



Runnymede Borough Council

Annual Audit Letter for the year ended 31 March 2020

Auditor's Annual Report for the years ended 31 March 2021, 31 March 2022, 31 March 2023

Report to the Standards and Audit Committee

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Purpose of the Annual Audit Letter and Auditor's Annual Report

The auditor's Annual Audit Letter and Auditor's Annual Report summarises the key issues arising from the work that we have carried out in respect of the four years ended 31 March 2020 to 31 March 2023.

We are required to issue an Annual Audit Letter for the year ended 31 March 2020 and issue an Auditor's Annual Report for the years ended 31 March 2021, 31 March 2022 and 31 March 2023. We have included our findings in a combined report.

Our report is addressed to Runnymede Borough Council (the 'Council') but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

Responsibility of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report:

- Our opinion on the Council's financial statements
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Circumstances that have affected our work

There has been a deterioration in the timeliness of local audit in recent years leading to a persistent and significant backlog of audit opinions. Across England, the backlog of outstanding audit opinions stood at 771 at 31 December 2023 and increased to almost 1,000 at 30 September 2024.

In February 2024, the Department for Levelling Up, Housing and Communities published 'Local audit delays: Joint statement on update to proposals to clear the backlog and embed timely audit'.

This joint statement confirmed that:

"The issues facing local audit are widely recognised as multi-faceted and complex with no single cause or solution".

The factors contributing to the delay in issuing audit opinions on the financial statements of the Council include, but are not limited to:

- Increased regulator expectations on auditors
- Difficulties in attracting, developing and retaining staff to perform local audit work
- Impact of the Covid-19 pandemic
- The work we have undertaken to address our concerns regarding the lawfulness of transactions relating to the acquisition of commercial property.

During 2024, organisations involved in the regulation and oversight of local body financial reporting and audit worked collectively to agree a proposed solution to clear the outstanding historical audit opinions and ensure that delays do not return.

To clear the backlog of historical accounts and 'reset' the system, the Accounts and Audit (Amendment) Regulations 2024 required local bodies to publish audited financial statements for all outstanding years up to and including 2022/23 by 13 December 2024 ('the backstop date'). In addition, the National Audit Office made changes to the Code of Audit Practice to require local auditors to comply with backstop dates by giving their opinions in time for audited accounts to be published.

The backstop date created time constraints that prevented us from completing all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil the objectives of auditing standards. Therefore, the backstop date created circumstances which required us to modifying our opinion on the Council's financial statements.

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Audit Conclusions

Audit opinions on the Council's financial statements

Disclaimer of audit opinion for year ended 31 March 2020

The Accounts and Audit (Amendment) Regulations 2024 require Runnymede Borough Council to have published audited financial statements for all years up to 31 March 2023 by 13 December 2024. Additionally, the National Audit Office made changes to the Code of Audit Practice, requiring local auditors to comply with backstop dates by giving their opinions in time for audited accounts to be published.

We were unable to obtain all the required evidence to form an opinion on the Council's financial statements for the year ended 31 March 2020 as at that date. This was due to ongoing work in relation to the Council's acquisition of commercial property in the 2019/20 year. We have now obtained all the necessary audit evidence necessary to issue our opinion.

We have also concluded that the Council did not have the necessary powers to borrow funds to acquire commercial property outside of the Council's geographical area. We have drawn reference to these transactions in our auditor's report.

Disclaimer of audit opinion for years ended 31 March 2021, 31 March 2022 and 31 March 2023

We were unable to issue the disclaimer of opinion for years ended 31 March 2021, 31 March 2022 and 31 March 2023 by 13 December 2024 due to outstanding issues with the 2019/20 audit. The disclaimer reflects the inability to resolve outstanding issues within the required timeframe.

Conclusion on the Council's use of resources

Our work on the Council's value for money arrangements identified a weaknesses in the Council's processes for the acquisition of commercial property. In particular, we are not satisfied that the Council had the powers to borrow from the PWLB to acquire commercial property.

We were, therefore, unable to conclude that, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resource for the years ended 31 March 2020.

As required by the 2015 Code of Audit Practice, we issued an adverse conclusion on the Council's use of resources for the years ended 31 March 2020.

Further information on the weaknesses identified are included on page 6 onwards.

The 2024 Code of Audit Practice removed the requirement to issue a separate conclusion on the Council's use of resources. The auditor's findings, including any significant weaknesses identified, are reported in this Annual Auditor's Report.

The matters referred to above were limited to the year ended 31 March 2020; we have not identified any significant weaknesses for the years ended 31 March 2021, 31 March 2022 and 31 March 2023.



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Scope

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

When performing our value for money work, we are required to have regard to the Code of Audit Practice and other guidance issued by the NAO. Due to the circumstances described on pages 3 and 4, the guidance which describes the matters we are required to consider have changed, as has the way in which we report these matters.

Value for money (2019/20)

For the year ended 31 March 2020, we are required to report to you on an 'except for' basis. This is based on the following reporting criterion (as determined by the 2015 Code of Audit Practice):

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

There are three sub-criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

We have issued an adverse conclusion on the Council's arrangements for securing economy efficiency and effectiveness.

This means that we have been unable to conclude that in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Value for money (2020/21, 2021/22 and 2022/23)

The 2024 Code of Audit Practice reduced the scope of our value for money work for the years ending 31 March 2021, 31 March 2022 and 31 March 2023. The sub-criteria we are required to consider were amended by Schedule 3 of the 2024 Code of Audit Practice to the following:

- Financial sustainability
- Governance
- Other matters that have come to our attention.

The way in which we report our findings for the years ending 31 March 2021, 31 March 2022 and 31 March 2023 has also changed. Instead of issuing a conclusion on the Council's arrangements for securing value for money, we present a narrative commentary on our findings and, where appropriate, make recommendations regarding any weaknesses in arrangements identified.

The changes introduced by the 2024 Code of Audit Practice also permit auditors to combine the reporting for multiple years into one document, which we have done in this report.

We set out the context in which our value for money work has taken place on the following pages.





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Context and background

Since 2019/20, Runnymede Borough Council has operated within a challenging financial environment shaped by wider economic pressures, evolving service demands, and changes in central government funding arrangements. The Council has had to navigate increasing budgetary constraints while maintaining core services and delivering on strategic priorities. These pressures have required ongoing adjustments to financial planning, including revisions to the Medium-Term Financial Strategy and the implementation of various cost-saving measures.

Between 2015 to 2020, the Council invested in commercial asset acquisitions using its regeneration powers, both in terms of a long-term place shaping and regeneration strategy but also to generate sufficient revenue to fund the regeneration strategy. Most acquisitions took place in 2017/18 and 2018/19 and were funded through PWLB borrowing. The last commercial property acquisition was made by the council in March 2020.

The council's high level of debt compared to spending power, and its reliance on commercial income, has attracted scrutiny. The Council was subject to a capital assurance review by CIPFA, as commissioned by the Department for Levelling Up, Housing and Communities (DLUHC). The report highlighted all the risks and challenges faced by Council but also acknowledged the steps to deal with these challenges. The report made 6 key recommendations to support existing approaches.

Following the CIPFA capital review, DLUHC issued a Non-Statutory Best Value Notice to the Council in December 2023. In December 2024, MHCLG (previously DLUHC) informed the Council that the Non-Statutory Best Value Notice would not be reissued at that time.

In addition to the above, the Council participated in two

Local Government Association (LGA) Peer Challenge reviews. The first of these took place in 2019 and the second one in 2024.

We are required to consider arrangements in place during each relevant year (2019/20 to 2022/23). While some of the work supporting the external reviews took place after relevant periods, in some areas the arrangements in place remained the same throughout and the findings and observations provide insight into the effectiveness of the arrangements in place during each year.

We have therefore drawn on these reviews when performing our risk assessment and used further audit work in relation to the matters above in forming our conclusion on whether the Council had proper arrangements in place to secure value for money.

Risk assessment

We have undertaken a risk assessment to establish whether there are aspects of the Council's operations where further audit work is required to allow us to determine whether the arrangements in place are adequate or where there is a significant risk of weaknesses in those arrangements.





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For year ended March 2020, we identified two significant risk areas:

- Sustainable resource deployment
- Egham Gateway West development

Additionally, we drew insights from new information and updated our risk assessment to include a focus on whether the council had put in place adequate arrangements to secure value for money in the commercial properties' investments.

For the financial years 20/21 to 22/23, we did not identify any significant risk areas but continued the focus on financial sustainability and governance, especially around the capital portfolio.





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Informed decision making and governance

We have assessed whether the Council had appropriate systems and processes in place to effectively manage the risks it faced, support the communication of relevant financial reporting information, and enable properly informed decision-making.

The areas mainly discussed in this section are the legality of the commercial property acquisition in March 2020 and the arrangements around the council's governance procedures for its capital investments as discussed in the different reviews.

Arrangements and Findings

Legality of commercial property acquisitions (2019/20)

As outlined on the previous section, the Council borrowed funds from the Public Works Loan Board to acquire commercial properties, which was part of its Property Investment Strategy. The Council's intention was to generate a sustainable income and acquire premises that would aid future regeneration and place shaping schemes.

In advance of commencing its programme of commercial property acquisitions, the Council obtained legal advice from a Queen's Counsel in 2014 to ensure that they were acting lawfully.

That legal advice centred on how local authorities can use the available legal framework to invest in commercial property for generating income. This advice drew from several legal frameworks, including the Localism Act 2011, Local Government Act 2003, Local Government (Best Value Authorities) (England) Order 2009, and Local Government Act 1972.

The Council therefore applied the legal advice to engage in commercial activities, by borrowing and investing for financial management as detailed in the initial property investment strategy.

Information in the public domain seemed to contradict the legal basis of the council's approach and we therefore sought out independent legal advice on the matter from a King's Counsel. The advice was particularly focused on the acquisition of Honeywell House, an office building in Bracknell, outside of the Borough of Runnymede.

The legal advice we obtained considers three questions: whether the Council had the power (vires) to enter into the transaction, whether it exercised any powers properly, and whether it had lawful regard to statutory guidance. Our legal advice considered the acquisition as two separate transactions; the acquisition of the property and the borrowing to fund the purchase price of the asset.

The following was considered with regards to the first two questions on vires and exercising of powers:

- Localism Act 2011 - General power of competence

A council acting for a purely commercial purpose can rely on the general power of competence only if it acts through a company. The Council bought this property directly and cannot therefore rely on this argument to support exercising their General Power of Competence.





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- Local Government Act 2003 (LGA 2003) borrowing and investment powers

Section 1 permits borrowing only for (i) purposes relevant to the authority's functions or (ii) the prudent management of its financial affairs. Section 12 permits investment for the same two purposes. It was considered that section 12 can in principle cover investment in commercial property for return, even outside the area, but in this case, that would not be for a functional purpose under section 12(a). Borrowing simply to invest for profit is not borrowing for the 'prudent management' of financial affairs under section 1(b), and an investment funded solely by such borrowing is not an investment for prudent management under section 12(b)

Accordingly, LGA 2003 powers do not authorise borrowing to fund a pure investment of this kind.

- Local Government Act 1972 section 120 (land acquisition power)

The Council referred to this act in a report to the Corporate Management Committee. Section 120 allows land acquisition for the authority's functions, or for 'the benefit, improvement or development' of its area. The purchase of the office building was not a functional acquisition. In our view the Council appears to have treated 'benefit' as including improved general finances to fund services and regeneration. Our legal advice considers that to be too indirect. The phrase 'benefit, improvement or development' looks to a direct, identifiable advantage arising from how the land is used, occupied or worked, not to financial gain from onward letting or sale to fund unrelated services.

In conclusion on the first two questions asked earlier on powers and whether the powers were exercised properly, our advice supports that local authorities may undertake pure commercial property investment funded by borrowing only by relying on the general power of competence and acting through a company. The Council acquired this property directly when it did not possess the powers to do so and we deem it to have acted unlawfully.

In addition to the basic question of lawfulness, we have considered whether in making these investments the Council had regard to statutory guidance. Under LGA 2003 section 15, the Council had to have regard to relevant guidance: the CIPFA Prudential Code 2017, DCLG's 2018 Guidance on Local Government Investments, and CIPFA's Treasury Management Code.

Both the Prudential Code and the Investments Guidance state: "Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". The Honeywell House transaction goes against this statement. Therefore our conclusion is that the Council failed to have lawful regard to statutory guidance.

The advice obtained by the Council did not consider the nuance around investing in commercial endeavours from borrowed funds. The advice covers principally if a local authority has the powers to invest but completely ignores the fact that the Council would be borrowing to make these commercial investments.





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Conclusion on the legality

Having considered the commercial investments highlighted in this report, the key points regarding the Council's investment powers and compliance with relevant laws can be summarised as follows:

1. Investment powers: The Council relied on sections 1 and 12 of the Local Government Act 2003 for its commercial property investment. However, these powers are deemed insufficient for freehold acquisitions aimed at profit, as borrowing simply to invest for profit does not constitute prudent management of financial affairs.
2. Conditions for lawful use: Our view is that borrowing money simply to invest at a profit does not meet the conditions for lawful use of investment powers under the Local Government Act 2003. Therefore, the freehold acquisition is deemed unlawful.
3. Interpretation of legislation: Borrowing for profit does not fall within the scope of the Local Government Act 2003. The Act does not provide unlimited power to borrow, and borrowing to invest for profit is not considered prudent management of financial affairs.
4. Compliance with code guidance: The Council was required to have regard to statutory guidance, including the CIPFA Prudential Code and the Department for Communities and Local Government's Guidance on Local Government Investments.

Significant weakness

Our assessment reveals a significant weakness in the arrangements surrounding the freehold commercial property acquisition using borrowed funds. The Council

engaged in borrowing to invest for profit, which in our view, and supported by our own legal advice, is unlawful, as the property did not serve any functional purpose or development within the Council's area. This situation underscores the importance of ensuring the Council has the necessary powers and complies with statutory guidance when making investment decisions of that nature. At the time of acquisition, the arrangements lacked robust internal controls to ensure legality about borrowing to invest outside the borough.

While the Council obtained legal advice before acquiring the properties, the advice was limited in that it did not explore the specifics of the Council's intentions, especially the aspect of borrowing in advance of need. This undermined the Council's ability to make informed decisions regarding borrowing for an asset acquisition outside the borough, highlighting a significant weakness in resource arrangements for decision-making.

After the acquisition in March 2020, the Council has not made any further commercial property acquisitions, and this matter is therefore limited to the year ended 31 March 2020.





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CIPFA Capital Assurance Review and Best Value Notice

The findings of the CIPFA Capital Assurance Review published in July 2023 and the subsequent Non-Statutory Best Value Notice issued to Runnymede Borough Council in December 2023 have been relevant sources to evaluate the Council's earlier decisions and the adequacy of its systems during 2020-2023. While the review took place after the years covered in this report, its conclusions provide a retrospective lens through which to assess the Council's earlier decisions and the adequacy of its risk management and oversight mechanisms. The review, commissioned by the Department for Levelling Up, Housing and Communities (DLUHC), examined the Council's capital strategy, governance arrangements, and financial resilience following a period of significant borrowing and commercial investment. The Non-Statutory Best Value Notice, issued in response to CIPFA's recommendations, marked a formal recognition of the need for strengthened governance and financial controls, and serves as a reference point for evaluating the Council's trajectory and its response to long-term financial challenges.

There were several areas mentioned in the report which were highlighted, and we have grouped them into 3 main categories:

- Debt Exposure and Financial Sustainability
- Risk Management and Governance Integration
- Commercial Income Financial Reporting and Asset Strategy

We will consider the issues raised, what the council were doing well already and what were the recommendations from CIPFA.

Debt Exposure and Financial Sustainability

CIPFA flagged Runnymede's debt levels as significantly disproportionate to its financial capacity—71 times its core spending power as of March 2023. This raised concerns about long-term affordability and resilience, especially given the reliance on commercial income to service debt. CIPFA noted that while borrowing was largely fixed-rate and taken during a low-interest period, the scale of exposure was unsustainable without a clear strategy for reduction.

The report recognised the steps taken by the Council to manage this situation; the Council stopped the purchase of new properties, limited any additional borrowing and developed a reserves position to mitigate unforeseen risks or losses. DLUHC, in its Non-Statutory Best Value Notice, especially emphasised on the need to take additional steps to reduce and manage the overall debt position.

These findings were raised to highlight the importance of getting the debt management right and urged the council to build upon its existing measures, which were deemed as satisfactory.

The existing arrangements in place are covered in more detail later in the financial sustainability section of this report.

Risk Management and Governance Integration

One of the priority areas for the Council was around the risk management arrangements and the development of a risk appetite statement which would clearly set the remits of the council's capital strategy. CIPFA also identified that the existing risk management processes were fragmented, and commercial risks were not sufficiently integrated into corporate planning.





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Our work for financial years 19/20 to 22/23 identified several arrangements in place for the council to assess risks and gain assurance on the operation of internal controls.

The Standards and Audit (S&A) Committee is a key component of Runnymede Borough Council's governance framework. Its primary purpose is to provide independent oversight of the Council's arrangements for governance, risk management, internal control, and audit. The committee typically meets six times per year, with additional meetings convened as needed.

The Council's Internal Audit function is a key element of the Council's assurance framework and reports functionally to the Standards & Audit Committee. Every year around March, the yearly risk-based Internal Audit plan was reviewed and agreed in principle by the S&A Committee.

Internal Audit produced the Annual Reports for 20/21, 21/22 and 22/23 and have a positive opinion on the governance, risk and control framework at Runnymede Borough Council each year. Furthermore, Internal Audit provides regular internal audit updates throughout the year, a focus on the tracking of Internal Audit recommendations which is provided in a stand-alone report. We have reviewed the internal audit reports produced across the three years and note that most audits provided reasonable or substantial assurance, with only two providing limited assurance in 20/21 - around waste depot facilities and managing Health & Safety for Housing stock. The controls around the Egham Gateway project especially was deemed as operating effectively and the project was successful.

The main shortcoming in the council's arrangement was around risk identification and the integration of this risk assessment in the planning. The CIPFA review also identified the creation of a risk appetite as one the priority areas.

From 19/20 to 22/23, the council had in a place a Corporate Risk Register which was only reviewed and monitored by the Senior Leadership Team. There was not a structured approach to capturing all the risks holistically. In addition, this risk register was not reviewed by any committee members. We did however note that the Leadership Team carried out a self assessment of compliance with the CIPFA Financial Management Code in 21/22 and that self-assessment was reported to the S&A Committee. We believe that the Corporate Risk Register should have been reviewed by the S&A committee on a more regular basis.

In addition, the council lacked a clear risk appetite around its commercial and regeneration portfolio. We believe that this was mitigated by the informal policies in place, like the decision not to make any further commercial investments after March 2020. Prior to 2023, the council also considered elements of its risk appetite in the Capital Strategy and Capital Programme, presented to the Corporate Management Committee. The Asset Management Strategy adopted in March 2023 also mapped out the acceptable practices and strategies in a detailed manner. While we agree a formalised risk appetite would have been beneficial, we believe existing arrangements and other informal policies meant that the Council had a set of guidelines within which to act.

We also note the role of the Overview and Scrutiny Select Committee, which is responsible for oversight on policy development and review, decision-making and the performance of the Council. For each of the years under review, an annual report on the Overview and Scrutiny Select Committee was discussed by Full Council and its recommendations were discussed.





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Commercial Income Financial Reporting and Asset Strategy

The CIPFA Review identified concerns in Runnymede Borough Council's approach to commercial income and asset strategy. Chief among these was the council's over-reliance on commercial property income, which accounted for a significant portion of its funding. This dependency exposed the council to market volatility, lease expirations, and tenant churn, all of which posed risks to financial stability. The review also noted that income from commercial assets was not clearly attributed to specific services, making it difficult to assess the impact of income fluctuations. Furthermore, while performance monitoring existed, it lacked the level of detail and refined modelling which would have enabled clearer reporting.

However, the Corporate Management Committee minutes from 2020 to 2023 show that the council had already taken steps to improve revenue monitoring. It had implemented regular financial reporting on commercial income, including variance analysis and commentary on key risks. We note that reports were presented to members detailing occupancy rates, lease expiries, and income forecasts. The council also began integrating commercial income data into its Medium-Term Financial Strategy and initiated a review of its property portfolio to assess long-term viability. These actions laid a foundation for more strategic asset management, though the CIPFA review recommended further formalisation and alignment with risk and performance frameworks.

Local Government Association (LGA) Corporate Peer Challenge - 2019

The 2019 Peer Corporate Challenge confirmed that the Council had strong governance and financial management arrangements in place. The Council demonstrated sound financial planning, having taken proactive steps to offset reductions in government funding through a successful commercial property investment strategy. Established business planning and performance monitoring frameworks ensured that officers and Members were well-informed, and regular reporting to committees reflected good transparency and accountability. Leadership at both political and managerial levels was also recognised as a strength, with a committed workforce and positive relationships with local partners.

The peer review also highlighted areas for further development, particularly around strategic vision and capacity. Strengthening strategic capacity was one of the key factors to delivering on the Council's ambitions for growth, regeneration, and community wellbeing, ensuring these priorities are cohesive and sustainable. We note that the council engaged with this recommendation positively as demonstrated in the action plan. The Corporate Business Plan was only approved in 2022 due to delays from the pandemic. The Plan addresses some of the key points on the direction of the Council and how to implement a strategic vision.

The report identified that further work was needed to embed risk management processes fully into decision-making and performance reporting. This has been covered previously in this previous section. Action on this area was only undertaken after the year 2022/23 and the council now has a risk management framework in place to report and monitor risks which fall within the council's risk appetite.





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Conclusion

Our review has identified several aspects of the Council's governance arrangements which are robust and show the level of engagement in dealing with the issues faced by the Council. We did however note a significant weakness in arrangements for FY 20, around the decision to borrow to invest in commercial property.

The CIPFA review and the LGA Corporate Peer Challenge have identified several positive steps and arrangements taken by the council. The decision to invest in commercial property has benefitted the Council; the commercial property portfolio generates significant income for the council. While this inherently creates additional risks, the Council have taken measures to manage these risks, through its financial planning, reserves policy, and asset management strategy. The Corporate Management Committee has been effective in its role and is essential in ensuring the health of the commercial portfolio.

We have noted areas of improvement as well around identification and reporting of risks and the reporting on investment performance. These would build on an existing good foundation and assist with the identification of additional risks and developing adequate responses were they to materialise. Conducting sensitivity analyses on commercial income and sinking funds, based on varying scenarios, was considered a critical step in the modelling process.

However, we identified a significant weakness in the council's arrangements with the decision making around the acquisition of a commercial property in March 2020. Based on our independent legal advice, we have concluded that the Council did not have the powers to borrow funds and invest in commercial property for a hoped profit. This transaction is deemed as unlawful but also demonstrates

that the Council was not in compliance with regulations as it did not have regard to proper statutory guidance. This significant weakness is limited to FY 20 as there were no such further acquisitions in subsequent years.





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Sustainable resource deployment / financial sustainability

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Sustainable Resource Deployment/ Financial Sustainability

We have assessed whether the Council had appropriate systems and processes in place to identify financial pressures in the short and medium-term, bridge funding gaps and identify savings, plan the sustainable delivery of services and identify any risks to financial resilience.

The areas mainly discussed in this section are the medium-term financial strategy (MTFS) for the years under review and how the council has performed. We will also consider the arrangements around planning for commercial income for the property portfolio and the management of the debt position.

Arrangements and Findings

MTFS 2019/20 - 2022/23 and financial outturn

The medium-term financial strategy is set each year for the following three years. It is developed in Q3 of the preceding year and is first reported to the Corporate Management Committee around December/January. It takes input from the Capital Strategy and the Treasury Management Strategy, both of which are also reviewed each year, as well as the Council's Regeneration plans. The Corporate Management Committee discuss the MTFS and recommend the strategy with any required adjustments to Full Council for approval.

The timing of our work enables us to consider the extent to which the Council was able to address the forecast budget gaps reflected in the various MTFS, the reasonableness of the budget assumptions and to mitigate any risks.

The table below shows the gap or surplus reported to the General Fund (GF) and the final outturn position for each year (positive numbers represent use of while negative numbers are a contribution to the GF). It is important to note that the period covered by the MTFS was impacted by economic volatility caused by the pandemic and then global events (particularly the conflict in Ukraine).

This shows the Council reported a contribution for each of the years covered by the MTFS. A summary of the reasons for this performance include:

- 2019/20: Underspend due to effective savings in delivery of frontline services and by delaying recruitment
- 2020/21: Receipt of £2.8m in unplanned government grants received during to the pandemic
- 2021/22: Reduction of £1.4m in the provision for doubtful debts, £0.7m increase in rent planned and £0.8m lower in legal costs
- 2022/23: £2.6m of savings in staff vacancy not filled

	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000
Estimated use of/(contribution) to GF as per 2020 MTFS	(1,037)	1,943	83	(1,026)	
Estimated use of/(contribution) to GF as per 2021 MTFS		(526)	1,980	(71)	(285)
Estimated use of/(contribution) to GF as per 2022 MTFS			3,072	2,564	240
Estimated use of/(contribution) to GF as per 2023 MTFS				250	1,239
Actual final (contribution) to GF per accounts	(8,491)	(2,819)	(3,007)	(2,090)	(807)



Value for money

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Overall, across the four years, the estimates predicted significant uses of the General Fund working balance, driven by COVID 19 which increased costs and decreased revenue. However, the actuals improved and contributed to the general fund working balance, showing that the Council has responded to these challenges. The fluctuations between projections and outturns do however suggest the need for more sensitivity analysis and the consideration of various scenarios to ensure the council is better prepared in case of adverse performance.

Commercial property income and Borrowings

We have compared the Council's forecast rental income from commercial properties (corporate rent only) with those reported in the Council's financial statements. These comparisons are shown in the following tables.

The table below demonstrates that the rental income forecasts in the MTFS for 2021 to 2023 were reasonable. The 2020 MTFS did not have detailed forecasts for commercial property income.

<i>Rental income</i>	2020-21 £'000	2021-22 £'000	2022-23 £'000
Estimated rental income per 2021 MTFS	26,691		
Estimated rental income per 2022 MTFS		23,686	
Estimated rental income per 2023 MTFS			25,983
Actual rental income per Statement of Accounts	27,544	24,608	26,602
Variance	553	922	709

The performance has been positive given some of the challenging circumstances like the COVID pandemic and the war in Ukraine over this period.

The MTFS show that the Council had good arrangements in place to manage commercial property income in a structured and risk-aware manner. The approach included securing strong tenant covenants and full repairing leases, which reduced exposure to maintenance costs, and incorporating rent escalation clauses to maintain income stability. Forecasting was generally cautious and adjusted for external factors such as the pandemic and wider economic uncertainty, helping to avoid over-optimistic assumptions. These measures indicate that the council sought to balance income generation with financial resilience and risk management.





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The Council's arrangements around the reserves was also sound and prudent. In order to mitigate the risk regarding commercial income, the Council's financial plans have always contained measures, and these include contributing to two specific earmarked reserves:

- The property repairs and renewals reserve; Based on the 22/23 Statement of Accounts, this reserve was £4,745k.
- The Investment Property income equalisation reserve (to cover reductions in income such as void periods); This reserve was not utilised in the period 20/21 to 22/23 and the balance rose from £3.75m at 31/3/20 to £5.95m at 31/3/23 per the 22/23 Statement of Accounts.

The Council however places a significant reliance on commercial income to fund its services. As per the 2023 MTFS, rent income comprised around 43% of gross income contributing to the general fund. This dependency increases financial risk, particularly during periods of reduced demand or falling rental values. The CIPFA review identified potential solutions which include diversifying income streams to reduce reliance on a single source, strengthening contingency planning through enhanced reserves, and regularly stress-testing forecasts against adverse scenarios. Additionally, developing a clear exit or mitigation strategy for underperforming assets and exploring alternative funding models could help improve resilience and long-term sustainability.

Borrowings

The Council's long-term borrowing increased from £618m in 2019/20 to a peak of £653m in 2021/22, before slightly reducing to £645m in 2022/23. This sustained high level of

debt reflects the council's strategy of funding commercial property acquisitions to generate income. While this approach has delivered returns, it creates significant exposure to interest rate movements and market volatility.

CIPFA noted that borrowing is among the highest relative to spending power nationally and recommended enhanced risk management and debt reduction planning. The council has maintained compliance with its Minimum Revenue Provision (MRP) obligations, but we note that the Council has chosen the annuity method to calculate MRP charges. This results in lower repayments in the earlier years, with higher costs in later years, meaning that future generations may bear more of the costs. The Council has recognised there will be increasing pressures from the rising MRP payments and have identified potential ways to mitigate the risks of its approach which is the annuity method. It is important that the Council continues to monitor the impact of this when as part of its wider budget and medium-term financial planning.

Conclusion

The Council has managed its financial position appropriately over the period, addressing budget gaps through underspends, additional government grants, and vacancy savings. Forecasts for commercial property income were broadly reasonable, supported by measures such as strong tenant covenants and rent escalation clauses, although reliance on this income remains a key risk. Use of reserves helped mitigate volatility, and borrowing levels, while high, were managed in line with Minimum Revenue Provision requirements. CIPFA highlighted the need for enhanced risk management and reducing reliance on commercial income to strengthen long-term sustainability. Overall, the Council's arrangements indicated adaptability and a clear focus on maintaining financial resilience amid external challenges.



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2018/19 & 2019/20 Conclusions

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For the audit relating to 2019/20, we have identified the following issue which gave rise to qualifications of our conclusion.

	Area	Year affected	Finding	Overall conclusion
1	Informed decision making	2019/20	In our view, the legal advice obtained by the Council did not adequately consider the legal position regarding borrowing to invest. Our view, and supported by our legal advice, is that the Council acted unlawfully in borrowing to acquire commercial property in the 2019/20 year.	Adverse

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Recommendations

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Our value for money work for the 2019/20 year identified weaknesses in the Council's arrangements for informed decision making. Given the timing of our reporting, and the outcome of the various external reviews and inspections which have taken place since 2020, including the recommendations raised by these reviews, and the Council's ongoing work to address the recommendations, we do not consider it appropriate to re-raise these matters.

We understand that the Council has compiled a consolidated action plan to address the recommendations previously raised by external reviews and inspections. We have not undertaken any procedures to verify the completeness of the Council's action plans or the effectiveness of the actions being taken by the Council. However, we acknowledge the importance of these external reviews and the recommendation below reflects this.

Area	Year(s) affected	Recommendations	Management response
Informed decision making	2019/20	The Council should keep under review its commercial property portfolio, and on a regular basis consider whether it is appropriate to reduce its portfolio and associated borrowing.	The Council's approach to its commercial property portfolio has been approved as part of its Asset Management Strategy and associated policies. This includes consideration of divestment when appropriate. The Council has formally committed to using the proceeds of sale from any debt-backed commercial asset to repay borrowing and continues to review options for the reduction of debt, including early repayment and restructuring of debt alongside setting aside additional voluntary revenue contributions for the repayment of debt. The Council is committed to keeping its commercial property portfolio under un-going review in order to maximise value and mitigate risk.
Informed decision making	2019/20	The Council should continue to deliver against the key recommendations set out in the Chartered Institute for Public Finance and Accountancy (CIPFA) review. The Council should ensure there is effective member of oversight of the steps taken by the Council, with opportunity for constructive challenge and scrutiny.	The Council implemented a strong governance process around its response to the CIPFA recommendations and subsequent receipt of a non-statutory Best Value Notice, which has been reviewed by internal audit, achieving a "substantial" assurance level. The Council's response to the CIPFA recommendations and key documents relating to the issuing and subsequent removal of the non-statutory best value notice have been reported to Members and are available on the Council's website. The Standards and Audit Committee has received updates on progress against the Council's self-assessment against its best value duties and feedback provided through the Council's participation in the Local Government Association's Corporate Peer Challenge process. The Council has improved its reporting in areas such as Risk Management, Property Investment and in its financial forecasting, with increased reporting to Members in these areas. Members have multiple avenues for constructive challenge and scrutiny through relevant service committees and through Full Council for key strategies, with additional oversight provided by the Standards and Audit Committee (including via the Annual Governance Statement, bi-annual Risk Reporting and the Committee's annual report to Full Council) and by the Overview and Scrutiny Select Committee (via quarterly reporting on Treasury Management and Property Investments, updates on progress against the Council's approach to financial sustainability and its own annual report to Full Council).

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Those Charged with Governance (TCWG)

References in this report to Those Charged With Governance are to Runnymede Borough Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Standards and Audit Committee.

Communication

The National Audit Office has issued Local Audit Reset and Recovery Implementation Guidance (LARRIGs) to support the reset and recovery of local audit in England. LARRIG 02 states that the frequency with which matters are communicated to Those Charged With Governance may be less in the circumstances created by backstop arrangements and that it may therefore be appropriate to include all communications relevant to an audit within a single document. In line with this guidance, we issued a combined Audit Planning Report and Audit Completion Report in respect of the audit of the financial statements.

This Auditor's Annual Report includes our findings and conclusion for the review of the Council's arrangement for value for money.

Local authority's responsibilities

Local authority's Responsibilities and Reporting

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Financial reporting

Runnymede Borough Council is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements is an essential means by which Runnymede Borough Council accounts for its stewardship and use of the public money at its disposal.

The form and content of Runnymede Borough Council's financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

The Section 151 Officer is responsible for preparing and filing a Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting for the relevant year, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of materially accurate financial statements.

Use of resources

Local authorities are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal.

As part of the material published with its financial statements, Runnymede Borough Council is required to bring together commentary on its governance framework and how this has operated during the period in a Governance Statement.

In preparing its Governance Statement, Runnymede Borough Council will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on their arrangements for securing value for money from their use of resources.



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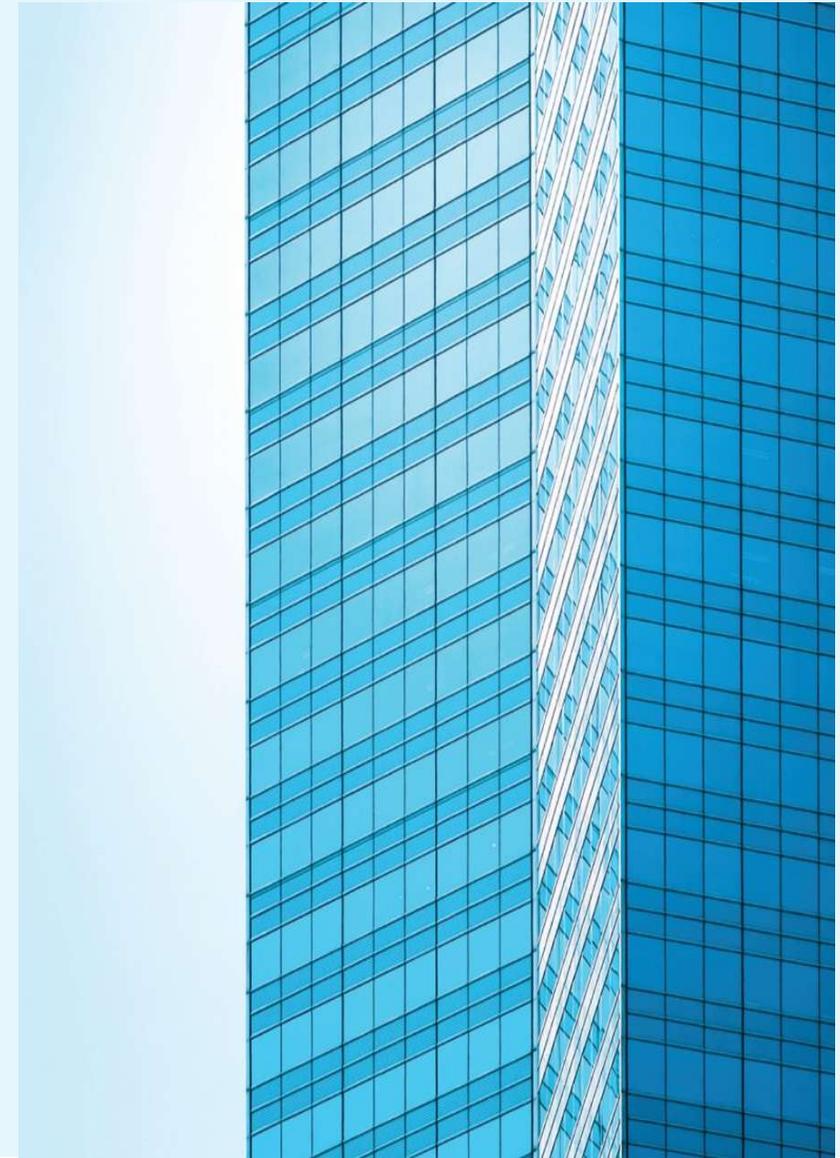
Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of Runnymede Borough Council.

We are required to satisfy ourselves that Runnymede Borough Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This means that we have regard to relevant guidance issued by the National Audit Office and undertake sufficient work to be able to satisfy ourselves as to whether Runnymede Borough Council has put arrangements in place that support the achievement of value for money.

What we don't report

Our audit is not designed to identify all matters that may be relevant to Runnymede Borough Council and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist



For more information:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of Runnymede Borough Council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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