

Independent auditor's report to the Members of Spelthorne Borough Council

In our auditor's report dated 13 December 2024 we explained that we could not formally conclude the audit and issue an audit certificate for Spelthorne Borough Council ('the Authority') for the year ended 31 March 2019 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we had completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our work on the Authority's arrangements has now been completed.

Adverse conclusion on use of resources

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in November 2017, because of the significance of the matters described in the Basis for adverse conclusion on use of resources section of our report, we are not satisfied that, in all significant respects, the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for adverse conclusion on use of resources

In considering the Authority's arrangements for securing efficiency, economy, and effectiveness in its use of resources, we identified the following matters:

Financial sustainability

The Authority holds a significant portfolio of commercial properties which it acquired between 2016 and 2018. These acquisitions were financed by borrowing. The Authority intended to hold the commercial properties for a period of 50 years, with the repayment of borrowing taking place over the same period. The final tranche of commercial property acquisitions were made in August 2018.

The Authority intended to use rental income generated by these commercial properties to:

- cover financing and repayment of the borrowing used to finance their acquisitions
- provide amounts to be set aside (known as "sinking funds") to cover costs associated with holding the properties, such as maintenance and void periods, and
- provide an annual contribution towards the Authority's revenue budget.

While rental income generated by the commercial properties provided a contribution to the Authority's 2018/19 revenue budget, the financial modelling did not adequately set out how the rental income generated to support the revenue budget would be sustainable and how amounts set aside into the sinking funds would be sufficient in the medium term. Furthermore, the Authority did not have an asset management plan and exit strategies in place during the year in respect of these commercial properties, nor did it have a formal sinking fund policy.

These matters are evidence of weaknesses in the Authority's arrangements for sustainable resource deployment, and include weaknesses in proper arrangements for:

- planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions, and
- managing and utilising assets effectively to support the delivery of strategic priorities.

Informed decision making

Alongside purchases of commercial properties, the Authority also acquired properties for regeneration purposes during the year, including the development of affordable housing. Acquisitions of both commercial and regeneration properties were subject to approval by Cabinet prior to the acquisitions taking place. Reports to Cabinet on proposed acquisitions were limited to high-level information on borrowing rates and reports by the Authority's property advisors on expected price ranges, given the nature of the properties and national and local market conditions. Cabinet members were not

presented with any details of the Authority's financial models for these property investments, including the amounts to be set aside for sinking funds and the minimum revenue provision. Furthermore, prior to making property acquisitions for regeneration purposes, the Authority did not develop a strategy that set out how these acquisitions, and the subsequent development of the sites acquired, would support achievement of the Authority's corporate priorities regarding housing and regeneration. Therefore, the Authority did not have adequate arrangements in place for Cabinet to scrutinise acquisitions of commercial and regeneration properties prior to their approval.

Information presented to Cabinet members during the year regarding the financial implications of the housing development programme was inadequate. Key reports concerning the future direction of the programme were difficult to follow and there is no evidence from the minutes of these meetings that members challenged the information presented to them.

In addition, there is no evidence that Cabinet members were provided with reports on key performance indicators for services provided by the Authority. This hindered their ability to scrutinise the Authority's performance.

These matters are evidence of weaknesses in the Authority's arrangements for informed decision making, and include weaknesses in proper arrangements for:

- acting in the public interest, through demonstrating and applying the principles and values of sound governance,
- understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including business cases supporting significant investment decisions, and
- reliable and timely financial reporting that supports the delivery of strategic priorities.

Working with Knowle Green Estates Limited

In May 2016, the Authority set up a wholly owned subsidiary company named Knowle Green Estates Limited ('KGE Ltd'). The intended purpose of KGE Ltd was to manage affordable housing sites once these had been acquired and developed by the Authority. At 31 March 2019, the Authority reported that KGE Ltd had £7 million of assets on its balance sheet.

The Authority's Deputy Chief Executive was appointed as a director upon the company's incorporation and the Authority's Chief Accountant acted as the company's Head of Finance. The Authority did not have appropriate governance structures in place during the year to enable it to avoid any perceived or actual conflicts of interest that may have occurred. In addition, the Authority did not have a business plan in place for KGE Ltd during the year.

These matters are evidence of weaknesses in the Authority's arrangements for working with KGE Ltd and include weaknesses in proper arrangements for working with third parties effectively to deliver strategic priorities.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency, and effectiveness in its use of resources.

Auditor's responsibilities in respect of the Authority's use of resources

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criterion specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of

the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of Spelthorne Borough Council for the year ended 31 March 2019 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members, as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

BA351BA87BC9403...

Leigh Lloyd-Thomas, Key Audit Partner
For and on behalf of BDO LLP, Local Auditor
London, UK

24 October 2025

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).