Appendix D

Grant Thornton

Interim Auditor's Annual Report on Spelthorne Borough Council

for the year ended 31 March 2024

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

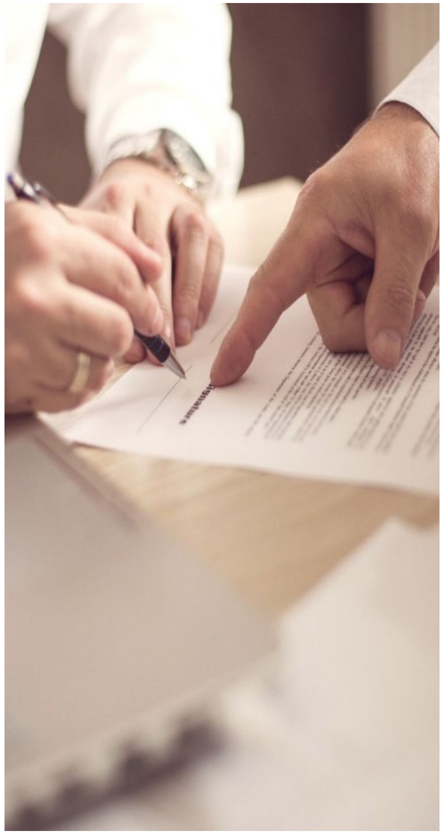
We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting, on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

Purpose of the Auditor's Annual Report

This report brings together a summary of all the work we have undertaken for Spelthorne Borough Council (the Council) during 2023-24 as the appointed external auditor. The core element of the report is the commentary on the value for money (VfM) arrangements. All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A. Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement. This is the first time that the Council has received an annual auditors report, as the work is still outstanding, by the previous auditor on VFM. Over the last three years the Council has been subject to several independent reviews, with recommendations to take forward and an ongoing MHCLG statutory best value.



Responsibilities of the appointed auditor

Opinion on the financial statements

Auditors provide an opinion on the financial statements which confirms whether they:

- give a true and fair view of the financial position of the Council as at 31 March 2024 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2023-24
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014

We also consider the Annual Governance Statement and undertake work relating to the Whole of Government Accounts consolidation exercise.

Value for money

We report our judgements on whether the Council has proper arrangements in place regarding arrangements under the three specified criteria:

- financial sustainability
- governance
- Improving economy, efficiency and effectiveness

The Value for Money auditor responsibilities are set out in Appendix B.

Auditor powers

Auditors of a local authority have a duty to consider whether there are any issues arising during their work that require the use of a range of auditor's powers.

These powers are set out on page 21 with a commentary on whether any of these powers have been used during this audit period.

Executive summary

Executive summary

Financial sustainability

The Council has set balanced budgets up to and including 2024/25 and has a reasonable level of reserves in proportion to its size which it has used in year to address budget pressures. As at 31 March 2024 the General Fund reserves balance was £3m with other earmarked reserves of £58m. The earmarked reserves however include £35.8m in a 'sinking funds' reserve which can only be used to make up for any anticipated shortfall in commercial property investment income. The Council plans to utilise £2m of the sinking fund in 2024/25 and a further £1m of other earmarked reserves in 2024/25 which will leave a projected balance of £55m total earmarked reserves at 31 March 2025 of which approximately half relates to the 'sinking funds'.

In July 2023, an independent review was undertaken by CIPFA. This review concluded that there were concerns the Council had not fully considered the risks and longer-term impact of its borrowing and investment strategy, to generate income. It reported as a legacy the Council had debt over £1 billion which it would be required to service from its revenue budget, over the next 50 years. This, as a result creates a financial sustainability risk which the review concluded the Council were not effectively managing. We agree with this conclusion.

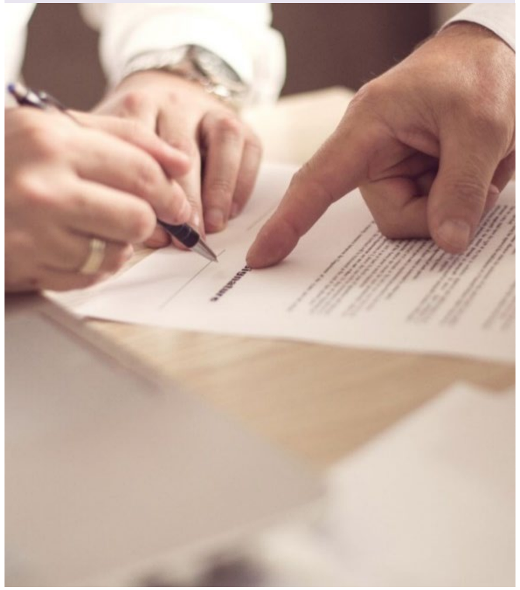
When setting the budget for 2024/25 in February 2024 the Council estimated that it would be facing funding gaps of £0.3m in 2025/26, £2.8m in 2026/27 and £2.3m in 2027/28. The latest outline budget for 2025/26 reported in December 2024 shows the Council closing this gap in 2025/26 but with larger gaps of £3.5m and £5.4m predicted for 2026/27 and 2027/28 respectively. A further gap is now envisaged in 2028/29 of £8.6m. The Council does not have agreed plans to address these budget gaps which amount to approximately 15-20% of net revenue expenditure.

The Council formulates a detailed Medium Term Financial Plan (MTFP) as part of its annual budget setting process and the relevant reports to members set out pressures, growth and quantified savings anticipated for the following financial year. We have however identified inconsistencies and omissions in some of the financial reports used to set its budget and MTFP. Those inconsistencies related to key income from commercial investment income and the omissions related to areas of the budget where there continues to be significant growth. Without complete and accurate information, the Council cannot have full confidence in the financial decisions reached. The finance papers are detailed but, in our judgement, can be confusing to follow, contain contradictory information in the same paper, and lack clear narrative by way of explanations.

We have therefore identified each of the above as significant weaknesses in arrangements and have made a Key Recommendation which is set out on pages 9-12. The issues we have identified, coupled with the number of significant weaknesses within our work, are however significant and we are considering making follow up statutory recommendations.

The Council's use of benchmarking to identify how it compares to statistical nearest neighbours in terms of service unit costs is not comprehensive and has limitations and this could impact on its ability to identify opportunities for efficiencies. The Council also needs to be clearer in setting out the financial implications of the strategies it is developing to ensure they are deliverable within the finance available. We have also raised two improvement recommendations in these respects.

We have completed our audit of your financial statements and will issue a disclaimed opinion, following the Audit Committee meeting on 28 January 2025. Our findings referenced in this report and reported separately in our Audit Findings Report.



Executive summary

Governance

Although the Council has risk management arrangements in place, including review of the strategic risks we are concerned that several key risks have not had sufficient focus. Risks relating to the issues identified in the Local Government Association (LGA) Corporate Peer Challenge (November 2022) and the CIPFA Capital Assurance Review (July 2023). We also identified that several actions relating to risks which the Council was looking to reduce have been on the risk action plan for over four years and have yet to be completed. In certain cases, the target completion dates have been exceeded and re-set continuously. Whilst we appreciate by their nature these risks are more challenging to mitigate, this makes it even more vital that risk management is effective. Risk management needs to be a decision and and we have not been able to evidence a risk management culture, applied consistently or embedded across the Council.

Governance arrangements regarding the Council's wholly owned subsidiary Knowle Green Estates Ltd (KGE) does not accord with best practice with both officers and members having conflicting roles at the Council and their roles on the Board of KGE. There are examples from Public Interest Reports (PIRs) at other Councils where similar arrangements have contributed to significant failings in governance. The Council is reliant on KGE to effectively manage and maintain its residential property portfolio. Income generated from this is used to repay loans made by the Council as well as covering interest on those loans. That income also helps to balance the budget. We note in January 2025 this has been changed but it is too early for us, to comment on the effectiveness of this change. We note the perceived conflict which the Council has sought to address, commenting on the governance arrangements, not the effectiveness of these arrangements which we will do in future VFM work.

Reports to members are often overly complex, confusing, inaccurate, incomplete or inconsistent. Further decisions are not always taken with best value in mind and do not always consider the wider impacts on other aspects of its plans. For example, in October 2023 the Council decided to pause its programme of social housing capital projects as they were assessed as not financially viable. This has significant impacts not only for residents but also on the ongoing financial viability of KGE. These broader impacts were not fully considered at the time of that decision and adequately evidenced.

We therefore consider all the above to be significant weaknesses in arrangements. We have made three key recommendations which are set out on pages 13-15.

The LGA Peer review conducted in November 2022 concluded that poor behaviour by some councillors towards each other and staff was seriously impacting decision making as well as staff morale. We have found that despite several facilitated workshops led by external independent consultants this situation has not improved. Our understanding is that there continues to be poor relationships between some political members' groups as well as between lead members and some senior officers. This may adversely impact on decision making and scrutiny.

The Council introduced an upgraded financial system (Centros) in 2023/24 and this has delivered some of the expected improvements in reducing the budget setting timeline. We understand however that key financial information is still not always presented timely ahead of key member briefings. We have raised an improvement recommendation that the Council should review the implementation of the Centros financial system to ensure that all anticipated benefits are being maximised and if not identify the root cause for this to enable improvements to be made for future budget setting and use of the system.

The Council appointed a new provider of internal audit service for 2024-25. We note that the internal Audit Plan for 2024/25 was only put to the Audit Committee for approval in July 2024. It is regrettable that the plan was not put forward as part of the initial transfer of audit arrangements to Southern Internal Audit Partnership. As a result of this delay there were no internal audits planned for Q1 of 2024/25. The 2024/25 plan is 18 audits compared to 13 reviews completed in 2022/23. This appears ambitious given no reviews were conducted in Q1. The Council will need to carefully monitor progress with the plan in 2024/25 and as at January 2025 the internal audit delivery was significantly behind which will impact on internal audit assurances during the year and require further commentary in the annual governance statement for 2024/25.

Executive summary

Improving economy, efficiency and effectiveness

The Council agreed a new Corporate plan in February 2024 and this contains key outcomes with some metrics. The Council reports against 46 Key Performance Indicators (KPIs) which are reported annually to CPRC. Ten of those KPIs are also reported in the Council's annual report and 15 are reported to the Surrey Group Chief Executives meeting quarterly. We found however that the Council does not have a performance management framework in place by which members regularly monitor performance against key corporate Key Performance Indicators. During 2023/24 there was no annual report of KPIs to CPRC or Full Council relating to performance for the 2022/23 year. Annual performance for the 2023/24 year was reported to CPRC in October 2024. Members also have access to a Corporate Plan Action Tracker however we have not been able to evidence how such information is being utilised to inform strategic decision making. We consider the level of monitoring to be insufficient to enable the Council to assess performance and identify areas for improvement.

The Council has been subject to several external reviews including: an LGA Finance Peer Review in 2020; an LGA Peer review in 2022 and a CPIFA Capital Assurance Review in July 2023. The Council did draw up action plans in response to those reviews. However, despite this the Council has failed to secure improvements in some key areas of those reviews and in particular lack of trust between members and officers and simplifying financial reports to members. This lack of traction in these key areas is evidenced across other aspects of our review but is particularly relevant to decision making, lack of scrutiny and confidence in the completeness and accuracy of reports being presented to the Council by Officers . The Council has set up an establishment review in July 2023 with a remit which includes consideration of any recommendations from staff audits and Peer Reviews. This latest development has still yet to bear fruit over these longstanding issues.

The Council recognises that procurement needs to have a more strategic role going forward through being more proactive in looking for savings, efficiencies and economies. A new Procurement Group function is proposed to drive this and changes arising from the new Procurement Act 2023. The Council also acknowledges that although there is a forward procurement plan and contract register these are not as effective as they could be. There is no reporting of contract or procurement metrics to members.

We consider these to be further significant weaknesses in arrangements, and have made three key recommendations, which we set out on pages 16-18.

Spelthorne has a number of current partnerships with other authorities including insurance with London Borough of Sutton, counter-fraud with Reigate and Banstead Council, Spelride (a door-to-door transport service to carry passengers with a mobility problem) with Elmbridge, and Supporting Families with Elmbridge, Epsom and Ewell and Surrey County Council, as a well as a recent partnership formed with Mole Valley Borough Council on SPAN (Spelthorne Personal Alarm Network) for the elderly community.

These partnering arrangements were identified by a Local Government Association (LGA) Peer review as being a strength with the Council. It is important however that the Council fully considers the financial implications of its partnering arrangements and regularly reviews those arrangements to ensure they are achieving value for money. An improvement recommendation has been made in this respect.

Executive summary (continued)

Overall summary of our Value for Money assessment of the Council's arrangements

Your previous external auditor is yet to issue Auditor's Annual Reports for 2020-21 to 2022-23 inclusive. Therefore, we have had to produce commentary without knowledge of the outcome of the Value for Money work for prior audit periods. In May 2024, the Ministry of Housing Communities and Local Government (MHCLG) appointed an independent inspector to undertake a review in order to seek assurance that the Council is complying with its Best Value Duty. The inspector is yet to report on their findings. We will be mindful of any findings from your previous external auditor and the MHCLG appointed independent inspector once they report and may need to revisit our interim findings as a result.

The NAO has consulted on and updated the Code to align it to account for backstop legislation. The new Code requires auditors to share a draft Auditors Annual Report ("the Report") with those charged with governance by a nationally set deadline each year (30 November) and for the audited body to publish the Report thereafter. This new requirement will be introduced from November 2025. As a firm, we are committed to reporting the results of our local audit work on as timely a basis as possible. The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. A summary is set out in the table below.

Criteria	2023-24 Risk assessment (summary)	2023-24 Auditor judgement on arrangements	
Financial sustainability	Risk of significant weakness identified in relation to the Council's financial position, including management of capital projects, and unsustainable borrowing.	R	Three significant weaknesses in arrangements identified due to: inadequate medium term financial planning; insufficient plans to address future budget gaps and inadequate management of financial risk.
Governance	Risks of significant weakness identified in relation to timeliness, effectiveness and monitoring of the response to external reports.	R	Three significant weaknesses in arrangements identified in relation to decision making and scrutiny, risk management and governance relating to subsidiary undertakings and maintaining appropriate standards.
Improving economy, efficiency and effectiveness	No risks of significant weakness identified in our initial risk assessment.	R	Three significant weaknesses in arrangements identified in relation to use of financial and performance information, a failure to secure improvement following an external Review, and a failure to deliver efficiency/performance improvements when managing significant outsourced contracts. We raise related key improvements.

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

Executive summary (continued)

Significant weakness identified in Financial Sustainability arrangements

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We reviewed the Council's arrangements to deliver financial sustainability and have concluded that there is a significant weakness in arrangements.

Short and Medium Term Financial Planning

We have identified inconsistencies in the estimated level of surplus commercial investment income across different financial planning reports. This is significant to the Council's financial plans because that income of £10m p.a. is approximately 40% of net expenditure and is therefore critical in helping to balance the revenue budget. Assumptions built into the Council's Capital Programme in February 2024 forecast an estimated net commercial investment income of approximately £10m per annum throughout the MTFP. However, the detailed Budget report and Treasury Management Strategy (TMS), also in February 2024 forecast a much-reduced level of net income during 2026/27 and 2027/28 of approximately £7m pa. This is a total reduction in income of £3m per annum (30%) even after taking account of planned use of the sinking fund. The Reserves Strategy (also considered in February 2024) stated that rental yields are being maintained and by having the Sinking Fund available, the £10m contribution towards frontline services is being delivered. This statement is not consistent with the Budget report or the TMS. As a result of the statement in the reserves strategy the Council went on to say that there was no need to consider selling off any assets. The overall reduction in income anticipated in those later years of the budget and TMS in February 2024 was due to anticipated increase in debt interest charges and Minimum Revenue Provision (MRP) in those years. The assumptions built into the Capital Programme approved in February 2024 did not include those increased costs. The Council estimates that Gross income from the investment portfolio will increase by £4m p.a. and landlord costs due to increase from approximately £2m-£3m p.a. over the same period. There is no explanation in any of the reports for these. We note from the latest outline budget report in December 2024 that from 2026/27 - 2030/31 the Council is now planning to reduce the net income it receives from commercial property from £10m per annum to £5m per annum to enable it to build up the sinking fund. This decision will have further impacts on the TMS and Capital programme which have yet to be assessed. We understand that a refreshed model for the sinking fund is being presented to CPRC in January 2025.

The Council overspent on Temporary Accommodation by £0.7m in 2023/24. A growth bid of £0.9m was included in the budget approved by Full Council in February 2024 representing 70% of the total approved growth bids for 2024/25 amounting to £1.306m. The Council has stated that this is a result of demand led pressure however our benchmarking data shows that Temporary Accommodation is a relatively high-cost service per-head of population when compared to statistically near neighbours. This would suggest that demand is not the only factor at play. The Council is looking to bring one part of the service relating to a Hostel for homeless men back in-house. We understand that at the time of preparing the 2024/25 budget in February 2024 the Council thought that the costs for delivering this service in-house would increase as it appeared that the existing contractor may have underbid for the support element of the service provision when the contract was awarded. It does not appear that these factors were fully considered in the budget preparation for 2024/25.

Executive summary (continued)

Significant weakness identified in Financial Sustainability arrangements (cont'd)

Plans to bridge funding gaps

When setting the budget for 2024/25 in February 2024 the Council was able to set a balanced budget having identified £2.1m in potential savings. At that time funding gaps of £0.3m in 2025/26, £2.8m in 2026/27 and £2.3m in 2027/28 were also identified. We understand that the latest outline budget for 2025/26 shows the Council balanced in 2025/26 but with larger gaps of £3.7m and £4.8m predicted for 2026/27 and 2027/28 respectively. A further gap is now envisaged in 2028/29 of £6.5m. The Council did not have a savings or transformation plan in place in 2023/24 or 2024/25 to address these budget gaps which amounted to approximately 10% of net expenditure. The Council did have a continuous review programme from 2019 to 2022. This involved a service-by-service review of processes to determine levels of efficiency and any cashable savings. The Council states it plans to re-introduce this transformation work from 2025/26 and has put £0.5m seed funding into the outline budget proposal put forward in December 2024. This is an invest to save programme which as yet is not fully costed and it is not clear what level of cost reduction or increased income will be achieved. An Establishment review commissioned in July 2023 reviewed roles and responsibilities to determine whether the structures currently in place were fit for purpose potential efficiency savings were also identified. Those efficiencies have already been factored into the above budget gaps.

The lack of savings and transformation plan was identified as an issue in a report by CIPFA in July 2023 which was commissioned by the Department for Levelling Up, Housing and Communities (DLUHC) now MHCLG. The Council is therefore yet to fully address this issue. The CIPFA review and a Local Government Association (LGA) Corporate Peer Review both identified impacts of member behaviour and officer relationships on decision making. This is discussed in more detail later in this report however it is vital that the Council resolve those issues to avoid delays in reaching consensus on how to address the identified budget gaps.

The actual budget gaps were higher than those reported above because the Council planned to utilise its 'sinking fund'. The sinking fund was established by the Council in order to make up for any shortfall in commercial investment income received. The fact that the Council is having to utilise this reserve within the first seven years of a 50-year programme is a concern. The Council planned to utilise £2m in 2023/24, £4.2m in 2025/26 and £0.8m in 2026/27. The latest outline budget proposal for 2025/26 will see the Council having to carefully balance the level of net investment income it allocates to balance the General Fund against contributions to the sinking fund. This could see the contribution to General Fund being reduced by half (£5m) in order to achieve the required investment in the sinking fund.

There is also an additional significant risk resulting from the Council's decision in October 2023 to suspend all of its house building projects due to concerns about their continued viability. The Council estimates the worse case scenario that this could amount to £14m to the revenue budget. The outline budget report for 2025/26 in December 2024 puts the actual costs for that year at £8.5m which will be met from reserves. That decision could also have an adverse impact on other aspects of the Council's corporate strategy and finances. For example, an impact on the Council's affordable Homes Strategy which in turn could impact homelessness and the demand for temporary accommodation. It has also had a potentially significant impact on the future viability of the Council's subsidiary company KGE. We understand that the Council has taken recent steps to review the future income streams of KGE which the Council hopes this will be sufficient to improve the financial viability of KGE. These changes will need to be reflected in the KGE Business Plan for 2025/26.

Executive summary (continued)

Significant weakness identified in Financial Sustainability arrangements (cont'd)

Managing Financial Risk

The Council's total external borrowing at 31 March 2024 was £1.07bn. Although the level of external debt is within the Council's Authorised Borrowing Limit of £1.17bn, it is at the Council's Operational Boundary which it set in October 2023. The CIPFA resilience indicator puts the Council at extremely high risk from both the level of external debt and ratio of debt interest to net revenue expenditure. The Council will have to continue to ensure that it can service this debt which costs approximately £25m in interest and £12m in Minimum Revenue Provision (MRP) rising to £14m in later years of the MTFP. It should be noted that the Council had historically miscalculated its MRP and this was corrected in 2023/24.

There is a 50-year programme to repay the debt which adds to the risk as it is very difficult to sustain that level of income consistently over such a long period. The debt incurred on commercial property investment is serviced through income generated from those properties. A commercial assets management team oversees the investment portfolio and the collection of debt. Debt incurred in developing the residential property portfolio is serviced by KGE who purchase and manage the properties with money loaned to them by the Council. KGE use the rental income to service the loan with any surplus profit transferred to the Council. The Council use any residual income received from residential and commercial property to balance the General Fund budget as well as investing in a 'sinking fund' to cover the risk from the fluctuating income. As at 31 March 2025 the Council estimates that the sinking fund will have balance of £25.7m reducing to £21.5m by 31 March 2028. The CIPFA Capital Assurance Review report issued in July 2023 stated that the Council's investment strategy was high risk, and complex. A separate investment portfolio risk register is maintained however this lacks sufficient detail to enable member's to fully assess and manage the level of risk. The Commercial Assets sub-committee forward plan does not include a review of that risk register.

In 2023/24 the Council did not have a model to determine if the sinking fund would be sufficient to meet the long-term needs of the Council. The Council has recently created a model by which it determines whether the sinking fund is sufficient to mitigate the risk of fluctuating income. The model is due to be presented to members in January 2025. The model originally assumed that the Council would invest an average net £3.5m per annum into the Council's sinking fund. Although the Council has been able to contribute significantly more than this in each of the last few years (£6.7m in 2023/24) that assumption was optimistic given that the Council is planning to take payments from the sinking fund over the first three years of the current MTFP.

In February 2023 the Council had to approve financial support and a cash flow facility of up to £4.5m over the next 5 years to KGE. In July 2024 the Council approved £2.5m of that cashflow support in the form of a 10-year debenture. KGE made a loss of £0.9m in 2022/23 resulting in the Council now having to consider the future of KGE. We understand that KGE has recently identified some alternate income streams and that KGE outturn for 2024-25 is now projected to be a small cashflow surplus. These revised plans will need to be agreed by the Council through amendments to the KGE business plan. At the time of this report the Council has yet to agree a business plan that puts KGE back on a sustainable path.

Executive summary (continued)

Significant weakness identified in Financial Sustainability arrangements (cont'd)

Financial Sustainability overall conclusion

The Council has not fully addressed the funding gaps and risks within its MTFP. Based on the work undertaken and evidence reviewed, we are not satisfied that the Council had proper arrangements in place to address these serious issues and secure economy, efficiency and effectiveness in its use of resources in 2023/24. In order to develop a sustainable medium term financial plan, it is essential that elected Members have confidence in the information being presented to them when making key financial decisions and this is presently lacking. In addition, there is considerable risk within the Council's complex commercial property portfolio which could further impact the fundings gaps identified by the Council. It is critical that the Council achieves a collective and accurate view of the level of medium-term financial risk to which the Council is exposed and takes appropriate action to mitigate and manage that risk. We have therefore identified this as a significant weakness in arrangements and raise the following key recommendation. The issues are so significant that we are considering raising this as a statutory recommendation.

Key recommendation 1
The Council should ensure that : i. all financial reports that are relevant to decisions regarding short-term and medium-term planning are accurate and consistent. It should also ensure that the root causes of budget growth are identified and explained to members to ensure accuracy of financial plans. ii. urgently review the options for the suspended housing projects and assess the impacts for KGE. iii. a sustainable business plan for KGE is approved. iv. a sustainable plan for the sinking funds reserve is approved which is a complete model, drawing in expertise as required to give confidence in the underlying assumptions in the model. v. robust plans are approved to address the medium-term budget gaps and to reinstate its transformation programme as a matter of urgency.

Executive summary (continued)

Significant weakness identified in Governance arrangements

We reviewed the Council's governance arrangements including its arrangements to identify and mitigate key risks and have concluded that there are three significant weaknesses in those arrangements which are set out in the following pages. These weakness relate to: effectiveness of decisions and scrutiny; identification and management of strategic risks and governance of one of the Council's subsidiary companies KGE Ltd. The combined effect of these weaknesses is having a significant impact on the Council's ability to move forward from its historical position of a strong leader and cabinet model with a single dominant political group, to the current position of a more collaborative committee system with multiple political groups. We have therefore identified these as significant weaknesses in arrangements and raise the following three key recommendations.

Decision-making including challenge and transparency

Reports to members are often overly complex, confusing, inaccurate, incomplete or inconsistent.

- A Financial Reporting Working Group was established in June 2023 specifically for officers and members to work together to review how financial reports could be made easier for councillors to understand, how to balance the need between appropriate detail and options analysis and conciseness, how to make reports more visual, and how to draw out and summarise key points. Despite this reports to the Corporate Policy and Resources Committee (CPRC) in October 2023 received criticism from members that the information contained within the report for this item and the other financial reports within the agenda was confusing and inconsistent. We have also identified inconsistencies between the Capital Programme and the Budget and TMS which are referred to in more detail under key recommendation 1 on page 12.

Decisions by members are not always taken with best value in mind

- The CIPFA report issued in July 2023 cites the fragility of the Council political environment adds a further dimension. It has arguably contributed to a projected £200 million increase in the affordable housing programme costs, with associated impacts on viability. This has resulted in the Council's decision to pause future housing development as not viable. We note that relevant reports to CPRC do not contain any reference to these reasons but instead state external factors such as inflation. In addition, broader financial impacts and impacts on vulnerable residents were not fully considered at the time. For example, the possible capital claw back of up to £16m of capitalised revenue costs and possible adverse impacts on demand for homelessness. A knock-on demand in this respect would impact on the budget (which is already under strain). This indirect financial consequence was not considered by CPRC as part of the decision.

Key recommendation 2
The Council should ensure that the Financial Reporting Working Group is appropriately resourced to enable it to quickly provide guidance and training to officers in report writing. If necessary, appropriate training should be given to report writers. The Council should consider whether a follow-up internal audit of the implementation of the Committee system should be undertaken and in particular to consider the effectiveness of scrutiny and the timeliness of decision making.

Executive summary (continued)

Significant weakness identified in Governance arrangements

Managing risk

The Council has in place many of the arrangements that we would expect to see over risk management including presentation of strategic risks to members. We note from a review of the risk register several omissions including:

- the risk for affordable housing did not include any assessment of the key adverse impacts on residents from the Council's decision to suspend further housing development;
- the risk from commercial assets income did not reference the sinking fund, the Council's new asset management strategy or the new governance structure for asset management. Further the mitigating actions state the Council is awaiting the outcome of the CIPFA and MCHLG (previously DLUHC) reviews. Given that CIPFA reported in May 2023 the Council should be formulating actions in response to that review rather than waiting for the outcome of the DLUHC review.
- Procurement is highlighted in budget reports as key to achieving balanced budgets going forward but there are no entries relevant to procurement on the strategic risk register.
- Member and officer behaviour identified as a major issue in independent reviews but there is no mention of this on the strategic risk register.

We note from a review of the risk actions plan that several actions which have been on the plan for over four years have still not been completed with many actions having target completion dates exceeded and re-set on numerous occasions without adequate explanation. Examples include :

- the Preparation and adoption of New Local Plan to meet future need and strengthen affordable Housing Policy which was added to the action plan in March 2020 with a completion target date of March 2022 which was subsequently revised to June 2023.
- Greater strategic direction for Knowle Green Estates (KGE) will support progress in delivering Council priorities, development targets and addressing housing needs (affordable and general). This was added to the risk actions in March 2020 with a target date of October 2021, this was later revised to March 2022, revised again to July 2022 and revised again to May 2023. This is still outstanding.

Based on the work undertaken and evidence reviewed, we are not satisfied that the Council has proper arrangements in place for risk management in 2023-24.

Key recommendation 3
The Council should review its strategic risk register to consider risks arising from previous external scrutiny reports as well as procurement and ensure that risks and mitigations reflect the latest position. In addition the Council should ensure that realistic timescales are set for implementing actions and ensure that those dates are only exceeded by exception and adequate explanations for delays are recorded. The CASC forward plan should also be updated to include reviews of the investment portfolio risk register.

Executive summary (continued)

Significant weakness identified in governance arrangements

We reviewed the governance arrangements including its arrangements to identify and mitigate key risks and have concluded that there was a significant weakness in arrangements.

Governance over subsidiary company

The Governance arrangements with regard to the Council's wholly owned subsidiary KGE does not accord with best practice. There are potential conflicts of interest, actual or perceived with senior officers and members in key roles on the company Board meaning there is considerable overlap between KGE and the Council. The Council's S151 Officer chairs the company. The Chief Accountant effectively acts as its Finance Director, the Council's Monitoring Officer is the Company Secretary, and the Vice Chair of Development Sub-Committee sits on the KGE board. It is unclear how these key individuals can perform their respective duties with the Council and the company with sufficient independence given that that they will be involved in both sides of the same key decisions such as decisions regarding development projects and funding for the Council and assessment of project viability on behalf of KGE. Our observation is on the arrangements, and we are not commenting on effectiveness of the KGE Board, and this is something we will consider further in our 2024/25 work.

Key recommendation 4

The Council needs to urgently assess the governance and oversight of KGE Ltd in order to avoid conflicts of interest and to conform to best practice. We note a review of this has taken place and from January 2025 the Council S151 will no longer act as a KGE Chair. This decision has only just been taken so we need to review the arrangements in practice for all roles, within our 2024/25 audit, to ensure good governance has been established.

Executive summary (continued)

Significant weakness identified in arrangements to Improve economy, efficiency and effectiveness

We reviewed the Council's arrangements for achieving improvements to economy, efficiency and effectiveness have concluded that there are three areas of significant weaknesses in those arrangements which are set out in the following pages. These weakness relate to: performance management; a failure to secure improvements following a number of external reviews and failures in contract management. The combined effect of these weaknesses is having a significant impact on the Council's ability to effect necessary change. We have therefore identified this a significant weakness in arrangements and raise the following three key recommendations. The issues are so significant that we are considering raising a statutory recommendation.

Lack of performance monitoring

The Council does not have a performance management framework in place by which members regularly monitor performance against key corporate KPIs. The Council has agreed a new Corporate plan in February 2024 and this contains a number of key outcomes with some metrics. The Council reports against 46 Key Performance Indicators (KPIs) which are now reported annually to CPRC. Ten of those KPIs are also reported in the Council's annual report and 15 are reported to the Surrey Group Chief Executives meeting quarterly. We found however that the Council does not have a performance management framework in place by which members regularly monitor performance against key corporate Key Performance Indicators. During 2023/24 there was no annual report of KPIs to CPRC or Full Council relating to performance for the 2022/23 year. Annual performance for the 2023/24 year was reported to CPRC in October 2024. Although members have access to a Corporate Plan Action Tracker we have not been able to evidence how such information is being utilised to inform strategic decision making. Llimited benchmarking is undertaken with other Surrey councils. The Council does not effectively utilise benchmarking of performance against statistically near neighbours in order to drive performance improvements or efficiencies. This level of monitoring and benchmarking is insufficient to enable the Council to assess performance and identify areas for improvement.

The Council does have some monitoring at service level but does not benchmark that performance against statistically similar Councils. The only benchmarking is against geographical neighbours in Surrey as well as benchmarking its investments through an annual report produced by external consultants as part of the Treasury Management annual report. The Council has advised that it has considered data maintained and reported by the Office of Local Government (OFLOG) but that it found it difficult to get a like for like comparison. For this reason, it has not reported its own performance against these statistics. We consider this area represents a further significant weakness in arrangements, warranting a Key recommendation, which we set out below.

Key recommendation 5
The Council should ensure corporate performance monitoring of its strategic priorities is undertaken and reported to the CPRC or Full Council on a quarterly basis. Directorate and service performance monitoring should support and be linked to the Council's strategic priorities. A robust performance management framework should clearly set out the approach required.

Executive summary (continued)

Significant weakness identified in arrangements to Improve economy, efficiency and effectiveness

We reviewed the Council's arrangements for achieving improvements in economy, efficiency and effectiveness have concluded that there was a significant weakness in arrangements.

Failure to secure improvements

The Council has been subject to several external reviews including: an LGA Finance Peer Review in 2020; an LGA Peer review in 2022 and a CPIFA Capital Assurance Review in 2023. The Council did draw up action plans in response to those reviews and it is clear that they were taken seriously. Despite this the Council has failed to secure improvements in some key areas of those reviews and in particular the lack of trust between members and officers and simplifying financial reports to members. This lack of traction in these key areas is evidenced across other aspects of our review but is particularly relevant to poor decision making and lack of evidenced scrutiny. The Council has set up an establishment review in July 2023 with a remit which includes consideration of any recommendations from staff audits and Peer Reviews. This latest development has still to bear fruit with regard to these longstanding issues.

Key recommendation 6
The Council needs to implement a system of review and monitoring of all action plans arising from external reviews. Appropriate updates should be provided to the Audit Committee on a quarterly basis.

Executive summary (continued)

Significant weakness identified in arrangements to Improve economy, efficiency and effectiveness

We reviewed the Council's arrangements for achieving improvements in economy, efficiency and effectiveness and have concluded that there was a significant weakness in arrangements.

Failure to deliver efficiency/performance improvements when managing significant outsourced contract

Procurement is identified as playing a significant role in helping to identify saving opportunities and a key element of this will be ensuring that what is promised when contracts are awarded is delivered. The main contract that this will apply to in the short term is the contract to operate the new Leisure Facilities. We understand that the detailed framework for how this contract will be managed has recently ~~not yet~~ been developed even though the contract has been ~~is~~ live for a number of months . More regular reporting of performance for housing related contracts is in place through the Strategic Housing Group. We found that no such reports were provided to the Community Wellbeing and Housing Committee.

The Council has recognised that procurement needs to have a more strategic role going forward by being more proactive in looking for savings, efficiencies and economies. A new Procurement Group function is proposed to drive this and changes arising from the new Procurement Act 2023. The Council also acknowledges that there is a forward procurement plan and contract register but that these are not as effective as they could be. There is no reporting of contract or procurement metrics to members and therefore no visibility of the volume and value of any contract or legislative breaches or of any exceptions to contract procedure rules (waivers).

In 2023 an issue arose with the performance of the contracted service provider who was responsible for operating a Council owned hostel for homeless men and providing support services to the residents. This issue relating to the lack of provision of support services was not identified through contract management, further issues relating to staff conduct at the contracted provider were identified through complaints to housing officers by residents. The Council has suffered reputational damage as a result and may face financial impacts. The Council has conceded that in hindsight the contract should not have been awarded as a single contract but as two separate contracts to keep the operation of the hostel separate from the provision of services. The Council is now planning to bring the service in-house. We understand that there were initial concerns that this would lead to increased costs but that this is no longer the case.

Key recommendation 7

The Council should ensure that the necessary changes to procurement and contract management arrangements are put in place to ensure that efficiencies and economies are maximised. The Council should also ensure that suitable performance metrics including regulation/rule breaches and contract waivers are introduced with reporting through to the Audit Committee on a quarterly basis.

Opinion on the financial statements and use of auditor's powers

Opinion on the financial statements

Audit opinion on the financial statements

We anticipate issuing a disclaimer of audit opinion on the 2023-24 financial statements following the audit committee at the end of January 2025, on conclusion of our work as set out in the Audit Findings Report. The opinion will be a disclaimer of audit opinion under the backstop legislation.

The full opinion will be included in the Council's Annual Report for 2023-24, which can be obtained from the Council's website.

Grant Thornton provides an independent opinion on whether the Councils financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2024 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2023-24
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Findings from the audit of the financial statements

The Council produced 23-24 financial statements and published these on the Council website for inspection in June 2024. This financial year (2023-24) was the first year the accounts produced were subject to audit since 2018-19. The accounts produced were of a poor quality overall and were not supported by suitable working papers and audit evidence. This is reported in our Audit Findings Report. Since the last audit, the requirements of audit have increased significantly and without audit, the finance team has been unable to keep pace with developments, and lacked capacity to deal effectively with audits. Given the position and the challenges, we faced this year it will take a period to re-build assurance over the financial statements, in line with the backstop dates and guidance.

Audit Findings Report

We report the detailed findings from our audit in our Audit Findings Report. A final version of our report was presented to the Council's Audit Committee on 28 January 2025. Requests for this Audit Findings Report should be directed to the Council.

Use of auditor's powers

We bring the following matters to your attention:

	2023-24
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make recommendations to the audited body which need to be considered by the body and responded to publicly.	We are likely to make recommendations under Schedule 7 of the Local Audit and Accountability Act 2014 (written recommendations) given the number of significant weaknesses we have identified in this report alongside the Audit Findings report.
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a public interest report. We are exploring our powers to make written recommendations.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not make an application to the Court.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue any advisory notices.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We did not make an application for judicial review.

Value for Money Commentary on arrangements

The current local government landscape

It is within this context that we set out our commentary on the Council's value for money arrangements in 2023-24 and make recommendations where any significant weaknesses or improvement opportunities in arrangements have been identified.

National context

Local government in England remains a challenged sector. In recent years, generationally significant levels of inflation put pressure on councils' General Fund revenue and capital expenditure. The associated cost of living crisis drove an increase in demand for council services such as social care and homelessness. At the same time, the crisis impacted adversely on key areas of council income that were needed to service the increase in demand, for example fees and charges and the collection rates for council tax, business rates and rents.

In January 2024, the UK government announced an additional £600 million for local government, but the Spring Budget for 2024 brought little in the way of any further support. Rising costs of delivering services, coupled with workforce shortages in key areas, supply chain fragility, and rising interest rates for servicing debt, brought a level of crisis to the local government sector perhaps never experienced before. Current warning signs of difficulty include:

- Seven councils issuing eleven section 114 notices between 2019 and 2023, compared with two councils issuing notices between 2001 and 2018, with an increasing number of other councils publicly warning of a section 114 risk;
- Twenty councils being with government approval for exceptional financial support during 2024-25, totalling approximately £1.5 billion. Only six of these councils had previously issued a section 114 notice; and
- The Local Government Association warning that councils in England face a funding gap of £4 billion over 2023-24 and 2024-25.

Local government is coming under an increased spotlight in terms of how the sector responds to the financial challenge it faces. A change in government took place following the general election on 4 July 2024. The new government policies that impact on the sector include planned reform of planning and the introduction of house building targets, with indications that the local government funding settlement will be multi-annual. The Chancellor's Budget on 30 October 2024 confirmed the Government's plans for greater devolution in England and confirmed a real terms increase in core spending power to local government for 2025/26 of 3.2%. Including an increase in grant of £1.3 billion. The Chancellor also announced £1 billion additional funding for SEND, an additional £2.3 billion for schools, and councils will be able to use the full amount of capital receipts from right to buy sales. The detail of what the Chancellor's announcement means for individual councils will become clearer when their provisional finance settlement for 2025/26 is confirmed by the Government in December 2024.

Local context

Spelthorne Borough Council (the Council) is mainly located just within the M25 boundary to the South of Heathrow and bordered to the West and South by the River Thames. The land in Spelthorne is 65% designated Green Belt with a further 17% of the Borough being water. It is a densely populated area with a total population of 103,000 who are represented by 39 elected members. Following the local elections in May 2023 the Council is led by an independent Spelthorne Councillor. The current political makeup of the Council is 15 Conservative, 9 Liberal Democrat, 7 Labour, 5 Independent, 2 Green and 1 independent affiliated to the Conservatives with no party having overall control.

In previous years and in 203/24 the Council has been subject to several independent reviews, including the ongoing MHCLG statutory best value review. In addition, this is the first year in at least five that the Council has had to prepare for and support an audit process. For a District authority it is noted, this is significant, in terms of capacity to support reviews and to implement a series of recommendations over a short time-span with competing priorities. This is also in a context of continued challenging conversations between officers and elected members. This is evident in the finance team's ability to support our audit work and reported in our audit findings report. The theme of capacity and the political dimension, specific to Spelthorne run through this report.

The Council agreed a new Corporate Plan in February 2024 with the aim of 'putting residents at the heart of everything we do'. The refreshed Corporate plan set out the Council's priorities under five key themes: Community, Addressing housing need, Resilience, Environment and Services (CARES). The plan also set out a set of seven values: Pride in the Council, communities and Borough, Responsive and Respectful, Open and Accountable, value for money, integrity, dependable, and empowering and inclusive (PROVIDE).

Financial sustainability

We considered how the audited body:	Commentary on arrangements	Assessment
ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;	The budget reports and MTFP approved by the Council in both February 2023 (2023/24 financial year) and February 2024 (2024/25 financial year) included relevant assumptions relating to the anticipated level of funding from central government as well as assumptions regarding movement in costs as a result of inflation and demand pressures. We have however identified inconsistencies in the reporting of some of those figures which could have a significant impact on the Council's financial plans. These inconsistencies relate to the figures included in the various financial planning reports presented to the Corporate Policy and Resources Committee and subsequently Full Council. In particular, the figures for surplus income from the Council's commercial property investments vary by as much as £3m p.a. (30%) between those reported in the Capital Programme (£10m pa) and those included in the MTFP and TMS (£7m). In addition, the Council has not demonstrated that it has fully understood the reasons for the growth in the budget for Temporary Accommodation. The budget was overspent by £0.7m in 2023/24 and a growth bid of £0.9m was included in the budget for 2023/24. The Council has stated that this is demand led pressure, however our CFO Insights benchmarking data shows that Temporary Accommodation is a relatively high-cost service per-head of population for the Council when compared to its statistically nearest neighbours. This would suggest that demand is not the only cause of budget growth. It does not appear that these factors have been fully considered by members in the budget preparation for 2024/25. The Council's reserves strategy also agreed by CPRC in February 2024 states that the Council will also need to provide cashflow support to its subsidiary Knowle Green Estates Ltd of £0.4m p.a. We have also identified that the Service plan approved for the Asset Team and which formed the basis of the revenue budget understated the required revenue budget by £42k as savings from staffing was double counted in the preparation of the service plan. This was not picked up by the CPRC in its approval of the Service Plan. We consider these to be a significant weakness in the Council's arrangements for setting its Medium-Term Financial Plans and we have therefore raised a Key Recommendation, further details are set out on pages 9-12	R

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

Financial sustainability

We considered how the audited body:	Commentary on arrangements	Assessment
plans to bridge its funding gaps and identifies achievable savings	The Council does not have agreed plans to address the budget gaps identified for 2025/26, 2026/27 and 2027/28 which amount to approximately 10% of net expenditure. The lack of savings and transformation plan was identified as an issue in a report by CIPFA in July 2023 which was commissioned by the Department for Levelling Up, Housing and Communities (DLUHC). The Council is yet to fully address this issue. In October 2023 the draft budget gap for 2024/25 was initially identified at £6m. At that time all Group Heads were tasked to find savings/additional income in excess of £2.3m. At that time potential savings of £1.3m had been found, and provisionally £0.564m of growth bids removed. In the outline budget report presented to CPRC in November 2023 the gap (before savings and use of reserves) had decreased to £4.7m and £1.67m in savings identified. When setting the budget for 2024/25 in February 2024 the Council was able to set a balanced budget having identified £2.1m in potential savings. At that time gaps of £0.3m in 2025/26, £2.8m in 2026/27 and £2.3m in 2027/28n were also identified. The latest outline budget for 2025/26 shows the Council closing this gap in 2025/26 but with larger gaps of £3.7m and £4.8m predicted for 2026/27 and 2027/28 respectively. A further gap is now envisaged in 2028/29 of £6.5m. We also note that from 2026/27 -2030/31 the Council is now planning to reduce the net income it receives from commercial property from £10m per annum to £5m per annum to enable it to build up the sinking fund. This decision will have further impacts on the TMS and Capital programme which have yet to be assessed. There is also an additional significant risk resulting from the Council's decision in October 2023 to suspend all of its house building projects due to concerns about their continued viability. Each project is being reviewed individually to determine the appropriate way forward. If the Council decides not to proceed with any projects then the capital costs incurred so far will have to be written back against the revenue budget. The Council estimates that worse case scenario if all projects are cancelled then this could add an additional £14m to the budget gap. The outline budget report for 2025/26 in December 2024 puts the actual costs for that year at £8.5m which will be met from reserves The Council did not have sufficient savings or transformation plan in place in 2023/24 or 2024/25 to address these budget gaps which amounted to approximately 10% of net expenditure. The Council did have a continuous review programme from 2019 to 2022. This involved a service-by-service review of processes to determine levels of efficiency and any cashable savings. The Council states it plans to re-introduce this transformation work from 2025/26 and has put £0.5m seed funding into the outline budget proposal put forward in December 2024. This is an invest to save programme which as yet is not fully costed, and it is not clear what level of cost reduction or increased income will be achieved. The Council has also commenced a Digital Transformation Programme which is hoped will deliver approximately £0.1k of savings in 2023/24 and £1.2m in total. An Establishment review commissioned in July 2023 will review the appropriateness of existing organisational structure, functions, roles and responsibilities with a view to establishing whether they are fit for purpose as well as the potential to deliver efficiency savings.	R

Financial sustainability

We considered how the audited body:	Commentary on arrangements	Assessment
plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	As part of the annual budget setting process each budget manager prepares service plans which are reviewed by the relevant Group Head, and then the Senior Management Team before being submitted to the CPRC for review. Feedback provided by the CPRC is then incorporated into Revenue Growth Bids, Savings Plans and Capital Growth Bids which are further considered by CPRC before the final budget is put to Full Council. This process ensures that the budget is aligned to strategic priorities. An independent Corporate Establishment Review was completed in July 2023. The review concluded that the Council is not an organisation that shows complacency in its structure, nor in its focus on achieving the stated priorities in the Corporate Plan. The Council does not effectively use benchmarking to identify how it compares to statistical nearest neighbours in terms of service unit costs, and this could impact on its ability to identify opportunities for efficiencies. As previously mentioned, the Council has not demonstrated that it has fully understood the reasons for the growth in the budget for Temporary Accommodation. Our CFO Insights benchmarking data shows that Temporary Accommodation is a relatively high-cost service per-head of population for the Council when compared to its statistically nearest neighbours and this has not been considered by the Council. We have therefore made an improvement recommendation in this respect which is set out on page 29.	A

Financial sustainability

We considered how the audited body:	Commentary on arrangements	Assessment
ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system	The development of each of the Council's strategies does consider financial implications however it is not always as clear as it should be what those financial implications are, particularly where decisions have unintended consequences on other parts of the budget. For example: • In the budget for 2024/25 there was a growth bid of £900k to deal with increased demand for temporary accommodation. The Council had previously taken a decision to suspend its capital house building programme pending decisions regarding the viability of each project. That decision on capital investment has potential impacts on further increasing demand for temporary accommodation. In addition, capital costs for the housing projects continue to accrue at approximately £180k per month, which is taking much needed operational cashflow from the Council, as it is tied up in each capital project, until they are completed. These broader consequences were not fully considered in setting the budget for 2024/25. • In September 2023, the Council developed an Electric Vehicle (EV) Infrastructure Strategy. The Report is confusing on costs as it states that the strategy will not incur costs in of itself. However, it goes on to state that through implementing the strategy across the two phases, electric vehicle infrastructure development will initially incur capital costs. The report goes on to set out four aims but is silent on costs. The report goes on to state that there are risks to the potential for the project to generate income but again does not set out the likelihood or extent of those risks. It is important that the development of strategies and financial plans are consistent. The Council needs to be clearer in setting out the financial implications of the strategies it is developing to ensure they are deliverable within the finance available. An improvement recommendation has been made in this respect which is set out on page 29.	A

Financial sustainability

We considered how the audited body:	Commentary on arrangements	Assessment
identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	Due to historical decisions by the Council, it is having to live with the fact that its current investment portfolio (commercial properties and treasury investments) is in a net debt position of £300m due to falling property values in the portfolio. The total external borrowing as at 31 March 2024 was £1.1bn. The Council has to continue to ensure that it can service this debt which costs approximately £25m in interest and £12m in Minimum Revenue Provision per annum. This is a 50-year programme to repay the debt which adds to the risk as it is very difficult to sustain that level of income consistently over such a long period. The debt incurred on commercial property investment is serviced through income generated from those properties. Debt incurred in developing the residential property portfolio is serviced by KGE who purchase and manage the properties with money loaned to them by the Council. KGE use the rental income to service the loan with any surplus profit transferred to the Council. The Council use any residual income received from residential and commercial property to balance the General Fund budget as well as investing in a 'sinking fund' to cover the risk from the fluctuating income. KGE made a loss of £0.9m in 2022/23 and further losses are projected. KGE are loss making and had to defer repayment of a £0.9m loan to the Council and in July 2024 the Council had to agree a further loan of £2.5m to keep it solvent. The Council had previously approved financial support and a cash flow facility of up to £4.5m over the next 5 years to KGE, while the Council finalises its plans for the affordable housing projects that were suspended in October 2023. The Council has yet to agree a plan that puts KGE back on a sustainable path. As at 31 March 2025 the Council estimates that the sinking fund will have balance of £25.7m reducing to £21.5m by 31 March 2028. The CIPFA review report issued in May 2023 stated that the Council's investment strategy was high risk, and complex. It is not clear that this level of risk is fully appreciated by members and has not been fully explained by officers. In response to the CIPFA Capital Assurance Review the Council has created a model by which it determines whether the fund is sufficient to mitigate the risk of fluctuating income. The model assumes that the Council will invest an average net £3.5m per annum into the Council's sinking fund. However, given the planned use of the fund over the next four years this assumption appears optimistic. There is considerable risk within the Council's complex commercial property portfolio, and we do not believe the Council has appropriate arrangements to manage that risk. We consider this to be a significant weakness in arrangements.	R

Financial sustainability (continued)

Areas for improvement

The Council does not effectively use benchmarking to identify how it compares to statistical nearest neighbours in terms of service unit costs, and this could impact on its ability to identify opportunities for efficiencies. As previously mentioned, the Council has not demonstrated that it has fully understood the reasons for the growth in the budget for Temporary Accommodation. Our CFO Insights benchmarking data shows that Temporary Accommodation is a relatively high-cost service per-head of population for the Council when compared to its statistically nearest neighbours and this has not been considered by the Council.

Improvement recommendation 1: The Council should ensure that it effectively utilises benchmarking to identify how its costs of services compares to similar Councils.

The development of each of the Council's strategies does consider financial implications however it is not always as clear as it should be what those financial implications are, particularly where decisions have unintended consequences on other parts of the budget. It is important that the development of strategies and financial plans are consistent. The Council needs to be clearer in setting out the financial implications of the strategies it is developing to ensure they are deliverable within the finance available.

Improvement recommendation 2: The Council should ensure the financial implications of the strategies are clearly set out when the strategies are being approved.

Governance

We considered how the Audited Body:	Commentary on arrangements	Assessment
monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	The Council did not have fully effective Internal Audit arrangements in 2023/24 due to capacity issues. This resulted in a decision by the Council to outsource its Internal Audit provider to Southern Audit Partnership (Hampshire) from April 2024. In but question mark whether still sufficient expertise to manage risks from complex investment portfolio and debts. The Council has appropriate counter-fraud arrangements in place under an agreement with Reigate and Banstead Council who provide these services to the Council. The strategic risk register has nine broad strategic risk categories, risk impacts are identified and articulated, as well as the current controls and current mitigation measures in place to manage these risks. Where a risk is out of appetite an associated risk action plan explains the steps the Council is taking or intends to take in order to further mitigate the risk. We note from a review of the risk register a number of omissions including: • the Risk for affordable housing did not include any assessment of the key adverse impacts on residents from the Council's decision to suspend further housing development; • the risk from commercial assets income did not reference the sinking fund, the Council's new asset management strategy or the new governance structure for asset management. Further the mitigating actions state the Council is awaiting the outcome of the CIPFA and DLUHC reviews. Given that CIPFA reported in May 2023, the Council should be formulating actions in response to that review rather than waiting for the outcome of the DLUHC review. • Procurement is highlighted in budget reports as key to achieving balanced budgets going forward but there are no entries relevant to procurement on the strategic risk register. • Member and officer behaviour identified as a major issue in independent reviews but there is no mention of this on the strategic risk register. A separate investment portfolio risk register is maintained however this lacks sufficient detail to enable member's to fully assess and manage the level of risk. The Commercial Assets sub-committee forward plan does not include a review of that risk register. We note from a review of the risk actions plan that several actions which have been on the plan for over four years have still not been completed with many actions having target completion dates exceeded and re-set on numerous occasions without adequate explanation. We do not consider that the Council has adequate arrangements for the management of strategic risks and consider this to be a significant weakness in arrangements. We have made a key recommendation which is set out on page 14.	R

Governance

We considered how the Audited Body:	Commentary on arrangements	Assessment
approaches and carries out its annual budget setting process	In November 2023 the various Committees reviewed their relevant Service Plans and agreed the 2024-25 Fees & Charges proposals for their Cost Centres. In December 2023 a draft 2024-25 budget was made available to Committees to consider. In January 2024, all Committees reviewed and considered their growth and savings bids and submitted lists of bids to the CPRC for final short listing to feed into the final Detailed Budget for 2024-25. CPRC met in January 2024 to finalise the Net Service Budgets for each Committee, along with the budgets for investment and regeneration properties, movement on reserves. In February 2024 Full Council approved growth and savings bids as part of the 2024/25 annual budget debate. When the initial outline budget report 2024-2028 was presented to CPRP in November 2023 it was reported that the Council should consider undertaking more extensive engagement with residents in autumn 2024 to feed into the 2025-26 budget process as part of a fundamental review of budgets. In addition, the Council discussed options for undertaking targeted budget options engagement and consultation with residents to generate feedback which councillors can take into account when making future prioritisation decisions particularly for the challenging 2026-27 budget. In that report the Council noted that the introduction of an upgraded-financial system (Centros) was expected to achieve improvements in the budget setting process, which it was hoped would enable officers to produce the first draft of the 2025/26 budget up to three months ahead of previous years, as well as enabling members and officers to have greater oversight over the Council's finances. Some of the expected improvements in reducing the budget setting timeline have been achieved. Our understanding is however that these benefits have not yet been fully maximised. In particular, Members have access to the system but do not use it preferring to continue to raise questions with officers. We also understand that key financial information is still not always presented timely ahead of key member briefings. For example, members had only recently been presented with budget options for 2025/26 which included an additional £0.5m to 'seed fund' a transformation programme. This additional bid had not previously been discussed with members. The Council should further review the implementation of the Centros financial system to ensure that all anticipated benefits are being maximised and if not identify the root cause for this to enable improvements to be made for future budget setting. An improvement recommendation has been made in this respect which is set out on page 37.	A

Governance

We considered how the Audited Body:	Commentary on arrangements	Assessment
ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information; supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships	The Governance arrangements with regard to the Council's wholly owned subsidiary KGE does not accord with best practice. There are potential actual as well as perceived conflicts of interest with senior officers and members in key roles on the company Board meaning there is considerable overlap between KGE and the Council. The Council's S151 Officer until recently chaired the company. The Chief Accountant effectively acts as its Finance Director, the Council's Monitoring Officer is the Company Secretary and the Vice Chair of Development Sub-Committee sits on the KGE board. We consider this to be a significant weakness in governance arrangements and have raised a key recommendation which is set out in more detail on page 15. We note the perceived conflict which the Council has sought to address, we are commenting on the governance arrangements, not the effectiveness of these arrangements which we will do in future VFM work. We identified under the medium term and financial planning that there are inconsistencies between different financial planning reports. We also note that in March 2024 the Audit Committee identified errors in a CIPFA Financial Management Code self-assessment report which resulted in the report having to be re-submitted at a later date. It is a concern that not only were there errors in the report but also wasted officer and member time in having to correct and re-submit the report.	R

Governance (continued)

We considered how the Audited Body:	Commentary on arrangements	Assessment

ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency, including from audit committee	The Council operates a committee structure rather than a Cabinet leader model. The Council has not constituted a formal overview and scrutiny committee. Each Committee is responsible for its own scrutiny. The overwhelming view from both officers and members is that decision making is currently ineffective. We understand that officers and members have differing views on the reasons why this is.
	• Reports to members are often overly complex, confusing, inaccurate, incomplete or inconsistent.
	    • A Financial Reporting Working group was established in 2021 following an LGA Finance Peer Review. This was specifically for officers and members to work together to review how financial reports could be made easier for councillors to understand, how to balance the need between appropriate detail and options analysis and conciseness, how to make reports more visual, and how to draw out and summarise key points. Despite this reports to the Corporate Policy and Resources Committee (CPRC) in October 2023 received criticism from members that the information contained within the report for this item and the other financial reports within the agenda was confusing and inconsistent. The matter was passed back to the Finance Reporting Working Group to consider.
	    • Following review by external advisers the Council was shown to have miscalculated the MRP provision over at least a five-year historical period and for the future period of the MTFP in February 2023. The Council subsequently corrected this for the MTFP approved in February 2024. Also the MRP calculation is not aligned to published MCHLG guidance. Further details regarding this and other examples are set out on the following pages.
	• Decisions by members are not always taken with best value in mind and do not always consider the wider impacts on other aspects of its plans.
	    • Council's decision in 2023 to pause future housing development as they were assessed as no longer viable. We note that relevant reports to CPRC do not contain any reference to these delays caused by political infighting but instead blame external factors such as inflation. In addition, there were broader financial impacts, as well as impacts on vulnerable residents and possible adverse impacts on demand for temporary accommodation. There was also an immediate significant impact on the financial viability of KGE. These broader impacts were not fully considered at the time of that decision.
	    • This indirect financial consequence was also not considered as part of the decision. Further examples and details are set out in the following pages.
		R

Governance (continued)

We considered how the Audited Body:	Commentary on arrangements	Assessment
monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour and where it procures and commissions services.	Our understanding is that there is an extremely poor relationship between some political members' groups potentially impacting both decisions and scrutiny. The LGA Peer review conducted in November 2022 concluded that: 'There is poor behaviour by some Councillors towards each other and staff which is widely recognised as damaging the Council's reputation. It is also affecting staff morale and the organisation's ability to retain and recruit staff. As a result, the relationship between the roles of officers and Members need to be clearly defined and respected in order to create trust. ' Since the LGA Peer review there have been several facilitated workshops lead by external independent consultants. Our understanding is that these have led to some improvements, but that there is still much work to be done. As at January 2025 there were 10 complaints outstanding with the Monitoring officer regarding various aspects of member behaviour. We also note that the Council has an unusually high turnaround in monitoring officers, after the long-term monitoring office retiring. Trust still appears to be an issue for some members, between members and officers, and we understand that many decisions from the planning team are met with some members seeking their own independent advice. It is not clear if that has resulted in additional cost to the Council or the impact on decision making. We would usually make an improvement recommendation based on the above, however these improvements already sit within the LGA action plan, and therefore we have not repeated that here. This will be picked up, in future value for money work as we look at how the Council implement all independent review recommendations.	A

Governance (continued)

Significant weaknesses identified

Risk Management

Examples from the Risk Action log of actions remaining on the action log with repeated rescheduling of target dates include :

- the Preparation and adoption of New Local Plan to meet future need and strengthen affordable Housing Policy which was added to the action plan in March 2020 with a completion target date of March 2022 which was subsequently revised to June 2023.
- Greater strategic direction for Knowle Green Estates (KGE) will support progress in delivering Council priorities, development targets and addressing housing needs (affordable and general). This was added to the risk actions in March 2020 with a target date of October 2021, this was later revised to March 2022, revised again to July 2022 and revised again to May 2023. This is still outstanding.

The Council has since incorporated the separate actions log into the main risk management report. In doing so however it has made it difficult to identify and track progress with previously agreed actions.

Governance (continued)

Significant weaknesses identified

Decision making

The LGA Peer Review issued in February 2023 referenced poor decision making under the new Committee structure:

'The committee system brought in quickly last year at the behest of Councillors, is not yet working well enough as a decision-making forum to create consensus to take forward important plans for the Council and the Borough. There is now an opportunity to review it to make it work. The delay in decision making by Councillors on some key issues is costing the Council money, specifically, servicing the cost of borrowing and delaying potential developments to the tune of £170,000 per month.'

Typical observations from our interviews included:

- members lack strategic decision-making ability and too focused on operational details rather than big picture (this point was also a finding in the LGA Peer Review in 2022);
- Hard to get members to think more than 6 months ahead
- Members have to get involved in detail as can't rely on officers, poor reports, inconsistent or incorrect information, lack of information
- members led by vocal residents rather than officer/legal view.
- historically scrutiny has been poor with a history of just accepting what officers say. This is changing with more challenge but officers are not used to being challenged
- Member challenges are bullying in nature
- There is toxic culture between members impacting both decisions and scrutiny

Further example of errors/omissions/inconsistencies

An independent review of MRP calculations identified that the Council had incorrectly calculated the MRP and that the calculation was not in accordance with MCHLG guidance. The Treasury Management Strategy MRP calculation policy states that:

'for capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, and will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred on the loan is fully funded over the life of the assets.'

Governance (continued)

Areas for improvement

Risk management

The Audit Committee is formed of seven elected members and one independent member. Latest CIPFA guidance recommends that Audit Committees should have at least two independent members. The Council should undertake a self-assessment of its Audit Committee arrangements in accordance with CIPFA guidance. We have made an improvement recommendation in this respect.

Improvement recommendation 3: The Council should undertake a self-assessment of its Audit Committee arrangements in accordance with CIPFA guidance.

The introduction of an upgraded financial system (Centros) was expected to achieve improvements in the budget setting process, which it was hoped would enable officers to produce the first draft of the 2025/26 budget up to three years, -as well as enabling members and officers to have greater oversight over the Council's finances. This has delivered some of the expected improvements in reducing the budget setting timeline. Our understanding is however that these benefits have not yet been fully achieved. In particular, Members have access to the system but do not use it preferring to continue to raise questions with officers. We also understand that key financial information is still not always presented timely ahead of key member briefings.

Improvement recommendation 4: The Council should further review the implementation of the Centros financial system to ensure that all anticipated benefits are being maximised and if not identify the root cause for this to enable improvements to be made for future budget setting and use of the system by members and officers.

The Council has a new provider of internal audit service for 2024/25 and it will be important that the Council assures itself that the service continues to conform to PSIAS standards. We note that the internal Audit Plan for 2024/25 was only put to the Audit Committee for approval in July 2024 due to the tendering process taking longer than anticipated. It is regrettable that the plan was not put forward as part of the initial transfer of audit arrangements to Southern Internal Audit Partnership. As a result of this delay there were no internal audits planned for Q1 of 2024/25. The 2024/25 plan is 18 audits compared to 13 reviews completed in 2022/23. This appears ambitious given no reviews were conducted in Q1. The Council will need to carefully monitor progress with the plan in 2024/25. We have made an improvement recommendation in this respect.

Improvement recommendation 5: The Council should closely monitor progress with the Internal Audit Plan for 2024/25 and ensure that the service continues to adhere to PSIAS standards.

Improving economy, efficiency and effectiveness – commentary on arrangements

We considered how the audited body:	Commentary on arrangements	Assessment
uses financial and performance information to assess performance to identify areas for improvement	The Council does not have a performance management framework in place by which members regularly monitor performance against key corporate KPIs. The Council has agreed a new Corporate plan in February 2024 and this contains a number of key outcomes with some metrics. The Council reports against 46 Key Performance Indicators (KPIs) which are reported annually to CPRC. Ten of those KPIs are also reported in the Council's annual report and 15 are reported to the Surrey Group Chief Executives meeting quarterly. During 2023/24 there was no annual report of KPIs to CPRC or Full Council relating to performance for the 2022/23 year. Annual performance for the 2023/24 year was reported to CPRC in October 2024. Members also have access to a Corporate Plan Action Tracker however we have not been able to evidence how such information is being utilised to inform strategic decision making. This level of monitoring is insufficient to enable the Council to assess performance and identify areas for improvement. The Council does have some monitoring at service level but does not benchmark that performance against statistically near neighbours. The only benchmarking is against geographical neighbours in Surrey. The Council has advised that it does consider data maintained and reported by the Office of Local Government (OFLOG) but considers it difficult to get a like for like comparison. The Council also benchmarks its investments through an annual report produced by external consultants as part of the Treasury Management annual report. We consider the lack of monitoring of corporate KPIs by members and the lack of use of benchmarking beyond the Council's geographic neighbours to be a significant weakness in arrangements and we have raised a key recommendation in this respect.	R
evaluates the services it provides to assess performance and identify areas for improvement	The Council has been subject to a number of external reviews including: an LGA Finance Peer Review in 2020; an LGA Peer review in 2022 and a CPIFA Financial Review in 2023. The Council did draw up action plans in response to those reviews and it is clear that they were taken seriously. Despite this the Council has failed to secure improvements in some key areas of those reviews and in particular the failure to address poor member behaviour; lack of trust between members and officers and simplifying financial reports to members. This lack of traction in these key areas is evidenced across other aspects of our review but is particularly relevant to poor decision making and lack of scrutiny.	R

Improving economy, efficiency and effectiveness – commentary on arrangements

We considered how the audited body:	Commentary on arrangements	Assessment
ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives	The LGA Peer Review recognised that partnership working is generally a strength for the Council and is outlined in the current Corporate Plan where it lays out the aim of developing strong partnerships in all sectors of the community, businesses and with other authorities and health, so that knowledge, skills and expertise can be shared to help shape priorities and effectively deliver on them. Spelthorne has a number of current partnerships with other authorities including insurance with London Borough of Sutton, counter-fraud with Reigate and Banstead Council, Spelride with Elmbridge, and Supporting Families with Elmbridge, Epsom and Ewell and Surrey County Council, as a well as a recent partnership formed with Mole Valley Borough Council on SPAN (Spelthorne Personal Alarm Network) for the elderly community. It is not clear how the financial and non-financial performance of these partnerships is monitored. For example, the Community Wellbeing and Housing Committee is responsible for Spelride however that committee did not receive any reports regarding the operational or financial performance of Spelride. Further, the costs for Spelride are not specified in the service plan or budget put forward by that Committee in January 2024. In order to assess such opportunities in a structured way, the Council has established a Collaborative Working Group (comprising of a number of Councillors and senior managers) to assist in assessing and filtering potential opportunities. For example, the Council is currently progressing (and which has been through the Working Group) is the Financial Services Partnership with Mole Valley, the key aims of which are to align systems, build resilience and eventually deliver financial savings. The Council also considered the development of options for alternative Parking Services business models and has decided to work towards enhancing the current model to partner with other authorities. Another key partnership is its subsidiary company KGE Ltd. In February 2023 the Council approved financial support and a cash flow facility of up to £4.5m over the next 5 years to KGE, while the Council finalises its plans for the affordable housing projects that have been delayed since June 2021. This is a further adverse impact from the decision to suspend its housing projects that was not fully considered at the time. Further in September 2023 the Council was asked to sign a decision 'Letter of Support for Knowle Green Estates Ltd' as part of the audit process. This was presented to CPRC as a 'no options' report. The Legal implications of that second report state 'no risk' but then goes on to state 'To date the loans to KGE have been subject to a loan facility agreement dated 29 March 2019'. The extent of those loans is not reported and the potential risks of providing the letter of support are not fully explored. At close of business on 31 March 2023, the amount of the loan outstanding was £29,574,290. It is important that the Council fully monitors the financial and non-financial performance of its partnering arrangements and regularly reviews those arrangements to ensure they are achieving value for money. An improvement recommendation has been made in this respect which is set out on page 41.	A

Improving economy, efficiency and effectiveness – commentary on arrangements

We considered how the audited body:	Commentary on arrangements	Assessment
commissions or procures services, assessing whether it is realising the expected benefits	Procurement is identified as playing a significant role in helping to identify saving opportunities and a key element of this will be ensuring that what is promised when contracts are awarded is delivered. The main contract that this will apply to in the short term is the contract to operate the new Leisure Facilities. The framework for how this will be managed has not yet been developed even though the contract is live. The Council has recognised that Procurement needs to have a more strategic role going forward by being more proactive in looking for savings, efficiencies and economies. A new Procurement Group function is proposed to drive this and other changes arising from the new Procurement Act 2023. The Council also acknowledges that there is a forward procurement plan and contract register but that these are not as effective as they could be. There is no reporting of contract or procurement metrics to members and therefore no visibility of the volume and value of any contract or legislative breaches or of any exceptions to contract procedure rules (waivers). In 2023 an issue arose with the performance of contracted service provider who was responsible for operating a Council owned Hostel for homeless men and providing support services to the residents. An issue arose with the contracted provider not delivering the support service element of the contract, but this issue was not picked up by the Council through contract management. A further issue arose due to the behaviour of staff from the contracted provider which was identified through complaints by residents. For those KPIs that were being monitored through the contract the Council was reliant on data provided by the service provider. Following an unexpected absence by the person responsible for providing the data at the service provider it came to light that some of the data reported wasn't accurate and sometimes the service provider was reporting against the wrong data. The relevant responsibilities between the Council and the service provider for some Health and Safety compliance matters such as Fire Risk Assessments were not clearly set out in the contract. The Council has not monitored the percentage of fire risk assessments completed. The extent or seriousness of this issue was not apparent from the contract performance report. The Council has suffered reputational damage as a result and will likely face financial impacts going forward. The Council has conceded that in hindsight the contract should not have been awarded as a single contract but as two separate contracts to keep the operation of the hostel separate from the provision of services. The Council is now planning to bring the service in-house but this will likely be at extra cost.	R

Improving economy, efficiency and effectiveness – cont'd

Areas for improvement

The Council has a number of current partnerships with other authorities including insurance with London Borough of Sutton, counter-fraud with Reigate and Banstead Council, Spelride with Elmbridge, and Supporting Families with Elmbridge, Epsom and Ewell and Surrey County Council, as a well as a recent partnership formed with Mole Valley Borough Council on SPAN (Spelthorne Personal Alarm Network) for the elderly community.

It is not clear how the financial and non-financial performance of these partnerships is monitored. For example, the Community Wellbeing and Housing Committee is responsible for Spelride however that committee did not receive any reports regarding the operational or financial performance of Spelride. Further the costs for Spelride are not specified in the service plan or budget put forward by that Committee in January 2024.

Another key partnership is its subsidiary company KGE Ltd. In February 2023 the Council approved financial support and a cash flow facility of up to £4.5m over the next 5 years to KGE In September 2023 the Council was asked to sign a decision 'Letter of Support for Knowle Green Estates Ltd' as part of the audit process. This was presented to CPRC as a 'no options' report. The Legal implications of that second report state 'no risk' but then goes on to state 'To date the loans to KGE have been subject to a loan facility agreement dated 29 March 2019'. The extent of those loans is not reported and the potential risks of providing the letter of support are not fully explored. At close of business on 31 March 2023, the amount of the loan outstanding was £29,574,290.

It is important that the Council fully monitors the financial and non-financial performance of its partnering arrangements and regularly reviews those arrangements to ensure they are achieving value for money.

Improvement recommendation 6: The Council should ensure that the financial and non-financial performance of its partnering arrangements with key partners are regularly monitored to ensure the arrangements continue to achieve value for money. The Council should also ensure that the impacts on partnering arrangements are considered when making financial decisions.

Value for Money Recommendations raised in 2023-24

Recommendations raised in 2023-24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
KR1	The Council should ensure that : i. all financial reports that are relevant to decisions regarding short-term and medium-term planning are accurate and consistent. It should also ensure that the root causes of budget growth are identified and explained to members to ensure accuracy of financial plans. ii. urgently review the options for the suspended housing projects and assess the impacts for KGE. iii. a sustainable business plan for KGE is approved. iv. a sustainable plan for the sinking funds reserve is approved v. robust plans are approved to address the medium-term budget gaps and to reinstate its transformation programme as a matter of urgency.	Key	Financial sustainability	We have identified inconsistencies and omissions in some of the financial reports used to set its budget and MTFP. Those inconsistencies related to key income from commercial investment income and the omissions related to areas of the budget where there continues to be significant growth. At the time of this report the Council has yet to agree a business plan that puts KGE back on a sustainable path. The latest outline budget for 2025/26 reported in December 2024 shows the Council balanced in 2025/26 but with larger gaps of £3.7m and £4.8m predicted for 2026/27 and 2027/28 respectively. A further gap is now envisaged in 2028/29 of £6.5m.	The Council fails to deliver a sustainable financial plan.	The Council does spend considerable effort spelling out the financial implications of decisions such as the risks and impacts of delaying achieving outcomes on housing sites. The Members' Financial Reporting Group is looking at how financial implications of strategies could be set out more clearly. KGE has taken recent steps to review the future income streams which the Council hopes will be sufficient to improve the financial viability of KGE.

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023-24 (cont'd)

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
KR2	The Council should ensure that the Financial Reporting Working Group is appropriately resourced to enable it to quickly provide guidance and training to officers in report writing. If necessary appropriate training should be given to report writers. The Council should consider whether a follow-up internal audit of the implementation of the Committee system should be undertaken and in particular to consider the effectiveness of scrutiny and the timeliness of decision making.	Key	Governance	Reports to members are often overly complex, confusing, inaccurate, incomplete or inconsistent. Decisions by members are not always taken with best value in mind.	Seriously impacting decision making	There has been some movement in this direction but there is more progress to be made. The Group has agreed that refresher training for report writers should be provided and plans are being agreed in this regard. A follow up internal audit can be scheduled in once the updated committee structure has been in place for 12 months (April 2025).

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023-24 (cont'd)

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
KR3	The Council should review its strategic risk register to consider risks arising from previous external scrutiny reports as well as procurement and ensure that risks and mitigations reflect the latest position with regard to actions taken. In addition the Council should ensure that realistic timescales are set for implementing actions and ensure that those dates are only exceeded by exception and adequate explanations for delays are recorded. The CASC forward plan should also be updated to include reviews of the investment portfolio risk register	Key	Governance	We note from a review of the risk register a number of omissions. A number of actions which have been on the action plan for over four years have still not been completed with many actions having target completion dates exceeded and re-set on numerous occasions without adequate explanation.	Ineffective risk management	It is accepted that a number of the actions relating to the risks on the Corporate Risk Register have been on the register for some time, but this has reflected the ongoing nature of the risks, and the prolonged work needed to try to address the relevant subject area. Several of the risks have remained on the register for a number of years due to changes in the political balance of the Council, leading to a change of policy direction. The Corporate Risk Register will be updated in response to issues arising from this report and from the BVI Report when it is published.
KR4	The Council needs to urgently assess the governance and oversight of KGE Ltd in order to avoid conflicts of interest and to conform to best practice.	Key	Governance	Governance arrangements with regard to the Council's wholly owned subsidiary KGE does not accord with best practice. There are actual conflicts of interest with senior officers and members in key roles on the company Board.	Previous Public Interest Reports at other Council's clearly set out that such arrangements have contributed to significant failings in governance.	In December 2024 the Corporate Policy and Resources Committee confirmed that the s151 officer would resign from the KGE Board and that took effect at the beginning of January 2025. To address a) issue of Council representation on the Board, and b) shareholder steer on the future direction of KGE CPRC agreed to set up a Task and Finish Members Group to assess these issues and report back to March 2025 CPRC. Terms of reference for the Task Group are going to 20th January CPRC.

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023-24 (cont'd)

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
KR5	The Council should ensure corporate performance monitoring of its strategic priorities is undertaken and reported to the CPRC or Full Council on a quarterly basis. Directorate and service performance monitoring should support and be linked to the Council's strategic priorities. A robust performance management framework should clearly set out the approach required.	Key	Improving economy, efficiency and effectiveness	The Council does not have a performance management framework in place by which CPRC or Full Council regularly monitor performance against key corporate KPIs. There was no annual performance report reviewed by CPRC or Full Council in 2023/24.	The Council does not have a formal process to monitor progress against its strategic priorities as set out in its corporate plan to the CPRC or Full Council.	Members already have ongoing access to the Corporate Plan Action Tracker to monitor progress with priority actions at any time. Going forward: In 2024/25, the taking on of two new project team members has allowed a focus on improving service plans, KPI reporting and ensuring effective linkages to the corporate plan agreed in early 2024. This work will be completed for full implementation in 2025/26, and services have been/are being consulted to check the indicators provided are still relevant/SMART to the service.
KR6	The Council needs to implement a system of review and monitoring of all action plans arising from external reviews. Appropriate updates should be provided to the Audit Committee on a quarterly basis.	Key	Improving economy, efficiency and effectiveness	The Council has failed to secure improvements following external reviews.	Poor decision making, lack of scrutiny and failure to maintain standards of behaviour by members.	We will undertake a review as per the recommendation
KR7	The Council should ensure that the necessary changes to procurement and contract management arrangements are put in place to ensure that efficiencies and economies are maximised. The Council should also ensure that suitable performance metrics including regulation/rule breaches and contract waivers are introduced with reporting through to Audit Committee on a quarterly basis.	Key	Improving economy, efficiency and effectiveness	There is no reporting of contract or procurement metrics to members.	procurement needs to have a more strategic role going forward by being more proactive in looking for savings, efficiencies and economies. No visibility of the volume and value of any contract or legislative breaches or of any exceptions to contract procedure rules (waivers).	A permanent Corporate Procurement Manager has joined the Council in October 2024. The Council is preparing for the legislative changes arising from the Procurement Act 2023. A Procurement Group is being created comprising procurement, finance, legal and project officers. Terms of Reference for this Group are under discussion and are due to be presented to senior management for approval by the end of January 2025.

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023-24 (cont'd)

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
IR1	The Council should ensure that it effectively utilises benchmarking to identify how its costs of services compares to similar Councils.	Improvement	Financial Sustainability	The Council does not effectively use benchmarking to identify how it compares to statistical nearest neighbours in terms of service unit costs	impact on the Council's ability to identify opportunities for efficiencies	Benchmarking with near neighbours is undertaken through the quarterly reporting on a suite of KPIs to Surrey Chief Executive meetings. The Council proposes to use the CFO insights tool going forward.
IR2	The Council should ensure the financial implications of the strategies are clearly set out when the strategies are being approved.	Improvement	Financial Sustainability	The financial implications of each of the Council's strategies is not always as clear as it should be, particularly where decisions have unintended consequences on other parts of the budget. available.	The Council needs to be clearer and consistent in setting out the financial implications of the strategies it is developing to ensure they are deliverable within the finance available.	The Electric vehicle Infrastructure strategy was written to provide an overview on the areas of infrastructure the Council could look at. Prior to the writing of the strategy work was done to assess the costs and potential income that could be achieved through the introduction of EV infrastructure on Council properties with good access to the road network. Each project then needs a detailed costed business case before being taken forward.
IR3	The Council should undertake a self-assessment of its Audit Committee arrangements in accordance with CIPFA guidance.	Improvement	Governance	The Audit Committee is formed of seven elected members and one independent member.	Lack of independent scrutiny	In accordance with CIPFA Best Practice Guidance and National Audit Office Guidance the current Independent Member of the Audit Committee was appointed in February 2023 and has since provided constructive challenge and scrutiny. The Council is exploring scope for appointing another independent member to further strengthen the work of the Audit Committee. The current independent member has been a positive contribution to the committee, constructively injecting additional independent challenge.

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023-24 (cont'd)

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
IR4	The Council should further review the implementation of the Centros financial system to ensure that all anticipated benefits are being maximised and if not identify the root cause for this to enable improvements to be made for future budget setting and use of the system by members and officers.	Improvement	Governance	members have access to the system but do not use it preferring to continue to raise questions with officers	benefits of the new system have not yet been fully achieved.	The Centros system has been successfully implemented in terms of the upgrade from Integra. Councillors now have access to the whole system to review. The next step, is to implement Business Intelligence, Dashboards and improved communications. This has been delayed for at least 12 months, because of the Mole Valley Partnership and due to the need to switch resources to deal with the BVI process.
IR5	The Council should closely monitor progress with the Internal Audit Plan for 2024/25 and ensure that the service continues to adhere to PSIAS standards.	Improvement	Governance	New provider for 2024/25. The internal Audit Plan for 2024/25 was only put to the Audit Committee for approval in July 2024	no internal audits planned for Q1 of 2024/25.	Southern Internal Audit Partnership (SIAP) are one of the largest providers of public sector internal audit in the region. It was unavoidable that at the start of the first year of the service in 2024-25 there would be a bit of delay before the new provider would be able to provide an audit plan. This will not be an issue in future years.
IR6	**The Council should ensure that** the financial and non-financial performance of its partnering arrangements with key partners are regularly monitored to ensure the arrangements continue to achieve value for money. The Council should also ensure that the impacts on partnering arrangements are considered when making financial decisions.	Improvement	Improving economy, efficiency and effectiveness	A decision 'Letter of Support for Knowle Green Estates Ltd' was presented to CPRC as a 'no options' report. The Legal implications state 'no risk' but the extent of those loans (29.5m) is not reported and the potential risks of providing the letter of support are not fully explored.	Impacts of partnering arrangements not fully assessed.	The Council will address this through the Collaborative Working Review Group, which includes members from all political parties selected from the CPRC.

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Appendices

Appendix A:
Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

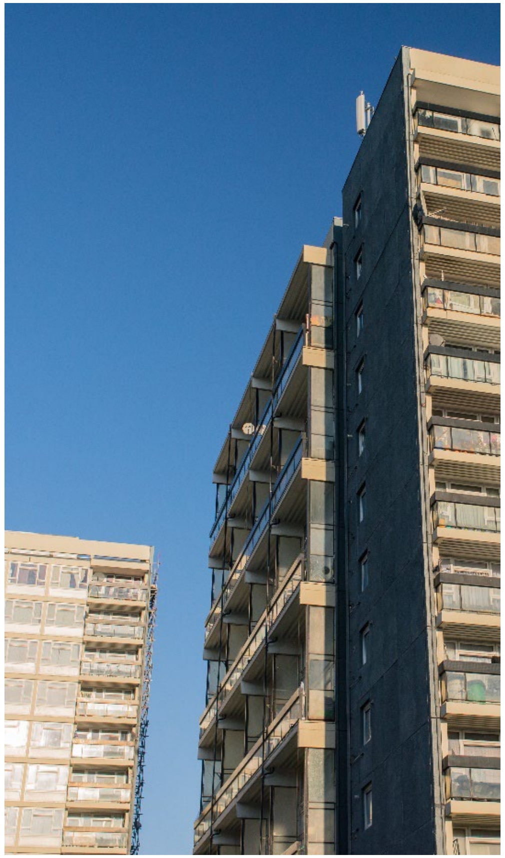
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B:
Value for Money Auditor responsibilities

Value for Money arrangements work

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The audited body's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office (NAO) Code of Audit Practice ('the Code'), requires us to assess arrangements under three areas:

Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

2023-24 is the fourth year of the Code, and we undertake and report the work in three phases as set out in the Code.

Phase 1 – Planning and initial risk assessment

As part of our planning we assess our knowledge of the Council's arrangements and whether we consider there are any indications of risks of significant weakness. This is done against each of the reporting criteria and continues throughout the reporting period

Information which informs our risk assessment	
Cumulative knowledge and experience of the audited body	Annual Governance Statement and the Head of Internal Audit annual opinion
Interviews and discussions with key stakeholders	The work of inspectorates and other regulatory bodies
Progress with implementing recommendations	Key documents provided by the audited body
Findings from our opinion audit	Our knowledge of the sector as a whole

Phase 2 – Additional risk-based procedures and evaluation

Where we identify risks of significant weakness in arrangements we will undertake further work to understand whether there are significant weaknesses. We use auditor's professional judgement in assessing whether there is a significant weakness in arrangements and ensure that we consider any further guidance issued by the NAO.

Phase 3 – Reporting our commentary and recommendations

The Code requires us to provide a commentary on your arrangements which is detailed within this report. Where we identify weaknesses in arrangements we raise recommendations. A range of different recommendations can be raised by the Council's auditors as follows:

- **Statutory recommendations – actions which should be taken where significant weaknesses are identified with arrangements. These are made under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014 and require discussion at full Council and a public response.**
- **Key recommendations** – actions which should be taken by the Council where significant weaknesses are identified within arrangements.
- **Improvement recommendations** – actions which should improve arrangements in place but are not a result of identifying significant weaknesses in the Council's arrangements.

Appendix C:
List of Interviewees

Officers

Terry Collier – Deputy Chief Executive, Chief Financial Officer and s151 Officer

Lee O'Neill – Deputy Chief Executive and Head of Risk

Sandy Muirhead - Group Head Commissioning and Transformation

Karen Limmer - Interim Group Head of Corporate Governance and Monitoring Officer

Karen Sinclair – Group Head Community Wellbeing

Coralie Holman – Group Head of Assets

Paul Taylor – Chief Accountant and Deputy s151 Officer

Gareth Richards - Housing Strategy Team Leader

Elected Members

Cllr Sexton – Leader of the Council

Cllr Button – Chair of Audit Committee

Appendix D:
Key Timeline of Events

November 2020 - LGA Finance Peer Review

Spring 2021 – Council moves to a Committee System.

October 2022 - KPMG Public Interest Review. December 2022 full Council response. March 2023 Initial discussion at Audit Committee re implementing an action plan. July 2023 Audit Committee approved PIR Action Plan. July 2024 Audit Committee reviewed progress against the Action Plan.

July 2023 - South East Employers Establishment Review reported to CPRC – ongoing work for review from March 2023

November 2022 - LGA Corporate Peer Challenge Review

May 2023 Local Elections – 22 New Cllrs – Comprehensive Induction Training Programme

February to July 2023 – CIPFA/DHLUC inspection

May 2023 to December 2024 - Local Plan Examination process put on hold and additional review work undertaken – LP now going to examination in February 2025

May to November 2023 – systems upgrade to Centros, as Capita advised they were no longer supporting Integra going forward.

November 2023 – LGA Corporate Peer Challenge Review 12 month follow up

May 8th 2024 - announcement of BVI review and publication of CIPFA review report

Late May 2024 to Jan 2025 - BVI process

December 2024 - Devolution White paper commenced the Local Government Reorganisation (LGR) process which will see the replacement of two-tier local government in Surrey with a unitary system within 2 to 3 years.