Spelthorne Borough Council

Interim Auditor's Annual Report
Year ending 31 March 2026

18 November 2026



Contents

01	Introduction and context	03
02	Executive summary	06
03	Opinion on the financial statements and use of auditor's powers	13
04	Value for Money commentary on arrangements	18
	Financial sustainability	20
	Governance	26
	Improving economy, efficiency and effectiveness	31
05	Summary of Value for Money recommendations raised in 2025/26	35
06	Follow up of previous key recommendations	39
Appendices		49
A	Responsibilities of the Council	50
B	Value for Money Auditor responsibilities	51
C	Follow-up of previous improvement recommendations	52

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.

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01 Introduction and context

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Introduction

This report brings together a summary of all the work we have undertaken for Spelthorne Borough Council during 2025/26 as the appointed external auditor. The core element of the report is the commentary on the value for money (VfM) arrangements. The responsibilities of the Council are set out in Appendix A. The Value for Money Auditor responsibilities are set out in Appendix B.

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 2026 and of its expenditure and income for the year then ended
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2025/26.
- 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.

Auditor's powers

Under the Local Audit and Accountability Act 2014, auditors of an 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 9 with a commentary on whether any of these powers have been used during this audit period.

In particular, auditors may issue:

- Statutory recommendations to the full Authority which must be considered publicly.
- A Public Interest Report (PIR)

Value for money

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (referred to as Value for Money). The National Audit Office (NAO) Code of Audit Practice ('the Code'), requires us to assess arrangements under three areas:

- financial sustainability
- governance
- improving economy, efficiency and effectiveness.

Our report is based on those matters which come 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. During 2024/25, the NAO consulted on and updated the Code to align it with accounts backstop legislation. The new Code requires auditors to share a draft Auditor's Annual Report (AAR) with those charged with governance by a nationally set deadline each year, and for the audited body to publish the AAR thereafter. The deadline requirement for 2025/26 AARs is 30 November 2026.

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Local government – context

Local government has remained under significant pressure in 2025/26

National

Past



Funding Not Meeting Need

The sector has seen prolonged funding reductions whilst demand and demographic pressures for key statutory services has increased; and has managed a period of high inflation and economic uncertainty.



Workforce and Governance Challenges

Recruitment and retention challenges in many service areas have placed pressure on governance. Recent years have seen a rise in the instance of auditors issuing statutory recommendations.

Present



Financial Sustainability

Despite the Fair Funding Review 2.0, many councils continue to face significant financial challenges, including social care, SEND and temporary accommodation pressures. There are an increasing number of councils in receipt of Exceptional Financial Support from the government.



External Audit Backlog

Councils, their auditors and other key stakeholders continue to manage and reset the backlog of annual accounts, to provide the necessary assurance on local government finances.

Future



Digital change

AI and digital change are automating routine processes and enabling more personalised services for residents. This is shifting workforce skills as councils seek productivity gains. Risks around digital exclusion, data quality, ethics, and governance mean strong leadership and controls are increasingly important.



Reorganisation and Devolution

Many councils in England are impacted by reorganisation and / or devolution, creating capacity and other challenges in meeting business as usual service delivery.

Local

Spelthorne Borough Council (the Council) is mainly located within the M25 boundary to the South of Heathrow and bordered by the River Thames. The Council serves a population of 103,550 people, represented by 39 elected members. A Ministry for Housing, Communities and Local Government (MHCLG) statutory best value review during 2024/25 resulted in Commissioners being appointed on 8th May 2025. In October 2025, the Secretary of State for Housing, Communities and Local Government wrote to the leader of the Council to inform it of his decision to implement a proposal for two new unitary authorities in Surrey from 1 April 2027. The Council will cease to exist from that date, and its geography will form part of the new West Surrey council. The Council had external debt of £1 billion at the start of 2025/26, some of which was rescheduled during 2025/26 and some of which Commissioners have indicated should be reduced by using proceeds from asset sales. **It is within this context that we set out our commentary on the Council's value for money arrangements in 2025/26.**

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02 Executive Summary

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Executive Summary – our assessment of value for money arrangements

Our overall summary of our Value for Money assessment of the Council's arrangements is set out below. Further detail can be found on the following pages.

Criteria	2024/25 Assessment of arrangements		2025/26 Risk assessment	2025/26 Assessment of arrangements	
Financial sustainability	R	Significant weaknesses in arrangements identified. Three new key recommendations raised, and one key recommendation retained from 2023/24.	Two risks of significant weakness identified in relation to asset sales to repay debt; and the future of the subsidiary undertaking Knowle Green Estates Ltd (KGE Ltd).	R	Significant weaknesses in arrangements identified. Two prior year recommendations were amended. These surrounded assets rationalisation and debt reduction; and the future of KGE Ltd (see pages 24 and 25). Two other prior year recommendations on assets and debt were superseded by our amended key recommendations.
Governance	R	Significant weaknesses identified. One new key recommendation raised. Three key and one improvement recommendations retained from 2023/24.	One risk of significant weakness identified at planning in relation to the Strategic Risk Register. One other risk identified during testing in relation to governance over KGE Ltd.	R	Significant weaknesses in arrangements identified. We retained or amended three prior year key recommendations, one in relation to working with Commissioners in 2026/27; and two in relation to the Strategic Risk Register; and governance for KGE Ltd in 2025/26 (see pages 28, 29 and 30). All other key and improvement prior year recommendations were closed.
Improving economy, efficiency and effectiveness	R	Significant weaknesses identified. One new key recommendation raised, and two key recommendations retained from the prior year.	Two risks of significant weakness identified in relation to the Improvement and Recovery Plan; and procurement and contract management.	A	Significant weaknesses in arrangements identified. Our amended prior year recommendation on working with Commissioners in 2026/27 is relevant to economy, efficiency and effectiveness, as well as to governance (see page 28). We retained our key recommendation on procurement and contract management (see page 34). We closed our prior year key recommendation on key performance indicators.

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

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Executive Summary

We set out below the key findings from our commentary on the Council's arrangements in respect of value for money.

Financial sustainability

The Council reduced its debts from £1 billion to £718 million in 2025/26, earning a credit discount for 2025/26 of £34.3 million. The Council introduced a new, compliant Minimum Revenue Provision (MRP) policy during the year, increasing the MRP annual charge by £46.6 million.

An Assets Rationalisation Plan is in place, designed to reduce future MRP charges; and to reduce debt. The Council is aiming to dispose of nine investment properties with a combined value of £400 million by the end of March 2027.

A loss-making subsidiary (KGE Ltd) is currently under review.

We raise two key recommendations in relation to the need to implement assets rationalisation and debt reduction, and the need for a decision about the future of KGE Ltd.

Governance

Commissioners were appointed on 8 May 2025, with ultimate charge over all commercial functions.

We note that one disposal in August 2026 was made under the Commissions Best Value Instructions after members were unable to reach agreement. In October 2026, Commissioners issued a second Best Value Instruction in relation to the sale of a second asset that members had not agreed on. We retain one key recommendation from 2024/25 in relation to 2026/27 engagement with Commissioners to deliver improvement).

We raise two key recommendations in respect of 2025/26 risk management; and KGE Ltd. A new Governance Assurance Framework system was adopted in 2026/27, after the end of 2025/26. A task and finish group reviewed KGE Ltd Board membership, but a formal Council assessment is needed.

Improving economy, efficiency and effectiveness

The Council started 2025/26 with a Consolidated Action Plan that had more than 250 recommendations to address, following the conclusion of a Best Value Inspection. With the help of Commissioners, an Improvement and Recovery Plan was introduced with five themes in October 2025, and this was later consolidated further to cover four themes from February 2026. Our key recommendation on working with Commissioners to deliver the plan is relevant to economy, efficiency and effectiveness, as well as to governance.

The Head of Procurement post became vacant during 2025/26 and remains vacant now. Support has been provided on a flexible basis by another borough council. We raise one key recommendation in relation to procurement and contract management.

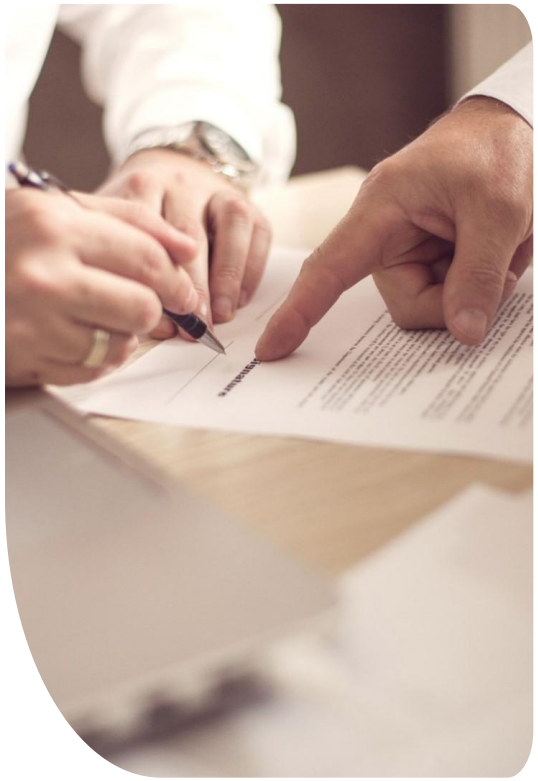
The Council's direction of travel was positive in 2025/26. We raise five key recommendations in relation to 2025/26; and one in relation to 2026/27. We raised eleven key recommendations and one improvement recommendation in relation to 2024/25. The Council must continue to collaborate with Commissioners to deliver ongoing improvement to maximise the Council's legacy before the creation of the new West Surrey unitary.

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Executive summary – auditor's other responsibilities

This page summarises our opinion on the Council's financial statements and sets out whether we have used any of the other powers available to us as the Council's auditors.

Auditor's responsibility	2025/26 outcome
Opinion on the Financial Statements	Work on the 2025-26 financial statements is ongoing. We will issue a disclaimed audit opinion by the back stop date.
Use of auditor's powers	We did not make any written statutory recommendations under Schedule 7 of the Local Audit and Accountability Act 2014. We did not make an application to the Court or issue any Advisory Notices under Section 28 of the Local Audit and Accountability Act 2014. We did not make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014. We did not identify any issues that required us to issue a Public Interest Report (PIR) under Schedule 7 of the Local Audit and Accountability Act 2014.



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Local Government Reorganisation – organisational change and risk

Additional context around our review of the local government reorganisation (LGR) arrangements in 2025/26

National Context

The English Devolution and Community Empowerment Act received Royal Assent on 29 April 2026.

On 7 September 2026, the Government announced a pause to Local Government Reorganisation (LGR) decisions. The only LGR geography not to be impacted was Surrey, with the vesting day for the two new unitaries remaining 1 April 2027.

On 28 Oct 2026, as part of the budget, the government announced that it is in the final stages of agreeing new devolution deal for Surrey, to create a Mayoral Strategic Authority for the geography. This is one of ten new devolution agreements that the government is in the process of finalising.

On 29 Oct 2026 the government announced that LGR would move forwards in five geographies, with 15 geographies remaining under review, with their outcomes to be confirmed in early 2027. Any new councils in these areas will be established in April 2029, a year later than originally planned.

Surrey has therefore progressed LGR implementation in advance of all other geographies the government identified for reorganisation.

What we observed in 2025/26

For Surrey, the Shadow Authority elections took place on 7 May 2026 with vesting day of the new unitaries to be 1 April 2027.

At Spelthorne Council, a new post for Head of LGR and Special Projects was created in May 2026 and filled in June 2026. The post was fully funded by the corporate LGR budget and active until October 2026. A new transitional plan was agreed by the Council in July 2026.

Spelthorne Council's s151 officer is leading on procurement integration across West Surrey Councils. The procurement workstream is tasked with bringing together just under 26,000 contracts across the participating councils, each of which currently uses different procurement tools and systems. At officer level, the Council sends representatives to work with peers from other Councils on the integration of Information Technology, Human Resources, and front office.

The Council's transitional plan lists one of its aims as delivering "financial recovery and long-term sustainability by responding to Government Directions", stating that the Council aims to reduce debt by an additional £170 million in 2026/27.

Residual risks

Heightened risks will remain as LGR transition and implementation progresses during 2026/27.

A disclaimed financial opinion is anticipated for the 2025/26 financial statements due to opening balances being affected by the statutory audit backstop arrangements applied to prior years. Given vesting day for West Surrey Unitary Council is on 1 April 2027, it is important the Council works proactively with its external auditors to test in-year transactions and closing March 2026 balances so that more accurate records transfer to the successor authority.

Commercial decisions about the future of KGE Ltd, and effective asset rationalisation, remain an important areas that the Council needs to address in the run up to vesting day. With less than six months to go until vesting day, consistent, stable leadership will be important for navigating these decisions. The Council does liaise with the Shadow Authority to keep them up to date. The Council also needs to conduct an Internal Audit Review of the new Governance Assurance Framework (to give assurance to other West Surrey councils) before vesting day.

Local government reorganisation – Surrey wide review

We are the external auditors of all the districts and boroughs in Surrey. Here we summarise the findings from our over arching VfM review of LGR in Surrey

The move from twelve to two councils provides an opportunity to realise financial benefits and improve services for local government in Surrey. The overall aim is to unlock efficiencies from the rationalisation of council structures and assets and improving systems and processes.

However, implementing LGR is complex, time consuming and provides some significant challenges. The challenges for Surrey include a relatively short implementation timescale, the pressures that come from delivering business as usual services by the existing councils whilst implementing LGR in parallel, the need to disaggregate county wide finances and services to align to the geographies of the two new unitaries, and undertaking financial and service planning for the new unitaries when many senior officers are not in role to make key decisions.

It is clear from our work that key stakeholders at existing councils and the Shadow Authorities involved in LGR have been fully committed to a successful transition and implementation. The relatively short implementation timescale has resulted in a focus on the new unitaries being safe and legal on their vesting days. Whilst understandable, this focus on ensuring continuity of existing services to residents and businesses in Surrey has meant that the opportunities that should arise from rationalisation and transformation have not progressed and have largely been deferred for decisions to be taken following vesting day when there should be greater capacity available and senior leadership teams are in place.

It will take several years to fully realise the benefits planned from LGR and will require sustained commitment from senior stakeholders to deliver. There remain inherent risks in any LGR implementation and the new unitary councils will have significant decisions to take prior to and following vesting days.

In summary, we see a number of critical challenges and opportunities, in particular the following are key priorities:

- Minimise the level of debt inherited by West Surrey to mitigate the impact on its budgets and financial sustainability and maintain relationship with Government to ensure ongoing support.
- Conclude analysis of current Surrey councils' investments and companies to fully understand the value of these investments and their associated debt.
- Prioritise building back assurance to meet the national 2027/28 build-back deadline of 30 November 2028.
- Conclude the outstanding disaggregation of services and associated budgets, and develop savings and efficiency plans to support the development of the 2027/28 and future budgets, and maximise the level of available reserves from vesting day.
- Prioritising transition over transformation means the new councils will need to act fast, and fully utilise the retained LGR PMO resource, to drive transformational change to improve service users' experience and generate the improvements, efficiencies and savings set out in the approved business case, and mitigate the forecast levels of funding shortfalls across the medium term of the new councils and ensure reserves are maintained at appropriate levels.
- Consider the future capital investment requirements of the new unitaries, including deliverability, proportionality, sustainability and affordability of the ongoing revenue implications. Agree capital, treasury management, and investment strategies for the new councils.

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Local government reorganisation – Surrey wide review

We are the external auditors of all the districts and boroughs in Surrey. Here we summarise the findings from our over arching VfM review of LGR in Surrey (Continued)

- Organisational structures, cultures and values will need to be agreed and embedded. This will be critical to the effectiveness of the new councils' governance and performance management frameworks.
- Structures and key personnel put in place need to be proportionate to the significant challenges the new councils will face, such as West Surrey having appropriate skills and capacity to manage its commercial property portfolio and reschedule debt. Workforce plans need to be in place for the new councils.
- Reviewing the capabilities of the ERP system to determine if this is a long-term solution for the new councils.

It will be important that elected members of the new unitary councils have appropriate time to fully engage with and scrutinise these key decisions.

At the same time as successfully managing LGR transition, the two new unitary councils will need to continue to manage business as usual challenges affecting Surrey, which includes managing increasing demographic pressures. It will also be important that the new unitary councils do not lose best practice arrangements from the demising councils.



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

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Rebuilding assurance

The Audit Backstop

On 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 came into force. This legislation introduced a series of backstop dates for local authority audits. These Regulations required the Council's audited financial statements to be published by the following dates:

- for years ended 31 March 2023 and earlier by 13 December 2024; and
- for years ended 31 March 2024 by 28 February 2025;
- for years ended 31 March 2025 by 27 February 2026;
- for years ended 31 March 2026 by 31 January 2027; and
- for years ending 31 March 2027 and 31 March 2028 by 30 November 2027 and 30 November 2028 respectively, noting that the financial statements will be prepared by the successor body.

The Statutory Instrument is supported by the National Audit Office's (NAO) new Code of Audit Practice 2024. The backstop dates were introduced with the purpose of clearing the backlog of historic financial statements and enabling the reset of local audit.

Where audit work is not complete, this will give rise to a disclaimer of opinion. This means the auditor has not been able to form an opinion on the financial statements. In the audit reports for the years ended up to 31 March 2025, a disclaimer of opinion was issued due to the backstop.

Status for 2025/26: Disclaimer of opinion

Progress to full assurance is likely to involve moving over a series of years from disclaimer of opinion; to qualified opinion (except for); to unqualified opinion.

The current status for Spelthorne Borough Council is: Disclaimer of opinion.

Key areas of future work to secure an unqualified opinion

The Council has not received an unqualified audit opinion on their financial statements since 2017/2018. Due to the number of years that the Council has not received an audit, there will be insufficient time to enable build back assurance to be undertaken to secure an unqualified opinion for the Council prior to vesting date. The audit focus for 2025-26 has been on in year transactions and to get as much assurance over 31 March 2026 balances as possible.

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Opinion on the financial statements

These pages set out the key findings from our audit of the Council's financial statements, and whether we have used any of the other powers available to us as the Council's auditors.

Audit opinion on the financial statements

Work on the 2025-26 financial statements is ongoing. We will issue a disclaimed audit opinion by the back stop date.

Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2026 and of its expenditure and income for the year then ended
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2025/26
- 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 NAO Code of Audit Practice (2024, 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 national deadline for publishing draft financial statements was 30 June 2026. The Council provided draft accounts on 4 September 2026. The delay in publishing the financial statements was due to the Council investigating and correcting technical adjustments related to the Collection Fund, specifically concerning business rates accounting.

The work on the financial statements remains in progress and we will report the detailed findings from our audit in our Audit Findings Report. A final version of our report will be presented to the Council's Audit Committee on 28 January 2027. Requests for this Audit Findings Report should be directed to the Council

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Other reporting requirements

Annual Governance Statement

Under the Code of Audit Practice published by the National Audit Office we are required to consider whether the Annual Governance Statement does not comply with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting, or is misleading or inconsistent with the information of which we are aware from our audit.

We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.



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Use of auditor's powers

We bring the following matters to your attention:

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

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04 Value for Money commentary on arrangements

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Value for Money – commentary on arrangements

This page explains how we undertake the value for money assessment of arrangements and provide a commentary under three specified areas.

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

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether 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 budget management, risk management, and making 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.

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Financial sustainability – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them *Continued on next page*	Overall, the Council made very positive efforts in 2025/26 to manage direct services budgets well; and to avoid using EFS. However, the scale of borrowings inherited from between 2016 and 2022, and the fact that those borrowings funded investment properties with high MRP charges and falling market value, means that there are legacy issues that will take time to address fully. Direct services budgets performed well in 2025/26, achieving an overall net underspend against budget of £1.7 million. Within the regeneration and environment directorate, landlord costs incurred were also £1.5 million below budget. Debt was rescheduled in 2025/26, reducing from £1 billion to £718 million. This earned the Council a substantial credit discount in 2025/26 of £34.3 million but will lead to higher interest rates being applied in future years if loans are not repaid (forecast interest costs 2026/27: £32.9 million). Investment property, which was purchased using the debts, was valued at £526.1 million on 31 March 2026. This includes properties purchased for commercial reasons and properties that were originally purchased for regeneration. The council has been liaising with the Shadow Authority for West Surrey on its debt position so that the Shadow Authority is aware of the impact on the new unitary. The Council revised its MRP policy in 2025/26, taking an additional charge to the budget for the year of £46.6 million. This was to comply with best practice and statutory requirements. Overall, despite the many positive trends within services, the additional MRP charges meant that the Council ended the year with a £10.7 million overspend against a budget of £20.8 million, leaving it with a projected closing balance for available General Fund revenue reserves of £37.6 million at 2025/26. *Continued on next page*	R

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

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Financial sustainability – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
Continued from previous page identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	*Continued from previous page* For 2026/27, the Council's budget anticipated an overspend of £11.6 million - the revised approach to MRP is expected to generate an additional £40 million budget pressure in 2026/27, although this will again be offset by discounts from the debt rescheduling. The total MRP charge for 2026/27 is forecast to be £53 million, compared to an annual charges of £13 million before the new policy was applied. The Council's budget for 2026/27 states that the main mechanisms for dealing with increased MRP charges will be assets rationalisation (disposals), which will in turn facilitate debt reduction. Ongoing MRP pressure expected in future years means that the Council is forecasting that useable revenue reserves will have fallen to £14.2 million by the end of 2028/29 if assets rationalisation plans are not delivered. **We raise a key recommendation (KR1) on page 24 of this report, noting that the Council must now deliver on the financial plans it has agreed.** We note that the budget makes it clear that EFS is not a viable option, stating that "Exceptional Financial Support merely allows the Council to capitalise revenue spending which in turn adds additional MRP and interest charges. It is not additional grant". The Council should be credited with the mature approach taken to resolve its financial pressure without recourse to EFS. The Council owns a loss-making subsidiary undertaking (KGE Ltd) and is currently reviewing its future. A decision was expected in the Autumn of 2026, although was still not available at the date of writing this report. Losses in the subsidiary are growing year on year and reached £2.7 million after tax in 2025/26. **We raise a key recommendation (KR2 on page 25 of this report), noting that a decision is required on the future of KGE Ltd.**	R

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

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Financial sustainability – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
plans to bridge its funding gaps and identify achievable savings	For 2026/27, the Council developed savings plans of £5.8 million within its core budgets, and additional savings plans of £1.1 million on Improvement Plan initiatives in relation to leisure, maintenance and temporary accommodation. At the time we completed our testing, savings were on track to be delivered. Excel spreadsheets had been developed by the finance team to help officers monitor savings delivery, and savings validation data was included in budget monitoring reports for members. A new finance system allows monitoring of financial data straight from the finance system itself. Temporary accommodation savings were performing especially strongly. Savings of £600,000 had been budgeted for. These were based on plans to reduce nightly rates paid to providers and to reduce demand. By May 2026, the Council was on track to deliver more than £800,000 of savings in this area. For financing costs, we note that debt rescheduling in 2025/26 enabled the Council to secure an annual ten-year credit discount of £34.3 million.	G
plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	Budgeting for 2025/26 was consistent with the objectives of the corporate plan for 2024-28. In addition, an Assets Rationalisation Plan was agreed in the year. This will involve selling commercial properties. The Council recognises that the MRP, interest, landlord costs and sinking fund adjustments for commercial properties limited any surplus generated from their income. Joined up revenue and capital monitoring reports have now been introduced for stronger oversight over the Council's full financial position.	G

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

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Financial sustainability – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
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 Council's Assets Rationalisation Plan aims to dispose of nine investment properties with a combined value of £400 million by the end of March 2027. In addition, the Council has already completed on the sale of one other property valued at £21.5 million. This is an ambitious disposals programme and is intended to enable debt reduction, consistent with Statutory Directions imposed by the Secretary of State on 8 May 2025. The relatively low level of reserves and high MRP and debt financing costs that the Council faces mean that it is critical that the planned disposals are delivered. The Assets function is covered by the Commercial, Regeneration and Housing Theme of the approved Improvement and Recovery Plan. There is a Theme Sub-Board which reviews deliverables for the theme on a monthly basis. At the start of the year, with input from CIPFA, the Council approved a new Commercial Strategy. As part of progressing the Assets Rationalisation Programme, a robust procurement process was undertaken to appoint expert independent advisers to advise the Council on the best way of maximising outcomes from the rationalisation programme. Subsequent to the end of 2025/26 the Council has further strengthened capacity by appointing an experienced Interim Director of Place. It is important that this momentum is maintained. Members need to be mindful of the financial sustainability of the new incoming West Surrey Council. **Our key recommendation (KR1) on page 24 notes that the Council must now deliver on the plans it has agreed.**	R
identifies and manages risk to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions in underlying plans	During 2025/26, the Council repurposed its £26.3 million sinking fund balance to other earmarked reserves. The Council carries high debt financing and MRP costs while it awaits planned asset sales to be achieved. For 2026/27, in addition to the MRP costs of £53 million, the Council expected to incur debt financing costs of £32 million. These costs will be higher if asset sales are delayed. The Quarter 2 financial monitoring report for 2026/27 shows that the revenue budget is forecast to overspend by £5 million against a net Budget Requirement of £10.5 million for 2026/27. The majority of the overspend was due to higher than expected MRP due to delayed asset sales. We note that on 7 August 2026, Commissioners used their statutory powers to require the sale of one asset that the Council had been proposing to delay. **Our key recommendation (KR1) on page 24 notes that the Council must deliver on the plans it has agreed.**	R

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

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Financial sustainability (continued)

Significant weakness identified in relation to financial sustainability

Key Finding: The Council is planning to sell £400 million of assets between September and March 2027. This is part of a wider plan to rationalise assets by 2035/36, to enable debt reduction over that period. The Council estimated that without assets rationalisation, the cumulative deficit on the general fund budget will reach £46 million by 31 March 2027. The Council has been supported by professional advisers in agreeing its assets rationalisation plan and its planned approach to market. The Assets Rationalisation Plan aims to exit from investment property holdings and is consistent with Statutory Directions imposed by the Secretary of State on 8 May 2025 requiring the Council to deliver Best Value.

Council debt was valued at £718 million on 31 March 2026. Assets rationalisation is necessary to enable reduction of the debt.

Evidence: Public papers published by the Council; internal Council financial documents; discussion with key stakeholders.

Impact: MRP and debt financing cost reductions will not be achieved without assets rationalisation.

Key recommendation 1 (2025/26)

KR1 (2025/26): The Council must deliver its medium-term financial strategy, including rationalising assets and reducing debt. Assets rationalisation and debt reduction must proceed at pace. The Council must continue to regularly update the Shadow Authority for West Surrey Council on progress with assets rationalisation and debt reduction; and on working to deliver as much of the planned strategies for assets and debt as it can before vesting day.

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Financial sustainability (continued)

Significant weakness identified in relation to financial sustainability

Key Finding: The subsidiary undertaking KGE Ltd is incurring losses annually. A decision on its future was expected in Autumn 2026 but was still not available at the time of writing this report. Independent professional advice has been taken by the Council. It is important that this decision is made within sufficient time to allow for smooth transfer of housing assets before or on vesting day. Any decision is likely to involve a transfer of or change to arrangements for assets and operations. Early clarity will be important to allow effective planning by the successor authority.

Evidence: Public papers published by the Council; internal Council financial documents; discussion with key stakeholders.

Impact: KGE Ltd continues to incur losses, which will become the responsibility of West Surrey Council if a decision is delayed.

Key recommendation 2 (2025/26)

KR2 (2025/26): A decision on the future of KGE Ltd must be made by the Council within sufficient time to allow for smooth transfer of housing assets before or on vesting day. The Council should provide the Shadow Authority for West Surrey Council with clarity about the arrangements that will be in place on vesting day for KGE Ltd.

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Governance – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency, including from audit committee	Commissioners were appointed under Statutory Intervention on 8 May 2025. The Commissioners have ultimate charge over all functions associated with commercial decision-making, regeneration, property management, procurement and the management of commercial activity by the Council. Commissioners identified assets rationalisation as a required improvement. On 6 August 2026, members voted to defer progressing one specific commercial asset disposal. On 7 August 2026, the Commissioners issued a Statutory Instruction under the powers provided to them by the Best Value Directions requiring that the Council progress the disposal, stating that this was to support the delivery of the Medium-Term Financial Strategy and the sustainability of West Surrey Council and therefore reduce the risk to West Surrey residents of future reductions to services. On 22 October 2026, the Council voted to defer the sale of a second asset. Again, Commissioners issued a second statutory instruction the next day requiring that the sale of this second asset proceed. Our Auditor's Annual Report for 2024/25 raised a key recommendation stating that members and officers need to work collaboratively to deliver the Improvement and Recovery Plan (see page 43 of this report). **The key recommendation is now retained and amended, based on emerging findings for 2026/27 (see KR3 on page 28 of this report.** We note that since January 2026, a new Chief Executive Officer and a new Deputy s151 officer have taken up role. By 22 October 2026, there had also been two changes of Leader.	R
monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour	The ethical framework within the Constitution includes codes of conduct and protocols for behaviour that are designed to maintain standards. The member-to-member protocol was introduced for the first time during 2025/26, as were changes to arrangements for dealing with allegations of a breach of the Members Code of Conduct. The Standards Committee met in April, June, October and February. In June 2025, the Standards Committee agreed a new protocol for future relations between members. In February 2026, it agreed a new protocol for procedures at any future Hearings.	G

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

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Governance – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	We raised a key recommendation in 2024/25 in relation to the Strategic Risk Register. The Council adopted a new Governance Assurance Framework early in 2026/27. **For 2025/26, our prior year key recommendation is retained (see page 29). We will revisit progress as part of our audit for 2026/27.** Internal Audit completed a full programme of work in 2025/26 and concluded that the Council's overall arrangements are 'reasonable'. In September 2025, external reviewers graded the Internal Audit service as achieving the highest grade available ("generally conforms " with Global Internal Audit Standards (GIAS). We raised a key recommendation in 2024/25 and 2023/24 in relation to governance over KGE Ltd, the subsidiary undertaking. Councillors sat on the company Board, risking conflicts of interest. A task and finish group reviewed arrangements but at the end of 2025/26, one Councillor and one officer of the Council remained on the Board. **For 2025/26, our prior year key recommendation is retained (see page 30). We will revisit progress as part of our audit for 2026/27.**	R
approaches and carries out its annual budget setting process	The Council successfully implemented a new finance system in 2025/26 and has been using it to enhance report writing functionality. As shown on pages 18 to 21 of this report, the Council revised its MRP Policy in 2025/26 and the 2026/27 budget recognised new full-year MRP budget pressure for the first time. The correction of the policy represents a positive step. There is now stronger budget information available on which to base decision-making.	G
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	A new finance system introduced in 2025/26. New monitoring arrangements were introduced in 2025/26 for costs. Excel savings tracker workbooks were introduced for IRP savings. A new monthly assurance management team meeting was also introduced in 2025/26 to strengthen engagement across individual service lines with the budget for the whole Council. At the time of writing our Interim AAR, the financial statements audit for 2025/26 is ongoing. Our opinion on opening balances is for 2025/26 likely to be disclaimed under backstop arrangements. **We will conclude on the financial statements process for 2025/26 at the conclusion of our audit in our final AAR for 2025/26.**	TBC

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

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Governance (continued)

Significant weakness identified in relation to governance

Key finding: Commissioners have ultimate charge over all functions associated with commercial decision-making, regeneration, property management, procurement and the management of commercial activity by the Authority. On 6 August 2026, the Council voted to defer one asset sale until the views of the West Surrey Shadow Executive had been obtained. Commissioners issued a Statutory Instruction the next day requiring that the sale proceed. On 22 October 2026, the Council voted to defer the sale of a second asset until the Staines Master Plan had been agreed. Again, Commissioners issued a second Statutory Instruction the next day requiring that the sale of this second asset proceed.

Our Auditor's Annual Report for 2024/25 raised a key recommendation stating that members and officers need to work collaboratively to deliver the Improvement and Recovery Plan. This key recommendation is retained and amended, based on emerging findings for 2026/27.

Evidence: Public and private Council meeting papers; Statutory Instructions.

Impact: Commercial decision-making resides with Commissioners.

Key recommendation 3 ~~(2025/26)~~ (2026/27)

KR3 (2026/27): Members and officers must work collaboratively with Commissioners to deliver the Improvement and Recovery Plan over the remaining months until vesting day. We note that assets rationalisation and debt reduction are both key features of the Council's IRP. Members and officers should engage with Commissioners to agree next steps for the strategic approach towards asset sales.

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Governance (continued)

Significant weakness identified in relation to governance

Key finding: Our Auditor's Annual Report for 2024/25 identified significant weaknesses in the Strategic Risk Register and raised a key recommendation in relation to improvements required. A new Governance Assurance Framework system was adopted early in 2026/27, after the end of 2025/26. Our prior year key recommendation is retained for 2025/26 but will be reviewed again in 2026/27.

Evidence: Prior year Auditors Annual Report. Governance Assurance Framework documentation and reports. Interviews with officers.

Impact: A new system for strategic risk management and reporting was introduced after the end of 2025/26 and will be reviewed as part of our work in relation to 2026/27.

Key recommendation 4 (2025/26)

KR4 (2025/26): 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 those dates are only exceeded by exception and adequate explanations for delays are recorded. The Commercial Assets Sub Committee forward plan should also be updated to include reviews of the investment portfolio risk register.

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Governance (continued)

Significant weakness identified in relation to governance

Key finding: We raised a key recommendation in 2024/25 and 2023/24 in relation to governance over KGE Ltd, the subsidiary undertaking. Councillors sat on the company Board, risking conflicts of interest. A task and finish group reviewed arrangements but at the end of 2025/26, one Councillor and one officer of the Council remained on the Board. We note that since the end of 2025/26, the officer has also resigned, leaving just one councillor and no other members on the Board.

Evidence: Companies House data; reports to the Corporate Policy and Resources Committee; interviews with officers.

Impact: 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 recommendation 5 (2025/26)

KR5 (2025/26): 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.

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Improving economy, efficiency and effectiveness – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
evaluates the services it provides to assess performance and identify areas for improvement	The Council started 2025/26 with a Consolidated Action Plan that had more than 250 recommendations to address, following the conclusion of a Best Value Inspection in March 2025. With the help of Commissioners, the IRP was introduced with five themes in October 2025 and later consolidated further to cover four themes from February 2026. The IRP is overseen by an Improvement and Recovery Board (IRB), supported by two sub boards. The Boards meet monthly and are attended by a mix of officers, Commissioners and members. The second letter of the Commissioners in June 2026 referred to the Council making "steady progress" on its journey. However, as shown on page 26 of this report, in August 2026 and October 2026 Commissioners used Statutory Instructions to implement improvement in relation to asset sales that members did not agree on. Since the end of 2025/26, arrangements have been introduced for quarterly reporting on progress to the Audit Committee and six- monthly reporting on progress to the Corporate Policy and Resources Committee. The remaining months until vesting day for West Surrey Council will be challenging. Important aspects of commercial improvement still left to progress include decision making for KGE Ltd and assets rationalisation to enable debt reduction, both of which need to be progressed at an appropriate pace. We note that on 15 July 2026, the Government confirmed the merger of the Spelthorne and Woking Commissioner teams. We note that he new joint Commissioner team is liaising with the Shadow Authority for West Surrey so that it is fully appraised of the position and progress relating to KGE Ltd and asset rationalisation. **We raise a key recommendation (KR3) on page 28 of this report noting that members and Commissioners must work collaboratively together to deliver improvement. As noted on page 26, this is a key recommendation in respect of emerging findings for 2026/27.**	R

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

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Improving economy, efficiency and effectiveness – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
commissions or procures services, assessing whether it is realising the expected benefits	The Head of Procurement post became vacant during 2025/26 and remains vacant at the time of writing this report. However, effective support has been provided on a flexible basis by an experienced procurement lead from Runnymede Borough Council. Improvements to arrangements for procurement during 2025/26 included embedding the Procurement Board and establishing a new monetary threshold and e-forms for requesting approval from the Board of new procurements and waivers; and officer training on procurement in the later months of the year. New procurement key performance indicators (KPIs) were introduced in May 2026 but waiver reporting to the Audit Committee (for example an annual or bi-annual report on activity) has not yet been introduced. The Council is in the process of seeking agency recruitment to support capacity in the procurement team; and new key performance indicators (KPIs) need time to embed. The second report from the Commissioners to the government in July 2026 indicated that some spend has been incorrectly omitted from the contracts register, although we note that a review of spend was ongoing at the time we completed our work. For the Procurement Board, a threshold of £30,000 had initially been in place for requesting new procurements be approved. This threshold has been increased to £100,000, with additional training provided to officers in the service lines so that more procurement approvals can be de-centralised, leaving the Board with capacity to focus on higher value issues. **We raise a key recommendation (KR6) on page 34 of this report noting that changes to procurement and contract management arrangements must be put in place.**	R

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

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Improving economy, efficiency and effectiveness – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
uses financial and performance information to assess performance to identify areas for improvement	Effective KPI reporting arrangements were introduced in the second half of 2025/26. KPI reports were shared four times with the Corporate Policy and Resources Committee and covered services, the workforce and financial data. Performance was RAG rated; direction of travel was clearly shown and narrative explanations for performance below target were clear. The Council informs us that benchmarking against other local government bodies will be disclosed in the Annual Report.	G
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	Arrangements were introduced in 2025/26 for the Council's most significant areas of partnership working, on housing and preparations for LGR, to be reported to members via reports from the IRB. For LGR, a new transition plan was agreed by the Council in July 2026. The budget for 2026/27 was organised to avoid pre-empting any decisions that West Surrey Council may want to make. Spelthorne Council recruited a new Head of LGR in 2025/26. The s151 officer is leading on procurement integration across West Surrey Councils. At officer level, the Council sends representatives to work with peers from other Councils on the integration of Information Technology, Humna Resources and front office functions. We note that representatives of the Council, usually elected councillors, sit on the various committees and forums that work with the council on local affairs - including a hospital, an airport, police, the citizens advice service, museums, and local employer and traveller forums. As previously noted, the Council is currently reviewing options for the future KGE Ltd. The Council has engaged professional advice to support this process. Commercial decisions about the future of KGE Ltd, and effective asset rationalisation, remain an important areas that the Council needs to address in the run up to vesting day.	G

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

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Improving economy, efficiency and effectiveness (continued)

Significant weakness identified in relation to governance

Key finding: The Head of Procurement post became vacant during 2025/26 and remains vacant at the time of writing this report. However, strong support has been provided on a flexible basis by an experienced procurement lead from another borough council. Improvements to arrangements for procurement during 2025/26 have included embedding the Procurement Board and establishing a new monetary threshold and e-forms for requesting approval from the Board of new procurements and waivers; and officer training on procurement in the later months of the year. New procurement key performance indicators (KPIs) were introduced in May 2026. However, waiver reporting to the Audit Committee (for example an annual or bi-annual report on activity) has not yet been introduced; the Council is in the process of seeking agency recruitment to support capacity in the procurement team; and new KPIs need time to embed.

Evidence: Public and private Council papers; discussion with stakeholders.

Impact: There remain weaknesses in the oversight and governance over procurement and contract management, which could weaken the economy and efficiency and effectiveness of Council spending.

Key recommendation 6 (2025/26)

KR6 (2025/26): The Council must ensure that the remaining 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 and rule breaches and contract waivers are introduced with reporting through to the Audit Committee on a quarterly basis.

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05 Summary of Value for Money Recommendations raised in 2025/26

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Key recommendations raised in 2025/26

	Recommendation	Relates to	Management Actions
KR1 (2025/26)	The Council must deliver its medium-term financial strategy, including rationalising assets and reducing debt. Assets rationalisation and debt reduction must proceed at pace. The Council must continue to regularly update the Shadow Authority for West Surrey Council on progress with assets rationalisation and debt reduction; and on working to deliver as much of the planned strategies for assets and debt as it can before vesting day.	Financial sustainability (page 24)	**Actions:** Council seeking to deliver both Phase 1 and 2 of its Assets Rationalisation Programme plus realise receipts for BP site by 31st March 2027 to generate approximately £400m of receipts which can be applied to repay PWLB loans early (generating some discounts on early repayment/minimising premia paid). A number of disposal offers going to Council in December 2026. This will leave only 2 remaining commercial assets to pass over to West Surrey for future consideration, being The Porter Building in Slough and Charter Building in Uxbridge, which have high vacancy and void costs and are considered to be undesirable to the reduced pool of investors in the current economic circumstances. **Responsible Officer:** Coralie Holman/Mark Parkinson/Terry Collier **Due Date:** 31/3/27
KR2 (2025/26)	A decision on the future of KGE Ltd must be made by the Council within sufficient time to allow for smooth transfer of housing assets before or on vesting day. The Council should provide the Shadow Authority for West Surrey Council with clarity about the arrangements that will be in place on vesting day for KGE Ltd.	Financial sustainability (page 25)	**Actions:** Decision to wind up KGE and transfer assets and liabilities on to SBC balance sheet, ahead of passing a proportion of the units into West Surrey HRA, to be taken by CPRC and Council in January 2027. This is subject to receipt of HMRC response on potential tax issues on which we are seeking clarification. **Responsible Officer:** Coralie Holman/Terry Collier **Due Date:** 31/3/27

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Key recommendations raised in 2025/26

	Recommendation	Relates to	Management Actions
KR3 (2026/27)	Members and officers must work collaboratively with Commissioners to deliver the Improvement and Recovery Plan over the remaining months until vesting day. We note that assets rationalisation and debt reduction are both key features of the Council's IRP. Members and officers should engage with Commissioners to agree next steps for the strategic approach towards asset sales.	Governance and Improving economy, efficiency, effectiveness (page 28)	**Actions:** See response to first recommendation re next steps on both asset rationalisation and debt repayment. Council approved in October 2025 the Improved and Recovery Plan (IRP), and Corporate Policy and Resources, then approved an updated IRP. Council approved the Asset Rationalisation Strategy to ensure compliance with the statutory directions. A number of briefings (May, July and October) have been provided to Councillors on the proposed approach to disposals. There are Councillors and officers on the IRP themes' Sub-Boards for both Finance and Commercial, Regeneration and Housing. The approved Improvement and Recovery Plan progress is monitored monthly by the Improvement and Recovery Board, with quarterly reports to CPRC. **Responsible Officer:** Chief Executive, and relevant SROs. **Due Date**: 31/3/2027
KR4 (2025/26)	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 those dates are only exceeded by exception and adequate explanations for delays are recorded. The Commercial Assets Sub Committee forward plan should also be updated to include reviews of the investment portfolio risk register.	Governance (page 29)	**Actions:** The Council now manages strategic risks through a Governance Assurance Framework and Policy. The previous Strategic Risk Register has been replaced by a Governance Assurance Register (GAR) covering 12 key areas of assurance. MAT+ (Management Team and other senior managers) acts as the strategic officer group reviewing the GAR on a bi-monthly basis. The Council's Audit Committee has been receiving regular updates on the arrangements relating to each of the 12 Governance Assurance Areas (GAAs) and progress with Actions/Performance for each GAA is being reported to relevant Service Committees. A review of the investment portfolio risk register is scheduled for the January 2027 Commercial Assets Sub-Committee meeting by which time the number of assets under review will have been reduced as part of the Council's Asset Rationalisation Programme. **Responsible Officer**: Lee O'Neil **Due Date:** 31/1/2027

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Key recommendations raised in 2025/26

	Recommendation	Relates to	Management Actions
KR5 (2025/26)	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.	Governance (page 30)	**Actions:** The Council recognises the importance of maintaining robust governance and oversight arrangements that are free from actual, potential or perceived conflicts of interest. The existing framework includes declarations of interest and the established decision making process. At the end of 2025 the Council commissioned an independent review of KGE which was undertaken by Savills. The Council is currently seeking external advice with the view to winding up KGE. For a temporary period it is intended that an additional officer director will be appointed in January subject to approval by CPRC. This officer has no BAU connection with housing or KGE operational matters and has been identified specifically to ensure there is no conflict within KGE and Council decision making. **Responsible Officer:** Linda Heron / Terry Collier **Due Date:** 31/03/27
KR6 (2025/26)	The Council must ensure that the remaining 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 and rule breaches and contract waivers are introduced with reporting through to the Audit Committee on a quarterly basis.	Improving economy, efficiency and effectiveness (page 34)	**Actions:** From 1st April 2027 the current Spelthorne procurement officers (including the Runnymede Head of Procurement providing support) will become members of the single Procurement service supporting both East and West Surrey councils hosted by West Surrey Council. This will enable much greater procurement resources to be deployed and will ensure compliance issues are addressed. As part of the LGR transition procurement arrangements are being monitored by the Procurement Board to ensure safe and legal transition to West Surrey and compliance with applicable regulations. The Procurement Service has an emerging Procurement Enabled Savings Plan which will drive efficiencies and savings across West and East Surrey in large part through aggregation of Districts and Borough contracts. Since Srping 2026 the Audit Committee has received two governance assurance reports in relation to Procurement and Contract Management arrangements. Procurement falls within the remit of the Corporate Policy and Resources Committee. With just over one quarter of a year to go before the vesting day, there is only scope to provide one report on performance metrics including regulation and rule breaches and contract waivers. **Responsible Officer:** Linda Heron/Terry Collier **Due Date:** 31/3/26

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06 Follow up of previous Key recommendations

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Follow up of 2024/25 Key recommendations

	Prior Recommendation	Raised	Progress	Current status	Further action
KR1	The Medium-Term Financial Plan should be updated to reflect new costs and risks identified by the best value inspection; appointment of Commissioners; and adoption of an Improvement and Recovery Plan. To update the Medium-Term Financial Plan, the Council should include all relevant additional costs associated with changes to minimum revenue provision (MRP); with asset valuations, refurbishments and upgrades; with breaks in commercial income as tenancies come up for renewal; and with the recruitment of skilled resources to lead recovery and improvement. As additional costs are identified, the impact for the Treasury Management Strategy should also be considered.	2024/25	The Medium-Term Financial Plan was updated February 2025 and again in February 2026. Relevant new costs were included, including costs in 2026/27 for new revised MRP budget pressure. The Council estimates that without mitigation, the impact of the revised MRP charges will mean that useable revenue reserves will fall to £14.2 million by the end of 2028/29. Debt was rescheduled in 2025/26, reducing from £1 billion to £718 million. This earned the Council a credit discount in 2025/26 of £34.3 million but will lead to higher interest rates being applied in future years if loans are not repaid. The Council has embarked upon a programme of asset rationalisation to generate capital receipts and enable debt reduction.	Superseded	Superseded by the amended key recommendation in relation to asset rationalisation to enable debt reduction **(KR1 2025/26, page 24).**

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Follow up of 2024/25 Key recommendations

	Prior Recommendation	Raised	Progress	Current status	Further action
KR2	Best value inspectors recommended that the Council strengthen its asset function. We agree with this recommendation. Commercial skills and experience of the teams managing investment property and other properties need to be considered. Training, commercial experience and upskilling should be provided where necessary.	2024/25	The Council plans to sell £177.5 million of property between September and March 2027. Professional support has been engaged, and a new Director of Place has been appointed to build the commercial skills required to run a successful assets disposals programme. This is part of a wider plan to rationalise assets by 2035/36, to enable debt reduction over that period. The Council estimated that without assets rationalisation, the cumulative deficit on the general fund budget will reach £46 million by 31 March 2027. The Assets Rationalisation Plan aims to exit from investment property holdings and is consistent with Statutory Directions imposed by the Secretary of State on 8 May 2025 requiring the Council to deliver Best Value.	Retained but amended	Amended key recommendation: The Council must deliver its medium-term financial strategy, including rationalising assets and reducing debt. Assets rationalisation and debt reduction must proceed at pace. The Council must continue to regularly update the Shadow Authority for West Surrey Council on progress with assets rationalisation and debt reduction; and on working to deliver as much of the planned strategies for assets and debt as it can before vesting day. **(KR1 2025/26, page 24).**

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Follow up of 2024/25 Key recommendations

	Prior Recommendation	Raised	Progress	Current status	Further action
KR3	Best value inspectors recommended a comprehensive debt reduction strategy. We agree with this recommendation. The Council should work with commissioners to agree a comprehensive debt reduction strategy that includes consideration of asset lives and length of time over which it is realistic to carry debt. At the same time, the sinking fund model should be revisited regularly as more up to date and accurate information becomes available.	2024/25	Debt was rescheduled in 2025/26, reducing from £1 billion to £718 million. This earned the Council a credit discount in 2025/26 of £34.261 million but loans of £545 million need to be repaid in full by 2035/36. The Council had adopted an assets rationalisation plan to generate capital receipts that will enable debt repayment. The Sinking Fund was substantially repurposed during 2025/26, falling from £26.3M to £9.8M as balances were redistributed to other earmarked reserves to reflect that the commercial properties that they had related to are now intended for disposal.	Superseded	Superseded by the amended key recommendation in relation to asset rationalisation to enable debt reduction **(KR1 2025/26, page 24).**
KR4	Progress with delivery of the Internal Audit programme for 2025/26, and implementation of management actions identified by Internal Audit, should be monitored carefully. During 2025/26, the Council should refine data analytics to inform internal audit planning for 2026/27.	2024/25	Internal Audit planning was informed by review of risk registers; horizon scanning; engagement with the Audit Committee, and Management Team; and the Chief Internal Auditor's understanding of governance, risk and control processes at the Council. The sources of information quoted in the Plan are comprehensive. The planned programme of work was delivered in full and on time. In September 2025, the service was graded as "generally conforms" with GIAS. This is the highest grading available for award.	Implemented	No

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Follow up of 2024/25 Key recommendations

	Prior Recommendation	Raised	Progress	Current status	Further action
KR5	Members and officers need to work collaboratively to deliver the Improvement and Recovery Plan once it is finalised - so that in time, the improvement journey can be led and overseen by the Council itself.	2024/25	An IRP was adopted in October 2025. It is supported by a dedicated Project Management Office and overseen by an IRB. The IRB provides updates on progress to the Corporate Policy and Resources Committee and the Audit Committee. In April 2026, Internal Audit provided 3 medium-priority and 7 low-priority recommendations for strengthening governance over the IRP. Monitoring of progress with the IRP will remain important as the Council progresses towards vesting day for the successor authority. At the time of writing this report, there remains significant work to deliver in relation to securing financial sustainability and strengthening the Council's commercial standing. Members and officers will need to continue working together to deliver improvement. We note that Commissioners issued Statutory Instructions in August and October 2026 in connection with the sale of assets that members did not agree on. Our key recommendation is retained and amended, based on emerging findings for 2026/27.	Retained	Retained and amended key recommendation: Members and officers must work collaboratively with Commissioners to deliver the Improvement and Recovery Plan over the remaining months until vesting day. We note that assets rationalisation and debt reduction are both key features of the Council's IRP. Members and officers should engage with Commissioners to agree next steps for the strategic approach towards asset sales. **(KR3 2026/27, page 28).**

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Follow up of 2024/25 Key recommendations

	Prior Recommendation	Raised	Progress	Current status	Further action
KR1	The Council should ensure that : 1. 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. 2. urgently review the options for the suspended housing projects and assess the impacts for KGE. 3. a sustainable business plan for KGE is approved. 4. 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. 5. robust plans are approved to address the medium-term budget gaps and to reinstate its transformation programme as a matter of urgency.	2023/24	New templates were introduced for report writing during 2025/26, with new approvals processes. Joined up revenue and capital monitoring was introduced. A new finance system and training on report writing helped build quality into financial reports. The Sinking Fund was substantially repurposed during 2025/26, falling from £26.3 million to £9.8 million as balances were redistributed to other earmarked reserves to reflect that the commercial properties that they had related to are now intended for disposal. The Council developed IRP savings of £1.1 million for 2026/27 which are on track to be delivered, with some over-delivery for temporary accommodation. The Council developed excel spreadsheets for management to monitor savings delivery. Monitoring data can also now be extracted direct from the new finance system. A decision on the future of KGE Ltd is expected awaited, after independent professional advice has been received.	Retained but amended	Amended key recommendation: A decision on the future of KGE Ltd must be made by the Council within sufficient time to allow for smooth transfer of housing assets before or on vesting day. The Council should provide the Shadow Authority for West Surrey Council with clarity about the arrangements that will be in place on vesting day for KGE Ltd. **(KR2 2025/26, page 25).**

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Follow up of 2024/25 Key recommendations

	Prior Recommendation	Raised	Progress	Current status	Further action
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.	2023/24	New templates were introduced for report writing from July 2025 onwards and members we interviewed in June 2026 were positive about the improved clarity in the new reports to support decision making. New controls were also introduced in 2025/26 in relation to approval sign offs for reports before they are shared with the management team, members and Commissioners. An internal audit of decision making and accountability was undertaken and reported on in November 2025. Internal Audit concluded that Reasonable Assurance can be provided over arrangements for decision making and accountability, and there were no high-priority recommendations raised.	Implemented	No

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Follow up of 2024/25 Key recommendations

	Prior Recommendation	Raised	Progress	Current status	Further action
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 those dates are only exceeded by exception and adequate explanations for delays are recorded. The Commercial Assets Sub Committee forward plan should also be updated to include reviews of the investment portfolio risk register.	2023/24	A new Governance Assurance Framework was adopted early in 2026/27. It is too early to assess effectiveness.	In progress	Retained: 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 those dates are only exceeded by exception and adequate explanations for delays are recorded. The Commercial Assets Sub Committee forward plan should also be updated to include reviews of the investment portfolio risk register. (KR4 2025/26, page 29)

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Follow up of 2024/25 Key recommendations

	Prior Recommendation	Raised	Progress	Current status	Further action
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.	2023/24	A task and finish group reviewed arrangements at KGE Ltd. Commissioners are aware that One councillor and one officer from the Council remain on the KGE Ltd Board. A decision on the future of the company is awaited.	In progress	Retained 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. **(KR5 2025/26, page 30).**
KR5	The Council should ensure corporate performance monitoring of its strategic priorities is undertaken and reported to the Corporate Policy and Resources Committee 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	2023/24	Quarterly KPI reporting to the Corporate Policy and Resources Committee was introduced during 2025/26. Quarter 1 KPIs were shared with the Committee in October 2025; Q2 KPIs were shared in February 2026; Q3 KPIs were shared in April 2026; and Q4 KPIs were shared in May 2026. Arrangements have been agreed to share quarterly indicators for 2026/27 from Q2 onwards.	Implemented	No

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Follow up of 2024/25 Key recommendations

	Prior Recommendation	Raised	Progress	Current status	Further action
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 the Audit Committee on a quarterly basis.	2023/24	The Head of Procurement post became vacant during 2025/26 and remains vacant at the time of writing this report. Waiver reporting to the Audit Committee (for example an annual or bi-annual report on activity) has not yet been introduced; the Council is in the process of seeking agency recruitment to support capacity in the procurement team; and new KPIs need time to embed.	Retained	Retained key recommendation: The Council must ensure that the remaining 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 and rule breaches and contract waivers are introduced with reporting through to the Audit Committee on a quarterly basis. (KR6 2025/26, page 34)

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07 Appendices

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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 Council's Chief Finance Officer is responsible for preparing the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer 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.



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Appendix B: Value for Money Auditor responsibilities

Our work is risk-based and focused on providing a commentary assessment of the Council's Value for Money arrangements

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.

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 – recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.

Key recommendations – the actions which should be taken by the Council where significant weaknesses are identified within arrangements.

Improvement recommendations – actions which are not a result of us identifying significant weaknesses in the Council's arrangements, but which if not addressed could increase the risk of a significant weakness in the future.

Information that informs our ongoing risk assessment

Cumulative knowledge of arrangements from the prior year	Key performance and risk management information reported to the Executive or full Council
Interviews and discussions with key stakeholders	External review such as by the LGA, CIPFA, or Local Government Ombudsman
Progress with implementing recommendations	Regulatory inspections such as from Ofsted and CQC
Findings from our opinion audit	Annual Governance Statement including the Head of Internal Audit annual opinion

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Appendix C: Follow up of 2024/25 improvement recommendations

	Prior Recommendation	Raised	Progress	Current position	Further action
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.	2023/24	The new finance system has been used in 2025/26 to enhance financial report writing. It is also being used by budget holders to review budgets, and it is being used for dashboard reporting. Effective use has been made of the platform while the Council and officers waits for vesting day and the new systems that will be adopted by West Surrey Council.	Closed	No

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