

# West Berkshire Council

## DRAFT - Value for money risk assessment

### Our approach

Year ended 31 March 2024

November 2024

# Value for money

**For 2023/24 our value for money reporting requirements have been designed to follow the guidance in the Audit Code of Practice.**

Our responsibility is to highlight any significant weaknesses in value for money arrangements.

The main output is a narrative on each of the three domains, summarising the work performed, any significant weaknesses and any recommendations for improvement.

We have set out the key methodology and reporting requirements on this slide and provided an overview of the process and reporting on the following pages.

## Risk assessment processes

Our responsibility is to assess whether there are any significant weaknesses in the Council's arrangements to secure value for money. Our risk assessment will continue to consider whether there are any risks of significant weakness in the arrangements that the Council has in place to achieve value for money.

In undertaking our risk assessment we will be required to obtain an understanding of the key processes the Council has in place to ensure this, including financial management, risk management and partnership working arrangements. We will complete this through review of the Council's documentation in these areas and performing inquiries of management as well as reviewing reports, such as internal audit assessments.

## Reporting

Our approach to value for money reporting aligns to the NAO guidance and includes:

- A summary of our commentary on the arrangements in place against each of the three value for money criteria, setting out our view of the arrangements in place compared to industry standards;
- A summary of any further work undertaken against identified significant risks and the findings from this work; and
- Recommendations raised as a result of any significant weaknesses identified and follow up of your previous auditor's recommendations.

The Council will be required to publish the commentary on its website at the same time as publishing its annual report online.

### Financial sustainability

*How the body manages its resources to ensure it can continue to deliver its services.*

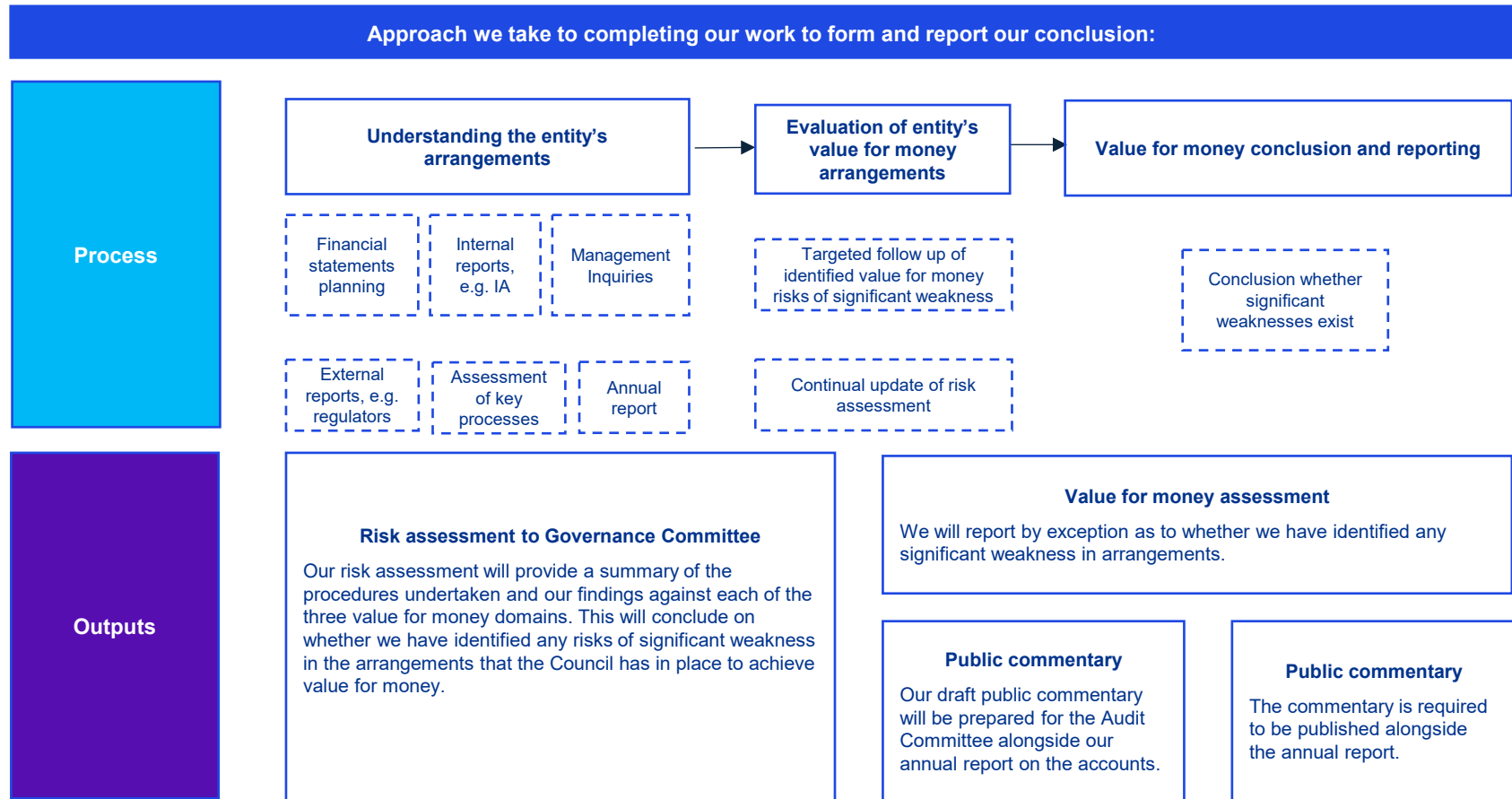
### Governance

*How the body ensures that it makes informed decisions and properly manages its risks.*

### Improving economy, efficiency and effectiveness

*How the body uses information about its costs and performance to improve the way it manages and delivers its services.*

# Value for money



# Summary of risk assessment

## Summary of risk assessment

As set out in our methodology we have evaluated the design of controls in place for a number of the Council's systems, reviewed reports from external organisations and internal audit and performed inquiries of management. These procedures are consistent with prior year.

Based on these procedures the table below summarises our assessment of whether there are any risks of significant weakness in the arrangements that the Council has in place to achieve value for money for each of the relevant domains.

Domain	Risk of significant weakness identified?
Financial sustainability	Risk of significant weakness identified
Governance	No risk of significant weakness identified
Improving economy, efficiency and effectiveness	Risk of significant weakness identified

We note the Council's previous auditors have issued an Interim Auditor's Annual Report, which includes a significant weakness regarding financial sustainability for the 2022/23 year and a number of other improvement recommendations outstanding. We will consider all raised recommendations and include findings within our Auditor's Annual Report.

## Response to risk of significant weakness

The table below sets out the details of the risk that has been identified and the procedures we intend to perform in order to respond to the risk. We will report on our conclusion from these procedures as part of our year end report to the Governance Committee:

Description of risk	Procedures to be performed
There is a risk the Council does not have in place effective arrangements to ensure <b>financial sustainability</b> and to <b>improve economy, efficiency and effectiveness</b> .	<p>Financial stress on the Council relies on tight budgetary constraints and limited scope for further significant overspend.</p> <p>We will perform the following procedures:</p> <ol style="list-style-type: none"> <li>1. Consider the Council's arrangements and structures to monitor and deliver a balanced budget;</li> <li>2. Understand the process for identifying savings and other available levers to the Council if any;</li> <li>3. Review recent budget monitoring and performance throughout the period and to date; and</li> <li>4. Conduct interviews with senior management to understand the continuing financial stability of the Council.</li> </ol> <p>Our procedures above will also identify any issues with efficiency savings and plans to avoid overspend.</p>

# Value for money arrangements

## Financial sustainability

In assessing whether there was a risk of significant weakness in financial sustainability we reviewed:

- The processes for setting the 2023/24 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the latest medium term financial plan was developed;
- Processes for ensuring consistency between the financial plan set for 2023/24 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan.

### Summary of risk assessment

#### **Background**

As with the local government sector as a whole, the Council's financial position has continued to face great pressure, both from increasing demand for services such as adult social care and the significant rise in inflation. This was particularly felt during 23/24, where inflation outstripped the ability to raise the council tax in year. This resulted in the requirement to deliver 'more for less', and this is acute in West Berkshire, where the reserves available to the Council remain limited and continue to deplete annually.

#### **Setting the current year financial plan**

The Council set a balanced budget for the 23/24 financial year, including total assumed savings in the budget of £9 million (£5.3 million required in 22/23 with 77% achieved). The 2023/24 Quarter 4 Performance Report states that just 56% of the total identified savings were achieved, with a provisional outturn overspend of £3.1 million. The authority does not have significant reserves to draw from and this reduced the General Fund balance to £4.1 million (excluding earmarked reserves). This compares unfavourably to other authorities as further detailed in the economy, efficiency and effectiveness section.

The total General Fund for the year saw another year on year decrease, leaving a balance of £7.6 million (£11.5 million 2022/23). This includes £3.5 million of earmarked reserves (excluding schools). The primary driver for the adverse variance to budget was a large overspend of £8.9 million in the People Directorate, where adult social care and children services overspent by £2.2 million and £3.9 million respectively, echoing trends seen nationally where spend has expanded beyond budgeted expectations in recent years.

The balance on the General Fund at the end of 2023/24 is on the limit of the £7 million deemed prudent by the authority's s151 Officer and further reduction in reserves would not be sustainable. A forward look to 2024/25 and the 2024/25 Quarter 1 Performance Report suggests an overspend of £5.5 million and states 'If this was to be the final outturn position then...a section 114 notice would need to be issued or a capitalisation directive sought'. This therefore drives a risk of significant weakness regarding financial sustainability.

# Value for money arrangements

## Financial sustainability

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### Summary of risk assessment (continued)

The Council set a capital development programme totalling £71 million. Provisional outturn at Q4 per the Capital Financing Performance Report suggested an underspend of £23 million. This is largely due to projects and recruitment being slowed to generate savings for the General Fund. Capital spend in year included delivery of an upgraded Lido facility at Northcroft Leisure Centre; purchase of 18 properties and redevelopment of a former Council office into accommodation in conjunction with the Local Authority Housing Fund project. £20.7 million was also spend on infrastructure improvement, including Newbury rail station improvements.

### Approval of Financial Plans

Guidance is issued by Finance on an annual basis ('Revenue Budget Build Guidance'), typically shortly after the previous financial year end. This includes guidance for Budget Managers to propose a budget with efficiencies, supported by. Business cases are reviewed and challenged through the Corporate Board and Budget Board.

Following the finalisation of proposals, a final budget is produced and approved through the Executive in February and shortly after at full Council. KPMG have reviewed documentation and Committee minutes confirming appropriate consideration and challenge of proposals. The 2023/24 Budget & Medium-Term Financial Strategy 2023/24-2025/6 was approved by Council on 2 March 2023.

### Monitoring of Financial results

All approved budgets generate a tracker that is reported monthly as part of the budget monitoring process. Quarterly Revenue and Capital Performance Monitoring are reviewed by the Executive. The Corporate Management Team also have a monthly meeting dedicated to performance as well as a dedicated Financial Reporting Panel to review all overspending in services. We will review the financial monitoring processes in greater detail as part of our response to the risk in this area.

### Risk assessment conclusion

Based on the risk assessment procedures performed we have identified a risk of significant weakness associated with arrangements to deliver financial sustainability. We will conduct further interviews and review additional documentation to reach our conclusion in this area.

# Value for money arrangements

## Governance

In assessing whether there was a risk of significant weakness relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 Medium Term Financial Plan by the Authority, including how financial risks were communicated;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

### Summary of risk assessment

#### *Approach to identifying, monitoring and management of risk*

The Council's guiding governance document is the Constitution, last updated in August 2024, which clearly lays out the structure and responsibilities of the Council, Councillors, its various Committees and interaction with citizens, as well as outlining the ethics and corporate governance policies. This is built on with the Council's risk management policy and procedure, which further formalises the risk management structures within the authority and cements its approach to risk assessment.

There are three levels of risk register operated within the Council: Corporate (discussed below); Directorate; and Service or Project Risk. Lower level risk registers are reviewed by operational and/or directorate management teams, with the opportunity to promote the risk to the Corporate Risk Register. Roles and responsibilities for various registers, identification of risk, and practicalities of raising a risk are clearly defined.

A 4 x 4 scoring matrix is used by the Council to score risks on the Corporate Risk Register (Impact x Likelihood). The Corporate Risk Register has 17 risks identified, the mostly highly rated include a number of financial risks/budget pressures, which is appropriately recognised given the current situation at the authority and risks refer to many of the points identified under our financial sustainability risk assessment. Our review of the risk register found that this was sufficiently detailed to effectively manage key risks and we identified evidence of review within the Governance Committee throughout the year.

The risk outlines the cause and potential impact, as well as providing sufficient background information and current actions required, with status and date (all within year, demonstrating on-going review and update). The risk owner is also clearly identified.

The Council's arrangements for risk management appear appropriate for an entity of its size and nature and the risk assessment policies in place are considered effective in monitoring and assessing risk.

# Value for money arrangements

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### Summary of risk assessment (continued)

#### Fraud, Laws and Regulation and Officer compliance

The effectiveness of internal controls is monitored by the Governance Committee, through reporting from Internal Audit and Counter Fraud. The programme of work for each organisation is approved at the start of the financial year by the and any recommendations raised are reported to the Governance Committee. Our review of the Committee papers confirmed that there were appropriate discussions and follow up of recommendations. We will further review internal audit reports as part of our work in this area.

The Council has numerous policies included within the Constitution document, which clearly outline the expected behaviour of Councillors and officers in relation to areas such as Staff and Councillor Codes of Conduct and Members' Allowances. Specific guidance is in place for teams and managers via standards of behaviour for these roles. Overall compliance with legislation, laws & regulations are monitored by management.

#### View from the regulators

The Council is subject to a number of inspections by the regulators. The latest children's services inspection was a focused visit in October 2023. This did not identify any major adverse findings and is in line with the previous full inspection grading of 'Good' in March 2022. The Council also retains a 'Good' rating for Adult and Community Learning, although this dates from November 2022 and has not been expected in the financial year.

We have also reviewed reports issues by the Care Quality Commission. Although the majority of the health and social care services were rated Good, Birchwood Care Home has received a recent (March 2023) report that 'Requires Improvement'. This follows the previous report of requiring improvement in August 2022 and breaches were found in relation to safe care and treatment, unsafe management of medicines and good governance. As a result, this warrants further exploration as part of our final conclusion.

#### Risk assessment conclusion

Based on the risk assessment procedures performed we have not identified a risk of significant weakness associated with governance. We will conduct further interviews and review additional documentation to reach our conclusion in this area, particularly regarding the Birchwood Care Home.



# Value for money arrangements

## Improving economy, efficiency and effectiveness

In assessing whether there was a risk of significant weakness relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- How the performance of services is monitored and actions identified in response to areas of poor performance;
- How the Council has engaged with other stakeholder and wider partners in development of the organisation;
- How the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

### Summary of risk assessment

#### ***Assessing Value for Money and Opportunities for Improvement***

The Council had a target of £9 million regarding cost savings for the financial year 2023/24, which we noted above having not been met in year, with 56% of savings rated as 'Green' in the Council's traffic light system to monitor savings. Efficiencies are built into the budgeting process as previous outlined above. A higher level of savings were included in budgets for 2024/25 with £14.5 million of savings required. As noted in the financial sustainability section of our report, the Q1 revenue outturn suggests a significant overspend (£5.5 million) compared to budget to date. Typically cost saving performance is reported as part of regular reporting to the Council and reviewed in the Scrutiny Commission meetings.

#### ***Monitoring of Performance of Services***

Performance reporting and monitoring of efficiency plans occur at various levels, from the weekly Financial Review Panel to the Corporate Board, Operations Board and the Executive. KPMG have reviewed the in-depth reporting, which includes details of each saving identified in the MTFP, progress to date by monetary value, forecast savings and some commentary over variances. The Governance Committee review the Corporate Risk Register quarterly and Council also have oversight of the position annually through the Budget and the associated Chief Finance Officer's Report on the Robustness of the Council Budget.

The Corporate Plan also includes performance measures, key projects and initiatives and other non-financial metrics which also are reported though Committees as part of the quarterly reporting. All collated information is subject to initial scrutiny by the Corporate and Operations Boards.

#### ***Partnership Working, including Managing Outsourced Services***

We are not aware of any significant outsourcing or partnership working, outside of that required through the provision of services alongside the local NHS bodies and the waste PFI. We will explore this area further as part of our overall conclusion in this area.

# Value for money arrangements

## Improving economy, efficiency and effectiveness

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- How the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

### Summary of risk assessment (continued)

#### **Benchmarking**

The Council operate limited independent benchmarking activities on a case by case basis and review national benchmarking performed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Government Association (LGA). We will explore this area further as part of our overall conclusion.

As part of our initial review, we have assessed the outputs from the Local Authority Data Explorer (Oflog), the CIPFA Financial Resilience Index and the LGA Inform Value for Money Profiles. The Oflog data shows that although the Council's level of band D council tax rates are around average for England and similar local authorities, non-ringfenced reserves as a percentage of net revenue expenditure and as a percentage of service spend is the lowest in the country.

Current benchmarking on the CIPFA Financial Resilience Index is based on 2022-23 data, however we expect the inputs to be similar for 2023/24 and its indicators of financial stress suggest the authority is higher risk compared to its Nearest Neighbours and other Unitary Authorities, with areas such as the 'Reserves Sustainability Measure' and 'Level of Reserves' at the highest end of risk among the grouping.

The LGA Inform Value for Money Profiles were also reviewed by KPMG. We reviewed multiple metrics, including 'Total non schools reserves as a percentage of net current expenditure' among others. Although the Council trends in the same direction as the mean for all English single tier local authorities, its reserves are substantially lower which leaves little room to absorb adverse variances to budget. There is one larger outlier other than reserves, which is Total expenditure on environmental services per head and West Berkshire shows as one of the higher of single tier authorities and growing again in 2023/24. We will look to understand the reasons behind this in our final report.

#### **Risk assessment conclusion**

Based on the risk assessment procedures performed we have identified a risk of significant weakness associated with improving economy, efficiency and effectiveness.



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