of office buildings, with just ten tenants accounting for 75 percent of its lettings income, and one tenant—BP—providing £18 million in rental income annually. About half of its leases end within 10 years and 94 percent within 15 years, creating pressure to retain key tenants. This reliance was highlighted when the loss of a previous tenant resulted in a £4 million loss, including £2.4 million linked to a Russian-owned tenant affected by Russia’s invasion of Ukraine. A July 2023 report noted: “Although Spelthorne Borough Council has effective mitigations in place, this cannot provide complete protection. The loss of a major tenant can impair commercial income.” The council is projected to face an income shortfall of £10 million over the next two years due to these challenges. Additionally, the devaluation of its assets adds to its risks. Spelthorne spent £952 million on eight major purchases that collectively were worth £882 million as of 2022, with only the Sunbury Business Park increasing in value, rising from £384 million to £387 million. However, this gain is overshadowed by losses, such as the Charter Building in Uxbridge, purchased for £135.98 million but valued at £99 million. These devaluations mean that if the council needs to sell assets, it could face a significant deficit.

Despite these challenges, the council insists that the rental income from its commercial property portfolio exceeds financing costs and contributes significantly to discretionary services. “Annually these contribute approximately £10 million net to the council’s revenue budget, enabling the council to continue delivering services that would otherwise have to be cut, including valued services such as Meals on Wheels or community centres,” stated a Chartered Institute of Public Finance and Accountancy report. The same report, titled the Spelthorne Borough Council Review of Debt/Investment Risk Profile July 2023, also warned of a significant budget deficit of £9.306 million projected over the next three financial years. Responding to the original best value review, a council spokesperson said: “We welcome the independent review and will work with the inspector and her team. This administration has taken many decisive and positive steps since the May 2023 election, including instigating a full external independent review of our commercial property portfolio. Additionally, we have reduced future borrowing requirements by nearly £200 million and are pursuing

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alternative ways to deliver more affordable housing. We will continue to work with (the government) in an open and transparent way and look forward to receiving the findings of the report. The rental income received from our commercial property portfolio more than covers the financing costs and provides a significant contribution to support council services, additionally, there is a reserve to cover possible income variation in future years."

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Spelthorne Borough Council offices in Knowle Green, Staines. Credit: Emily Coady-Stemp

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