

SPELTHORNE BOROUGH COUNCIL DIRECTIONS UNDER SECTION 15(5) AND (6) OF THE LOCAL GOVERNMENT ACT 1999

EXPLANATORY MEMORANDUM

- 1) The Secretary of State for Housing, Communities and Local Government (“the Secretary of State”) has exercised powers under section 15(5) of the Local Government Act 1999 (“the 1999 Act”) in relation to Spelthorne Borough Council (“the Authority”) to secure its compliance with the Best Value Duty.
- 2) This memorandum is intended as a companion document to the Directions issued on 8 May 2025. It summarises: the circumstances in which the Secretary of State has made these Directions, the reasons for this exercise of powers, and the implications of the Directions for the Authority.
- 3) The Directions remain in force up to and including 31 May 2030 unless the Secretary of State considers it appropriate to amend or revoke them at an earlier date. This Memorandum, together with the Directions and related material, is published on the Government website at www.gov.uk

The context for the Directions

Background on decision to intervene

- 4) It is a matter of public record that Spelthorne Borough Council has significant debt leverage. As of March 2023, relative to size, Spelthorne’s debt stood at £1.096 billion and was the second highest level of debt for a district authority in England, after Woking.
- 5) Since May 2022, the Ministry of Housing, Communities and Local Government (MHCLG) had been working with and monitoring several councils with high levels of indebtedness relative to their revenue budgets, reserves or Council Tax base. Spelthorne Borough Council (SBC) is one such council.
- 6) MHCLG commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake a detailed capital assurance review of Spelthorne Borough Council which highlighted concerns around governance and decision making. CIPFA’s review concluded the portfolio of debt-funded investments for Spelthorne Borough Council was very large and that there were serious financial concerns relating to the Council’s affordable housing plans.
- 7) Considering the Review’s findings, together with the Council’s response and other related assessments, on 8 May 2024 the then Secretary of State (the Rt Hon. Michael Gove), commissioned an inspection of the Council and their compliance with their Best Value Duty. He appointed Lesley Seary as Lead Inspector, alongside Mervyn Greer, who were later joined by Peter Robinson and Deborah McLaughlin. Inspectors were asked to report their findings by 31 July 2024. The deadline was subsequently extended to 31 January 2025.

Best Value Inspection Report 2025

- 8) On 31 January 2025, the Inspectors, having undertaken a thorough inspection, submitted their Report (“the Report”) to the Secretary of State setting out their findings. The Report describes some positive features in the Authority, such as strong resident engagement, positive local partnerships, and enthusiasm shown by officers and members for serving the Borough. The Report noted that the Authority had taken some positive steps to make improvements, including against recommendations made in CIPFA’s Capital Assurance Review of July 2023, including the suspension of the planned housing developments and cessation of further borrowing for this initiative after determining it was no longer viable.
- 9) However, the Report documented serious concerns across a number of areas which the Secretary of State considers amount to failings by the Authority of its Best Value Duty under Part 1 of the 1999 Act. Concerns were identified in five of the seven best value themes described in statutory guidance issued on 8 May 2024 under section 26 of the 1999 Act in relation to: Continuous Improvement, Leadership, Governance, Culture, and Use of Resources.
- 10) On continuous improvement, the Report described the Authority as having a “poor record” of adequately addressing recommendations from external reviews and the inspectors have no confidence in the Authority’s ability to make the changes “without significant external support”. The Authority has a culture of optimism bias in which senior officers lack awareness to identify issues or areas for improvement within the Authority. The Authority does not have a comprehensive performance management framework that links together its plans, strategies, MTFS, appraisals and performance indicators. Performance is also not benchmarked against statistically near neighbours, and the lack of transparency, regular reporting, and accessible performance information publicly reduces the effectiveness of performance monitoring for improvement.
- 11) On leadership, the Report highlighted that the Authority lacks consistent leadership, strategic direction, constructive challenge and a robust corporate plan. Optimism bias clouds officer’s awareness of risks, and to some degree the Authority has been “blindsided” by the financial situation. There has been significant officer and political turnover, including seven Monitoring Officers in five years, and the Authority relies heavily on external consultants and interim officers. Relationships between senior management and political leadership are strained and deteriorating, and the lack of trust has created barriers to effective collaboration and decision-making, with a high number of complaints against members. There is a perception by members that officers are not being transparent with them. The Authority’s approach to risk management is ineffective and officers have not fully grasped the concerns related to the Authority’s approach to financial management and value for money.
- 12) On governance, the Report concluded that the Authority’s “poor, late and incomplete reporting, together with a lack of audit and a reluctance to accept and act on challenge” has “severely undermined informed decision-making” and there is a culture of secrecy. The Authority has historically shown an ineffective approach to risk management, particularly in its investment and regeneration portfolios and its finance function. The inspection found inconsistencies in transparency and treatment of confidential information. It also found inadequate standards of report-writing, with reports often lacking critical information, containing errors, and being late or incomplete, thereby limiting members’ ability to review

challenging decisions. The internal audit function was also described as “inadequate”, failing to identify major risks due to a small and inexperienced team. The Audit Committee has lacked critical external assurance and governance practices for Knowle Green Estates (KGE) Ltd have been poor, with conflicts of interest and financial mismanagement. The Authority’s self-assessments were outdated and overly optimistic, failing to identify key concerns. The procurement team is understaffed, leading to reactive and inefficient contract management.

- 13) On culture, the Report described Member and officer relationships as poor and deteriorating, with both sides describing “a culture of mistrust and broken relationships” which are “hindering constructive discussions” on key financial, housing and asset issues. The Report found that Members and officers do not share an understanding of their respective roles. Inspectors consider the Authority to be insular and in denial of the situation it faces. The latest staff survey indicated a lack of confidence in the political leadership, with staff feeling under resourced and that personal development opportunities are often overridden by organisational priorities. Senior officers acknowledge the strained relationships describing the environment as hostile. A complaint filed against the current Leader by a Group Head resulted in a Standards Committee hearing, causing considerable upset.
- 14) On use of resources, the Report concluded that a lack of long-term planning, risk management and an “overly-optimistic reliance” on property markets has led to the Authority’s financial strategy being unsustainable. The Council’s commercial activities are fragmented and lack a unified strategy, leading to uncoordinated decisions that do not align with broader objectives. The Council’s large-scale property investments, driven by concerns over funding shortfalls, have exposed it to significant financial risks, especially post-Covid. The decision-making process was short-sighted and overly optimistic, with risks not fully understood or mitigated. Investments are disproportionate to the size of the Authority, raising concerns about risk and return considerations. The Authority has not fully adhered to statutory guidance on local authority investments, and decision-making reports have been inadequate, often lacking key elements and clear financial implications. The finance function lacks the structure, staffing, and expertise to manage the Authority’s property portfolios effectively. The Authority financed its property acquisitions with over £1 billion in loans from the Public Works Loan Board, with terms up to 50 years and fixed rates averaging 2.58 per cent. This debt is greater than the Authority’s core funding equating to over £10,000 per resident. While senior officers believe the Authority can service this debt using property revenues, there are significant issues such as property voids, high maintenance costs, and no clear long-term exit strategy.
- 15) The Inspectors also considered there to be concerns in the remaining two themes of Service Delivery and Partnerships and Community Engagement due to the likely impact of financial pressures on delivering services and difficulties in working relationships with partners outside of the borough.

Other reports considered

- 16) The Grant Thornton report, covering the 2023/24 financial year, identified significant weaknesses including inadequate medium-term financial planning, poor relationships between members and officers, poor governance arrangements, and lack of performance monitoring. Auditors concluded that they do not consider the Authority have appropriate arrangements in place to manage most of the identified risks. They made eight recommendations and are considering issuing statutory recommendations using their powers from the Local Audit and Accountability Act 2014.
- 17) The July 2023 CIPFA Capital Review found the Authority required expert independent support to assist with its immediate and ongoing financial challenges, to put in place risk mitigations, and undertake a thorough examination of the Authority's governance and decision-making culture.
- 18) The Local Government Association's (LGA) Corporate Peer Challenge (CPC) report conducted in November 2022 and published in February 2023 highlighted concerns about the effectiveness of the Authority's committee system and the relationship between councillors and officers. Twelve recommendations were made.
- 19) Having considered the findings of the Report, on 17 March 2025, alongside other evidence, the Minister for Local Government and English Devolution published the Report, together with a letter from senior officials to the Authority setting out a proposed statutory intervention package to secure the Authority's compliance with its Best Value Duty ("the minded to letter"). The Authority, and other interested parties, were invited to make representations on or before 28 March 2025 about the Report and the proposed statutory intervention package.
- 20) The minded to letter explained that the proposed statutory intervention was designed to accelerate and strengthen the improvement work that has been stalled at the Authority, to tackle deeply rooted and persistent issues throughout the Authority, and to set in motion a cultural reset that ensures the Authority is compliant with its Best Value Duty and achieves the best outcomes for its residents. It reflected the findings of the Inspectors and contained the following key aims:
 - i) Provide the additional scrutiny, external challenge, advice and monitoring needed to oversee the improvements.
 - ii) Address systemic weaknesses in the Authority's governance functions, to secure improvements in transparency and formal decision making.
 - iii) Deliver financial sustainability by closing any short or long-term budget gaps and reducing the Authority's exceptionally high level of external borrowing.
 - iv) Increase corporate grip of the Authority's risk management and ensure compliance with all relevant rules and guidelines relating to the financial and debt management of the Authority.
 - v) Strengthen the commercial decision-making, regeneration, property management and procurement functions of the Authority to address the serious failings in these areas over recent years and ensure conformity with the Best Value Duty, thereby delivering improvements in outcomes for the people of Spelthorne and the public purse.

- vi) Agree as necessary any changes needed to the Authority's operating model and transformation of council services to achieve value for money and financial sustainability, taking account of any decisions relating to proposals for unitary local government in the Surrey area.
- vii) Rebuild trust and reset the organisational culture.

21) The minded to letter included a detailed description of the Directions that the Secretary of State proposed to make under section 15 of the 1999 Act. The proposed Directions set out the functions that the Commissioners would exercise, outlined their responsibilities and the actions the Authority would be required to take. This Memorandum explains the content of the Directions as finalised in light of representations received from the Authority and other interested parties.

Representations

22) Before making Directions, the Secretary of State is required under section 15(9) of the 1999 Act to give the Authority an opportunity to make representations about the Report as a result of which the Directions are proposed, and about the proposed Directions.

23) Representations were received from the Authority, dated 28 March 2025 from the Chief Executive on behalf of Spelthorne Borough Council. The Council's response to the 17 March announcement does not provide a clear view on whether they are for or against the proposed statutory package. Their representation acknowledges the severity of the Report and its implications for the Council: they recognise the need for "a strong organisational culture" and add that the Local Government Association will be supporting the Council with this. They accept that "some of the findings in the BVI report overlap with the findings of their recent external audit report" and have already formulated an "action plan" to address the recommendations. The Council state they recognise "the value of everyone working together in partnership" with MHCLG in the "best interest of residents". They state that the Group Administration has "faced a challenging time" but acknowledges the potential risks that are beginning to materialise within the Authority, and that the Council can "continue to maintain a financially viable authority" with "appropriate support" from the Ministry.

24) Representations were also received from:

- i) The opposition Conservative group at SBC who agreed with the Report's findings and proposal to appoint commissioners. The representation highlighted that the Council's environment is "extremely hostile" and the Council's current committee system's decision-making process is not transparent and is "being manipulated to function as a de facto cabinet system".
- ii) The Leader and CEX of Surrey County Council (SCC) wrote a joint representation in which they proposed that Surrey County Council acts as the lead and finance commissioner for the Spelthorne intervention. They stressed the importance of clarity and grip on Spelthorne's debt.
- iii) A councillor at Mole Valley District Council who wrote against the proposal and shared reservations about appointing commissioners to Spelthorne as the Council

“is not in immediate danger of default” and is concerned that commissioners could distract from the development of proposals for unitary local government in Surrey.

- iv) A union representative of the Council who did not express a clear view on the proposal or the Report, but highlighted the positive staff survey scores and listed achievements of the Council over the last year, including that an external independent review of the commercial property portfolio determined that “the Council is managing its investment portfolio in a forward looking way and that the portfolio was best in class and well positioned for the future.”
- v) A representative of a Staines residents group which was firmly in support of the proposal.
- vi) 5 residents in Spelthorne provided representations raising several concerns, including issues with the conduct of senior staff, doubts about the impartiality of the complaints process and a perceived disregard for the elected body. Additionally, there were concerns about the functionality of the finance function and the ability of the current Councillors to implement meaningful change. A former employee of the Council criticised the Report findings on certain issues. Residents also expressed reservations about the long term consequences of appointing Commissioners, especially in light of the imminent local government reorganisation.

The statutory intervention package

- 25) Having carefully considered the evidence, together with the representations received, the Secretary of State is confident that there is sufficient evidence to conclude that the Authority is failing to comply with its Best Value Duty.
- 26) The Secretary of State considers it necessary and expedient, in accordance with his powers under section 15(5) and (6) of the 1999 Act, to put in place an intervention package to secure the Authority’s future and sustainable compliance with its best value duty.
- 27) The intervention will consist of the appointment of Commissioners to exercise specific functions of the Authority, if necessary, alongside Directions to the Authority. The Secretary of State considers that this package will address the failings identified above and the representation received from the Authority.

Commissioners

- 28) The evidence presents a strong case for intervention to deliver the improvements required. Therefore, the Secretary of State is nominating Commissioners for an initial period of eight months to ensure that the Authority acts immediately to meet its duty under Part I of the 1999 Act, whilst also reflecting on the impact of the potential unitarisation of local government in the Surrey area. The Secretary of State has nominated individuals with significant experience and expertise in local authority governance, finance, and commercial activity given the failings of the Authority described above.
- 29) The Secretary of State has nominated the following people as Commissioners:
 - Lesley Seary. Lesley was Chief Executive at Islington from 2011-2019. Since leaving Islington, she has acted as Interim Chief Executive at Redbridge, and various trustee roles across the public sector. Lesley is currently a NED at Barts Health & BHRUT,

trustee at The Big House. In May 2024 she was appointed as the Best Value Lead Inspector in Spelthorne Borough Council.

- Peter Robinson. Peter has substantial experience supporting councils with financial difficulties, including as interim head of finance at Herefordshire County Council, Royal Borough of Windsor & Maidenhead and Reading Borough Council and roles with CIPFA and the LGA. From June 2020 to March 2023, Peter Robinson was a financial adviser to Slough Borough Council and the Department's commissioners. In October 2024, he was appointed as a Best Value Inspector in Spelthorne Borough Council.
- Mervyn Greer. Mervyn has substantial experience working as both Inspector and Commissioner, at Liverpool City Council and Woking Borough Council respectively. Mervyn was a long-term serving Director of Kier Group, a leading UK construction and infrastructure services company. Mervyn is also an accredited commercial assessor for the Government Commercial Function development programme. In May 2024, he was appointed as a Best Value Inspector in Spelthorne Borough Council.
- Deborah McLaughlin. Deborah has extensive experience working in Regeneration and Housing for over 30 years across public and private sectors. From 2021-2024 she worked as a Commissioner at Liverpool City Council. In October 2024, she was appointed as a Best Value Inspector in Spelthorne Borough Council.

- 30) The Secretary of State has directed the Commissioners to exercise certain functions, if necessary, and to have a role in overseeing other functions or actions which the Authority is to perform. The Commissioners are accountable to the Secretary of State, in that they have been nominated by her and can have their nomination withdrawn by her. The Commissioners will report to the Secretary of State on the progress of the intervention within the first six months, and thereafter at six-month intervals – or at any other time deemed necessary by the Secretary of State.
- 31) Commissioners are nominated for the period 8 May 2025 to 31 January 2026 or such earlier or later time as the Secretary of State determines. The Secretary of State may, on further consideration, nominate further Commissioners.
- 32) The Directions provide that the Commissioners' reasonable expenses and such fees as the Secretary of State determines are to be paid to them by the Authority. The Secretary of State is mindful of the need for Commissioner remuneration to represent value for money for local taxpayers. In recognition of the nature and scale of the intervention, the Secretary of State has determined fees of £1,200 a day for the Lead Commissioner and £1,100 for other Commissioners.

Powers to be exercised by the Commissioners

- 33) The evidence set out above highlights failures in finance, commercial and property, along with the underlying culture of poor governance. For these reasons, the Directions enable the Commissioners to exercise the following functions:
- a) All functions associated with the governance, scrutiny and transparency of strategic decision making by the Authority.

- b) All functions associated with the financial governance and scrutiny of strategic financial decision making by the Authority.
- c) The requirement from section 151 of the Local Government Act 1972 to make arrangements for the proper administration of the Authority's financial affairs, and all functions associated with the strategic financial management of the Authority, to include:
 - i) providing advice and challenge to the Authority on the preparation and implementation of a detailed action plan to achieve financial sustainability, and to close any short and long-term budget gaps identified by the Authority across the period of its medium-term financial strategy (MTFS), including a robust multi-year savings plan;
 - ii) providing advice and challenge to the Authority in the setting of annual budgets and a robust medium term financial strategy (MTFS) for the Authority, strictly limiting future borrowing and capital spending;
 - iii) scrutiny of all in-year amendments to annual budgets;
 - iv) the power to propose amendments to budgets where Commissioners consider that those budgets constitute a risk to the Authority's ability to fulfil its best value duty;
 - v) providing advice and challenge to the Authority on the preparation of sustainable and affordable capital, investment, treasury management, and commercial strategies; a strict debt reduction plan; a revised minimum revenue provision (MRP) policy; and sinking fund review;
 - vi) providing advice and challenge to the Authority on a suitable scheme of delegations for financial decision making;
 - vii) ensuring compliance with all relevant rules and guidelines relating to the financial management of the Authority.
- d) All functions associated with commercial decision-making, regeneration, property management, procurement and the management of commercial activity by the Authority.
- e) All functions associated with the Authority's operating model and redesign of the Authority's services to achieve value for money and financial sustainability.
- f) All functions relating to the appointment and dismissal of persons to positions the holders of which are to be designated as senior officers and statutory officers, and the designation of those persons as senior officers or statutory officers, to include:
 - i) The functions of designating a person as a senior officer or statutory officer and removing a person from a senior position or statutory office.

ii) The functions under section 112 of the Local Government Act 1972 of:

(1) appointing and determining the terms and conditions of employment of an officer of the Authority, insofar as those functions are exercised for the purpose of appointing a person as an officer of the Authority principally in order for that person to be designated as a senior officer or statutory officer; and

(2) dismissing any person who has been designated as a senior officer or statutory officer from his or her position as an officer of the Authority.

g) All functions to define the officer structure for the senior positions, to determine the recruitment processes and then to recruit the relevant staff to those positions.

h) All functions pertaining to the development, oversight and operation of an enhanced performance management framework for officers holding senior positions.

Directions to the Authority

34) To achieve and facilitate the objectives of the intervention, the Secretary of State has also directed the Authority to take the following actions:

a) Prepare and agree an Improvement and Recovery Plan to the satisfaction of the Commissioners, within 6 months, with resource allocated accordingly. This should integrate relevant contents and recommendations of the Best Value Inspection, published on 17 March, the Grant Thornton 2023/24 audit report and July 2023 CIPFA Capital assurance review. The plan should feature a comprehensive performance management framework that sets out measures to be undertaken, together with milestones and delivery targets against which to measure performance, to deliver rapid and sustainable improvements in governance, finance, property, housing, and commercial functions, thereby securing compliance with the best value duty. This programme should build on existing work to reset the culture of the organisation. The Improvement and Recovery Plan should include at a minimum:

i) A plan to achieve financial sustainability and to identify and close any short and long-term budget gaps across the period of its medium-term financial strategy (MTFS), including a robust multi-year savings plan that reflects the costs and risks identified in the BVI report and by external auditors.

ii) A plan to ensure the Authority's capital, investment and treasury management strategies are sustainable and affordable, including an asset rationalisation programme for assets and commercial investments.

iii) A comprehensive and strict debt reduction plan, demonstrating how overall capital financing requirement and external borrowing will be reduced over a realistic but expedient timescale, reducing debt servicing costs.

iv) A plan to overhaul the governance arrangements within the authority with regards to decision-making, capacity and skills, aiming to increase transparency, scrutiny and

effectiveness of the committee system to ensure that collective responsibility is taken for the Authority's decision-making.

- v) A plan to review and update the sinking fund, taking a long-term view of potential risks and financial consequences with accurate income and expenditure forecasts, and with adequate provisions made for future costs.
 - vi) A plan to ensure the Authority is complying with all relevant rules and guidelines relating to the financial management of the Authority, including updating the minimum revenue provision (MRP) policy.
 - vii) A plan to reconfigure the Authority's services commensurate with the Authority's available financial resources.
 - viii) A plan to strengthen the Authority's financial and commercial functions, and to secure improvements in risk management, governance and the internal audit function, with the guidance and to the satisfaction of the Commissioners.
 - ix) A plan to develop a comprehensive commercial strategy, with clear approaches to its investment and regeneration portfolios, including exit strategies for the commercial investments and realistic and deliverable strategies for regeneration sites.
 - x) A realistic plan to deliver housing numbers outlined in its Local Plan and assess the viability of Knowle Green Estates, developing a business case and future options for the company and the housing it currently manages.
 - xi) A fully costed programme of cultural change to rebuild trust between officers and members and ensures both Members and Officers understand their respective roles and the way in which the Authority and its activities are regulated and governed.
 - xii) A plan to ensure that the Authority has sufficient skills, capabilities and capacity to deliver the Improvement and Recovery Plan, within a robust officer structure, including appropriate commercial expertise and capacity.
- b) To actively work with Commissioners on the work with other councils in the Surrey area for unitary local government and on implementing any such proposals later agreed upon.
- c) Within one month of the date of these Directions, initiate a full and open recruitment exercise for a suitable permanent appointment to lead the improvement work in the Authority and progress against these Directions. For the avoidance of doubt, an existing employee of the Authority may be appointed to the position provided that such person is a suitable permanent appointment to that position.
- d) To publicly report to the Commissioners on the delivery of the Improvement and Recovery Plan after three months, six months and thereafter at six-monthly intervals, or at such intervals as Commissioners may direct.
- e) To undertake in the exercise of any of its functions any action that the Commissioners may reasonably require to avoid, so far as practicable, incidents of poor governance, poor financial governance or financial mismanagement that would, in the reasonable

opinion of the Commissioners, give rise to the risk of further failures by the Authority to comply with the best value duty.

- f) To allow Commissioners to appoint, where necessary, independent external advisors and to procure independent external advice.
- g) To allow the Commissioners at all reasonable times, such access as appears to the Commissioners to be necessary:
 - i) a. to any premises of the Authority;
 - ii) b. to any document relating to the Authority; and
 - iii) c. to any employee or member of the Authority.
- h) To provide the Commissioners, at the expense of the Authority, with such reasonable amenities and services and administrative support as the Commissioners may reasonably require from time to time to carry out their functions and responsibilities under these Directions.
- i) To pay the Commissioners reasonable expenses, and such fees as the Secretary of State determines are to be paid to them.
- j) To provide the Commissioners with such assistance and information, including any views of the Authority on any matter, as the Commissioners may reasonably request.
- k) To co-operate with the Secretary of State for Housing, Communities and Local Government in relation to implementing the terms of these Directions.

Duration of the intervention

- 35) The Secretary of State considers that any aspect of the Directions should only be in force long enough to achieve the stated objectives of the intervention. The Directions will remain in force until 31 May 2030 unless the Secretary of State considers it appropriate to amend or revoke them at an earlier date. The Secretary of State may decide to extend Directions beyond this date, or it may be appropriate to return functions before this time.
- 36) Given that councils in the Surrey area have been invited to submit proposals for unitary local government, the Secretary of State will keep the Directions and the Commissioners' roles and powers under review. The Commissioners will provide the requisite oversight, expertise and grip on Spelthorne's position. It remains for the Secretary of State to decide if changes are necessary to ensure that Spelthorne has the support required to accelerate recovery and protect the public purse.
- 37) The Secretary of State has asked for an initial report from the Commissioners within the first six months, and thereafter at six-monthly intervals. This allows ongoing review of whether it would be appropriate to change any element of the intervention, to expand the functions of the Commissioners or for any function exercisable by the Commissioners to be returned to the Authority.

38) Where the Authority and Commissioners agree that it would be appropriate for the exercise of a function to be returned to the Authority, the Commissioners will report this to the Secretary of State, setting out reasons, including clear evidence as to why the public could be expected to have confidence in the Authority exercising this function in compliance with the best value duty. The Secretary of State will carefully consider any such reports and, if agreed to, further Directions will be issued to this effect amending these Directions made on 8 May 2025. The Secretary of State has not ruled out the possibility that further functions might be brought under the control of the Commissioners.