

Statement of the Chief Financial Officer, (Amanda Fahey, Assistant Chief Executive)**1. Introduction**

- 1.1 Section 25 of the Local Government Finance Act 2003 places a statutory duty on the Chief Financial Officer to report to the authority, at the time the budget is considered, and the council tax is set, on:
- the robustness of the estimates included in the budget and
 - the adequacy of the proposed financial reserves
- 1.2 The Act requires councillors to have regard to the report in making decisions at the Council's budget setting and council tax setting meeting(s).
- 1.3 In expressing this opinion, I have considered the financial management arrangements of the Council, the overall financial and economic environment, the financial risk facing the Council, the budget assumptions, the level of reserves, and the Council's overall financial standing.

2 Financial Management Arrangements

- 2.1 The Council has a rigorous system of budget monitoring and financial control in place, with regular reporting at Committee level. Comprehensive financial regulations sit within the Council's Constitution, providing a transparent framework for budget management, supplemented by Contract Standing Orders which support the procurement of value-for-money goods and services. A project management ethos is embedded within the organisation and key performance indicators are used to monitor outcomes.
- 2.2 The Council's committee system of governance and decision-making is supplemented by Member working groups where detailed proposals and new ideas can be thoroughly explored before recommendations come forward, including their financial impact. Mirroring this framework, are a number of Officer working groups, designed to support each of the five strands of the Corporate Business Plan, with the addition of a Service Review and Transformation Group to support the delivery of efficiencies, and an Assets and Regeneration group to maintain focus on maintenance of the Council's assets, continued regeneration of the Borough, and optimisation of the major income stream flowing from the Council's commercial property portfolio.
- 2.3 In January 2022, a report was presented to Standards and Audit Committee, on the Council's self-assessment of its compliance with Cipfa's Financial Management Code. The Code requires all Councils to demonstrate the processes they have in place to satisfy the principles of good financial management, which is an essential part of ensuring that public sector finances are sustainable. It focuses on value for money, governance and financial management styles, financial resilience and financial sustainability. The Code identifies risks to financial sustainability and introduces an overarching framework of assurance which builds on existing financial management good practice.
- 2.4 The self-assessment concluded that the Council was compliant with all 17 standards set out in the Code, highlighting a number of areas for improvement in the short term, which have been delivered, and for enhancement over the medium term, which are in progress.

- 2.5 The budget has been prepared within the terms of the Medium-Term Financial Strategy and in consideration of the key financial risks identified therein, particularly the effects of the current economic climate and high levels of inflation. The budget is built up from detailed returns by individual budget holders who have the knowledge of the costs, commitments and anticipated income for their areas, supported by their accountants. Member scrutiny is provided at individual committee level for fees and charges; by the Housing Committee for the HRA estimates; and the Corporate Management Committee for the General Fund estimates before the overall budget is considered by all Members at full Council.
- 2.6 A budget briefing was held for all Members in December, to provide an outline of the process for building the budget and to set out the particular challenges facing the Council at the current time.
- 2.7 The Council continues to meet requirements to produce what has now become a suite of financial management reporting, including the budget estimates for both the General Fund and the Housing Revenue Account, the Medium-Term Financial Strategy, Treasury Management and Investment Strategies and Capital Strategy, which together form the framework for financial decision-making in the Council.
- 2.8 In addition, the Council has due regard to both statutory and non-statutory guidance including the Prudential Code for Capital Finance in Local Authorities, and related Investment Guidance and seeks to understand the effects of potential changes in legislation resulting from new Acts of Parliament, which may impact the way it manages its finances, such as the Levelling up and Regeneration Bill, which is currently under consideration.
- 2.9 The Council's internal audit service provides assurance over the main financial system and processes, which consistently achieve a "substantial" rating and provided an overall opinion for 2021/22 that the Council has adequate and effective management, control and governance processes in place to manage the achievement of its objectives.
- 2.10 A factor beyond the Council's control, but one which may create a perceived weakness in its financial arrangements, is the severe delays in local authority external auditing. In December 2022, Steven Freer, the Chair of Public Sector Audit Appointments (PSAA), the body authorised by Government to appoint auditors for the sector, said:
- "The scale of the backlog of outstanding opinions is such that it is beginning to seriously undermine the financial management, governance and accountability of local government bodies. As 2023 approaches more than 160 bodies are still awaiting audit opinions for both 2020/21 and 2021/22 and for some even earlier years. As a result they are making decisions, managing multiple financial challenges and laying plans for the future with limited assurance about their underlying financial positions. The local audit system desperately needs to find a way of clearing the backlog and restoring the norm of timely opinions as quickly as possible."*
- 2.11 At the time of writing this statement, the Council's audit for the years 2019/20, 2020/21 and 2021/22 are all outstanding. While there remains an underlying risk until such time as the audit profession is able to deliver to more appropriate timescales, this risk is mitigated by the Chief Financial Officer's sign off of the annual statements as a true and fair view of the Council's financial position, and by the robust financial controls mentioned in earlier paragraphs.

- 2.12 I consider the financial management arrangements of the Council to be sufficiently robust to maintain adequate and effective control of the budget for 2023/24.

3 Financial and Economic Environment, Risks and Assumptions.

- 3.1 As noted earlier, the budget has been prepared in consideration of the key financial risks identified in the MTFs including the exceptional economic landscape and high inflation levels. Assumptions have been made within the budget of the effect of inflation on costs and income projections, taking into account not only the rising costs of goods and services that the Council purchases but also the affordability of fees and charges to the ultimate consumer. The accuracy of these assumptions has an important interaction with the level of reserves it is felt appropriate to hold. No budget will ever be 100% accurate, as both costs and demand change over time, and it is essential therefore to hold a sufficient buffer to allow for variation in the estimates.
- 3.2 The budget allows for a 3% pay award in July 2023, remodelling of the pay scales to encompass the increase to the National Living Wage, and a one-off lump sum to support staff with the rising cost of living. This provides a balance between rewarding staff appropriately while having due regard to the Council's overall financial position.
- 3.3 While the Provisional Local Government Finance Settlement has provided additional funding to that previously expected for 2023/24, and has set out some parameters for 2024/25, there still remains some considerable uncertainty as to future funding, with the Review of Relative Needs still looming on the horizon, alongside the future for New Homes Bonus and the timing of Business Rates resets. However, the Council uses a range of sources to support its financial modelling and assumptions for future funding, in order to plan its resources for the future and make prudent estimates in its budget plans.
- 3.4 Growth has been included in the revenue budget, despite the need for corrective action to address the underlying budget deficit. All growth proposals have been carefully considered and only recommended where they support Council priorities or add necessary information to plan future spending (e.g., condition surveys, feasibility studies).
- 3.5 Growth in future years will need to be considered alongside achievement of savings and efficiencies to rebalance the budget, and in-year Supplementary Estimates will need to be carefully monitored and only agreed where essential e.g., for health and safety reasons, for invest-to-save initiatives, or to progress a key corporate priority. This is particularly relevant where on-going expenditure is approved in year, which will be at the expense of increasing the on-going budget deficit.
- 3.6 I consider that these budget proposals take due regard to risk, including the financial and economic environment, and that the assumptions within the budget are reasonable and the estimates used are robust.

4 Level of Reserves and overall Financial Standing

- 4.1 At the current time, there is an increasing focus on the financial sustainability of local government. The past few years have seen an upsurge in the number of s114 reports being issued, where Chief Financial Officers formally record the likelihood that the Council's expenditure will exceed its available resources. In addition, the audit regime is tightening, with an increased focus on the "value for money" conclusion where the auditor reports on the Council's use of its resources.

- 4.2 Regulatory requirements have also been amended, via the Prudential code for Capital Finance and associated Investment guidance, revised Treasury Management Code, the Financial Management code and potentially further through measures designed to mitigate financial risk that may be implemented under the Levelling up and Regeneration Bill, once enacted.
- 4.3 As part of its policy statement on local government funding, the Government encouraged Councils to use their reserves to manage the inflationary pressures they are facing, and also set out an intention to better understand the quantum of reserves held at each authority. Much of this information is already returned via the annual statutory Revenue Outturn and Revenue Estimates forms that Councils are required to complete, and which already form the basis of Cipfa's Financial Resilience Index.
- 4.4 The Resilience Index is a comparative analytical tool that may be used to support good financial management and provide a common understanding of a council's financial position. The Index shows the council's position on a range of measures associated with financial risk with a considerable focus on the level of reserves and movement on reserves, over a four-year period. This does however mean that the Index was severely impacted by the significant covid-related payments made to councils at the end of 2020/21.
- 4.5 An updated Index has not yet been produced to include data for 2021/22 but the last published Index showed Runnymede in a reasonable position for financial sustainability, against a comparator group of other non-Metropolitan Districts, scoring low risk for sustainability of reserves, level of reserves, change in reserves and ratio of council tax to net revenue expenditure but with higher risk scores for the ratio of interest payable to net revenue expenditure, level of gross external debt, ratio of fees and charges to total service expenditure and business rates growth above baseline funding levels. These financial risks are covered in the MTFs and in the budget, through risk mitigation measures such as:
- holding earmarked reserves to support fluctuations in commercial property income and to maintain assets in a lettable condition
 - adequate provision for bad debts
 - provision for debt repayment (minimum revenue provision) and interest payments
 - sound governance of the property portfolio
 - production of the new Asset Management Strategy planned for early in the new year
- 4.6 In addition to earmarked reserves for specific purposes, the Council holds a General Fund "Working Balance" to support the Revenue Account. The balance at the start of the current financial year was £18.2m. Without corrective action this is forecast to fall to £7.7m by the end of 2025/26. Using reserves to cover budget shortfalls in the near term, especially during a turbulent economic period, is an acceptable use of this contingency, but care must be taken not to be over-reliant on reserves. The Council must maintain a sufficient level of reserves moving forward to continue to support its financial sustainability into the future. To this end, the budget report recommends increasing the minimum threshold for the working balance from £3m to £5m, whilst recognising that balances will fluctuate year on year.
- 4.7 I consider the level of reserves presented in the budget estimates to be adequate to support the on-going financial sustainability of the Council.

5 Conclusions

- 5.1 The Council faces a challenging financial period as it uses reserves to support its budget in the short term while developing plans for addressing the underlying budgetary pressures over the medium term. The Council will need to maintain robust control over costs, maximise income, and continue to seek savings and efficiencies whilst managing risks through the holding of adequate levels of reserves. This will require Members and officers to continue to practice strong financial discipline including recognising the financial restrictions the Council may face, as a consequence, for example, of the economic climate and further regulatory control. It must also be ready to embrace new opportunities as they arise, including technological change.
- 5.2 Taking all of the above into account, as the Council's Chief Financial Officer, I am satisfied that the budget proposals set out in this report are robust and sustainable and that the level of reserves is adequate to address the financial risk facing the Council.

Amanda Fahey
Assistant Chief Executive & s151 Officer