Report Title:	**CIPFA REVIEW OF GOVERNANCE - FINAL REPORT**
Contains Confidential or Exempt Information?	Part I – Main Report Part II - Appendix A Not for publication by virtue of paragraph 1 of Part 1 of Schedule 12A of the Local Government Act 1972.
Lead Member:	Councillor Hilton, Lead Member for Finance and Ascot
Meeting and Date:	Cabinet 26th June 2020
Responsible Officer(s):	Duncan Sharkey, Managing Director Adele Taylor, Director of Resources
Wards affected:	None

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Royal Borough of Windsor & Maidenhead

REPORT SUMMARY

1. CIPFA (Chartered Institute of Public Finance and Accountancy) undertook a review of governance during 2019 and early 2020. This report is the full, final report from CIPFA.

2. CIPFA have identified a wide range of issues that need to be considered by the Authority. Many changes have already been implemented during the course of the review nevertheless an action plan should be prepared to ensure the Authority ensures that all identified issues are resolved.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Cabinet notes the report and:

i) **Requests Officers prepare an Action Plan for Cabinet to consider in July 2020.**

ii) **Refers the report and Action Plan to Corporate Overview and Scrutiny Panel and asks them for commentary on the Report and Action Plan in time for the July Cabinet meeting.**

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

Options

Table 1: Options arising from this report

Option	Comments
Note the Report and instruct an Action Plan is prepared for consideration at Corporate Overview and Scrutiny Panel. **This is the recommended option**	This will allow the Authority to continue to make improvements and learn lessons from the CIPFA Review.
Refuse to note the Report.	-

3. KEY IMPLICATIONS

3.1 CIPFA were engaged by the Council to consider some apparent issues with governance and financial management.

3.2 This report contains a significant number of issues for the Authority to address. Whilst many issues have been resolved there are still a small number to be concluded.

3.3 In summary CIPFA found:

- a lack of financial transparency and Medium Term Financial Planning over a number of years.
- a poor officer culture and lack of physical capacity and capability coupled with dominant members. This led to no appropriate challenge or recognition that challenge is a good thing.
- poor standards of financial capacity and capability within the financial support services.
- little differentiation between officer and senior member roles and responsibilities.
- several issues relating to financial governance.
- an unacknowledged and unreported poor culture including limited understanding of governance.

4. FINANCIAL DETAILS / VALUE FOR MONEY

4.1 Whilst the report details a number of financial and value for money issues there are no direct financial implications of the recommended decision.

5. LEGAL IMPLICATIONS

5.1 The Authority is a creature of statue and must obey legislation, act within the guidance and regulations issued and ensure probity and compliance with ethical behaviour. The report highlights a number of issues of governance that demonstrate the Authority has not lived up to the standards required.

5.2 For legal reasons, relating to a contractual agreement, an element of the report (part of section 2.34 is redacted and presented in appendix A, which will be considered in Part II of the meeting).

6. POTENTIAL IMPACTS

6.1 Equalities.

There are no implications arising from the recommendation.

6.2 Climate change/sustainability.

There are no implications arising from the recommendation.

6.3 Data Protection/GDPR.
There are no implications arising from the recommendation.

7. APPENDICES

7.1 This report is supported by two appendix:

- CIPFA Report
- Appendix A (Part II)

8. BACKGROUND DOCUMENTS

- None

9. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
Cllr Hilton	Lead Member for Finance	12/6/20	14/6/20
Duncan Sharkey	Managing Director	-	-
Adele Taylor	Director of Resources/S151 Officer	12/6/20	15/6/20
Elaine Browne	Head of Law	12/6/20	15/6/20
Mary Severin	Monitoring Officer	12/6/20	15/6/20
Karen Shepherd	Head of Governance	12/6/20	15/6/20

CIPFA performance in public services

Royal Borough of Windsor and Maidenhead

Review of Financial Governance

June 2020

Contact details

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Contents

1. Executive Summary

1.1. CIPFA were appointed by the Managing Director and the Section 151 Officer at the Royal Borough of Windsor and Maidenhead (RBWM), in July 2019, to review the governance, approval and management processes in relation to the Clewer and Dedworth Neighbourhood Improvements capital scheme, which was approved at an estimated cost of £350K for the 2018/19 budget.

1.2. The Managing Director was concerned that the scheme failed to meet RBWM's overall objectives, that it was not subject to a proper prioritisation process, that no business case or plan had been produced regarding the scheme's deliverables and that there was no plan to demonstrate how it would be managed.

1.3. The results of this work were included in an initial report to Members in August 2019, our overall conclusion was that there was a lack of transparency around the financial implementation of capital schemes.

1.4. The issues raised in the first phase of our work highlighted further concerns about financial monitoring in RBWM, as well as the effectiveness of financial governance and the role of the finance function in overseeing the financial governance of RBWM. As a result, we were commissioned to assist RBWM in resolving some of the issues raised, to assist in the preparation of the 2020/21 budget and in the production of a new Medium Term Financial Strategy. The Managing Director also requested that any further governance or compliance weaknesses should be highlighted and included in a further report at the end of the assignment. This work commenced in September 2019 and details of the tasks undertaken are provided in Appendix B.

1.5. In the second phase of our work we have recommended that RBWM needs to address a large range of issues in relation to governance and financial management in order to demonstrate that it is managing its finances in a legal, transparent, professional and competent way. These issues and those subsequently found are set out in the report.

1.6. Section 7. below contains a List of Improvements Implemented in Response to Initial Recommendations

1.7. Our overall concern that the lack of financial transparency and Medium Term Financial Planning over a number of years has masked the financial problems that RBWM were facing and that, potentially, could have been avoided. For example, Council Tax was either reduced or frozen over a number of years. It is difficult to be precise over the exact basis of decision making but it was apparent that there had been a poor officer culture and lack of physical capacity and capability coupled with dominant members. This led to no appropriate challenge or recognition that challenge is a good thing.

1.8. Although RBWM has pockets of deprivation it is still one of the least deprived councils in the country with the benefits of a high council tax base, increasing business rates, high land prices and high income levels could easily have been self-sustaining. However, despite setting a challenging budget for 2020/21 and developing a medium term financial strategy it is now facing an uncertain future, having to identify large savings in a short space of time due to the impact of Covid19. With this added pressure potentially meaning it may have to issue a S.114 notice and may not be able to set a legal budget in future years.

1.9. The standards of financial support within the Council were not at an appropriate level and must be improved further. This was underpinned by repeated removal of capacity from the organisation that left it weak and unable to deliver basic good governance or change successfully. This was coupled with a lack of corporate or team working culture.

1.10. There appeared to be little differentiation between officer and senior member roles and responsibilities, who appeared to be treated as senior executives rather than elected members. There was no recognition of the problems in governance this would likely create.

1.11. In summary, the financial governance issues that need to be addressed include:

- Reporting and transparency, including revenue and capital budget setting, monitoring and medium term financial planning;
- Treasury Management approval, reporting and monitoring;
- Debt collection and appropriate provision for bad debt;
- The change in council culture required to achieve more transparency over decision making and compliant governance;
- Reviewing the Member protocols that govern relationships between Members and officers;
- Changing the culture and ability of the finance function to one that is more challenging and prepared to ensure greater accountability of decision making and a substantially higher level of compliance.
- Addressing the "silo" culture amongst officers where significant decisions have not been taken in a corporate or collegiate way

1.12. Our work has been focussed on the budget reports in 2018/19 and 2019/20 and limited examination of previous years when the decisions to reduce Council Tax were made. In reading these reports the risks of low reserve levels, the lack of medium term financial planning and alternative options are not set out clearly in the reports for Members and the Public. The poor governance, culture and any issues, including those between Officers and Members were not set out in the Annual Governance Statements.

1.13. The Council, prior to COVID-19 had started to make progress under new political and officer leadership, the new robust approach to the Medium Term Financial Strategy had been welcomed and Members had commented on improved transparency in financial reporting. Difficult decisions were made in putting forward the 2020/21 budget, including removing car parking discounts for residents and reducing the Council Tax Reduction scheme discount for working age claimants.

1.14. Officers and Members were considering future strategies with financial planning, particularly climate change.

1.15. The report is written while RBWM, like all others, has had to deal with the impact of COVID-19. There is uncertainty as to whether the additional costs and lost income caused by the pandemic will be fully covered by additional government funding.

1.16. We would like to thank the management team and the finance team, with whom we worked closely in undertaking this review, for their support and cooperation and willingness to take on board the changes recommended. A list of those interviewed in the first phase of our work is provided at Appendix A.

2. Financial Reporting

2.1. Following our initial report to Members, CIPFA were commissioned to assist RBWM in resolving some of the issues raised in setting the 2020/21 budget and in the production of a new Medium Term Financial Strategy (MTFS). We were also asked to highlight and report on further governance, reporting and compliance weaknesses.

2.2. In carrying out the work, which commenced in September 2019, we referred back to the processes and procedures in place for both 2018/19 and 2019/20 where we found a number of weaknesses that required urgent attention. We are pleased to be able to report that these have been largely addressed in the Budget Report for 2020/21, the MTFS, the Treasury Management Strategy and the Capital Programme. These documents have the full support of the Leader, Managing Director, the Cabinet and the Corporate Leadership Team.

2.3. We set out below the key findings from our work under separate headings for ease of reference.

Revenue Budget Approval

2.4. Section 25 of The Local Government Act 2003 includes the following statutory duty in respect of the budget report to Council:

> "the Chief Financial Officer (CFO) of the authority must report to it on the following matters:
>
> a) the robustness of the estimates made for the purpose of the calculations; and
>
> b) the adequacy of the proposed financial reserves."

2.5. The Council is required to take this report into account when setting the annual budget. Section 26 of the same Act, places an onus on the CFO to ensure that RBWM has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined when finalising the proposed budget.

2.6. The Revenue Budget for 2019/20, approved by RBWM in February 2019, did not comply with the requirements of the Local Government Act 2003. More specifically the RBWM budget reports for 2017/18, 2018/19 and 2019/20, approved by RBWM, failed to include a statement from the CFO on the robustness of estimates. Although the reports do refer to the level of reserves they state only that reserves are above the level required and that RBWM is in a strong position to deal with the risks it faces for the forthcoming year.

2.7. We also found an issue in relation to "Special Expenses" charged to residents in the Windsor and Maidenhead town areas. Special expenses are costs incurred for the provision of an amenity or service that is primarily for the benefit of one locality which, elsewhere, would be provided by a town or parish council. The powers to incur "Special Expenses" are set out in Section 35 of the Local Government Finance Act 1992. In addition, these costs should be listed separately in the budget report and should be approved by RBWM as if the costs were managed by a Parish Council. There was a lack of understanding, within RBWM, as to how these costs should be approved and hence the finance team simply changed that part of the precept covering the "Special Expenses" in line with the changes to the Band D precept. This appears to have been standard practice from when RBWM first became a Unitary in April 1998 and was a principle carried over from the previous District Council.

2.8. Turning to the level of the precept proposed for the 2019/20 budget we found that the amount proposed was too low rather than too high. In 2019/20 RBWM approved the maximum increase of 2.99% in Council Tax. Anything above this level would have required a referendum. However, the increase was calculated on the Council Tax element excluding the Adult Social Care precept whereas the 2.99% maximum can be based on the total Council Tax including the Adult Social Care precept. This meant that the actual increase applied in Council Tax was 2.77% which is the percentage used for comparison purposes with other councils by MHCLG.

2.9. If the full 2.99% increase had been applied, as approved by Members, Band D Council Tax would have increased by a further £2.23, increasing Council Tax income by an additional £0.152m in 2019/20. This amount would have been included in Council Tax bases in future years. The finance team had planned to use the same methodology throughout the MTFS period to 2024/25, assuming a 2% p.a. increase each year. This would have had the effect of reducing the level charged by approximately £0.669m in the final year of the MTFS.

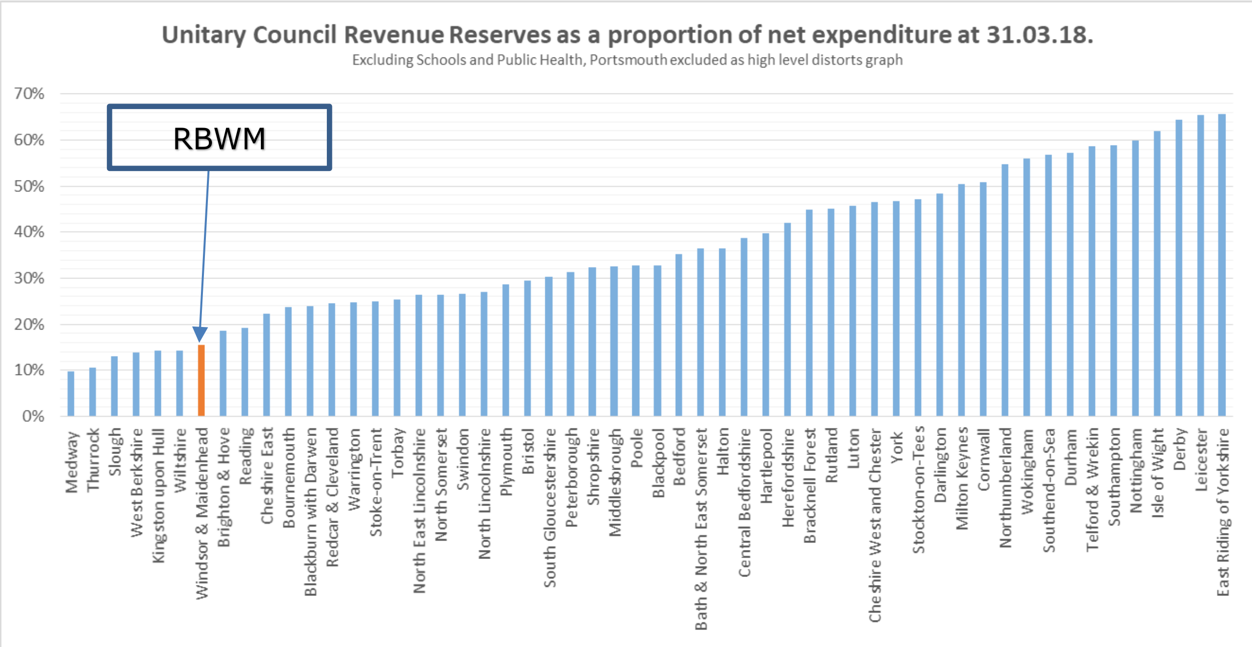
2.10. The key issues are that:

- Key budget decisions did not comply fully with statutory requirements (e.g. revenue budget s25 report):
- Budget reports lacked detail and only provided a cursory assessment of the robustness of reserves and spending projections that did not reflect the complexity of RBWM's business;
- Key items within the budget (e.g. special expenses) lacked transparency and annual review;
- The precept increase was calculated incorrectly, which resulted in a potential loss of council tax income of £152,000 in 2019/20.

Inadequate Reserves

2.11. The overall level of reserves in a council is based on an analysis of potential financial risks combined with a need to balance the annual budget. Risks considered by RBWM included the potential non-delivery of savings and possible increases in Children's safeguarding costs. The risks set out showed that there was an over-reliance on the use of the general fund reserve, rather than an expectation that RBWM would manage within its annual budget. For example, there was no provision for the possible slippage or non-delivery of savings and there was little assessment of the level of reserves required to sustain future budget deficits.

2.12. The overall level of usable reserves, compared with those of other Unitary Councils is very low, something that is not made clear in the budget report. The point is illustrated in the chart below.



2.13. The level of reserves is a concern given the risks facing RBWM in relation to the delivery of large savings, the reliance on assumed capital receipts, the uncertainty of future government settlements and the impact of Covid-19. Failure to address these risks would risk the financial sustainability of RBWM.

2.14. Our overall assessment of the process for setting reserves is that it was flawed in that:

- Whilst the assessment considered potential service risks it did not take into account the level of reserves that may be required to balance the budget over two to three years;
- There was insufficient explanation about how RBWM was managing one of the lowest level of reserves nationally.

Robustness of Estimates

2.15. Our review of the budget estimates for 2018/19 or 2019/20 revealed little evidence of robust examination. Specifically, we found that:

- A number of budgets were unrealistic or were sustained by one-off underspends;
- Some savings, approved in the 2019/20 budget, were abandoned very early in the financial year and the anticipated amounts to be delivered were unrealistic;

- Savings were not reported separately and there was no corporate challenge or overview, despite all of the savings being RAG rated as green in the budget report;
- Additional items not approved in the budget were added during the year, via Cabinet reports, and were charged to the General Fund reserve. No other options were presented or compensating savings offered. Examples of additional items in 2019/20 include £365K for "24 Hour Pot-Hole Commitment", £32K for "Make Maidenhead Marketing Strategy" and £100K for "Waste Mobilisation";
- Redundancy costs projected for future years, for example £585k provided for in 2018/19, would be charged to the general fund reserve rather than included as a specific budget. This was not set out in the budget report.

2.16. In terms of Business Rates the 2019/20 budget report estimated that £16.312m would be gained from business rates and that there would be a surplus carried forward of £3.545m. The NNDR 1, a return to government included as an annex to the same report, assumed business rates of £21.902m and a surplus of £0.512m a difference of £2.557m in total.

2.17. An element of the difference could be attributed to a prudent provision for potential deficits. However, this should have been made clear in the budget report. It is apparent that there was limited understanding of the business rates collection fund and, as a result, the Management Team and Cabinet members had not been made aware of the future risk of business rate volatility. Considering the size and risk relating to this funding stream we found it surprising that this area was not prioritised in finance reports.

2.18. Business Rates income experienced major variances in forecasts in both 2018/19 and 2019/20. The initial estimate for gross business rate income in 2019/20 was £93.995m. This was reduced to £92.687m in October 2019, to £89.840m in January 2020 and the outturn was only £86.638m. The budget estimate for 2020/21 was based on the January 2020 figure. Overall, there was a reduction of £7.357m or 7.8% from the January 2019 estimate. The net figure per RBWM's NNDR1 form was £21.902m after a large tariff and levy on the surplus above the amount gained since the localisation of business rates. The impact of the increased deficit will impact on the 2021/22 budget as the amount credited to the revenue account is based on the NNDR 1 form with the difference carried forward. These dramatic reductions, with little explanation, raise questions about the robustness of the process, which is clearly in need of further review.

2.19. The budget also assumed the use of one-off resources of £1.148m that were not highlighted in the budget report. The amount was netted off the costs of capital financing in the budget report, reducing its cost. The amount is only apparent by examining the detailed medium term financial planning forecast in appendix N of the report where it is referred to as a revenue contribution from capital. Given that the annex was not referred to in the report it was unlikely that the amount would be challenged. There was no working paper to support this assumption and it appears that it was a decision of the s151 officer and the then deputy s151 officer to include this value without the knowledge of other members of the finance team, the Management Team or Cabinet.

2.20. Turning to Housing Benefit, if a Council makes overpayments in Housing Benefit payments, mostly caused by late notification of changes in circumstances, it may retain the benefit of the additional income. RBWM's budget for this assumed that the level of income would be £0.966m in 2019/20. As invoices are raised the full benefit of the income is included in the accounts. The level of outstanding debt from this source at 31 March 2019 was £5.109m but the provision for bad debts was just £0.794m, despite more than 50% of the debt being older than three years and with some debt going back to 2001/02.

2.21. Housing Benefit debt is difficult to collect when it goes over 12 months in age and it is normal practice to provide a prudent level of bad debt provision. We found no sound basis for the calculation of the provision. A more realistic provision of £1.970m was calculated with the finance team at the end of February 2020 an increase in the provision by £1.176m. This amount was planned to be transferred to an unreconciled housing benefits balance due to be credited back into the accounts. Without this increase there would have been an additional charge on the 2019/20 revenue budget. Provisions for bad debts should be reviewed and challenged as part of normal practice in advance of budget setting to ensure that the budget is robust. In closing the 2019/20 accounts the finance team decided, with, we are told, the agreement of the external auditor, to only provide for £0.756m of bad debt provision as they hadn't had time to review the final position and would update it in 2020/21. This does mean there remains a significant under-provision for bad debts for this area at 31.03.20.

2.22. We have major concerns that:

- Budget reports were overly optimistic about the achievement of savings;
- Reserves were used during the year to meet the cost of "unforeseen" in year pressures, rather than looking at ways to manage these pressures within the allocated budget. This further weakened RBWM's financial position;
- Council Officers did not fully understand the risks surrounding business rates retention or consider how these could impact on the budget and its reserves;
- Key assumptions were not set out clearly within budget reports i.e. the use of one-off resources. This meant that the necessary approval to use these resources was not sought;
- Bad debt provisions were inadequate and unrealistic given the level of outstanding debt. Their potential impact on reserves was not highlighted or taken into account when the level of reserves was assessed.

Medium Term Financial Strategy

2.23. The MTFS reporting to Members prior to the 2020/21 budget was limited. A table of projected income and expenditure for the period 2020/21 – 2022/23 was included as an appendix to the 2019/20 budget report but it isn't referenced in the report. No mention is made about potential risks arising from the fair funding review, business rates review and Comprehensive Spending Review. Potential savings of £4.2m were identified as required in 2020/21 but no explanation is given of how these will be achieved or the plan to deliver them which we consider to be a major weakness.

2.24. The basis for forecasting costs beyond the subsequent financial year was confined to the finance team, it omitted potential increased costs and it was not triangulated with other initiatives that RBWM was undertaking such as the regeneration in Maidenhead. This meant that in both the 2018/19 and 2019/20 budget reports there was a significant under-estimate of the savings required in future years.

2.25. RBWM had, in previous years, reduced its council tax resulting in it having by far the lowest charge in the country outside of London. This matched Members' objectives but budget reports did not highlight the risks of pursuing this. However, the 2019/20 budget report recommended that RBWM should increase Council Tax by the maximum amount.

2.26. The estimated funding gap for 2020/21, included in the February 2019 budget report, had a number of optimistic assumptions, particularly around savings and not fully reflecting some pressures. Others couldn't have been anticipated. This meant estimated pressures for 2020/21 increased by £9.8m between February 2019 and February 2020.

2.27. Cumulative savings required for the period 2020/21 – 2022/23 in the February 2019 budget report increased from £1.9m to £14.5m in the February 2020 report.

2.28. The Medium Term Financial Strategy should be linked to the Corporate Plan. In RBWM there was no linkage prior to the report being approved by Council in February 2020. It appeared that RBWM was just managing its finances on a year to year basis.

2.29. The estimates made no assumption of pay increases for staff, bar some one-off payments, meaning staff pay would fall behind those in neighbouring authorities increasing recruitment and retention problems. The same assumption was made for its partner organisations, Optalis and Achieving for Children where the recruitment of Social Workers is particularly difficult. This assumption was not documented, nor does it appear to be widely known in key departments of RBWM.

2.30. With regard to the MTFS we found that:

- RBWM did not have a robust and transparent medium-term financial strategy;

- There was a lack of clarity over the medium to long term financial position facing RBWM;
- The projections that existed were overly optimistic and did not highlight the significant funding risks faced by RBWM;
- There was no clear context for the medium-term financial projections to link them to the overall objectives of RBWM as set out within the Corporate Plan.

Budget Monitoring

2.31. Early budget monitoring in 2018/19 identified significant variances to the approved budget. These were highlighted to the Management Team and informally to Cabinet but not formally reported openly or publicly until the budget monitoring report to Cabinet on 22nd November 2018.

2.32. Total service overspends at year-end were reported as £8m, over 10% of RBWM's net revenue budget and more than the level of opening general reserves of £7.4m. Services reduced overspends from additional savings and one-off measures to £4.1m. The overall position was further mitigated to £2.1m by one-off income relating to the Business Rate pilot.

2.33. In the RBWM July 2018 Budget Monitoring report the aggregated usable reserves were described as being in a healthy position at £8.7m, in excess of the £5.9m recommended minimum level set at the Council meeting in February 2018. Given the risks to the budget position and uncertainty for future years this position appears to be hard to justify, particularly as overspends of £8m were being identified at this point, although not being reported.

2.34. The s151 Officer explained that he had not reported the full position publicly to all Members in his reports in July, September and October [redacted] He did not seek advice from CIPFA, the LGA or the Monitoring Officer in dealing with this issue.

2.35. The s151 Officer has a statutory role and guidance is provided by CIPFA in "The Role of the Chief Financial Officer" in fulfilling the responsibilities of the post. The finance team, and the wider organisation, was not taking account of this. Budget monitoring and reporting was therefore inadequate and risked the credibility of the finance function in undertaking its role.

2.36. The finance team's main focus is reporting, through the final accounts process and budget monitoring. Given the amount of input and therefore costs of this monthly process the outcomes and use of the information was and still is limited.

2.37. The budget monitoring report to September 2019 Cabinet was reported in draft to Cabinet Members with a forecast £0.5m overspend. This ignored known overspends in departments and, following a review requested by the Managing Director and undertaken by CIPFA, was increased to £4.2m. Officers and Members, appeared to be reluctant to report the correct position, replicating the previous year's issues.

2.38. The overspend in Adult Care reduced during the year, as in previous years, partly as a result of pro-active management, but there appears to have been a trend of large overspends being forecast in September and October albeit reduced at outturn. It is unclear what causes this and it is recommended that further work on profiling the budget is undertaken to predict spending in this area more accurately.

2.39. Our comments in relation to budget monitoring are that:

- RBWM did not receive frequent and transparent budget monitoring information;
- There were delays in reporting budget variances and risks to members;
- Financial reporting was overly reassuring;
- Officers appeared overly sensitive in providing bad news about RBWM's financial position and the poor publicity that it would bring to RBWM.

Treasury Management Strategy

2.40. In recent years RBWM has increased its borrowing substantially to invest in the regeneration of the borough, pending some significant land sales. This means that the Treasury Management Strategy has even greater significance for RBWM.

2.41. CIPFA's Treasury Management code of practice requires that RBWM will receive:

- An annual report on the strategy and plan to be pursued in the coming year;
- A mid-year review;
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement.

2.42. We found that RBWM did not comply with the code of practice in that no mid-year review of Treasury Management was reported to Members, although cash-flow statements are published as part of budget monitoring reports. Also, no separate annual Treasury Management report was published. Some overall highlights of borrowing were published but as part of the following year's Treasury Management Strategy and they failed to fulfil the requirements of the code of practice.

2.43. The Treasury Management Strategy, approved by RBWM in February 2019, did not explain how the Finance team was intending to finance £341m of planned capital spending to 2035/36 in the short term. In the longer term this was to be financed from anticipated capital receipts but £167m of temporary borrowing would be required by 2021/22, which is the minimum forecast period required by the Prudential Code.

2.44. The approved 2019/20 Treasury Management Strategy explained how at 31 March 2018 RBWM had £57m of external long-term borrowing and £20m of short-term borrowing that was repaid in May 2018. However, it did not explain the forecast short-term debt of £88m at 31 March 2019 or the intention to increase temporary borrowing to £124m during 2019/20, which is a major omission.

2.45. The cost of the additional borrowing is not explained in the strategy nor is the current intention to borrow all of it on a short-term basis. No alternative strategy is proposed or discounted for this large increase in debt or the risk to RBWM of an increase in short-term interest rates above the 1% assumed.

2.46. The Treasury Management Code of Practice requires local authorities to make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years. These prudential indicators will be referred to as the estimates of capital financing requirement.

2.47. RBWM in their prudential indicators only quoted 2019/20 and 2020/21, not 2021/22 as is required or 2022/23 which in the MTFS appendix of the budget report was when debt charges were forecast to reduce.

2.48. The non-disclosure of key information on planned borrowing was a significant omission and did not enable Members to undertake their role in assessing the risks to RBWM when approving the Treasury Management Strategy for the year.

2.49. The spreadsheet that estimated the cost of debt charges in the MTFP was flawed in that it assumed the short-term debt was only required for six months of the year. The calculation resulted in the cost of borrowing £168m in 2020/21 showing as less than the cost of borrowing £88m in 2018/19. The spreadsheet has now been updated to correct the error and for other changes in assumptions. This one error represented an estimated under-estimate of £700K of interest in 2020/21 above that assumed in the MTFP.

2.50. Despite RBWM's plan to increase borrowing significantly in 2019/20 it had not taken any external advice from Treasury Management advisers on the assumption that short-term borrowing rates would remain low. The risk of increases in interest rates had not been modelled nor had a strategy of fixing an element of the borrowing, to reduce risks to RBWM, been considered.

2.51. Following guidance from CIPFA RBWM appointed Treasury Management Advisers but this coincided with the Government decision to increase PWLB rates by 1%. As such the advice was to continue with the strategy of short-term borrowing. If the advisers had been appointed earlier RBWM would have been able to fix an element of its debt at historically low levels. It has transpired that interest rates have continued to remain low but this risk was not being managed.

2.52. Our key findings in relation to the Treasury Management Strategy are that:

- RBWM did not have a compliant Treasury Management Strategy;
- The Treasury Management Strategy did not highlight the significant risk of borrowing plans which involved £167m of temporary borrowing by 2020/21;
- There was no in year report on borrowing levels and the risks associated with them;
- Information on Treasury Management and borrowing levels was not set out in sufficient detail within a standalone report;
- Reports were not transparent about the level of additional borrowing that RBWM was undertaking or the impact of that borrowing on the medium-term financial plans;
- Council Officers did not seek external professional advice on borrowing levels, even when the increased level of borrowing presented a significant financial risk to RBWM;
- This meant that officers missed the opportunity to reduce financial risks by converting more council borrowing to fixed rates. (The Covid 19 national emergency means that this has not caused any loss to RBWM).

Capital Strategy

2.53. In recent years RBWM has made considerable capital investment within the borough. CIPFA's Prudential Code requires all councils to approve a Capital Strategy as part of their budget process. Its intention is to provide a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services; along with an overview of how the associated risks are managed and the implications for future financial sustainability. It should show how revenue, capital and balance sheet planning are integrated.

2.54. The strategy should be informed by RBWM's priorities and links to other key strategy documents notably the Corporate Plan, Medium Term Financial Plan, Treasury Management Strategy, Asset Management Strategy and Property Investment Strategy.

2.55. The RBWM Capital Strategy is an appendix to the budget report and at just three pages long, is not a strategy document. It does not show how capital expenditure, capital financing and treasury management link together or what the associated risks of the strategy are to RBWM or how they are being mitigated.

2.56. In our opinion RBWM's Capital Strategy was not compliant with CIPFA's Prudential code and the budget report did not reference affordability in relation to its capital plans, a requirement of the 2003 Local Government Act.

2.57. The Prudential Code supports the system of capital investment in local authorities. It is integrated within the wider statutory and management processes of local government. These should be significant considerations when council's take decisions on capital investment, i.e. the level of capital investment that can be supported is subject to tests of affordability and sustainability.

2.58. The Local Government Act 2003 refers to affordability and the requirement that local authorities keep under review the amount of money they can afford to borrow for capital investment.

2.59. RBWM has ambitious investment and regeneration plans, building a new leisure centre, spending additional money on roads above that provided by government grant, investing over £200m in new schools and facilitating new housing in the Royal Borough. The intention is that this spending will be financed by capital receipts and grants of £425m over the period to 2035/36. This plan was not articulated in the Capital Strategy approved by Members. There has been no consideration of the risks to the capital programme and revenue budget of not achieving the assumed level of capital receipts.

2.60. RBWM's capital investment plans are not linked to affordability. The budget report does not set out the ongoing costs of the capital programme, how it is intended to be financed and the risks to RBWM's future financial sustainability.

2.61. Our concerns over the Capital Programme are that:

- RBWM did not have a compliant Capital Strategy;
- The Capital Strategy did not clearly set out RBWM's investment plans and now they aligned to its Corporate Plan and objectives;
- The Strategy failed to show how it would prioritise competing demands for capital investment or set a long-term vision for capital investment;
- The Capital Strategy failed to assess the affordability and deliverability of capital investment plans.

3. Clewer and Dedworth Capital Schemes

3.1. Two schemes were approved as part of the 2018/19 capital programme in the Clewer and Dedworth Ward:

- PAVE Dedworth £100k;
- Clewer & Dedworth Neighbourhood Improvements £350k.

3.2. The PAVE scheme was approved through the normal Council prioritisation process and had an outline of what could be delivered for £100K in terms of improvements to pavements. Some of the pavements are owned by local shop-keepers who rejected the request to contribute to the cost of the scheme. Based on advice from the Executive Member for Highways the scheme was reduced and the actual spend was £43K.

3.3. The £350K of neighbourhood improvements was a late request from the Ward Member that had no business case and was not part of the Highways Teams' prioritisation process. This proposal was agreed to be included in the Capital Programme for 2019/20 by the Member Budget Steering Group. No detailed scheme was agreed prior to the funding being approved by Council in February 2019.

3.4. In March 2018 the Ward Member made a further request to spend an additional £70K on two new schemes that he discussed with the then Managing Director. These were improvements to Sutherland Grange and Osgood Park (2 x £30K) and refurbishment and security works at the Spencer Denney Centre. None of these is a highways scheme.

3.5. The Managing Director appears to have agreed the spending but no approval or governance process was put in place around the proposed scheme. Officers included a breakdown of how the £350K should be spent in the Highways and Transport Investment Programme 2018-19 report approved by Cabinet on 24 May 2018. This involved 16 carriageway schemes, mostly re-surfacing and patching, and seven footway schemes. The breakdown in the report did not include the additional schemes requested by the Ward Member.

3.6. Officers assumed that an implied instruction in an email to the Ward Member from the Managing Director was sufficient authority to progress the new schemes.

3.7. The additional schemes were progressed in 2018/19 with £48K of additional expenditure authorised by the Manager for the £350K Neighbourhood Improvement scheme, causing it to overspend. A £56K overspend was reported in the Capital Outturn Report to 30 May 2019 Cabinet meeting as – "Scope of works increased".

3.8. Officers have stated subsequently that the unspent funds on the £100k PAVE scheme can be "vired" for use on the Parks schemes. They assumed that the Managing Director had the authority to do this and that they had, in essence, used her authority to do so. This is incorrect, they did not have this authority.

3.9. Officers assumed this authority to use funds flexibly was delegated to the Managing Director from one of the recommendations in the Highways and Transport Investment Programme 2018-19 report to Cabinet on 24th May 2018 which states:

> *"Delegate authority to the Managing Director, in consultation with the Deputy Leader of RBWM, and Lead Member for Highways, Transport and Windsor, to agree minor amendments to the approved schemes (within approved budgets) and implement reserve or substitute schemes should this become necessary."*

3.10. Cabinet does not have the power to supersede the Constitution approved by Council and a minor amendment to a Highways and Transport programme does not include spending £70K on new Parks schemes, virement rules do not cover this spending either.

3.11. The email from the then Managing Director is not explicit in agreeing the new scheme and no Officer Decision notice was published to agree the spending.

3.12. The Senior Manager with overall responsibility for the scheme wrote to the Executive Director and the s151 Officer advising that the scheme was progressing and asking for clarification on what budget to use. Neither replied.

3.13. When the position was explained by CIPFA to RBWM's Monitoring Officer she agreed that there was no authority for the expenditure on the Parks schemes and that officers were acting beyond the authority set out in RBWM's constitution. This raises the question of whether the action is Ultra Vires and this should be reviewed.

3.14. She also felt that the approval process for the £350K neighbourhood improvement scheme was questionable in that the expenditure avoided a prioritisation process to the benefit of one ward.

3.15. There was generally a lack of understanding of individual authority in respect of capital and this is referred to in section 4. below. Members seemed unaware of this as there has been no challenge from Officers on the appropriateness of the expenditure.

3.16. Overall we have concerns that:

- Members were able to circumvent RBWM's approved policy framework to include additional schemes in the capital programme without appropriate challenge from officers;
- This indicates a lack of clarity and clear division between member and officer roles;
- Schemes appeared in the Capital Programme with no business case;

- Officers lack of awareness of basic governance procedures and not raising concerns with RBWM's Monitoring Officer, or asking for advice led to procedures being by-passed;
- There was a lack of action by the s151 Officer when it became apparent that non-approved expenditure in Parks was being charged to the scheme. The failure to consider that officers could be acting beyond the authority set out in RBWM's constitution is also an area of great concern and raises questions regarding potential Ultra Vires expenditure;
- Some Members believed this is how council business should be conducted.
- Overall, there was a lack of transparency around the financial implementation of capital schemes.

4. Capital Programme Approval and Monitoring Process

4.1. The Clewer and Dedworth schemes, set out in section 5. above highlight major weaknesses in the capital approval and monitoring process in RBWM. We set out below our detailed findings.

4.2. The overall process for authorising spend has been examined. It does not appear that there is a consistent business case approach to agreeing capital spend or that the finance team are involved in calculating necessary expenditure.

4.3. There are numerous schemes where spend approval is rolled forward without considering whether this is necessary. It is reported that approvals are vired to other schemes although this has not been examined as part of our review. Nor have we considered whether the virement process used is compliant with the Constitution. The lack of rigour and challenge of older schemes where unspent approval is carried forward by the Finance team is an area of concern.

4.4. Capital Monitoring is included in the monthly finance updates to Cabinet but has a lot less profile, detail and explanation than revenue monitoring which is inconsistent with best practice.

4.5. Even when approval processes appear to have been followed appropriately the lack of a comprehensive business cases meant that the Council spent considerable amounts on schemes when it was not clear they were affordable. It is questionable whether the approved costs were fully challenged and, for example, spend of £36m on a new leisure centre would appear to be considerable higher, by a large margin, than other facilities built by other councils.

4.6. In-year capital monitoring and reporting was unsatisfactory, for example the report to Cabinet in November 2018 shows no variance or slippage across the whole programme. However, the report in March 2019 identified slippage of £23m across the programme. The report itself gives no explanation of the variances or slippage. Major schemes have a line of detail with the rest of the programme reported in summary in an appendix.

4.7. In the final outturn report in May 2019 slippage in the capital programme was reported as having increased to £33m, 39% of planned spend although this was not broken down by scheme or explanations given.

4.8. Variances were reported against 85 completed schemes in the capital outturn but the table does not show the variance to the approved budget. No outturn information is given for 184 schemes that are in progress or are part of ongoing programmes.

4.9. Not all spending is accompanied by an official Purchase Order, a significant financial control weakness.

4.10. Approval by Council as an item in the capital programme in many cases was taken as adequate, despite there only being a line of detail in the report to Council and no published officer reports.

4.11. There was no de minimis to items placed in the capital programme. Also the financial implications of the schemes, interest and MRP (effectively the principal repayment) were charged centrally. As there was pressure on revenue budgets officers were keen to charge amounts to capital. This had a number of implications. The cost of capital was rising steadily, some items were charged to capital that should have been charged to revenue and the programme had become unmanageable.

4.12. Some areas of capital, around improvements to roads, bridges and buildings are necessary for Health and Safety purposes and, given the scale of the estate, recur year on year. RBWM had partly recognised the repetitive nature of the work in a corporate budget for revenue contributions to the capital programme, which was a sign of prudence. The budget was £1.6m in 2015/16, reduced to £1.1m in 2016/17, £0.4m in 2017/18 and zero in 2018/19 to achieve savings.

4.13. A de minimis level of £20k was put in place in September 2019 for future schemes. Officers were provided with training on capital expenditure and certain items were re-classified as revenue where necessary.

4.14. New governance arrangements have been put in place for 2020/21 to ensure appropriate approval is sought for each capital scheme, schemes above £500k requiring a Cabinet report and those between £50k and £500k a published Officer Decision report that are in the approved capital programme.

4.15. This means that there are now two "gateways" (decision points) for projects - the approval to make budget provision for projects over £20k either in the annual budget setting process or as a special in year item; and the approval to spend.

4.16. There were, however, some clear strengths in the previous arrangements:

- All projects had an owner who sat at CLT (Executive Director or Head of Service);
- There were some project and programme boards in place. There were some professional project management resources and methods being used, particularly for the larger capital projects;
- Effort and resourcing applied on project / programme management overheads was economical for an Authority of this size;
- A new prioritisation method has been applied for the 2020/21 provision of capital budgets.

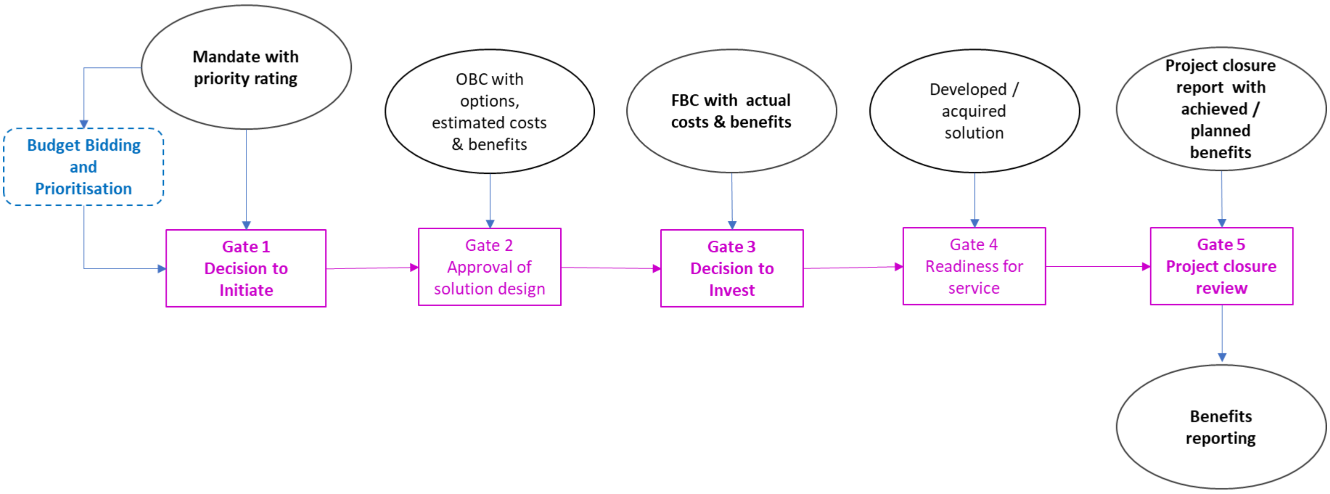
4.17. At the same time there are several weaknesses that potentially need to be addressed:

- There is no corporate visibility of the full projects' portfolio. This makes it difficult to monitor the full picture on status, progress and delivery;
- Projects are largely managed in isolation and there is limited management of dependencies;
- There is little in the way of attention to programme management focused on the delivery of specific outcomes, such as manifesto commitments;
- The use of a variety of different PPM methodologies, (in some cases ad hoc), makes it difficult to assure the quality of the project management;
- The lack of documented procedures adds to complexity and uncertainty. For example, some projects have a project board, and some do not. There needs to be consistent policy on when a project board is required;
- As well as the absence of documented procedures, roles (such as the responsibilities of the Senior Business Owner) are not defined;
- More control is needed in the form of a gateway process that will help ensure delivery of the right solutions, as well as staying within budget, throughout the project lifecycle;
- The absence of formal "gates" creates the risk that problems are not recognised and addressed early enough and that there is not enough challenge about options and the proposed solution;
- There is no clear corporate guidance on benefits realisation or project closure;
- There is limited use of business cases to justify project decisions, for the smaller projects;
- Key information about risks (RAG ratings) are missing in many instances and there is a lot of ad hoc verbal reporting, with subjective and selective content.

4.18. In addressing the weaknesses, there are several issues, practical factors and constraints to consider:

- There is limited resourcing and funding available for project management;
- These are several factors that will limit the scope for full standardisation across RBWM project management approaches and methods;
- Any changes have to be shaped by "the pull from the top". The form and extent of that pull has still to be assessed;
- It is most likely that RBWM will want to apply any planned changes for capital projects to other RBWM projects;

Project Lifecycle Controls:



- There are three important documents that will support the project lifecycle decision making:
    - The Mandate provides a brief preliminary description of the project and is designed to introduce the basic project concept and identify key issues at the earliest stages of project development,
    - The Outline Business Case (OBC) and Full Business Case (FBC) will build on and extend the Mandate contents for projects. Templates will be on-line, requiring minimal administrative effort, and scalable to the complexity/risk and value;
- The administrative burden for the gateway checks will be minimised by delegating more of the gate checking and approvals process. The extent of checking will be proportionate, for example, Readiness for Service checks for low risk and low value projects will be a decision only by the SBO, whilst Decision to Invest checks for high value or high risk projects will require approval from Senior Business Owner / Project Board, CIPB, CLT and Cabinet;
- There is a range of recurring annual provision items (for example: road resurfacing and traffic management schemes) which are essentially a programme of works rather than a one-off project. In terms of the gateway checks and the reporting procedures, it makes sense to treat the programme of works as a single project, with individual stages in order to avoid excessive administration with minimal risk impact;
- All projects with a total value in excess of £100K and for high risk projects less than £100K, the project manager will complete an on-line project report. The information captured at the corporate level will be accessible and available on-line to the project

manager, the SBO, the project board, the CIPB, the CLT and Cabinet.

4.19. The Senior Business Owner will be accountable for achieving the project benefits. RBWM will maintain a register of project financial / efficiency savings (savings tracker). The information will be captured from the Full Business case and updated from the Project Closure report together with any subsequent actions identified in the Closure report.

4.20. The general approach to the implementation of these proposals should follow "agile principles" in order to ensure that any changes are practical, as simple as possible, add real value (particularly in terms of reduced risks) and avoid unnecessary effort. It will be implemented in a phased build up over time.

4.21. The use of external as well as internal project management roles will continue. However, there will be additional commercial guidelines to ensure compliance with the RBWM project / programme management principles and procedures.

4.22. The main system components needed to support the new approach, and to minimise administrative burden, will need to be defined but are likely to include:

- A corporate project register;
- A mechanism for capturing project status reports;
- A common structured repository for associated project documents including completed reports, business cases etc.;
- Guidance on the procedures and templates, online;
- Project information access and retrieval facilities;
- Report generation provisions;
- Dashboard for summary, highlights and exceptions across the corporate projects' portfolio.

5. Management of the Berkshire Pension Fund and Partnership Arrangements

The Berkshire Pension Fund

5.1. RBWM is responsible for administering the Berkshire Pension Fund. As part of the annual audit of the fund the external auditor raised a number of concerns relating to the valuation of the fund and financial governance.

5.2. In respect of governance the concerns raised were:

- The minuting of meetings not being undertaken with appropriate rigour;
- Interests not being appropriately registered;
- Appointment of advisers not being transparent;
- Roles and responsibilities of advisers not clear;
- Electronic meetings not being adequately recorded;
- Member level governance of the Fund is not clear.

5.3. RBWM agreed that the concerns needed addressing and appointed a local authority pension fund expert recommended by the LGA to determine a way forward. Following this work RBWM has appointed an experienced pension fund manager on an interim basis to oversee the improvements in governance required.

Partnership Arrangements

5.4. RBWM has a number of partnership arrangements in place that in some cases have been put in place quickly without appropriate consideration of value for money and how these can be reviewed. The governance arrangements are also unclear.

5.5. To address this the Managing Director commissioned a series of additional work-streams during the latter part of 2019/20 to determine that the most appropriate arrangements are put in place.

5.6. The partnerships under review are set out below.

Optalis

5.7. Optalis is a jointly owned company with Wokingham Borough Council that delivers Adults Social Care to both councils.

5.8. The service level agreement (SLA) for the services provided by Optalis and the shareholder agreement are unclear and the original business case for RBWM purchasing shares in the company has not been fulfilled.

5.9. Given that this company is responsible for the largest area of Council spending the arrangements need to be reviewed to ensure it is providing value for money and is the most appropriate delivery model for the future. The SLA and shareholder agreement needs to be reviewed.

Achieving for Children

5.10. Achieving for Children is a Community interest Company providing services to Kingston, Richmond and the Royal Borough of Windsor and Maidenhead.

5.11. RBWM has benefited from being part of the company in that service standards have improved to such an extent that Ofsted rated them as good in 2020.

5.12. There does though need to be more clarity over the financial arrangements with the company and how financial information is reported.

5.13. Since the services have transferred to the company the quality of the service has improved significantly with formally OFSTED recognising the improvements. However the service has significantly overspent and savings haven't been delivered.

5.14. RBWM has subsequently commissioned a review of delivery options for AfC and Optalis to assist it in developing a more robust medium term financial strategy.

6. Conclusions

Revenue Budget Approval

6.1. Key budget decisions did not comply fully with statutory requirements (e.g. revenue budget s25 report);

6.2. Budget reports lacked detail and only provided a cursory assessment of the robustness of reserves and spending projections that did not reflect the complexity of RBWM's business;

6.3. Key items within the budget (e.g. special expenses) lacked transparency and annual review;

6.4. The precept increase was calculated incorrectly, which resulted in a potential loss of council tax income of over £152,000 in 2019/20.

Inadequate Reserves

6.5. The assessment of the required level of financial reserves was flawed;

6.6. While the assessment considered potential service risks it did not take into account the level of reserves that may be required to balance the budget over two to three years;

6.7. There was insufficient explanation about how RBWM was managing one of the lowest level of reserves nationally.

Robustness of Estimates

6.8. Budget reports were overly optimistic about the achievement of savings and almost never reflected negative issues or highlighted problems;

6.9. Reserves were used during the year to meet the cost of "unforeseen" in year pressures, rather than looking at ways to manage these pressures within the allocated budget. This further weakened RBWM's financial position;

6.10. Council Officers did not fully understand the risks surrounding business rates retention or consider how these could impact on the budget and its reserves;

6.11. Key assumptions were not set out clearly within budget reports i.e. the use of one-off resources. This meant that the necessary approval was not therefore sought to use these resources;

6.12. Bad debt provisions were inadequate and unrealistic given the level of outstanding debt. Their potential impact on reserves was not highlighted or taken into account when the level of reserves was assessed.

Medium Term Financial Strategy

6.13. RBWM did not have a robust and transparent medium-term financial strategy;

6.14. There was a lack of clarity over the medium to long term financial position RBWM faced;

6.15. The projections that existed were overly optimistic and did not highlight the significant funding risks that RBWM faced;

6.16. There was no clear context for the medium-term financial projections to link them to the overall objectives of RBWM as set out within the Corporate Plan;

6.17. The lack of a robust medium-term financial strategy made it difficult for RBWM to make sound medium-term financial decisions.

6.18. Forecasting of future capital receipts was wildly optimistic and had no relationship to what happened. Future receipts were assumed and used to justify spend in advance of being delivered.

Budget Monitoring

6.19. RBWM did not receive transparent budget monitoring information;

6.20. There were delays in reporting budget variances and risks to members;

6.21. Financial reporting was overly reassuring;

6.22. Officers appeared overly sensitive in providing bad news about RBWM's financial position and the poor publicity that it would bring to RBWM.

Treasury Management

6.23. RBWM did not have a compliant Treasury Management Strategy (TMS);

6.24. The TMS did not highlight the significant risk of borrowing plans which involved £167m of temporary borrowing by 2020/21;

6.25. Information on Treasury Management and borrowing levels was not set out in sufficient detail within a standalone report;

6.26. Reports were not transparent about the level of additional borrowing that RBWM was undertaking or the impact of that borrowing on the medium-term financial plans;

6.27. Council Officers did not seek external professional advice on borrowing levels, even when the increased level of borrowing presented a significant financial risk to RBWM;

6.28. This meant that officers did not take the opportunity to reduce financial risks by converting more council borrowing to fixed rates. (The Covid 19 national emergency means that this has not caused any loss to RBWM).

Capital Strategy

6.29. RBWM did not have a compliant Capital Strategy;

6.30. The Capital Strategy did not clearly set out RBWM's investment plans and now they aligned to its Corporate Plan and objectives;

6.31. The Strategy failed to show how it would prioritise competing demands for capital investment or set a long-term vision for capital investment;

6.32. The Capital Strategy failed to assess the affordability and deliverability of capital investment plans;

Clewer and Dedworth capital scheme

6.33. Members were able to circumvent RBWM's approved policy framework to include additional schemes in the capital programme without appropriate challenge from Officers;

6.34. This indicates a lack of clarity and clear division between member and officer roles;

6.35. Schemes appeared in the Capital Programme with no business case;

6.36. Officers lack of awareness of basic governance procedures and not raising concerns with RBWM's Monitoring Officer or asking for advice led to procedures being by-passed;

6.37. There was a lack of action by the s151 Officer when it became apparent that non-approved expenditure in Parks was being charged to the scheme. The failure to consider that officers could be acting beyond the authority set out in RBWM's constitution is also an area of great concern and raises questions regarding potential Ultra Vires expenditure;

6.38. Overall there was a lack of transparency around the financial implementation of capital schemes.

7. Improvements already implemented in response to initial findings

7.1. RBWM put in place measures that ensure that they comply with all applicable local government financial legislation, regulations and codes of practice

- The 2020/21 budget report, Treasury Management Strategy and Capital Strategy now comply with financial legislation, regulations and codes of practice. As does the requirement to produce a Treasury Management Outturn report and six month review.
- It is a robust budget and includes a contingency for unforeseen items and cover against slippage or non-delivery of savings.
- The budget report also set out the appropriate approval of Special Expenses for non-parished areas.
- The increase in Council Tax and the Adult Care precept was properly applied.

7.2. A fundamental review of the financial resilience of RBWM was undertaken that includes both the medium term financial plan and the capital programme

- This review was undertaken as part of the budgeting and medium term financial strategy process. A review was also undertaken of the capital programme and only essential works agreed. The budget report set's out in its introduction:
  - RBWM is facing a significant financial challenge
  - The position for the Royal Borough is more acute than other councils, due to its very low level of reserves. These are barely adequate to cover its current risks and are insufficient to cover future projected funding shortfalls in 2021/22 and beyond
  - If RBWM cannot set a balanced budget in 2021/22 or if its financial position markedly deteriorates in 2020/21 to a point reserves did not cover any overspend, RBWM S151 Officer would have to issue a s114 notice
- Staff and Members, through internal communications and presentations are fully aware of the financial position of RBWM. Something that was not apparent prior to September 2019.
- RBWM is embarking on a radical transformation programme with support from CIPFA and the LGA in order to address its financial challenges going forward.

- RBWM's MRP policy and capitalising interest for schemes in progress meant a saving in 2019/20 of £1.7m and £1.9m in 2020/21.
- The use of flexible capital receipts and approval of a transformation fund also meant that RBWM could charge redundancy costs linked to its savings in 2019/20 and 2020/21. This reduces the charge on revenue by £0.3m in 2019/20 and £0.5m 2020/21.
- These two initiatives enabled RBWM to maintain its general reserve level at £7.9m at the start of 2020/21 rather than reduce it further to an inadequate £3.5m.
- As part of its COVID-19 response it had early discussions with MHCLG on the financial risks the crisis would have on its finances.
- Although the financial position is difficult RBWM is now doing all it can to ensure its future financial resilience.

7.3. The role and support to the s151 Officer is reviewed

- RBWM implemented a new management structure in October 2019 which included a new Strategic Director of Resources with s151 responsibility with the same status us the other Strategic Directors. This was in addition to the Head of Finance post that operated at a lower, Head of Service level. In addition a further £100k was added to the finance team's budget for additional posts previously deleted. The finance team will undergo a further review in 2020/21 to ensure it meets the needs of the organisation.

7.4. A detailed review of the way financial management operates within the Royal Borough is undertaken as a matter of urgency

- A series of work was carried out over the period September 2019 – March 2020 to coincide with the start of the new Director of Resources at the end of February. A lot of improvements have been implemented, particularly in respect of improved transparency of financial reporting and compliance. This has been recognised by senior members from all political groups. It is recognised that this will be an iterative process and there is an expectation that things will continue to improve over the course of 2020/21, particularly when the new Head of Finance starts in June 2020.
- The Finance team have been pro-active in organising budget manager training sessions for both revenue and capital.
- Financial Regulations have been updated, although greater awareness and compliance needs to occur going forward.

8. Further Recommendations

8.1. RBWM has made good progress in resolving the weaknesses in financial governance but it will take time and a change in culture to embed the changes. Members have been understanding of the improvements required but there is an expectation of continuous improvement over the next 12 months, led by the new Director of Resources and Head of Finance. Together they will oversee the improvements and outstanding actions set out below.

Review of Medium Term Financial Strategy

8.2. The strategy needs to be updated to take account of the impact of Covid-19, the decision of government to delay the implementation of Fair Funding and the increased business rate deficit.

8.3. It is likely this will put further pressure on RBWM, increasing the current estimate of savings above £4m, potentially significantly above available reserves.

8.4. Many other councils will be in similar positions and it is to be determined whether government will give further support to Local Government in these unprecedented times.

8.5. RBWM though needs to be clear of its budget gap going forward and how much it can deliver from transformation, service reductions and efficiency savings.

Transformation Resource

8.6. The Council agreed to invest in Transformation resources to enable it to identify additional efficiencies through new ways of working. It needs to embed this work and pursue its commitment through the course of the year.

Capital Programme Management

8.7. A new Capital Programme board needs to be established, chaired by either the Director of Resources or Head of Finance to drive through the improvements in governance.

8.8. The capital programme is reviewed to ensure all schemes have appropriate and robust business cases, have clear delivery outcomes and that risks are appropriately managed. These improvements will be part of the changes overseen by the capital programme board.

8.9. Reporting of slippage in spending needs more pro-active challenge from the finance team through the year and managers need to be accountable for failing to deliver schemes to agreed timescales and not reporting slippage in spend.

Further Review of Financial Management

8.10. This will be undertaken by the new Head of Finance and will build on the work already undertaken, particularly in respect of challenge and compliance.

8.11. RBWM has a good IT system to manage its finances that has been implemented successfully by the finance team. A series of training programmes has been started with budget managers to ensure that they use the systems appropriately. This work needs to be embedded.

8.12. Only around 25% of transactions have a purchase order raised. For a number this is not necessary, foster care payments and utility bills for example. A review though needs to be undertaken to ensure that all goods requiring a purchase order have one.

8.13. A new financial model for the medium term financial planning needs to be developed for forecasting costs, savings and different scenarios. The current model was developed some years ago and understanding of how it works is limited to one individual. There are a number of linked cells, various linked work-sheets, some errors in particular cells and any update requires the use of the goal seek function to ensure the spreadsheet balances. The risk of error is high and understanding of what assumptions have been taken low.

Control Account Reconciliations

8.14. There are two large unreconciled balances over £1m relating to bank reconciliation and Housing Benefits that go back a number of years. One a credit and one a debit. The finance team and Internal Audit have undertaken significant work to resolve the differences and given the lack of historical records cannot go any further. The amounts need to be written back to the revenue account and reported to Members.

8.15. A further review of bank reconciliations and control accounts need to be undertaken to ensure that they are regularly balanced and there is independent verification and assurance that they do.

Debt Management

8.16. Debt is managed through the Revenues and Benefits team. There is limited reporting and review by services and the wider finance team. Provisions for bad debt are not regularly reviewed for appropriateness, e.g. Housing Benefit overpayments. There is a lack of resources and senior oversight of debt.

Council Tax and Business Rates Collection Fund

8.17. There is a lack of understanding in the finance team of how the collection fund operates. RBWM have commissioned a separate review of how this is being managed, the recommendations of which will need to be taken forward when completed.

Equalities Impact Assessments

8.18. Equalities impacts are produced for each of the budget proposals. These were produced late on in the budget process and CIPFA had to provide support to produce a cumulative equality impact assessment for the budget report. Something that hadn't previously been undertaken.

8.19. A central equalities resource needs to be established to ensure that the assessments are completed in a timely, consistent manner and that a cumulative assessment is undertaken that can be reviewed as part of the scrutiny process.

Management of Partnership Arrangements

8.20. The reviews of the Pension Fund, Optalis and AfC need to be completed and their recommendations implemented.

8.21. RBWM need to consider some of their other partnership arrangements not subject to procurement to ensure that they are providing value for money and that this is kept under review. These should include the wholly owned Property Company and the shared Internal Audit service. Despite the weaknesses in the control framework neither the Internal Audit Service, nor until the recent change, the External Auditor highlighted the problems covered in this report.

Member Oversight

8.22. The report highlights a lack of clarity between member and officer roles. It is essential that this clarity exists to enable RBWM to operate effectively. Accordingly it is recommended that the current Protocol Governing member and officer relationships is reviewed in the light of this report and additional training is provided to all officers and members once this protocol has been revised.

8.23. The audit committee was merged with the Corporate Overview and Scrutiny panel. Given the number of financial governance issues and the different roles of Scrutiny and Audit it is recommended that an independent Audit Committee is established, potentially with an independent chair.

Appendix A

Key Members and Officers Interviewed for initial work

Officers

Duncan Sharkey	Managing Director
Rob Stubbs	Head of Finance (s151 Officer)
Mary Severin	Monitoring Officer
Andy Jeffs	Executive Director of Communities
Hilary Hall	Director of Strategy and Commissioning
Ruth Watkins	Chief Accountant
Zarqa Raja	Corporate Accountant
Stuart Taylor	Lead Accountant – Adults & Health
Ben Smith	Head of Commissioning
Vikki Roberts	Principal Communities Officer
Catherine Hickman	Lead Specialist, Internal Audit

Members

Councillor Dudley	Leader of RBWM
Councillor Hilton	Lead Member for Finance
Councillor Targowski	Chair of Overview and Scrutiny

Appendix B

Further Work From September 2019

Further Work

Further work commenced in September 2019 with a number of CIPFA specialists assisting the finance team in improving financial governance, compliance and ensuring more transparent reporting. This work culminated in supporting RBWM approve a new Medium Term Financial Strategy and a more transparent budget report that was welcomed by both the lead and opposition parties. Additional areas of work included:

- Revising the content and format of budget monitoring reports
- Identifying additional gaps in the planned 2020/21 budget enabling RBWM to consider additional savings
- Revised Annual Governance Statement for 2018/19
- A new Treasury Management Strategy, outturn report for 2018/19 and mid-year report for 2019/20
- Update and publication of planned capital receipts supporting the capital programme
- Update of RBWM's Minimum Revenue Provision Policy, approved at December 2019 Council
- Re-prioritisation of the capital programme
- Recommended improved governance procedure for capital
- Capital Training for finance and managers
- Re-classification of revenue spend incorrectly coded as capital
- Pensions fund governance
- Re-writing financial regulations