# **Spelthorne Best Value Inspection 2024**

[Spelthorne Best Value Inspection 2024 1](#_Toc189235987)

[1. Executive Summary 4](#_Toc189235988)

[Our conclusions 7](#_Toc189235989)

[Recommendations 8](#_Toc189235990)

[2. Introduction 11](#_Toc189235991)

[Spelthorne 11](#_Toc189235992)

[The Best Value Inspection 12](#_Toc189235993)

[3. Methodology 14](#_Toc189235994)

[4. Use of resources 16](#_Toc189235995)

[Part 1: Property and asset management – investment 17](#_Toc189235996)

[Investment portfolio overview 17](#_Toc189235997)

[Decision making 18](#_Toc189235998)

[Loan arrangements 19](#_Toc189235999)

[Risk management 20](#_Toc189236000)

[Sinking fund 21](#_Toc189236001)

[Part 2: Property and asset management – regeneration 22](#_Toc189236002)

[Regeneration portfolio overview 22](#_Toc189236003)

[Decision making 22](#_Toc189236004)

[Revised Housing Delivery Policy 2023/24 23](#_Toc189236005)

[Part 3: Financial management, reporting and regulation 26](#_Toc189236006)

[Outline Revenue Budget 2025/26 – 2028/29 26](#_Toc189236007)

[Revenue Reserves 28](#_Toc189236008)

[Revenue Budget 2023/24 28](#_Toc189236009)

[Revenue Budget 2024/25 29](#_Toc189236010)

[Under provision for Minimum Revenue Provision (MRP) 31](#_Toc189236011)

[2023/24 Statement of Accounts 32](#_Toc189236012)

[CIPFA recommendations 32](#_Toc189236013)

[Capacity and capability of the finance function 32](#_Toc189236014)

[5. Continuous Improvement 35](#_Toc189236015)

[Response to external challenge and recommendations from external reviews 35](#_Toc189236016)

[Audit 38](#_Toc189236017)

[Performance 38](#_Toc189236018)

[Transformation 39](#_Toc189236019)

[6. Leadership 40](#_Toc189236020)

[Political leadership 40](#_Toc189236021)

[Member capacity and capability 40](#_Toc189236022)

[Senior officer leadership 41](#_Toc189236023)

[Use of consultants and interims 42](#_Toc189236024)

[Approach to risk 43](#_Toc189236025)

[7. Governance 45](#_Toc189236026)

[Constitution 45](#_Toc189236027)

[Decision making 45](#_Toc189236028)

[Internal and external audit and the role of the Audit Committee 47](#_Toc189236029)

[Governance of council companies 49](#_Toc189236030)

[Self-assessment against the CIPFA Financial Management Code 49](#_Toc189236031)

[Self-assessment against the best value framework 50](#_Toc189236032)

[Procurement 50](#_Toc189236033)

[8. Culture 52](#_Toc189236034)

[Member/officer relationships 52](#_Toc189236035)

[Staff experiences 53](#_Toc189236036)

[9. Service Delivery 55](#_Toc189236037)

[Delivery of services 55](#_Toc189236038)

[Delivery of housing 55](#_Toc189236039)

[Residents’ survey 57](#_Toc189236040)

[10. Partnerships and Community Engagement 58](#_Toc189236041)

[Community Engagement 58](#_Toc189236042)

[Partnerships within Spelthorne 58](#_Toc189236043)

[Partnership working beyond the borough 58](#_Toc189236044)

[11. Conclusion 60](#_Toc189236045)

[Appendix 1: Inspectors’ biographies 61](#_Toc189236046)

[Appendix 2: Case studies 62](#_Toc189236047)

[Appendix 3: Confidential appendix 64](#_Toc189236048)

# 1. Executive Summary

* 1. Spelthorne Borough Council has borrowed over £1.0 billion to acquire investment and regeneration properties, creating a debt level of over £10,000 per resident. The Council now has the second-highest borrowing per capita among district councils in England, surpassing major cities such as Liverpool, Sheffield, and nearly doubling that of Bristol.
  2. Spelthorne’s core spending power for 2024/25 is just £13.5 million[[1]](#footnote-2), against a net revenue budget of £26.1 million – of which £10.0 million relies on net income from its investment assets, or 20% of the current £50.0 million in gross investment property income.
  3. This financial model is not sustainable, The Council is already experiencing a decline in commercial income, with expiring leases in the short-to-medium term likely to exacerbate the situation. The Council has recognised the need to halve its expectations for net commercial income to £5.0 million per annum by 2030/31 and has identified the need to make savings of £8.6 million by 2028/29.
  4. Our findings indicate the situation is even more critical. Minimum Revenue Provision (MRP) is insufficient, and the sinking fund – monies set aside to fund future costs – is inadequate. Additionally, projected commercial income is already overly optimistic, given current void levels and the risks tied to expiring leases. Revenue costs of suspended regeneration and housing projects have been incorrectly charged to capital and not accounted for in the revenue budget. These serious issues are also flagged by the Council’s external auditors in their reports on the 2023/24 accounts presented to the January 2025 Audit Committee.
  5. In essence, the Council’s revenue budget is under far greater pressure than recognised by the Council. Inherent risks are beginning to materialise, and could accelerate rapidly.
  6. The government commissioned a Best Value Inspection of Spelthorne in May 2024, as outlined in the Lead Inspector’s appointment letter[[2]](#footnote-3). The Inspection assessed the Council against the seven best value themes[[3]](#footnote-4), identifying failings in five and raising concerns in the remaining two.
  7. We provide a summary of our findings under each theme below, followed by our conclusions and recommendations.

**Use of resources**

* 1. The Council is in a critical financial position, burdened by unsustainable debt levels, significant investment risks, and systemic governance weaknesses. The combination of voids, expiring leases, and falling income streams from the investment portfolio threatens the stability of its budget. Adding to the strain are the ongoing revenue costs of housing and regeneration projects, which were suspended in late 2023. Despite these mounting financial pressures, no clear path forward has been outlined to address them.
  2. A long-term review of the Council’s sinking fund, essential for financial stability, has faced significant delays and reveals projected future losses.
  3. Both our Inspection and the latest external audit have found errors in financial practice, including the miscalculation of MRP and the inappropriate capitalisation of revenue costs, further undermining the revenue budget. Reports presented to members often lack the rigour needed for informed decision-making, and the finance function is weak. We have quoted numerous figures in this report using information either published or provided by the Council, however are not confident that all are correct.
  4. The outline budget report for 2025/26 to 2028/29 presented to members on 9 December 2024 shows the need to deliver £8.6 million in savings by 2028/29, equating to 64% of the Council’s core spending power for 2024/25, or 33% of the net budget, assuming contributions from commercial income. In our view, even these projections are understated. Despite this, we have seen no credible strategy in place to achieve savings of this level.
  5. We are not assured the Council can effectively manage the escalating risks without external support.

**Continuous Improvement**

* 1. The Council has a poor track record of continuous improvement. The senior management team displays a culture of over-optimism, a lack of curiosity, and limited self-awareness about the full extent of the risks facing the Council. Internal assessments, including those against the CIPFA code and the Use of Resources best value theme, do not align with our findings, or those of CIPFA, the Local Government Association (LGA) or the Council’s external auditors. This misalignment reinforces our view that there is a lack of realistic understanding of the current challenges.
  2. We have seen little evidence to support the claim that the Council is a learning organisation. Key external recommendations have not been fully implemented, performance is not benchmarked against statistical near neighbours, internal audit has been weak, and external expertise has not been effectively utilised, such as in reviewing the sinking fund. Meanwhile, members are pushing for a shift in direction, but conflict with officers is hindering the transformation required.
  3. We have serious concerns about the Council’s ability to proactively identify areas for improvement, deliver the necessary service transformation and savings to balance its MTFS, and respond effectively to external recommendations. We do not believe the Council, on its own, can address the pressing issues outlined in our report.

**Leadership**

* 1. The Council experienced a significant turnover of members in May 2023, with 22 new Councillors and a new administration formed by four of the five political parties working together. While the administration has worked hard to build consensus, it took time to agree on a new Corporate Plan. Less than a year after this agreement, officers have advised that the Corporate Plan will need to be revised due to newly identified budget challenges for the coming years.
  2. There is a prevailing sense of insularity in Spelthorne, with officers demonstrating an extent of complacency and describing their work as ‘best in class’. Continuity in legal oversight and challenge has been disrupted by a high turnover of Monitoring Officers. The senior management team appears to underestimate the scale of the financial risks, which the finance function lacks the ability to manage effectively.
  3. Member challenge remains limited, with many Councillors not fully understanding the risks at hand. Those who do have a grasp of the situation feel that attempts to challenge officers are met with resistance, with some perceiving they are seen as difficult. We have observed this in the evidence. These dynamics reflect a wider breakdown in the relationship between the Council’s political leadership and senior management.

**Governance**

* 1. The governance arrangements surrounding the acquisition of the Council’s investment and regeneration portfolios were inadequate. Acquisitions were reportedly driven by a small group of Councillors and officers, with insufficient consideration of potential risks and limited opportunities for effective challenge.
  2. Challenge remains limited and often seems disregarded when offered.
  3. The Council’s internal audit function has historically been weak. While the Council entered into a partnership with Southern Internal Audit Partnership (SIAP) in April 2024, it is too early to assess its impact. We have not seen evidence of internal audits conducted on the Council’s housing company, Knowle Green Estates (KGE), or its regeneration sites over the past three years, despite the high level of associated risks.
  4. Accounts for 2018/19 to 2022/23 remain unaudited, including value for money reviews for these years. While not the fault of the Council, this delay has resulted in limited external audit scrutiny in recent years. The most recent audited accounts and value for money statement highlight major concerns. Auditors are minded to qualify the Council’s 2023/24 accounts and are considering issuing statutory recommendations in their value for money report.
  5. The Audit Committee is providing some challenge to officers but we believe the Committee and the Council would benefit from following CIPFA guidance and having a second independent member on the Committee and an independent chair.

Culture

* 1. Member/officer relationships are poor. The LGA raised this during their Corporate Peer Challenge and follow-up review, yet far from improving, the situation has deteriorated throughout our Inspection. Both members and officers describe a culture of mistrust and broken relationships. There is a culture of insularity and over-optimism within the senior management team, particularly regarding the Council’s investment strategy. Senior officers appear overly confident, with some asserting that the biggest risk to their investments comes not from their own actions or inaction, but from external intervention.
  2. Officers report that Councillors are very focused on operational issues and that the levels of mistrust are such that members have sought their own independent advice which has impacted on mutual trust.
  3. We are not confident that the strong joint working necessary to address the Council’s challenges is currently achievable.
  4. Despite these challenges, there are many hard working staff in the Council who report a highly positive culture, as evidenced by good results in the latest staff survey.

**Service delivery**

* 1. Since acquiring investment properties in 2016, the Council’s net revenue budget has continued to increase, enabling it to protect public services despite rising pressures. Income from its investment portfolio has allowed the Council to avoid the efficiency savings or service cuts faced by many other councils.
  2. However, this level of expenditure is not sustainable. The Council needs to identify £8.6 million by 2028/29 to retain the current level and quality of services. We have not seen realistic plans to deliver savings of this scale, which will inevitably impact resident satisfaction.

**Partnerships and Community Engagement**

* 1. The new administration has emphasised resident engagement, and the Council has a good record within the borough of partnership working. Key partners, including the Staines-upon-Thames Business Improvement District, local police, and health providers, have praised members and officers for their commitment and collaboration.
  2. However, feedback on the Council’s partnerships outside the borough has been less favourable. Reports describe a culture of isolationism and reluctance to compromise and work constructively with external partners.

### **Our conclusions**

* 1. The Council’s use of its resources is inadequate. The approach to property acquisitions lacked due regard to long-term planning and risk management and had an overly-optimistic reliance on consistency of the market that the Council first entered. Slow progress on regeneration and housing projects highlights a limited understanding of regeneration delivery and the associated risks. Furthermore, understanding of finance and risk is limited.
  2. The Council has a poor record of fully and effectively implementing recommendations from external reviews. Senior officers display an optimism bias and a lack of awareness of the true situation facing the Council. We do not believe the Council has the capacity and capability to make the urgent changes needed without significant external support.
  3. The relationship between the Council’s political leadership and senior management is generally poor and continues to deteriorate. This is hindering constructive discussions on dealing with the financial, housing, and asset management issues the Council faces.
  4. Poor, late and incomplete reporting, together with a lack of audit and a reluctance to accept and act on challenge, has severely undermined informed decision making by the Council. A culture of insularity and denial within the senior management team has, to some degree, blindsided the Council to the seriousness of its situation. Members are pushing for a change in focus for the borough, and there is conflict between senior management and the political leadership which has led to broken relationships. This tension is hampering the transformation now needed.
  5. The Council has relied on net income generated from investment properties to offset service cuts and expand discretionary services. This approach is not sustainable. Resident satisfaction may not stay at its current high level if services are reduced.
  6. The Council has emphasised community engagement and been strong in partnership working within the borough, as reflected in its scores from the latest residents’ survey. However, it has been criticised for its lack of engagement and collaboration with partners outside the borough.
  7. We note the current status of local government reorganisation and proposals for unitary authorities in Surrey. We have carefully considered our recommendations and conclude that the issues and associated risks in Spelthorne are substantial and need to be addressed as a matter of urgency, regardless of any structural changes.
  8. In conclusion, the Council is failing to meet best value standards in five critical areas: Use of Resources; Continuous Improvement; Governance; Leadership; and Culture. We do not have the confidence that the Council can address the challenges it is facing, and outlined in this report, without significant external support.

### **Recommendations**

1. **Commissioner-led intervention:** The Secretary of State should consider appointing Commissioners with expertise in finance, commercial investments, property, and transformation to oversee the Council's recovery process and ensure effective governance.
2. **Comprehensive commercial strategy:** The Council should, with Commissioners’ support, develop a comprehensive commercial strategy, with clear approaches to its investment and regeneration portfolios, including exit strategies for the commercial investments and realistic and deliverable strategies for the regeneration sites. Progress should be reported regularly to Committees, alongside an annual report to full Council. The sinking fund should be updated with more accurate income and expenditure forecasts, with adequate provisions made for future costs.
3. **Review and strengthen assets function:** The Council should, with Commissioners’ support, review its assets function, ensuring that it has the necessary skills and experience to manage the high risks associated with its investment and regeneration portfolios. Consultants should be used more effectively.
4. **Review of MRP provision and accounts treatment for suspended capital projects:** The Council should urgently review its current MRP provision with its external auditors, Grant Thornton, as it is underfunded. Additionally, revenue costs associated with suspended capital projects should be charged to the 2024/25 accounts.
5. **Revised Medium-Term Financial Strategy (MTFS):** The Council, with Commissioners’ support, should update its MTFS to reflect the costs and risks identified in this report and by their external auditors. The MTFS should align with the new commercial strategy, and include proactive measures to reduce costs and improve financial viability.
6. **Debt reduction strategy:** The Council should, with Commissioners’ support, develop a comprehensive debt reduction strategy to achieve a prudent level of debt within a realistic timeframe to ensure long-term financial stability.
7. **Transformation strategy development:** The Council should, with Commissioners’ support, secure additional expertise to develop a comprehensive transformation strategy to deliver the savings outlined in its MTFS.
8. **Review and strengthen finance function:** The Council should, with Commissioners’ support, review its finance function, identifying gaps in skills and ensuring the recruitment of individuals with the necessary skills and experience to address the high financial risks.
9. **Improvement and recovery plan:** The Council should develop a comprehensive improvement and recovery plan, integrating recommendations from KPMG, CIPFA, the LGA, and the external auditor as per their January 2025 reports, with quarterly progress reports to both the Audit Committee and the Corporate Policy and Resources Committee, alongside an annual report to full Council.
10. **Revised Corporate Plan:** The Council should revise its Corporate Plan to ensure it is achievable and supported by a performance framework, establishing a golden thread between the Corporate Plan, the budget, service plans, and individual appraisals. Quarterly progress updates should be made to Committees, alongside an annual report to full Council.
11. **Audit Committee structure:** The Council should review the structure and reporting processes of its Audit Committee. This could include recruiting a second independent member who acts as chair, in line with CIPFA guidance, and ensuring annual reports to Council.
12. **Culture reset and relationship building:** The Council should, with Commissioners’ support, reset its culture and rebuild relationships between members and senior officers.
13. **Housing delivery:** The Council should, with Commissioners’ support, develop a realistic plan to deliver housing numbers outlined in its Local Plan and assess the viability of Knowle Green Estates, developing a business case and future options for the company and the housing it currently manages.

# 2. Introduction

### **Spelthorne**

* 1. Spelthorne Borough, located in north-west Surrey and bordering Greater London, is home to an estimated 103,000 residents. Spanning 20 square miles, it is bounded by the River Thames to the south, which runs through key towns like Staines-upon-Thames, Sunbury, and Shepperton. Landmarks include Staines Bridge, Shepperton Studios, and Thorpe Park.
  2. Its proximity to London and major transport hubs, including Heathrow Airport and the M25 motorway, offers significant opportunities for the borough and its residents. The borough’s riverside location offers natural beauty and recreational opportunities. However, disparities in wealth persist, along with challenges with housing affordability, infrastructure strains, and environment sustainability. Spelthorne is the most deprived borough in Surrey according to the indices of deprivation 2019, with 65% outside of its urban areas being green belt land. House prices also remain significantly above the national average, although most residents are owner-occupiers, followed by private rented and social rented[[4]](#footnote-5).
  3. The population is predominantly White (78.7%) but with a notable percentage of residents identifying as Asian (12.8%), alongside a smaller group from a Black African background (2.5%). English is the primary language, and 77.1% of residents were born in England. Christianity remains the largest religion (50.9%), followed by Islam, Hinduism, and Sikhism, and a large proportion of residents identify as having no religion (31.2%).
  4. Spelthorne is a relatively stable borough in terms of population growth, with a percentage increase of 7.7% between 2011 and 2021 compared to the national average increase of 6.6%. It has a slightly higher average age (41 years) than the national average (40 years), with residents aged 65 or over slightly below the national average (18.0%).[[5]](#footnote-6)

**Political background**

* 1. Spelthorne Borough Council operates a Committee model of governance, which replaced the traditional Leader and Cabinet system in 2021. This change in governance model took effect from the Annual Council Meeting on 27 May 2021, and followed public consultation.
  2. Historically, the Council has been dominated by the Conservative Party, but recent years have seen significant political shifts. The Conservatives lost their overall majority in 2020 following several defections. After the 2023 local elections, the Council remained under no overall control, with a mix of Independent, Liberal Democrat, Green, Labour, and Conservative councillors. The current administration is run by Independent, Liberal Democrat, Labour and Green councillors working together.

**Scale of Borrowing**

* 1. Spelthorne has a net expenditure budget of £26.1 million for 2024/25. This consists of core funding from Council Tax, business rates and government grants of £13.5 million, with the remaining balance funded by £10.0 million of net income from the Council’s investment properties, along with reserves and interest on balances.
  2. As of 31 March 2024, the Council’s total borrowing was £1,087 million. This compares to the position prior to purchasing investment and regeneration assets at 31 March 2016 of £4.0 million. It now has more borrowing than major cities, such as Liverpool, and Sheffield, and nearly double that of Bristol.

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*Figure 1 Data from borrowing and investment live table, MHCLG*

* 1. The cost of servicing this debt, with yearly fixed costs of £27.4 million in interest and £13.0 million for MRP, regardless of actual income levels from its investment assets, far exceed the Council’s core spending power and expenditure on service provision. This presents a huge risk to the Council.
  2. The Council requires a debt reduction strategy that includes gradually reducing its portfolio of investment properties to lower debt and mitigate risk. While it is aware that selling all properties would not fully cover the outstanding debt, some properties that are underperforming should be considered for disposal as part of a new comprehensive commercial strategy.

### **The Best Value Inspection**

* 1. On 8 May 2024, the Secretary of State for Levelling Up, Housing and Communities (DLUHC) appointed Lesley Seary as Lead Inspector to conduct a Best Value Inspection of Spelthorne Borough Council, with Mervyn Greer appointed on 22 May. Deborah McLaughlin and Peter Robinson were appointed on 17 October 2024. Biographies for the Inspectors can be found in Appendix 1.
  2. The Inspection was outlined to focus on the specified functions where the Department had identified concerns, namely: governance; section 151 of the Local Government Act 1972 and the strength of associated audit, scrutiny and risk arrangements, with particular attention to the governance arrangements and decision making conducted across the Authority; the capacity and capability across the organisation, but particularly the finance function, and whether this is sufficient to meet the Best Value Duty; the adequacy of the Authority’s plans and capacity to address the recommendations made by the CIPFA capital review, to control its debt levels and reduce them over time; what an appropriate level of capital risk would be for the Authority, with regard to the statutory guidance on Best Value Standards and Intervention; the Authority’s capacity to implement the new housing strategy; the impact the investment portfolio and its management has had on service delivery; and the prudence of financial decision making.
  3. Given that the Department’s concerns related to broad-decision-making and standards for effective and convenient local government, the Inspection was also asked to consider decision-making in relation to these functions, encompassing leadership, governance, organisational culture, use of resources and impact on service delivery; and whether in the exercise of these specified functions, the Council is continuing to make arrangements to secure continuous improvement in the way in which its functions are exercised.

# 3. Methodology

* 1. During the Inspection, the team conducted interviews with a diverse range of stakeholders, including local politicians from all parties, the senior officer leadership at the Council, current officers and consultants across various levels, former senior officers, community members, and external partners engaged with the Council. We observed a range of formal Council meetings, both in person and virtually, including internal management meetings and Committee meetings. We also requested presentations providing an overview of the Council’s investment and regeneration portfolios, along with tours to view the assets firsthand.
  2. Inspectors have powers to request access to any necessary document, giving three clear days’ notice[[6]](#footnote-7).We appreciate the significant volume of information the Council provided, which they organised in a virtual library along with a log of our requests, and their assistance with scheduling meetings, presentations and site visits. We would like to extend our thanks to Dawn Richards and Julia Sibley for their administrative support.
  3. However, we sometimes experienced delays in receiving documents, with some items only provided after repeated reminders and long waiting periods. Such delays led to setbacks in our scoping work and challenges in making comprehensive judgements on certain issues. Several documents were clearly produced for our requests, which although appreciated, should have been readily available. In some cases, urgency to meet our requests affected the quality of the material provided. We have also observed cases where information held inaccuracies, leading to further requests for corrections.
  4. We have used figures from published sources or data provided by the Council. However, due to inconsistencies, errors, and deficiencies in the accounting records, we cannot be confident that all figures are accurate.
  5. The Inspection has benchmarked Spelthorne against other councils that are meeting their Best Value Duty, including neighbouring councils in Surrey. To assess progress in the borough, the team also reviewed progress against previous recommendations from key external bodies and made comparisons with past administrations and governance models. For staff employed prior to the new administration in 2023 or the switch to the Committee system in 2021, we asked them to reflect on their experiences before these changes. Similarly, external interviewees were asked to comment on these changes. We also interviewed senior managers and politicians from past administrations.
  6. For clarity, all financial figures have been rounded to one decimal place which may mean that they do not always exactly reconcile.
  7. The report includes an appendix containing sensitive information regarding the Council’s management of its investment and regeneration portfolios. We have used this information to inform the judgements outlined in the main body of the report. The appendix has been submitted to the Secretary of State for their review, so they can access the full evidence underlying our conclusions. We have requested that this information is not published to prevent any negative commercial consequences for the Council and relevant parties.

# 4. Use of resources

* 1. Our Inspection has identified that the Council adopts a fragmented and short-term approach to its commercial activities, lacking a unified strategy to align these efforts with its broader policies and priorities. To address this, the Council must urgently develop a comprehensive commercial strategy that integrates all its commercial activities. This strategy should encompass the Council’s investment and regeneration portfolios, delivery mechanisms, procurement practices, and contract management. It should also include subordinate plans, such as an asset management strategy and exit strategies, ensuring these components operate cohesively within the overarching strategy.
  2. The absence of such a strategy has led to uncoordinated and siloed approaches, with exit strategies and portfolio decisions made in isolation, failing to properly consider the Council’s overall objectives or the needs of its residents. Establishing a unified commercial strategy would enhance collaboration between departments, particularly between finance and asset management, and promote a shared understanding of the Council’s commercial objectives, and foster alignment with the Council’s corporate priorities.
  3. In addition, the Council must implement robust governance arrangements and clear commercial assessments to streamline decision-making, reduce inefficiencies, and minimise the rejection of proposals at later stages. These protocols should evaluate all commercial projects, procurements, acquisitions, and disposals using comprehensive criteria, including financial value and socioeconomic impact, to ensure a holistic best value approach that balances fiscal responsibility with community benefits.
  4. Finally, a well-defined commercial strategy should establish the levels of commercial risk the Council can tolerate and manage effectively. This will enable the Council to pursue calculated risks to achieve better outcomes while maintaining with its management capacity and broader objectives.

## **Part 1: Property and asset management – investment**

### **Investment portfolio overview**

* 1. The premise for investing in properties for the Council’s investment portfolio was driven by concerns over future funding shortfalls, particularly reductions in government grants. While this approach was not unusual in the sector, it is the scale of the investment in Spelthorne that is different.
  2. Between 2016 and 2020, Spelthorne spent over £1.0 billion on acquiring its investment portfolio, comprising of 11 large Thames Valley office investments and a shopping centre in Staines. (The Summit Centre, Communications House, and the Elmsleigh Shopping Centre are also considered by the Council as regeneration sites, and are discussed under Part 2 of this section). The strategic goal was to build an office portfolio primarily centred on the Heathrow Functional Economic area, whether within Spelthorne’s boundaries or not.
  3. We note that Cabinet in April 2017 agreed to pursue the acquisition of the India Buildings in Liverpool, but were outbid. In December 2017, the Council adopted a set of strategic parameters to guide consideration of future acquisitions.

A screenshot of a computer

Description automatically generated*Figure 2 Location of commercial assets, Spelthorne’s Asset Management Plan 2024/25 – 2027/28*

* 1. The first acquisition for the investment portfolio was the BP International Campus in Sunbury-on-Thames, including both the main site and the South-West Corner. To our knowledge, this remains the largest commercial property purchase by a local authority, with total costs of £410.0 million. The purchase from BP was for the freehold of the site and included a 20 year full repairing lease, effectively a sale and leaseback arrangement. The deal was initially seen as low risk due to BP retaining responsibility for managing the assets. However, the lease on the main site expires in 2036. The more immediate concern is the South-West Corner, where the lease expires in 2028, and while smaller than the main site, this area presents greater challenges due to its age and condition. The Inspection team has found no robust plans for managing the site at the natural end of the leases, including the potential loss of BP as tenant, and any extensive and costly redevelopment.
  2. The Council’s continued investment strategy was justified by the income generated from the BP acquisition. While the Council forecasted increasing budget gaps, mainly due to anticipated government grants, these did not materialise. Consequently, the Council increased its service expenditure instead, with net revenue expenditure rising by £7.5 million between 2016 and 2019. We have not seen evidence that these significant budget increases in service expenditure were clearly communicated to members.
  3. While the portfolio’s assets are considered prime in their local markets, the concentration of investments in one sector and geography has exposed the Council to heightened risks, particularly post-Covid and with the rise of hybrid working. The income generated is heavily reliant on a small number of key occupiers. Most of the assets, constructed between 2015 and 2017, remain in good condition, however significant refurbishment costs are expected to arise concurrently, leading to a concentrated need for capital expenditure in the near future. Acquired at the height of the market, the properties have since experienced considerable reduction in value, reflecting broader trends across the office sector. Additionally, as future tenants are likely to demand properties that meet decarbonisation standards, the Council faces further challenges in attracting and retaining tenants without substantial investment in property upgrades.
  4. The Inspection team believes that the Council did not need such a large-scale acquisition of investment properties to address the perceived funding gap. The portfolio’s underperformance, with some properties forecast to incur losses in the next five years, has left the Council exposed to long-term financial risks. The lack of capacity to effectively manage and anticipate risks associated with such a large and concentrated portfolio undermines the Council’s financial sustainability.

### **Decision making**

* 1. Our review of the decision-making processes behind the initial property acquisitions has raised significant concerns. Decisions were largely driven by short-term views of the property market, which by its nature is long-term, and an overly optimistic expectation of consistent property performance.
  2. The challenge to acquisition reports and proposals appears to have been insufficient. Reports were issued to Cabinet, in some cases only a day or two days ahead of the decision-making meeting. This limited the opportunity for members to thoroughly assess complex property deals involving significant financial investment or seek necessary advice from officers. There were also restrictions on who in the Council was allowed to see the papers. Access to these reports was restricted to a select group of Councillors, and in some cases, members outside the Cabinet were unaware of proposals, preventing them from calling in decisions if necessary. One report noted that access was limited to the Cabinet and the Chair of Overview and Scrutiny, with others needing to request permission from the Leader to view the documents.
  3. The Inspection team visited the properties acquired, many located outside the borough.While the strategy of acquiring properties within this international transport hub region has merits, it also brings with it significant commercial risk. We believe these risks were not fully understood by both officers or members, and there remains a lack of mitigation measures in place.

**Compliance with the CIPFA Prudential Code**

* 1. We have considered the CIPFA Prudential Code in relation to Spelthorne’s investment and regeneration assets, which states that investments primarily for profit should be ‘proportional to the level of resources available to the organisation’, and that ‘robust procedures for the consideration of risk and return are applied.’ We believe Spelthorne’s investments are disproportionate to the size of the Council, raising concerns about the adequacy of the risk and return considerations involved.
  2. We are also concerned that Spelthorne has not fully adhered to key provisions of the statutory guidance on local authority investments (2018), including the need to provide clear information on total risk exposure, rate of return, asset security, risk mitigation, contingency plans for income fluctuations, and robust decision making processes.

### **Loan arrangements**

* 1. The Council’s property acquisitions were financed through loans from the Public Works Loans Board (PWLB), totaling over £1.0 billion, with terms extending up to 50 years and fixed at relatively low rates averaging 2.58%. These loans provide cost certainty, with annual costs of over £27.4 million. The total debt is 80 times greater than the Council’s core funding from Council Tax, business rates and government grants, equating to over £10,000 per person of their 103,000 population.
  2. Senior officers have indicated that these loan arrangements offer security, with the Council confident it can service the debt over 50 years using revenues from the acquired properties, while still funding local services. However, there are several key issues: while properties must remain substantially let, many have significant voids; the properties are all ‘A’ grade with high rents, but require ongoing investment to maintain this rating and avoid reduced rental income; there is no clear, deliverable long-term exit strategy for the properties or plans to reduce void periods and renegotiate leases; over optimism persists regarding the office market’s return to pre-Covid levels, and while London remains strong, its suburbs face greater risks; and declining capital values reduce the portfolio’s worth, creating risks of overhanging debt and potential income loss if a rationalisation programme is pursued.
  3. In other words, the Council is now fully committed to its investment portfolio, limiting its flexibility. Unlike a property company that typically trades assets to maintain income and property values, the Council is constrained from further borrowing and will have to rely on the portfolio to sustain itself – a prospect that is uncertain given the outlined risks.

### **Risk management**

* 1. According to officers, the Council aimed to invest within and near the borough, focusing particularly in the Heathrow Economic Functional area, a region they know well and which supports local prosperity. This geographic focus formed the basis of the portfolio strategy. As well as managing a small number of assets, the Council has a diverse tenant base across a wide range of economic sectors, providing some diversification that helps to mitigate risk.
  2. However, the management and supply chain demands of the portfolio appear to be overshadowing the Council’s primary functions. Tensions exist between senior officers and lead members regarding strategy, with members feeling they are asked to focus too heavily on property-related issues. We have found that members are not always given a full picture when making difficult decisions or adequately included in the solution development process. This is an unsustainable dichotomy, which presents a significant risk to the effective operation of the Council, further straining member/officer relationships.
  3. When we requested to see individual exit strategies for the investment properties in May 2024, we found that these strategies were not in place. First drafts were eventually provided to us in November 2024. In our view, these strategies are not fit-for-purpose. They focus more on maintaining ownership rather than on potential exit options, and fail to adequately consider site disposals, although the Council has recognised that disposing the entire portfolio could result in capital losses triggering an immediate Section 114 notice. Members have voiced dissatisfaction, even embarrassment, over the quality of the draft strategies and that such inadequate versions were presented to us.
  4. To summarise, the Council’s investment strategy appears to have been based on the assumption that property values would continue to rise, and income would consistently exceed costs over the next 50 years. Despite advice from advisors highlighting concentrated risks in one sector and geography, this appears to have been largely overlooked. While the Council employed staff with property backgrounds, it lacked the necessary institutional finance expertise and failed to adequately assess risks. This resulted in property management taking precedence over considering the assets as long-term investments. We further note a reliance on interim staff, a number of whom have since left the Council.
  5. For a portfolio of this size and complexity, the Council has shown a limited understanding of the long-term risk and market risks it faces. While a corporate risk register is in place and reviewed regularly, commercial risks related to the investment portfolio are managed separately. The Council lacks a comprehensive, long-term plan for managing the portfolio while maximising property value and safeguarding public funds. Some properties suffer from significant voids or remain empty, resulting in net operating losses. As an example, the Council's acquisition of the Stockley Park office suite faces ongoing challenges in terms of occupancy and refurbishment. Details on this case can be found in Appendix 2. This situation restricts the Council to maintaining its current strategy, relying on tenants renewing leases and hoping for a market recovery.

### **Sinking fund**

* 1. Spelthorne’s sinking fund is designed to minimise financial risks by providing a safety net against unexpected short-term dips in commercial income and ensuring sufficient resources for future refurbishments. Established in 2016, the fund initially focused on a single model for the BP main site acquisition. As the Council made additional acquisitions, individual models were created for each, and in 2021, an exercise was undertaken to consolidate these models into a more streamlined approach.
  2. In February 2023, an amended sinking fund policy was approved with several key objectives: accumulating sinking fund balances of at least £37.0 million to enable loan repayment in the event of a major catastrophe; building a balance of £60.0 million in 14 years’ time (i.e. 2037) to fund any redevelopment of the BP site, should the current tenant vacate; and achieving an average net payment of £3.5 million per annum to the fund. Annual movements in the sinking fund are part of managing the Council’s property portfolio, which aims to contribute at least £10.0 million annually to affordable housing, regeneration, and key frontline services.
  3. As of 31 March 2024, the Council’s sinking fund balance was £35.0 million.
  4. The Council has been developing a sinking fund model with 50-year projections, covering 2025/26 to 2074/75. The Inspection team received a first draft of this model in November 2024. The model was presented to the Corporate Policy and Resources Committee in January 2025, with a further update scheduled for March 2025.
  5. We have reviewed the 50-year model and identified key issues. In particular, the model: assumes interest benefits on reducing and negative balances; shows a negative balance of £4.7 million at 31 March 2037, a significant shortfall from its £60.0 million target; and automatically presumes the renewal of leases. The assumptions beyond 2036 are also unrealistic, predicting a balance of £2.5 billion by 2074 with exponential rental income growth.
  6. In December 2024, the outline budget report for 2025/26 to 2028/29 proposed halving the net annual contribution from investment assets over the next five years, from £10.0 million to £5.0 million by 2031, to accelerate the building up of sinking fund reserves. In our assessment, these reductions will still fall far short of achieving the target sinking fund balance of £60.0 million by 2037.
  7. We have significant concerns around the use of the 50-year model, especially given its critical role in financial decision-making. Delays in reviewing the model led to the production of updated budget projections in December 2024. This is outlined under Part 3 of this section.

## 

## **Part 2: Property and asset management – regeneration**

### **Regeneration portfolio overview**

* 1. Alongside its investment portfolio, the Council began acquiring assets for its regeneration portfolio in 2017. The aim was to develop these assets to support the regeneration of Staines-upon-Thames town centre and address the unmet need for affordable housing through residential development.
  2. The Inspection team could not find a report, approved by members, that supports the development of a housing delivery programme with clear details on proposed sites, budgets, staffing resources, timescales, and associated risks. When asked, the Council pointed to two documents. First, the Corporate Plan 2016-19 which mentions the Council’s aspirations to ‘develop some of our existing sites for housing as well as acquire new sites'. Second, an exempt Cabinet report from January 2020 on the Review of Knowle Green Estates, by which time all sites had already been purchased by the Council.
  3. We believe the Council lacked a well-defined decision to embark on a programme of acquisitions for housing delivery. Members were not provided with sufficient information on the programme’s scale, required budget, staffing resources, or risks, including those relating to planning and market conditions. The Council subsequently approved individual property purchases through exempt reports without the context of the programme being fully explained.
  4. In July 2018, full Council approved an increase in the capital programme to £820.0 million for asset acquisitions and development. Between 2017 and 2020, the Council purchased 11 properties within the borough (three of which were initially part of the investment portfolio) for a total of £104.0 million. These purchases were intended for redevelopment into affordable housing, hotel, or retail spaces, in line with the objectives within their Corporate Plan at that time.

### **Decision making**

* 1. We have reviewed the decision-making processes behind these acquisitions and identified significant concerns.
  2. Based on our findings, Spelthorne approved the purchase of these sites using indicative appraisals and optimistic assumptions about the number of potential housing units that could be developed on the site. Advisors had commented that the appraisals were based on optimistic assumptions, as instructed by the Council, and in some cases, that a traditional residential and commercial property investor would not adopt the same assumptions.The Council did not follow standard practice by obtaining Red Book valuations, which are independent assessments of market value, accounting for risks, potential returns, and other relevant factors. Officers have not been able to explain to us why Red Book Valuation were not used to support the acquisitions. Moreover, acquisition reports did not clarify that the Council was agreeing to pay an optimistic ‘hope value’ rather than the current Red Book market value of the sites. We consider this a significant omission, meaning members were unaware of the full risks when making decisions.
  3. Members have consistently raised concerns about the quality of decision-making reports. We have found the acquisition reports to be generally inadequate, often unnecessarily exempt in their entirety. The financial implications of decisions were often presented in generic terms, simply explaining why it made sense to buy at the time, such as due to low borrowing costs, without setting out the actual costs. Key elements, including business plans, refurbishment requirements, and risks highlighted by advisors, were often lacking from reports. Additionally, we found recommendations presented to members to be unclear or incomplete.
  4. Many of the acquisition reports sought waivers to exempt compliance with Contract Standing Orders for appointing advisors. We understand this approach has led to over £10.0 million being spent on consultants to develop plans for various sites. Without a procurement process in place to test the market for consultancy services, the Council cannot demonstrate the effective use of its resources. This lack of oversight increases the risk of preparing planning applications that are ultimately rejected by members and the community, resulting in wasted funds. We have seen examples of this in Spelthorne, including for Thameside House – a vacant and deteriorating office building in Staines. Despite over £3.2 million being spent in consultancy fees, no tangible progress has been made on this site, which remains vacant and hoarded since its purchase in April 2018. Although the Council submitted a planning application, it was ultimately withdrawn due to a lack of member support.
  5. The purchase of three sites – Communications House, Elmsleigh Shopping Centre, and Summit Centre – raise concerns in relation to the statutory guidance on local government investments, which has been in effect since 2018. Although located in the town centre, Communications House and Elmsleigh Shopping Centre were not part of an established regeneration strategy or planning framework to support their redevelopment. The Council has since determined the development of these sites as long-term priorities, while they continue to serve as income-generating assets within their investment portfolio. The Council has also recently decided to dispose of the Summit Centre.
  6. To summarise, the Council undertook a programme of regeneration acquisitions without clear strategies, planning frameworks or sufficient engagement with members and the community. Acquisition reports often lacked critical information, undermining decision-making. Projects have stalled or been withdrawn, leading to significant financial losses, and no regeneration or new housing has been delivered on these sites. A prime example is the Oast House, purchased alongside the adjoining car park in 2019, for which the Council proposed several housing schemes, resulting in a planning application which was later withdrawn in 2023 due to a lack of support from members. Further details on this case are in Appendix 2.

### **Revised Housing Delivery Policy 2023/24**

* 1. On 11 September 2023, the Corporate Policy and Resources Committee agreed to suspend the direct delivery of the Council’s affordable housing delivery programme due to ongoing financial viability challenges stemming from higher borrowing and construction costs. Exploring alternative delivery models, and presenting robust options for consideration was proposed. On 16 October 2023, the Committee recommended that the Development Sub-Committee work on a mixed-use, phased masterplan strategy for the Staines sites and consider alternative delivery models for other sites. Mitigating holding costs of £1.6 million per annum by early disposal, demolition, or temporary lettings was also proposed. The Committee requested joint reports from the finance and assets teams for future site considerations.
  2. On 19 October 2023, full Council approved the proposed revised capital programme for 2023/24 to 2026/27, which reflected the suspension of direct delivery, reducing net capital spending over the four years by £283.4 million. As a result, approval was withdrawn for the proposed £325.0 million redevelopment of regeneration sites for affordable housing.
  3. While the Inspection teams understands the rationale for the strategy shift, we found that the financial implications of this decision were not effectively communicated to members, nor were they reflected in the Council’s accounts or MTFS. The revised policy required £10.2 million in capitalised costs, and a potential £4.5 million from three projects, to be charged to the 2023/24 revenue budget. However, we have found no evidence that these costs were appropriately reflected in the draft 2023/24 accounts, nor was the cost of MRP on these properties factored into the assessment. These costs were also not included in the 2024/25 budget or MTFS.
  4. The Council’s external auditors, in their audit findings report to the January 2025 Audit Committee, have highlighted similar errors, including the under-provision of MRP and the failure to charge costs related to suspended capital projects to revenue.

**Development Delivery Strategy**

* 1. On 24 October 2024, full Council approved the introduction of a Development Delivery Strategy, including a prioritisation list of regeneration sites, ranked as short-, medium-, and long-term. The Inspection team consider this a positive step, albeit delayed.

A screenshot of a computer

Description automatically generated

*Figure 3 prioritisation list for regeneration portfolio*

* 1. On 5 December 2024, the Business, Infrastructure, and Growth Committee discussed the potential disposal of Ashford Victory Place, which had been marketed for sale. The Committee decided not to proceed with the sale, expressing disappointment over the limited amount of affordable units. This raises concerns about the robustness of the Council’s processes, commercial assessments, protocols, member engagement. Additionally, there were incorrect statements in early versions of the Committee report regarding advice from the Inspection team, which were later removed after our clarification.
  2. In its response to CIPFA capital assurance review of July 2023, the Council stated that development sites would be evaluated on a project-by-project basis, exploring options like joint ventures, refurbishments, or disposals. However, by 31 March 2024, £16.0 million in revenue expenditure, including holding costs, had been incurred, while site values had significantly declined. As of January 2025, no new homes have been developed. Losses on the regeneration and housing assets are significant and sites are currently valued at less than half the original acquisition cost.
  3. In summary, following the suspension of housing projects in October 2023, the sites remain undeveloped, and their value has decreased. The Council has incurred substantial costs while the sites remain vacant. No housing has been built and no joint ventures with the private sector are in place to deliver housing. Key decisions, like disposals, remain unresolved, and a lack of clear site strategies hinders effective decision making and value for money. The failure to account for costs, such as capitalised costs and MRP, has compounded financial risks. The ongoing financial strain underscores the need for more decisive and efficient asset management.

## **Part 3: Financial management, reporting and regulation**

* 1. The Inspection team identified several shortfalls in the Council's financial management, including technical accounting errors, ineffective oversight of investment and regeneration properties, and a failure to address key external recommendations. Additionally, there is an under-provision for MRP, and a lack of a clear MTFS.
  2. Our review of the 2023/24 and 2024/25 budget reports, along with their monitoring updates, reveals significant fluctuations between reporting periods, making it challenging for officers and members to understand the true financial position. The lack of clear projections for growth and savings, coupled with insufficient in-year monitoring, highlights a need for greater transparency in financial planning.
  3. Spelthorne’s revenue budgets rely heavily on an annual net income of £10.0 million from the Council’s investment properties, making them different from those of other councils. However, recent budgets have relied on reserves to meet this target, and large deficits are forecast for future years, highlighting an overreliance on potentially overestimated income streams and a critical gap in the Council’s financial strategy.
  4. While the Council’s reserves are reported to be notably higher compared to other councils, this is to be expected given the inherent risks involved with the Council’s investments. These reserves are expected to reduce over the coming years.
  5. Additionally, budget reports lack clear projections for growth and savings, and there is insufficient in-year monitoring of financial performance, reflecting a need for greater transparency in financial planning.

### **Outline Revenue Budget 2025/26 – 2028/29**

* 1. In December 2024, the Corporate Policy and Resources Committee noted the outline budget report for 2025/26 to 2028/29.
  2. The Council does not expect to achieve the £10.7 million in net commercial income budgeted for 2025/26 to fund services, instead relying on £5.8 million from sinking fund reserves.

|  |  |  |
| --- | --- | --- |
| Estimated investment and regeneration property income 2025/26 | | |
| Investment and regeneration assets | £m | £m |
| Rental income |  | 49.1 |
| Less landlords costs | (7.9) |  |
| Loan interest | (22.9) |  |
| MRP | (12.7) |  |
| Specific revenue costs | (0.7) | (44.2) |
| Net income |  | 4.9 |
| Net release from sinking fund |  | 5.8 |
| Net income used to fund services |  | 10.7 |

*Figure 4 Investment and regeneration property income for 2025/26*

* 1. Following a surplus of £0.8 million for 2025/26, deficits are forecast for the following three years: £3.5 million for 2026/27, £5.4 million for 2027/28, and £8.6 million for 2028/29. These present major differences with the deficits forecast in the February 2024 budget report.

|  |  |  |  |
| --- | --- | --- | --- |
| **Forecasted budget deficits** | | |  |
|  | 2024/25 budget report | 2025/26 budget report | Difference |
| 2025/26 | £0.3m | - | - |
| 2026/27 | £2.8m | £3.5m | £1.3m |
| 2027/28 | £2.3m | £5.4m | £3.1m |
| 2028/29 | - | £8.6m |  |

*Figure 5 comparison of forecasted budget deficits: 2024/25 and 2025/26 budget reports*

* 1. There is a need for significant savings to address the forecasted deficits. While the December 2024 outline budget report references a high-level transformation programme and a digital transformation programme, there is no comprehensive plan for delivery. Projecting deficits without realistic savings plans reflects a broader issue with the Council’s financial management.
  2. The report further proposes halving annual contributions from investment properties to £5.0 million by 2031, down from £10.0 million, to help build sinking fund reserves. In our assessment, these reductions will still fall far short of achieving the target sinking fund balance of £60.0 million by 2037.
  3. The Council is relying on a net £5.8 million contribution from its sinking fund reserves to balance the 2025/26 budget, delaying the need for in-year savings instead of making contributions to the fund. The outline budget report relies on overly optimistic assumptions about investment income, and also understates MRP provisions, and fails to adequately account for ongoing revenue costs of stalled regeneration projects. These factors undermine the credibility of its financial projections and highlight the absences of a realistic, robust approach to addressing financial challenges.

### **Revenue Reserves**

* 1. The Council’s revenue reserves in the 2023/24 draft accounts are reported at £73.3 million. Based on the external auditors’ report, we believe the reserves are over-stated. In addition, £18.5 million of these reserves, comprising of unapplied revenue grants, the capital fund, and contributions from developers (section 106/CIL), are not available for general revenue spending.
  2. If the revenue costs associated with the suspended capital schemes (£15.9 million as of 31 March 2024) and the planned reductions to the sinking fund (£7.8 million for 2024/25 and 2025/26) are implemented, available revenue reserves – including the general fund balance of £3.1 million – would decrease to £31.2 million by 31 March 2026, the end of the 2025/26 financial year. This amount is likely to decline further once a correct MRP provision is made, potentially exhausting the reserves or leaving only a minimal balance to cover the risks outlined in this report related to investment properties.

|  |  |
| --- | --- |
|  | £m |
| Total reserves as per 2023/24 accounts | 73.3 |
| less unavailable for general revenue spending | (18.5) |
| Available for revenue spending | 54.8 |
| Revenue costs incorrectly charged to capital | (15.9) |
| use of sinking fund 2024/25 & 2025/26 | (7.8) |
| Estimated balance at 31.03.26 | **31.2** |

*Figure 6 Estimated reserves at 31 March 2026 available for revenue spending before updated MRP provision has been provided for*

* 1. The analysis indicates that while the Council is able to set a balanced budget for 2025/26, its MTFS is not sustainable given its reliance on reserves which are lower than previously assumed. A swift, revised cost-reduction strategy is essential to avoid future budget-setting difficulties.

### **Revenue Budget 2023/24**

* 1. The revenue budget for 2023/24, approved in February 2023, relied on a net £5.9 million of sinking fund reserves to achieve the net commercial income budgeted at over £10.0 million, and identified just £0.4 million of savings. Significant deficits were forecast for the following three financial years: £3.8 million for 2024/25, £6.3 million for 2025/26, and £9.8 million for 2026/27. However, the budget report failed to outline clear measures to address these shortfalls, and the net £10.0 million from investment properties was itself difficult to discern from the report and appendices.
  2. We note minor inaccuracies in original versions of the report and some appendices, such as for figures for the net expenditure for committees. These were subsequently corrected and published one day before the budget meeting.

**Budget monitoring 2023/24**

* 1. In-year budget monitoring for 2023/24 was both delayed and inadequate, with no formal reports beyond the Quarter 1 report discussed by the Corporate Policy and Resources Committee in October 2023. The Quarter 2 report, emailed to members for information in February 2024, was not publicly discussed at a Committee meeting, and no Quarter 3 report was provided. This lack of timely and transparent monitoring reflects poor governance and highlights the need for greater accountability to Councillors, the public and stakeholders.

**Summary of 2023/24 outturn**

* 1. The 2023/24 Revenue Outturn Report, detailing the Council’s financial position for the year, highlighted concerns regarding transparency and accuracy, particularly due to the £10.6 million underspend, which represents a 43% variance against the budgeted net expenditure of £25.2 million. This underspend was difficult to interpret, as it involved numerous transfers to reserves and items typically classified as reserves rather than general revenue spending. The late reporting of the underspend, two months after year-end, with no clear prior indications, raised further concerns about the financial reporting process. Additionally, incorrect variations were identified, as outlined below.

|  |  |  |  |
| --- | --- | --- | --- |
| **Variation** | **Reported**  **(Under)/Over**  **£000** | **Actual**  **(Under)/Over**  **£000** | **Comment** |
| NNNDR surplus/S31 grant | (4,817) | (6,353) | Explained under ‘Business rates; assumption and accounting treatment below |
| Unspent refugee support grants | (1,561) |  | These should be held in reserves and are not a revenue variance |
| CIL/s106 | (1,400) |  | These should be held in reserves and are not a revenue variance |

*Figure 7 Incorrect variations in the 2023/24 Revenue Outturn Report*

### **Revenue Budget 2024/25**

* 1. The revenue budget for 2024/25, approved in February 2024, relied on a net £2.0 million from the sinking fund to achieve the net commercial income budgeted at £10.0 million, included £1.2 million of interest costs related to the regeneration sites following suspension of their development in October 2023, along with other revenue costs that could no longer be capitalised. The budget identified £2.1 million of savings. Deficits were forecast for the following three financial years: £0.3 million for 2025/26, £2.8 million for 2026/27, and £2.3 million for 2027/28.
  2. As with the previous year, the report described that the £2.1 million of savings for 2024/25 came mainly from the removal of redundant budget codes – a significant amount, representing 8% of the total net expenditure of £26.1 million. The identification of £2.5 million in savings from administrative adjustments rather than genuine operational efficiencies across two years raises concerns around the robustness of estimates presented to Council for decision making.
  3. The budget report states that the Council had ‘carefully reviewed the adequacy of its sinking fund reserves’. However, the review was not completed until November 2024, and when completed the findings of the sinking fund review did not support the assumption in the budget that contributions to the sinking fund could be made while also providing a net £10.0 million to fund services.
  4. The report included an appendix with a breakdown of costs by discretionary and mandatory services for each Committee, but lacked clear explanation. The appendix seems intended to help identify potential savings, though it contained errors, such as assuming all members expenses and pension deficit payments as discretionary. While discretionary services, as stated in the report, total a significant £11.4 million, or 44% of total net expenditure of £26.1 million, removing this entirely would not be feasible due to inaccurate codification and fixed costs. We note areas within statutory costs that are also capable of reduction.

**Budget monitoring 2024/25**

* 1. Two budget monitoring reports have been presented to the Corporate Policy and Resources Committee in 2024/25, with the Quarter 1 report discussed in September 2024, and the Quarter 2 report in December 2024. We note some issues around the accuracy, consistency, and transparency of reporting.
  2. The Quarter 1 report forecasted a minor variance of £46k, however it also flagged two large offsetting variances of £3.2 million, including the misreported reversal of business rates provision.
  3. The Quarter 2 report identified an adverse variance of £896k in the NNDR forecast, reduced by £2.1 million since Quarter 1 following the correction of a business rates reporting error.
  4. More critically, no reference was made to the £16.0 million in capitalised project expenditure linked to suspended capital projects, which remains as capitalised on the Council’s balance sheet. This issue, however, was acknowledged in the outline budget report for 2025/26, discussed at the same meeting. The budget report indicated that £8.7 million in redundant costs related to Thameside House and Ashford Victory Place is expected to crystallise in the coming months and will subsequently be written off to revenue. In our view, the entire £16.0 million should be charged to revenue to accurately reflect the Council’s financial position.

**Business rates: assumptions and accounting treatment**

* 1. The NNDR1 form, submitted annually before 31 January, estimates business rates income and informs a council’s budget. Variances between estimated and actual income, excluding minor changes in the s31 grant compensating for business rates reliefs, are adjusted through the collection fund to mitigate fluctuations and provide budget certainty. Many councils use specialist support for these complex calculations.
  2. The Outturn Report for 2023/24 revealed a significant £4.3 million variance in business rates and s31 grant, 154% higher than the budgeted £2.8 million. However, we have not seen evidence that this variance was flagged or addressed during the year, raising concerns about the effectiveness of the accounting treatment of business rates and overall financial management. Further examination showed the Council’s NNDR1 form for 2023/24 estimated business rates and s31 grant income at £8.1 million, meaning the budget was understated by £5.3 million. The actual income for the year was £9.2 million, as confirmed by LG Futures based on figures provided by the Council, resulting in a true variance of £6.4 million. The Council described these variances as anomalies, rather than budgeting errors.
  3. Additionally, the Council’s 2023/24 accounts showed inaccuracies in collection fund balances as of 31 March 2024, which were also highlighted by the external auditors. Similar issues were identified in the 2024/25 budget, where estimated income of £3,051k per the published NNDR1 was incorrectly set at £2,804k, causing a £247k variance. The Quarter 1 Budget Monitoring Report for 2024/25 further misrepresented business rates income, estimating a positive variance of £3,152k based on incorrect assumptions. After the Inspection team raised this discrepancy, the Quarter 2 report was revised: ‘The NNDR forecast has changed from Q1 by £2.1m due to a correction of a previous misinterpretation of advice from LG Futures. The Finance team has learned from the error and will work to avoid any further errors of this nature.’
  4. In conclusion, the Council’s financial reporting and budget monitoring practices reveal significant concerns, including unclear budgets, discrepancies in reporting, and limited understanding of key financial areas, such as business rates and collection fund accounting. These issues undermine informed decision-making and strategic financial oversight. Furthermore, critical issues, such as the adequacy of the sinking fund to cover potential investment property losses and the revenue costs of planning affordable housing projects, remain insufficiently addressed, with understanding confined to a small number of senior officers. These shortcomings expose the Council to increased financial risks and compromise its long-term financial sustainability.

### **Under provision for Minimum Revenue Provision (MRP)**

* 1. Revised guidance on Minimum Revenue Provision (MRP) was issued on 10 April 2024[[7]](#footnote-8). Local authorities are required to have regard to this guidance when calculating a prudent provision for MRP: ‘Where local authorities finance capital expenditure with debt, they must set aside an amount of money each year to ensure that debt can be repaid.’While the guidance is similar to previous guidance, it intends to clarify the practice that local authorities should follow to ensure they don’t take on more debt than they can afford. The guidance will apply from 1 April 2025.
  2. In its 2023/24 statement of accounts, Spelthorne provided £12.4 million for MRP (albeit describing it as debt repayment), approximately 1% of the Capital Financing Requirement (CFR). This is significantly below a prudent range of 2% to 3%, with an average asset life of between 33 and 50 years which would equate to a provision of between £22.7 million to £34.1 million, albeit on an equal instalment rather than the annuity basis used by the Council.
  3. We believe the Council’s approach, using the ‘asset life’ method and assuming a 50-year economic life for most properties, i.e. the maximum under the MRP guidance, presents challenges. This means properties, such as BP South-West Corner site and Elmsleigh Shopping Centre, with much shorter lifespans or lease lengths are not adequately accounted for, leaving written-down values that exceed current market values, and suggesting under-provision. The Council could not provide us with independent evidence supporting the 50-year asset life assumption.
  4. Furthermore, the Council’s decision to suspend direct housing projects in 2023 has introduced new obligations to charge MRP on properties previously not included. Despite clear risks and acknowledgement in Council reports, we have not seen evidence that these changes were incorporated into financial planning. Similarly, MRP has not been accurately budgeted for in relation to the new Eclipse Leisure Centre which became operational in October 2024. Although the Council’s policy requires MRP charges to commence the following year, a £0.4 million charge due in 2025/26 was omitted from the outline budget.

### **2023/24 Statement of Accounts**

* 1. In January 2025, the Council’s external auditors, Grant Thornton stated that they are minded to qualify the Council’s 2023/24 financial statements. In their report, the Auditors refer to a number of material misstatements. This aligns with the Inspection team’s experience of inaccurate information, for example, the Council’s collection fund and MRP calculations as set out above. In addition, the Council could not provide independent asset valuations that backed up the property, plant and equipment amount on the balance sheet, or prove that Thameside House, Communication House and the Summit Centre were included in the figure despite numerous requests over an eight-week period.

### **CIPFA recommendations**

* 1. While the Council has made some progress, such as suspending housing developments and joining an audit partnership, we consider its overall response to CIPFA’s recommendations, including those relating to financial management, remains insufficient. We discuss this further under the Continuous Improvement section.

### **Capacity and capability of the finance function**

* 1. Spelthorne’s finance team demonstrates commitment but is constrained by significant capacity and capability challenges that hinder effective financial management. Persistent issues include limited technical expertise, inadequate strategic oversight, and insufficient collaboration with the assets team, particularly in understanding the full extent of financial risks and developing a more strategic approach to asset management.
  2. We have not seen evidence that sufficient challenge or risk analysis was provided for key decisions, such as the acquisition and management of Council property portfolios. Interviews revealed limited awareness of these shortcomings, rather self-justification. We also note a lack of understanding of priorities, such as the funds and savings required for reinvestment in sites at the end of lease periods. These gaps indicate deficiencies in expertise, particularly in commercial, financial planning, and risk management, and a limited ability to adapt to evolving priorities. In addition, key recommendations from external reviews, including KPMG and CIPFA, have seen limited progress.
  3. Members, across all political parties, have consistently raised concerns about the poor quality of financial reporting, the lack of scenario planning, and inadequate risk analysis. We have also found errors in reports, such as the treatment of collection fund accounting, which further highlight deficiencies in technical and accounting practices. Although some reports have been rectified and reissued, these inaccuracies align with findings from Grant Thornton’s audit of the 2023/24 accounts, which identified risks of material misstatement in revenue accounting for both prior and current periods.
  4. Reports approving significant financial decisions often fail to provide a full assessment of risks and implications. For example, the full costs of building the new Eclipse Leisure Centre to meet Passivhaus standards was not transparently detailed in early decision-making reports. A comprehensive report on all costs was only produced for members following the Inspection team’s request for this information after the centre opened in October 2024. We expand on this in a case study in Appendix 2. Furthermore, excessive confidentiality in reporting and late issuance of reports restrict opportunity for scrutiny and revision.
  5. CIPFA’s review raised concerns about the Council’s financial management capacity and skills base, recommending an assessment and ongoing review. While efforts to address these issues, such as recruiting two CCAB qualified accountants and creating two apprentice posts, have been made, ongoing pressures remain. Until recently, the Council was progressing a merger of its finance team with another Surrey local authority. Approved in October 2024, this partnership aimed to build resilience, aid recruitment and retention, drive financial process improvements, and deliver savings. However, we understand the Council is now unwinding this partnership, proposing measures such as extending the tenure of the outgoing Chief Accountant and appointing a full-time Chief Accountant.
  6. Give the significant scale of property investments, there is an urgent need for a more strategic approach and enhanced collaboration between the finance and assets teams. A deeper understanding of the Council’s portfolios, the proper management of the sinking fund, and a more rigorous approach to capital expenditure must be prioritised. A lack of specialised expertise and interlock between these two key teams to fully understand the performance of the properties, including when to keep, invest and sell them, has contributed to the current suboptimal situation.
  7. In conclusion, Spelthorne’s finance function is currently not fit for purpose. It lacks the structure, staffing, and expertise to manage the scale and complexity of the Council’s property portfolios. While appointing a permanent and competent Chief Accountant is crucial, it alone will not resolve the deep-seated capacity and capability issues within the finance team.

# 5. Continuous Improvement

### **Response to external challenge and recommendations from external reviews**

* 1. We have observed an overly-optimistic attitude among officers regarding the challenges and risks the Council faces, particularly regarding their investments. Senior managers have consistently emphasised their assets as ‘best in class’, and that they have taken the most prudent and conservative approach to borrowing. This mindset was reflected in the Council’s updated assessment against the Use of Resources theme within the best value framework, presented to Audit Committee in July 2024. In our view, the assessment remained overly positive and demonstrated limited self-awareness of the Council’s current issues.
  2. During our Inspection, the Council’s Deputy Chief Executive and Section 151 Officer wrote an article for Room 151 regarding the Council’s approach to its commercial strategy, stating that the ‘biggest risk’ would be to ‘divert from’ their current strategy[[8]](#footnote-9).
  3. The senior management team’s long tenure at Spelthorne may have contributed to a lack of fresh thinking, fostering groupthink and limiting internal challenge. This may explain some of the defensiveness towards their investment and regeneration portfolios. Members, in contrast, have expressed concerns about risks and reported difficulties in challenging the senior management team or obtaining detailed information. Correspondence reviewed during our Inspection shows instances where officers admonished members for requesting information. This is not the openness to questioning and challenge we would expect to see from officers.
  4. The Council has received key recommendations from various external bodies, including former external auditors KPMG, the LGA, and CIPFA. However, we have identified deficiencies in how these recommendations have been addressed and implemented.

**KPMG Public Interest Report 2022**

* 1. In November 2022, former external auditors KPMG issued a Public Interest Report (PIR), highlighting five recommendations regarding the Council’s 2017-18 financial accounts and its commercial property investments. The recommendations were accepted by full Council in December 2022. In July 2023, the Audit Committee approved an Action Plan to address these recommendations, with progress discussed a year later in July 2024.

**LGA Corporate Peer challenge 2022**

* 1. Spelthorne underwent an LGA Corporate Peer Challenge (CPC) in November 2022, resulting in 12 key recommendations, which were presented to full Council in February 2023. The Council adopted an Outline Action Plan in July 2023, with a commitment to producing a more detailed plan by September 2023. Evidence of completion of this detailed plan remains unclear. The LGA revisited the Council in November 2023, a year later. The Corporate Policy and Resources Committee reviewed the LGA progress report in April 2024, committing to annual updates on future progress.

**CIPFA external assurance review 2023**

* 1. Commissioned by the government in March 2023 and published in May 2024, the CIPFA capital assurance review identified concerns about the Council’s debt levels and financial management, and issued key recommendations.
  2. The Council has made positive steps against some of CIPFA’s recommendations. It has: suspended its planned housing developments and stopped further borrowing for this initiative after determining it was no longer viable; joined a partnership to increase the capacity of its internal audit team; committed to appointing a different external valuer upon the expiry of their current annual external valuation contract; and reviewed its borrowing portfolio to minimise short-term borrowing to remove risk of potential increases in interest rates.
  3. However, significant actions remain, and notable weaknesses persist. The Council did not engage with CIPFA to support the implementation of the recommendations; did not adequately review the sinking fund and potential risks around its property portfolios; did not subject the investment portfolio to immediate fundamental assessment and ongoing review, including consideration of disposals; did not adequately enhance its financial management capacity and skill base; did not adequately improve its approach to financial decision making, including higher-quality information to members and ensuring greater member involvement at conception and business case stages; and did not deal with conflicts of interest in a proactive and timely manner.
  4. In October 2024, the Inspection team received updated responses to the CIPFA recommendations. While this was helpful, the Council did not recognise any shortcomings or indicate any of the critical issues set out above, instead portraying full compliance. This suggests a lack of awareness regarding their weaknesses and a failure to ensure clear, actionable plans for further improvement. Some responses have also been inadequate, overdue and/or hurried in production. For example, the Council’s exit strategies for its investment portfolio remain unfit for purpose. Members have appropriately raised concerns about the adequacy of these strategies and their submission to Committee for discussion was delayed twice.
  5. Overall, we have not seen the expected level of progress more than a year after CIPFA’s review was issued. Reporting to members has been insufficient, and we remain unconvinced that the Council has the necessary plans, capacity, or pace to deliver the recommendations effectively and with the required quality.

**Overall approach to external reviews**

* 1. While initial action plans have been produced, and several follow up discussions held, the Council’s approach to addressing recommendations from external reviews appears fragmented and piecemeal. We would have expected all recommendations to be consolidated into a comprehensive improvement plan for the Council, with clear targets, timelines, and regular progress reporting to members. Instead, reporting seems arbitrary, making it difficult to track progress comprehensively. This disjointed approach undermines transparency and accountability, and raises broader concerns about the Council’s capacity for self-reflection and improvement.
  2. The Council has often seemed to acknowledge recommendations superficially rather than adopting a proactive and sustained approach to implementation. In some cases, it is unclear whether this stems from a lack of understanding or a degree of denial and resistance to change. Had the challenges been rooted in understanding, we would have expected the Council to seek external support, such as from CIPFA and the LGA, but we have seen limited evidence of this.
  3. Attempts at improvement have not been sustained or delivered at the necessary pace. Furthermore, when challenged on the lack of progress, the Council has often opted for quick solutions without adequate thought or planning. This reactive, rather than strategic, approach undermines progress and highlights a need for more robust processes. We detail a few examples of poor progress below.

**Sinking fund review**

* 1. KPMG recommended the Council to align its investment portfolio modelling with institutional investor standards, including robust stress testing, risk scenarios, and diversification. The Council responded to KPMG stating that it is already committed to a 50-year sinking fund review with independent consultants to assess income assumptions, rental activity, and reserve contributions to cover income dips and costs. CIPFA subsequently recommended the Council to define clear terms for its sinking fund review, use independent resources, assess long-term risks, and set clear rules for financial resilience. The Council reiterated that Councillors had already agreed to review the sinking fund projections over 50 years and that the council was seeking external assistance for this work.
  2. We have observed delays and inadequate execution in the review process. The intention to report the 50 year projections to the Corporate Policy and Resources Committee by June 2024[[9]](#footnote-10) was only completed in January 2025. The Inspection team initially requested a copy of the 50-year model in May 2024, but it was not available. A draft was only provided on 7 November 2024, despite multiple reminders and an email to the Chief Executive in September, and assurances that the information would be shared soon.
  3. While the Council initially considered using external consultants to develop the model, it opted instead to rely on in-house expertise.
  4. Beyond the significant delay, both from our initial request in May 2024 and the Council’s own deadlines, the model has fallen short of the Council’s commitments. Further reporting is planned for March 2025, but the pace of progress remains a concern.

**Capacity and capability of finance function**

* 1. CIPFA recommended an assessment and ongoing review of the finance team’s capacity and skills. Measures such as recruitment and, until recently, pursuing a merger with another Surrey council’s finance team have not adequately addressed underlying issues. We detail our assessment under Part 3 of the Use of Resources section.

**Exit strategies**

* 1. CIPFA highlighted the need for immediate and ongoing reviews of the investment property portfolio, including potential disposals, and the importance of obtaining specialist advice. The Council’s exit strategies remain inadequate, with delays in presenting them to members for discussion. We cover this issue in Part 1 of the Use of Resources section.

### **Audit**

* 1. As stated in the Council’s Annual Governance Statement 2023/24: ‘The Council’s Audit Committee addressed concerns expressed with respect to its internal audit resilience by recommending to Council in February 2024 that the Council join the Southern Internal Audit Partnership (SIAP), the Council joined SIAP in April 2024 which will give it access to a large pool of internal audit expertise and resource.’ It is too early for the Inspection team to assess the adequacy of this partnership, particularly given the limited work completed to date, and given any impact is unlikely to be seen until 2025/26.
  2. We acknowledge that the Council has had limited opportunities to work with external auditors due to a significant backlog. However, this has left the Council without external scrutiny for five years, compounding its governance challenges. Members have expressed concerns about this situation. BDO, the Council’s former external auditors, were not able to audit the Council’s accounts from 2018/19 to 2022/23 or complete value for money assessments.
  3. In January 2025, the Council’s new external auditors, Grant Thornton stated that they were minded to qualify the Council’s 2023/24 accounts and are considering issuing statutory recommendations in respect of value for money. This development underscores the ongoing weaknesses in governance and financial oversight, as further explored in the Governance section of our report.

### **Performance**

* 1. We have not seen any evidence of a comprehensive performance management framework providing a thread between the Council’s Corporate Plan, MTFS, service plans, performance indicators, and appraisals. Key KPIs are not regularly and publicly reported to relevant service committees, limiting members’ ability to monitor performance and reducing transparency for the public. For example, the Corporate Policy and Resources Committee only received the 2023/24 annual report in October 2024, six months after the year-end. Performance data is also not linked to financial reporting, limiting the ability of senior management and members to assess overall progress and priorities.
  2. The Council does measure performance against other Surrey districts as part of a county-wide dataset, however we were told by staff that Spelthorne is considered an atypical Surrey district. Given this, we would expect the Council to benchmark its performance against statistical nearest neighbours using tools such as the LGA Inform model or CIPFA nearest neighbour’s model. If such data exists, we have not seen evidence of it being presented to members or shared with the public.
  3. Although the data available suggests good performance, the lack of transparency, regular reporting, and accessible performance information on the Council’s website limits public engagement and reduces the effectiveness of performance monitoring as a tool for improvement.

### **Transformation**

* 1. The Council has not demonstrated a strong track record of delivering transformation. When asked about major initiatives, the Council highlighted hot desking and converting the West Wing of the Council’s Knowle Green Council Offices for residential use. While the latter is a positive housing development initiative, we do not consider it evidence of meaningful service transformation.
  2. The Council’s transformation programme, introduced as part of its 2024/25 budget process, aims to deliver £665k in savings over two years, with £355k in 2024/25 and £310k in 2025/26. However, the programme, led by the commissioning and transformation team, is limited in scope and focuses on a few areas, such as business improvements from automation. By October 2024, the programme was underdelivering, missing its 2024/25 savings target by £128k.
  3. The Council’s outline budget report for 2025/26 to 2028/29, presented to the Corporate Policy and Resources Committee in December 2024, highlights a significant need for savings: £3.5 million in 2026/27; £5.4 million in 2027/28; and £8.6 million in 2028/29. Although it references a high-level transformation programme and a digital transformation programme, there is no clear or detailed plan for delivery. This lack of strategic planning, coupled with insufficient member engagement — members were only informed of the revised MTFS shortly before its presentation — undermines the Council’s ability to address financial challenges effectively.
  4. The Council’s over-reliance on net income from its investment assets has delayed recognition of the need for cost reduction and service transformation. While there has been some acknowledgment of this issue following the long-term review of the sinking fund, the scale of savings required presents a risk to the Council’s financial sustainability. Without significant additional capacity, expertise, and a more comprehensive approach, we do not believe the Council can achieve the transformation savings required in the coming years.

# 6. Leadership

### **Political leadership**

* 1. Following a long period of consecutive Conservative-led administrations, Spelthorne has experienced significant political turnover, with five different Leaders over the past five years. This turnover has contributed to challenges in providing consistent leadership and strategic direction.
  2. Following the 2023 local government elections, a cross-party administration now leads the Council, comprising Councillors from the Independent, Liberal Democrat, Labour and Green parties. The Council Leader is from the Independent group and the Deputy Leader, the Liberal Democrat group. The group leaders have worked hard to create a cohesive leadership team, meeting regularly to discuss policy and priorities.
  3. Members of the administration have been clear with us that they want the Council to have a marked shift in focus from being a commercial landlord and developer to being much more focused on high quality service delivery and engaging better with residents. However, there have been challenges, particularly with the Local Plan, where members have sought a change in emphasis and approach. This prompted intervention from MHCLG. Following representation from the Council, the Inspector agreed a pause in the Examination Hearings. Further work was carried out by the Council and the Examination Hearings resumed in January 2025.

### **Member capacity and capability**

* 1. Following the new intake of Councillors in May 2023, the Council provided a range of training sessions, including on working within a committee system, IT skills, finance briefing, members’ code of conduct, being an effective Councillor, and an introduction to planning. However, we note a significant gap in training throughout 2024, raising concerns about ongoing development and support for Councillors.
  2. The current administration is relatively new and inexperienced and operates as a cross-party administration with four political groups. They have worked to develop a shared vision and foster effective collaboration within the administration. The group leaders, alongside the Deputy Leader, are working hard to ensure coordination across council committees, with regular meetings between them and the Chief Executive. There are, however, challenges in the working relationships between the administration and senior management team. The LGA has provided support to both the political and officer leadership to improve working relationships. Despite these efforts, progress has been limited, and work stalled in spring 2024 and has yet to be resumed.
  3. It is evident that members of the administration are experiencing frustration with senior officers, and that the trust essential for a good working relationship is not in place. This erosion of trust is leading to growing impatience within the administration, resulting in repeated requests for information and a widening divide between some political leaders and senior officers. In some instances, members felt it necessary to seek external advice, which risks further complicating already strained working relationships.
  4. We also note a high number of complaints against Councillors. There have been complaints against two previous Leaders, and a complaint against the current Leader which led to a Standards Committee investigation and has caused considerable upset within the Council.

**Corporate Plan**

* 1. The Council has produced a new Corporate Plan, approved by full Council in February 2024, covering the period from 2024 to 2028. The plan articulates a clear vision, with short-, medium-, and long-term actions. However, we believe it lacks the concrete measures needed to track performance effectively. While it mentions the use of KPIs to measure and monitor performance, and promises transparency through publication in the Council’s Annual Report and on its website, we cannot find evidence of these KPIs or performance on the website.
  2. Moreover, the Corporate Plan does not reflect the Council’s current financial situation. Due to delays in reviewing the Council’s sinking fund, the outline budget report for 2025/26 to 2028/29 presented in December 2024 shows a need for significant savings over the coming years. Members have been advised that the Corporate Plan will need to be revised accordingly. This reflects poor planning, as a timely review of the sinking fund in line with external recommendations and the Council’s commitments could have provided a more accurate financial framework for the Corporate Plan. Failure to do so has resulted in a plan that was overly optimistic and not aligned with a realistic assessment of the Council’s financial position.

### **Senior officer leadership**

* 1. The current senior management team comprises of the Chief Executive and two Deputy Chief Executives, one of whom also serves as the Section 151 Officer. Six Group Heads oversee key service areas: Corporate Governance; Place, Protection and Prosperity; Commissioning and Transformation; Community Wellbeing; Neighbourhood Services; and Assets. The Group Head for Corporate Governance and Monitoring Officer, along with the Head of Communications and Customer Experience, report directly to the Chief Executive, with the remaining five Group Heads reporting to the Deputy Chief Executives. The Council holds weekly senior management team (MAT) meetings, which include the Chief Executive, the Deputy Chief Executives, and a Group Head on a rotating basis, and a monthly MAT+ meeting with all Group Heads.
  2. While the Chief Executive is generally well-regarded by staff and has fostered a positive working environment for the majority of staff, significant challenges persist in the working relationships between the senior management team and the Leader and administration. A noticeable lack of trust has emerged, creating barriers to effective decision-making and collaboration. For instance, we have noted that reports prepared for Committees often lack meaningful member input, and members across all political groups have expressed frustration at being presented with recommendations that seem predetermined, without being part of a genuine process of developing options. There is a concern that members are being pressured to either accept recommendations or reject them outright, with little opportunity to explore alternative solutions.
  3. Moreover, members, across all political parties, have raised concerns about not being provided with a realistic picture of the Council’s challenges, and that they are being kept in the dark. They have consistently described the Council as being poor at risk management, with reports often being poor in quality, delivered late, and containing errors. This has led to a perception amongst members that ‘the wool is being pulled over their eyes’. Both the Inspection team and external auditors have concerns regarding the Council’s approach to financial management and value for money, which officers do not seem to fully grasp, as evidenced by the lack of mention of these issues in their self-assessments or Annual Governance Statements.
  4. Since February 2020, the Council has had seven Monitoring Officers, four of whom were interims. We believe the high turnover and a lack of experience in this role have weakened the constructive challenge that should typically occur between the three senior statutory officers, contributing to instances of poor governance, as discussed in the Governance section. From what we have observed, legal input in Committee reports remains inadequate, with examples such as the Quarter 2 Budget Monitoring Report presented in December 2024 which included the phrase ‘Comments please’ in the legal comments section, indicating the report was submitted to members without appropriate legal review.
  5. As of January 2025, the Council is in the process of recruiting a permanent Monitoring Officer, following the departure of the interim Monitoring Officer in December 2024. In our view, the lack of stability and experience in this key role has contributed to governance weaknesses. Given the financial risks the Council faces, it is crucial that a permanent, experienced Monitoring Officer is appointed – one who can challenge both members and officers constructively, ensuring that governance practices are robust.
  6. The finance team includes capable staff, however deep-rooted issues remain. While a joint finance partnership with another Surrey council was proposed, it was halted during our Inspection, and alternative recruitment measures, including appointing a new full-time Chief Accountant, have been suggested. We believe these proposals are insufficient to address the underlying capacity and expertise gaps within the finance team and that the partnership presented a major opportunity cost in terms of finances and resources. What the Council needs is a comprehensive, strategic approach to address both immediate capacity issues and long-term sustainability.

### **Use of consultants and interims**

* 1. Spelthorne has relied heavily on external consultants and interim officers, particularly for managing its investment portfolio but also for property appraisals for acquisitions, development plans, and planning applications for regeneration projects. In many cases, members have agreed to waive standing orders to allow officers to directly appoint consultants.
  2. During the Inspection, the team repeatedly requested a comprehensive breakdown of the total expenditure on consultants and consultancy firms, including details on areas of work and contract durations. However, the Council was unable to provide this information in full, raising concerns about transparency and its procurement practices. A member of the public, using publicly available data on spending over £500, was able to categorise expenditures from April 2018 till September 2023, revealing an approximate £30.0 million spent on consultants. Notably, £10.0 million of this amount was allocated to a single firm for work on regeneration properties. While the Council has not verified these figures, they indicate the scale of spending, which, combined with the lack of robust challenge in decision making, raises serious concerns about value for money.
  3. We also note a blurred distinction between consultants and interim officers. In some cases, the Council has retained individual consultants for years to advise on development projects, even after these projects have been completed. This heavy reliance on external consultancies raises concerns about the Council’s internal capacity to manage high-value development programmes and the complexities of its investment portfolio. While there are discussions about bringing some of these services in-house, both options present challenges. The Council needs to adopt a robust hybrid model that balances external expertise with internal capacity, ensuring a focus on long term strategic development and the effective implementation of policies.

### **Approach to risk**

* 1. The Council has demonstrated a historically naive and ineffective approach to risk management, particularly with regards its investment and regeneration portfolios. Reports to Cabinet seeking approval for property acquisitions generally lacked a clear risk analysis, failing to set out both the opportunities and risks to enable members to make informed decisions. This issue is further explored under Parts 1 and 2 of the Use of Resources section.
  2. This pattern of poor risk management appears to persist today. The Council has not fully recognised the urgency of certain risks or differentiated between nuanced, case-specific risks. As a result, members remain largely unaware of the true risks, with understanding limited to a few Councillors. For example, we have yet to see contingency plans for the potential non-renewal of leases for key properties. Similarly, the asset risk register simply states that there are no risks as mitigations are being undertaken, while status reports to the Development and Investment Group and the Commercial Assets Sub-Committee also underplay or fail to identify true risks.
  3. The Council’s approach to managing financial risk is equally concerning. It fails to recognise the substantial risks within the investment portfolio. Delays in reviewing the sinking fund have led to a revised MTFS, necessitating significant savings. The Council lacks a proven track record of delivering service transformation or savings, increasing the risk that it fails to achieve the required savings targets in the coming years.
  4. The finance function is also underperforming, with reports to members often containing errors and inaccuracies. In its January 2025 report to the Audit Committee, external auditors noted that ‘the underlying records that support the accounts were inadequate, accounting policies within the accounts were inadequate.’ It is critical that members have confidence in the information presented to them but currently, this is not the case.
  5. The risk registers that we inspected, including the corporate risk register regularly reported to Audit Committee and the Corporate Policy and Resources Committee, are not fit for purpose. Members have echoed this sentiment, stating that the risk registers are poor and contain errors, affecting decision making. We note, for example, that while the investment portfolio is included in the corporate risk register, it is reported with a lower level of risk than other areas and does not adequately reflect the current forecasted income. Corporate risks also do not include the delivery of savings to balance the MTFS, despite this being a major risk to the Council.
  6. There is little analysis of risk appetite and the Council’s ability to manage risk effectively. Questions around where the Council should accept low or high levels of risk, and what risk trade-offs may need to be made remain largely unexplored. Where such analysis does exist, such as in service planning, it is superficial. In the case of commercial assets, only short- and medium-term risks are considered, while long-term risks associated with property portfolio ownership are overlooked, contributing to a neglect of critical issues such as occupancy and void costs.

# 7. Governance

### **Constitution**

* 1. In May 2021, Spelthorne transitioned from a leader and Cabinet model to a Committee system of governance. The Council acts as the sovereign body and there is an Audit Committee, a Standards Committee, and a Standards Sub-Committee. There are four strategic committees: Business, Infrastructure and Growth; Community Housing and Wellbeing; Corporate Policy and Resources; and Environment and Sustainability. Each have been delegated responsibilities by the Council. In addition, the Council has a number of regulatory committees: Investigating and Disciplinary; Licensing; Licensing Sub-Committee; and Planning. Finally, the Council has an Appointments and Appeals Committee, and a Commercial Assets Sub-Committee.
  2. The Council maintains a published constitution, including a suite of expected policies and codes of conduct, such as on whistleblowing, hospitality and gifts, conflicts of interest, and member and officer relations. Amendments to the constitution were made in October 2024. We believe that clearer guidance is needed around conflicts of interest, particularly given the Council’s decision to nominate the Section 151 Officer to chair the Council’s housing company. He has since stepped down from this role in January 2025. The previous interim Monitoring Officer recognised that this was an area where clearer guidance was needed and indicated she intended to produce new guidance. It is not clear if this has been progressed since her departure.

### **Decision making**

* 1. The transition to a Committee model was driven by a belief among Councillors that the Cabinet system lacked transparency and excluded non-Cabinet members from accessing key information.
  2. The LGA’s review in November 2022 was clear that the committee system was ‘not yet working well enough as a decision-making forum’ and recommended the Council to consider how they make it more fit for purpose. Progress was noted in the LGA’s follow up review in November 2023, including more ownership from members and the drafting of a proposal to streamline the system. This proposal was implemented in May 2024. As part of this, the Development Sub-Committee was restructured into the Commercial Assets Sub-Committee, and the Business, Infrastructure and Growth Committee to enable a more focused approach to the Council’s commercial and regeneration projects.
  3. On 12 December 2024, full Council approved the appointment of an independent member to the Commercial Assets Sub-Committee to help enhance decision making.
  4. Despite these advancements, there are still concerns about the effectiveness of the committee system. Interviews indicated ongoing challenges in operating the system with a multi-party administration. It remains unclear to the Inspection team how much scrutiny and challenge is taking place within the various committees.

**Openness and transparency in decision making**

* 1. Council decision-making should be transparent and accessible to the public, with limited and well-justified exceptions for private decisions. Where confidential information is involved, it should be separated into a confidential appendix, keeping the majority of the report publicly accessible. CIPFA’s July 2023 review highlighted concerns about the lack of transparency, particularly around investment strategies that are both complex and commercially sensitive. While the Council has a duty to protect its interests, transparency remains a cornerstone of good governance.
  2. National regulations clearly outline Councillors' rights to access information related to discussions, whether in public or private settings. Officers are expected to support Councillors in these requests, with any uncertainties addressed through discussions between Councillors and officers. Councillors receiving confidential information must adhere to the Councillors’ Code of Conduct and the Nolan Principles.
  3. Our Inspection found that these practices have not been consistently followed in Spelthorne. A review of historical documentation on property acquisitions raised serious concerns. Councillors were often presented with incomplete reports that lacked critical information, especially regarding risks, and relied on generic legal advice. For example, no specific QC opinion was sought for the decision to acquire three investment properties at the Cabinet meeting in July 2018. Legal advice referenced a previous QC opinion from 2016, despite new statutory guidance on Local Authority Investments that took effect in April 2018. The report to Cabinet did not mention this change in guidance. Reports were also frequently submitted late, sometimes only one or two days before meetings, leaving members insufficient time to review and challenge the content. Additionally, non-Cabinet members were not always provided access to relevant reports, limiting their ability to challenge decisions. Evidence suggests that some Councillors were denied access to reports under the previous Cabinet system, with one report on the acquisition of a commercial property explicitly restricting access to Cabinet members and the Chair of Overview and Scrutiny (all Conservative at the time). If any Councillor wished to view the report, they were instructed to make representations to the Leader. We consider this to be an unusual practice and would have expected the Group Head of Corporate Governance to determine whether a member should have access to a report.
  4. There continues to be a significant volume of fully exempt reports. As noted earlier, confidential information can be separated into an appendix to ensure that the majority of the report remains open and transparent. However, this has not been consistently practiced in Spelthorne. The former interim Monitoring Officer acknowledged this issue and raised concerns about the timeliness of reports and how delays in drafting reports could result in unclear legal implications. Despite this, little evidence of improvement has been seen.
  5. The quality of financial reports has raised further concerns. Both members of the public and Councillors have pointed out frequent errors in reports that require amending. We have seen evidence of this. For example, the Quarter 1 Capital Monitoring report for 2024/25 included a £64.3 million budget for the Thameside House development, however this amount was not part of the capital programme approved in February 2024 and had to be corrected in an addendum published six days later. Members from all political groups have also described financial reports as inaccessible and difficult to understand. While a financial reporting group was formed to improve clarity, it is currently on hold due to other priorities. These ongoing issues with financial reporting hinder members' ability to fully grasp the financial challenges and risks the Council faces, and some even perceive this as an attempt by officers to ‘pull the wool’ over their eyes, undermining trust and damaging the relationship between members and officers. We discuss financial reports further under Part 3 of the Use of Resources section.

### **Internal and external audit and the role of the Audit Committee**

**Internal audit**

* 1. Spelthorne’s internal audit function has historically been inadequate, failing to identify major risks and the actions necessary to address them. This was primarily due to the size of the team (1.75 full-time equivalent employees) and its lack of experience in commercial investment and technical finance. The team's responsibilities also extended to risk management, which limited its capacity to adequately address the increased risks associated with the Council’s investment portfolio and affordable housing plans.
  2. The internal audit team conducted audits of the investment portfolio, with the most recent opinion issued in July 2024. However, these audits have been primarily focussed on the portfolio’s operation. They provided reasonable levels of assurance, but did not assess critical elements such as the adequacy of the sinking fund, exit strategies, or the level of risk the Council faced. This omission is significant, particularly given these issues were raised by both KPMG and CIPFA in their reports. Furthermore, no audits have been conducted on the operation of KGE or the Council’s regeneration sites in the last three years, exposing the Council to major risks. The Inspection team also discovered significant control issues in relation to property acquisition and management that were not raised in previous internal audit reports.
  3. CIPFA’s capital assurance review identified weaknesses in the Council’s internal audit function and recommended increasing the team’s capacity, particularly given the ‘risks inherent in its investments and housing ambitions’. In response, the Council appointed the Southern Internal Audit Partnership (SIAP) to manage its internal audit function, effective from 1 April 2024. While this is a positive step, it is too early for us to assess its impact. At the time of our Inspection, SIAP had made limited progress in completing the internal audit plan for the year, with some work postponed due to the availability of Council officer time.
  4. The most recent Internal Audit progress report for December 2024, presented to the January 2025 Audit Committee, highlighted that out of 18 audits planned for the year, five had been removed from the internal audit programme. The cited reason was the Best Value Inspection, with concerns that officer capacity was needed for this and to avoid potential areas of duplication during this period. However, in our view, the audits removed from the programme did not require officer capacity for the Inspection or could have been replaced with others. The overall programme has been delayed with the same reasoning, with just one final report issued, while three are in draft. This has meant that Councillors have not been able to receive the necessary assurance over certain areas of council service delivery during this period.

**External audit**

* 1. Prior to the current auditors being appointed from April 2024, the Council had not undergone an external audit of its accounts since 2017/18. BDO was appointed to audit the Council’s accounts from 2018/19 to 2022/23, but were unable to do so due to delays in completion of the 2017/18 audit. Due to the audit backstop, the financial statements for 2018/19 to 2022/23 will not be audited. BDO has also indicated that it will not complete the value for money assessment for these years until the publication of our Inspection report. This has meant that there had been no meaningful external audit scrutiny of key risk areas facing the Council since the KPMG PIR.
  2. On 28 January 2025, the Council’s new external auditors, Grant Thornton, presented their audit of the 2023/24 accounts and value for money conclusion to the Audit Committee. Grant Thornton have indicated that they are minded to qualify the 2023/24 accounts based on inadequate accounting books and records. The auditors noted, amongst other issues: ‘The financial statements lacked complete and accurate supporting underlying evidence for audit purposes, a lack of adequate reconciliations to support figures in the financial statements, the calculation of MRP is likely to be materially understated and there is insufficient capacity and capability within the existing council financial team to produce suitable accounts for audit with accompanying audit evidence.’ As a result, 16 recommendations were made. In respect of value for money, Grant Thornton are considering making statutory recommendations under the Local Audit and Accountability Act 2014. The implications of statutory recommendations are that the Auditor’s Annual Report must be presented to full Council, and the Secretary of State for Housing, Communities and Local Government.
  3. Grant Thornton’s reports are highly critical, raising issues consistent with those in our report. It is clear that significant improvements are needed in the quality of the Council’s accounts and the information provided. We discuss the capacity and capability of the Council’s finance function in Part 3 of the Use of Resources section.

**Role of the Audit Committee**

* 1. We recognise that the Audit Committee has been operating without critical external assurance and there has been a lack of internal audit reports in the current year. In the Audit Committee meetings we have observed, committee members have challenged officers on certain issues.
  2. We believe that transparency and independence would be improved by providing annual reports to the Council and aligning with CIPFA’s guidelines, which recommend two independent members, one of whom serves as Chair.

### **Governance of council companies**

* 1. In May 2016, the Council established Knowle Green Estates (KGE Ltd) to manage its housing projects and address local housing needs. At the time, the Council set a goal to deliver 600 new homes for rent by the end of 2023. While the Council is responsible for property acquisitions, design, planning, and construction, KGE advises on these processes, later assuming ownership and managing lettings, maintenance, and tenancies. The company focuses on delivering affordable and key-worker homes, with profits reinvested into housing initiatives. Operating independently, KGE benefits from flexibility in rental terms, and, at the time of its establishment, was subject to regular review by Cabinet, Audit Committee, and the Overview and Scrutiny Committee, with its accounts separately audited.[[10]](#footnote-11)
  2. KGE is managed by a Board and seconds staff from the Council to deliver its operations. At the time of our Inspection, the Board consisted of two independent Non-Executive Directors, the Section 151 Officer (also Deputy Chief Executive) who chaired the Board, and a Councillor. The Section 151 Officer stepped down in January 2025. We believe his dual role reflected poor governance practices by the Council. This was noted by CIPFA in their July 2023 report, which stated it was ‘imperative that the KGE governance arrangements – and their practice – are as good as they can be.’ The failure to address this issue in a timely manner is a concern.
  3. There have been other instances of poor governance in relation to KGE, particularly regarding the approval of a £2.5 million debenture loan and the deferral of repaying £0.9 million in cashflow to stabilise the company’s financial position. This decision was made following a confidential report to full Council in July 2024, and was presented by the Section 151 Officer in his capacity as KGE Director. The report contained financial errors, inaccurately referred to the company as being privately owned, and was fully exempt from the public without clear justification. The projected cashflow for KGE, as outlined in the report’s appendices, included the injection of a £2.5 million debenture loan and the deferral of £0.9 million in cashflow support. This showed that the lowest end-of-year balance up to 2034 would be £1,678k. Given this, it was unclear why the Council was not offered the option to lend a lower amount, such as £1.5 million, instead of £2.5 million. We could not see a business case nor did we receive an explanation for how the £2.5 million figure was determined.

### **Self-assessment against the CIPFA Financial Management Code**

* 1. The Council conducted its initial assessment against the CIPFA Financial Management code in November 2020, followed by a refresh in November 2021. The third, and most recent, assessment was presented to the Audit Committee in March 2024. However, it was significantly outdated, with references to actions taken as far back as November 2020. Members raised this issue in the meeting, along with inaccuracies such as a discrepancy in the sinking fund amount.
  2. At members’ request, the assessment was then reviewed and presented again to the Committee in July 2024. Despite this, inaccuracies persisted in this updated version. In particular, we note a reference to monthly budget monitoring by the Corporate Policy and Resources Committee. However, a review of the Committee agendas shows that in 2023/24, the preceding financial year, only the Quarter 1 Budget Monitoring Report for the Council was published. the Quarter 2 Report was emailed to members for information and no Quarter 3 Report was submitted to members.
  3. It is good practice to ensure that this assessment operates as a living document, regularly reviewed and updated to reflect current practices and inform decision-making.

### **Self-assessment against the best value framework**

* 1. The Council has also conducted a self-assessment against the Use of Resources best value theme. This was first presented to the Audit Committee in March 2024, with an update provided in July 2024 following the official publication of the new best value guidance. We believe both assessments present an optimism bias and a lack of self-awareness, failing to identify any key areas for concern – an unexpected omission given that a Best Value Inspection was underway at the time. Some of the judgements do not align with what either we or the Council's external auditors have found. For example, while the Council asserts that regular budget monitoring reports go to all service committees, we have been not found clear evidence to support this claim. The Council also states that it fully complies with both the letter and spirit of MRP requirements. As detailed in Part 3 of the Use of Resources section of this report, we do not believe this is the case. The Council’s current external auditors have also referred to MRP being understated in their report on the 2023/24 accounts.

### **Procurement**

* 1. There is recognition that procurement at the Council is largely reactive and operational rather than strategic, and that contract management is also inadequate. There has been a high turnover in the number of heads of procurement with a succession of interims filling the role, contributing to an unstable and reactive service. There also appears to be limited corporate memory of what has happened in respect of larger contract decisions and overall, little improvements have been made to the service.
  2. A new, permanent Corporate Procurement Manager started with the Council on 1 October 2024, and reports to the Monitoring Officer. The procurement team comprises just three people which seems insufficient given the scale of spend and the number of contracts managed.
  3. While a contract register exists, it is not managed by the procurement team. Instead, responsibility for managing contracts lies with service heads. The register is not proactively managed, meaning that some contracts have to be dealt with as emergencies when they expire.
  4. A number of contracts are not tendered, with larger exemptions approved by members as part of the decision-making process, particularly in respect of property acquisitions. We understand smaller contract exemptions are approved by the Section 151 Officer and are not reported to members.
  5. Neither the procurement team nor the finance team could provide a list of overall spend by supplier or identify who the major supplier spends were with, presenting limited assurance as to whether value for money is being effectively secured.

# 8. Culture

### **Member/officer relationships**

* 1. We did not see the features we would expect to see in a well-run council. There exists a culture of distrust between members and officers, with both sides describing the relationship as broken. The LGA CPC report of November 2022 highlighted this issue, recommending that the Council take the opportunity to reset the officer and member working relationships and clarify the complementary roles of both groups. The LGA commented on this issue again in November 2023: ‘Member/officer relations and behaviour was a key area of concern for the Peer Team when they visited in November last year and unfortunately it is where the least amount of progress has been made.’
  2. We understand the Council has engaged in some areas with the LGA. The Leader has taken part in training for Leaders and is availing herself of the support offered through the regional lead and the independent group office. The LGA has also proposed options to improve mutual understanding of leadership styles between the leadership groups at the member and officer levels, and facilitated some initial team building. However, these efforts have not been sustained. While work was paused due to the general election in July 2024, we have not seen evidence that the Council has taken steps to resume or build on this important initiative. As a result, the situation has not improved. In fact, our Inspection reveals that it has worsened.
  3. Committee chairs and the leadership group have expressed particular frustration that senior officers have not sufficiently adapted to the new administration’s priorities, especially its desire for a more inclusive and open approach. The administration at the time of the purchase of the Council’s investment portfolio operated the strong Leader model, which we understand was tightly controlled. The new administration has been clear that it wants to operate in a more transparent and collaborative way of working, sharing information between officers and members. Whilst there are regular all Councillor briefings circulated, Committee chairs feel that officers often do not involve them in developing options and preparing reports for Committees. The administration also holds strong views that the Council is very officer-led, with an expectation that Councillors should simply agree with officers’ recommendations without meaningful involvement or discussion. Members have also expressed concerns that the senior management team has an optimism bias, are not open to challenge, and becomes defensive when information is requested. They report feeling inadequately informed to assess the risks and financial implications of key decisions, particularly around the Council’s investment and regeneration portfolios. Many members, across political parties, remain uncertain around the rationale behind the Council’s large-scale acquisition policy, describing it as ‘largely driven by the previous Leader and the current and former Chief Executives’.
  4. Members from all parties expressed frustrations with not being able to access and directly contact middle managers. They feel that the new online portal for Councillor enquiries is resulting in delayed responses to their queries. Almost every member we spoke to also raised the issue of being unable to access parts of the Council Offices due to restricted access with their passes. On a cross-party basis, they feel that this is symptomatic of the way in which they are viewed by officers.
  5. The latest staff survey results indicated a lack of confidence in the political leadership. We have heard very real frustration from officers that members want to be excessively involved in operational detail, which they feel detracts from their ability to provide strategic direction. Staff have talked about members challenging their professional advice and in cases, telling them how to write their reports. They also feel that members are often indecisive, which is costing the Council money.
  6. Senior officers have acknowledged the strained relationships, with some describing these as the worst they have encountered while working in local government. Group Heads have reported feeling unheard by members and overwhelmed with stress, describing the current environment as ‘hostile’. The Team Spelthorne Pledge, signed by the Leader and the Chief Executive, intends to foster better collaboration between members and officers, however officers feel that this initiative has not been effective. A complaint filed against the current Leader by a Group Head resulted in a Standards Committee hearing, which has caused considerable upset within the Council.

### **Staff experiences**

* 1. Spelthorne has many dedicated and hard-working staff who are committed to delivering high quality services for residents. We heard examples about their exemplary work from Councillors and local partners. In our visit to a local community centre, we met some excellent staff who showed dedication and care and were a real credit to the Council.
  2. Staff generally spoke positively about working for Spelthorne and about how they all pull together and are friendly and collaborative. Group Heads described having a good cohort of colleagues and of finding their fortnightly meetings to be a supportive environment.
  3. The 2024 staff survey results were largely positive, with many staff members expressing satisfaction in their roles, and the majority of respondents indicating that they plan to remain with the Council for at least another year. Staff expressed confidence in their ability to perform their roles effectively, and a sense of pride in their work. The key drivers for employee engagement were making a real difference to colleagues and service users, and feeling encouraged to speak openly about workplace issues. Staff also rated the Council as capable and trustworthy, and appreciated the support for well-being.
  4. However, staff also reported persistent job pressures, feeling under-resourced, and that personal development opportunities are often overridden by organisational priorities. Innovation was ranked the lowest of all organisational personality traits. The one area which in particular scored poorly was for confidence in the political leadership and their vision for the Council. This sentiment has been echoed in our interviews with senior officers, some of whom have spoken about challenges such as the new administration making numerous, overly-detailed requests for information.
  5. In conclusion, while the commitment and hard work of the staff are commendable, the breakdown in relationships and the lack of trust between members and senior staff represents a significant barrier. This situation is hindering the Council’s ability to address the critical challenges and risks it faces, undermining effective leadership and decision making.

# 9. Service Delivery

### **Delivery of services**

* 1. Since acquiring investment properties in 2016, the Council’s net revenue budget has continued to increase, enabling it to protect public services despite increasing pressures, such as those related to homelessness. Income generated from its investment portfolio has allowed the Council to boost spending on services, avoiding the efficiency savings or service cuts faced by other councils. Some of these funds have been directed to services that benefit residents, such as community centres, meals on wheels, and grants, which might not have been possible otherwise. This has contributed to high resident satisfaction. As an example, we visited the Fordbridge Centre, one of the discretionary services provided by the Council, and were impressed by the range of services offered. Residents we spoke to were very complimentary of the range of activities and the quality of staff. The manager and her team demonstrated real excellence in public service, and they are undoubtedly a credit to the Council.
  2. However, we have concerns regarding the long-term sustainability of this level of expenditure. The Council’s revised MTFS highlights the need for significant future savings – £8.6 million by 2028/29 against a current core spending power of £13.5 million. The report lacked realistic plans for achieving the necessary savings, which will inevitably affect future service delivery. Setting a balanced budget and making provisions for future liabilities is likely to impact the level and quality of services, and the current high levels of resident satisfaction may not continue.
  3. The Council has taken a proactive approach to tackling climate change, achieving Bronze-level Carbon Literate Organisation Accreditation and working towards Silver-level accreditation. A key achievement was the opening in October 2024 of the UK’s first ‘wet and dry’ Passivhaus leisure centre, the Eclipse Leisure Centre, which uses 60% less energy than a standard leisure centre. However, our findings highlight significant financial challenges with the project, including underestimated costs, insufficient risk assessments, and a lack of transparency in financial disclosures.

### **Delivery of housing**

* 1. Knowle Green Estates Ltd (KGE), Spelthorne’s housing company, was established in 2016, when the Council acquired Harper House in Ashford for emergency accommodation. Numerous improvements were made to Harper House to enhance safety and management of homeless families, but in January 2020, the Council began demolishing the site to redevelop it into ‘fit for purpose’ temporary accommodation for 20 families. At this time, the Council also identified the need to promote its own affordable housing schemes, with KGE as the delivery vehicle, and identified a pipeline of 386 new homes for direct delivery.
  2. The Council’s Housing Strategy for 2020-2025 outlined three key strategic priorities: enabling the delivery of more affordable housing; promoting independence and wellbeing; and preventing homelessness and rough sleeping. The Strategy highlighted the importance of continued working with KGE, which aimed to deliver 20% of the borough’s housing needs over the next five years, subject to planning. It also identified the need to work more effectively with Registered Providers, providers of social housing regulated by the Regulator of Social Housing in the UK, recognising the lack of proactive engagement to date. The expectation was that homes would be provided through S106 agreements and nomination rights to Registered Providers.
  3. However, these expectations have not been met. The Council’s Annual Report for 2022/23 reported that housing schemes built in 2021 resulted in 91 new homes being provided for families and individuals in Spelthorne, but progress has since stalled. In October 2023, the Council decided to cease direct delivery, and sites are now mothballed. Since this decision, no new affordable homes had been delivered through S106 agreements or completed by Registered Providers. Furthermore, in January 2025, the Planning Committee approved the removal of on-site affordable housing requirements in a 206-unit town centre scheme, opting instead for a £3.85 million off-site contribution. It is unclear whether the Council worked proactively with Registered Providers to encourage engagement or ensure the housing standards were acceptable.
  4. In November 2024, the Community Wellbeing and Housing Committee approved a draft Housing, Homelessness and Rough Sleeping Strategy for 2025-2030 for public consultation. This strategy outlines three key priorities: partnership working, with a multi-agency approach to tackling homelessness; identifying opportunities to address housing need; and proactive homelessness prevention and an effective service response. The strategy acknowledges the lack of affordable housing delivery over the past five years, with only 65 affordable rented homes being delivered, despite an annual need for 459 homes as defined in the recent Strategic Housing Assessment (2019). It also highlights the lack of diversity among Registered Providers, with 90% of social housing stock controlled by A2Dominion. The report notes that in 2023/24, there were 14 applicants for every social housing vacancy.
  5. As a result of the decision to suspend direct delivery and limited contributions from Registered Providers, the borough faces a significant housing shortage, putting increasing pressures on the homelessness budget. There is a high demand for emergency accommodation and high costs for private sector temporary accommodation. The Council reported spending £4.2 million on homelessness services in 2023/24, with costs having risen further to £5.5 million between April and December 2024.
  6. Without a clear strategy for the Council-owned regeneration and housing sites and more effective working with partners, the Inspection team have concerns that the Council has not sufficiently gripped this issue and costs will continue to escalate. The current housing pipeline is inadequate to meet the target outlined in the new Local Plan. While the Council launched its new draft Housing Strategy for public consultation in late 2024, it is too early for us to assess its deliverability. Nevertheless, it is evident that the Council has significantly underperformed in housing delivery to date. Any future strategy must therefore respond to this underperformance and deliver practical, measurable outcomes to address local housing needs. If the Council intends to rely on the delivery of affordable housing via S106 agreements, it needs to engage early with developers and Registered Providers to ensure that homes meet the necessary standards. Regular progress reporting will be crucial to ensure accountability, transparency, and effective monitoring.
  7. The future of KGE is uncertain. We have not seen evidence of a viable business plan or a clear sustainable strategy for its operations. This raises concerns about the feasibility of registering KGE with the Regulator for Social Housing, and we believe substantial governance reforms are needed to meet the Regulator’s requirements. We are aware that the Council is currently carrying out a review on the future of KGE.

### **Residents’ survey**

* 1. As part of its Corporate Plan 2024-2028, Spelthorne committed to seeking residents’ views on council services through a residents’ survey. This survey took place from 1 July to 8 September 2024 and received 1,707 responses.
  2. When compared with the LGA’s national average statistics, the Council outperformed in several areas: service delivery (60% vs. 56%); providing value for money (54% vs. 40%); listening and acting on residents’ views (52% vs 50%); keeping residents informed (65% vs. 54%); and trust in the Council (58% vs. 55%). It underperformed in some areas such as satisfaction with green spaces (66% vs. 76%); perceptions of safety, particularly after dark (52% vs. 71%)​; and satisfaction with Spelthorne as a place to live (65% vs. 74%).
  3. Satisfaction with the Council's core services was generally positive, particularly in elections (71%); parks and open spaces (68%); and cemeteries (62%). Conversely, some services, including community safety (36%) and strategic planning (37%), received notably lower ratings. While areas like customer services, leisure centres, and street cleaning maintained satisfaction levels above 50%, challenges were raised around planning applications and environmental health, which were often linked to broader concerns around infrastructure and safety​.

# 10. Partnerships and Community Engagement

### **Community Engagement**

* 1. There is a shared consensus among all group leaders around the importance of engaging with residents. The new administration has made it clear to us that it wants the Council to move away from being a commercial property investor and focus much more strongly on the listening and delivering for their local communities.
  2. The Spelthorne Partnership Assembly (SPA), launched in August 2024, and chaired by the Leader and Deputy Leader, serves as a quarterly platform for engaging residents and residents' association representatives from across the borough on a range of topics.
  3. Further initiatives include the Spelthorne Business Awards, an annual event celebrating the achievements of around 260 local businesses, and the Spelthorne Youth Awards, a bi-annual event recognising the talents and achievements of local young people aged 5–19.

### **Partnerships within Spelthorne**

* 1. There is a marked difference in the perception of partners about Spelthorne, depending on whether they are within or beyond the borough. Local partners have expressed strong positive views about their working relationship with the Council. They recognise and appreciate the contributions made by both members and officers in areas like community safety, health, and developing and maintaining a thriving town centre in Staines. Partners have spoken highly of individual officers across various departments for their effective collaboration.
  2. The Council played a key role in the establishment and ongoing support of the Staines Business Improvement District (BID), which it helped fund and support throughout the application process. The relationship between the BID and Council continues to be described as positive.
  3. The police have also described a good working relationship with the Council, particularly praising the Neighbourhood Services department, including the Community Safety and Joint Enforcement teams. They outlined a range of action groups which work effectively on joint tasking and addressing priority issues. They highlighted good operational collaboration with both the Leader and Councillors, as well as officers, and that they regularly join the Council’s resident meetings.
  4. Health colleagues have also provided positive feedback. The North West Surrey Strategic Health Alliance described having very good relationships with the Council, commenting staff as being very engaged. They gave positive examples of successful initiatives, such as the collaboration on hospital discharge which has led to a significant reduction in stranded patients.

### **Partnership working beyond the borough**

* 1. Partners beyond Spelthorne have been less positive about the Council’s role as a collaborative partner. A number have described a culture of isolationism, with concerns that the Council has not always played a constructive role when working with the County Council and other authorities across Surrey.
  2. Some external partners described their experience working with the Council as ‘painful and difficult’. They noted that ‘collaboration’ is not a term typically associated with Spelthorne. There is a perception that the Council often prioritises its own objectives above everything else. One example provided was regarding the Southern Light Rail scheme. The Heathrow Strategic Planning Group, which includes Heathrow Airport and various local authorities, has been exploring options to improve rail access to Heathrow from the south. While there is a broad consensus among most stakeholders on a preferred solution, Spelthorne has been advocating for the Southern Light Rail. This is despite widespread concerns from both public and private sector partners about its viability. Partners have expressed frustration that the Council continues to push for this alternative scheme, which appears to have limited prospects of success, rather than exploring other opportunities that could benefit the borough.

# 11. Conclusion

* 1. Spelthorne Borough Council is failing to meet best value standards in several critical areas, including Use of Resources; Governance; Leadership; Culture; and Continuous Improvement.
  2. The Council’s approach to property acquisitions has lacked adequate long-term planning and risk management. Progress on regeneration and housing projects has been slow, reflecting the need for greater expertise. The heavy reliance on income from investment properties presents significant sustainability risks, with potential impacts on resident satisfaction if services are reduced. Financial and risk management capabilities require strengthening, and the Council has not demonstrated a constructive approach to continuous improvement and has not consistently implemented recommendations from external reviews. This has led to ongoing weaknesses.
  3. The relationships between political leadership and senior management are strained, continuing to hinder effective decision-making. Additionally, reporting processes, audit, and scrutiny mechanisms require significant improvement to ensure informed governance. A culture of insularity and over-optimism within senior management has obscured the Council’s ability to address its challenges fully. There is also a clear need for better collaboration with external partners to tackle broader challenges.
  4. The Council has demonstrated a limited track record in proactively driving meaningful change and effectively implementing external recommendations. Given this, we do not have assurance that the Council can address the highlighted challenges with the necessary urgency and quality without substantial external support.
  5. We have made a series of recommendations that we believe are in the genuine best interest of Spelthorne’s residents. Enacting these recommendations promptly will be essential to driving the critical changes needed to strengthen the Council’s operations and secure a sustainable future for the borough.

# Appendix 1: Inspectors’ biographies

**Lesley Seary – Lead Inspector**

Lesley has over 20 years of experience in senior roles across various London authorities, including her tenure as Chief Executive of the London Borough of Islington from June 2011 to April 2019. She undertook the external assurance review of Bournemouth, Christchurch and Poole (BCP) Council, published in June 2023. Lesley serves as a Non-Executive Director at both Barking, Havering and Redbridge University Hospitals NHS Trust (since August 2019), and Barts Health NHS Trust (since February 2022).

**Mervyn Greer**

Mervyn served as a Director of Kier Group, a leading UK construction and infrastructure services company, from 2006 to 2016. In 2018, he was appointed by the Cabinet Office as Crown Representative, overseeing relationships with strategic government suppliers. In 2020, he was appointed by the Secretary of State as an Inspector for the Best Value Inspection of Liverpool City Council. Mervyn was part of the review team for the external assurance review of Woking Borough Council, published in May 2023, and was later appointed by the Secretary of State as a Commissioner at the same authority.

**Deborah McLaughlin**

Deborah has over 30 years’ experience working in regeneration and housing across the public and private sectors. From 2021 to 2024, she was a Commissioner at Liverpool City Council leading on regeneration. Deborah has considerable Executive Director experience, including as Executive Director for the Homes and Communities Agency (HCA) from 2008 to 2016, and Housing Director for Manchester City Council.

**Peter Robinson**

Peter is CIPFA and MBA qualified with eight years’ experience as a Director of Finance/Resources (Section 151 Officer) at two unitary councils – Bristol City Council and Herefordshire Council. Over the past eight years, Peter has provided strategic support to financially challenged councils, including Slough, Croydon, Northamptonshire and Somerset.

# Appendix 2: Case studies

**Case study 1: Eclipse Leisure Centre**

* 1. In September 2020, Cabinet approved the development of a new leisure centre designed to meet Passivhaus standards. A confidential appendix to the Cabinet report outlined the financial implications, highlighting a significant shortfall in development costs and the equivalent impact in annual revenue terms. These figures were based on financial assumptions about the likely income from a future operator of the centre, as presented in a business case.
  2. The business case was not presented to members. Upon review, we have identified discrepancies, including higher projected annual revenue costs and understated borrowing costs, suggesting that the estimates presented to members were overly optimistic. Additionally, lifecycle costs for maintaining the centre in good condition, which the Council would retain responsibility for, were highlighted in the business case but not in the Cabinet report.
  3. We note further instances of inadequate reporting. In March 2022, a supplementary capital estimate of £8.37 million was approved, bringing total construction costs to £48.37 million. However, this report did not provide updated cost estimates or fully explain the reasons for the increase, beyond a general reference to rising construction expenses. Similarly, a report in September 2023 stated that the winning operator’s offer would generate additional net income, but failed to specify the total cost of the centre or the full financial implications.
  4. A comprehensive report on the leisure centre’s financing was only presented to members in December 2024, two months after its opening. Annual costs were projected to rise to £2.2 million in 2025/26, with future costs estimated at £1.4 million to £1.5 million per year. These increases were attributed to higher construction costs and rising interest rates, yet the report did not fully explain these factors. It also appears that the original financial assessments did not adequately account for them.
  5. The development of the Eclipse Leisure Centre has faced significant financial challenges, including escalating costs and revenue shortfalls. Early decisions were based on underestimated costs, while later reports lacked transparent and thorough financial assessments. Key risks, such as lifecycle costs and realistic borrowing assumptions, were either omitted or insufficiently detailed. Crucially, full financial implications, borrowing structure, and revenue projections were only were only disclosed after the centre had opened, limiting effective oversight and accountability.

**Case study 2: Stockley Park**

* 1. In 2017, the Council acquired the Stockley Park office suite. Located in Uxbridge, London Borough of Hillingdon, the property includes 42,961 sq. ft. of office space and 136 car park spaces. At the time of acquisition, the building was fully let, generating a steady annual rental income. However, as of our Inspection, the property was vacant following a tenant lease break and the removal of a sanctioned tenant in November 2022.
  2. The Council has already invested in remodelling the ground floor for potential occupiers, with plans to refurbish the first floor. However, the property continues to experience a notable void rate, raising concerns about the adequacy of the initial risk analysis conducted at the time of acquisition.
  3. Given the ongoing voids and refurbishment costs, we believe the decision to continue investing in the property should have been reconsidered.
  4. In conclusion, the acquisition of Stockley Park appears to have been a high-risk investment, with ongoing challenges in terms of occupancy and refurbishment. A more comprehensive risk analysis and earlier consideration of the option of divesting from the property might have mitigated the Council's financial exposure.

**Case study 3: Oast House**

* 1. In 2019, Spelthorne acquired the Oast House, a vacant listed building near Staines railway station, along with the adjoining Kingston Road car park, for over £20.0 million. The intention was to redevelop the Oast House and use the car park for housing development. Cabinet approved the purchase in March 2019, along with a substantial supplementary capital provision for development and design costs. However, the financial details presented were vague, with key risks, such as the potential failure to generate sufficient value, higher-than-expected costs, and challenges in securing planning consent, identified but not adequately mitigated.
  2. The Council did not obtain a Red Book valuation, instead relying on an initial site appraisal that contained significant limitations. The appraisal was based on an overly optimistic assumption of 403 residential units. However, when the Council submitted a planning application in January 2023, it was for just 187 units — less than half the number initially projected. This application was later withdrawn due to opposition from the Development Sub-Committee regarding the proposed height and massing of the scheme. By 31 March 2024, the Council had incurred further expenditure on the site, with a significant portion attributed to abortive planning costs.
  3. In December 2023, external valuers estimated the site’s value at significantly less than the original purchase price. We believe this highlights serious flaws in the Council’s evaluation process and its ability to manage public funds. Additionally, the further capital expenditure was approved without sufficient due diligence, raising questions about the Council's governance and risk management practices.
  4. In conclusion, the acquisition and subsequent development of the Oast House site has been marked by financial misjudgements, poor risk assessment, and a lack of effective governance. The ambition to deliver housing and regeneration for the borough has not materialised, and the Council has incurred considerable financial losses.

# Appendix 3: Confidential appendix

[redacted for commercial sensitivity]

1. [Core spending power table: final local government finance settlement 2024 to 2025 - GOV.UK](https://www.gov.uk/government/publications/core-spending-power-table-final-local-government-finance-settlement-2024-to-2025) [↑](#footnote-ref-2)
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