



Auditor's Annual Report for Reading Borough Council

Year ended 31 March 2024

—

February 2025

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This report is addressed to Reading Borough Council ('the Council'). We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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01

Executive Summary



Executive Summary



Purpose of the Auditor's Annual Report

This Auditor's Annual Report provides a summary of the findings and key issues arising from our 2023-24 audit of Reading Borough Council (the 'Council'). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Council alongside the annual report and accounts.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:



Accounts - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Council and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the CIPFA/LASSAC Code of Practice in Local Authority Accounting ('the Code').



Narrative report - We assess whether the narrative report is consistent with our knowledge of the Council.



Value for money - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Council's use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.



Other powers - We may exercise other powers we have under Local Audit and Accountability Act. These include issuing a Public Interest Report, issuing statutory recommendations, issuing an Advisory Notice, applying for a judicial review, or applying to the courts to have an item of expenditure declared unlawful.

In addition to the above, we respond to valid objections received from electors.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities.

| | |
|-------------------------|---|
| Accounts | We issued a disclaimed opinion on the Council accounts on 28 February 2025 We have provided further details of the key risks we identified and our response on page 8. |
| Narrative report | We did not identify any significant inconsistencies between the content of the narrative report and our knowledge of the Council. |
| Value for money | We are required to give an opinion as to whether the Council has appropriate arrangements in place to secure economy, efficiency, and effectiveness in the use of resources. Our opinion is that the Council does have appropriate arrangements in place. We identified no significant weaknesses in respect of arrangements to secure economy, efficiency, and effectiveness in the use of resources. Further details are set out on page 11. |
| Other powers | See overleaf. |

Executive Summary



There are several actions we can take as part of our wider powers under the Local Audit and Accountability Act:

Public interest reports

We may issue a Public Interest Report if we believe there are matters that should be brought to the attention of the public.

If we issue a Public Interest Report, the Council is required to consider it and to bring it to the attention of the public.

We have not issued a Public Interest Report this year.

Judicial review/Declaration by the courts

We may apply to the courts for a judicial review in relation to an action the Council is taking. We may also apply to the courts for a declaration that an item of expenditure the Council has incurred is unlawful.

We have not applied to the courts this year.

Recommendations

We can make recommendations to the Council. These fall into two categories:

1. We can make a statutory recommendation under Schedule 7 of the Local Audit and Accountability Act. If we do this, the Council must consider the matter at a general meeting and notify us of the action it intends to take (if any). We also send a copy of this recommendation to the relevant Secretary of State.
2. We can also make other recommendations. If we do this, the Council does not need to take any action, however should the Council provide us with a response, we will include it within this report.

We made no recommendations under Schedule 7 of the Local Audit and Accountability Act.

Advisory notice

We may issue an advisory notice if we believe that the Council has, or is about to, incur an unlawful item of expenditure or has, or is about to, take a course of action which may result in a significant loss or deficiency.

If we issue an advisory notice, the Council is required to stop the course of action for 21 days, consider the notice at a general meeting, and then notify us of the action it intends to take and why.

We have not issued an advisory notice this year.

In addition to these powers, we can make performance improvement observations to make helpful suggestions to the Council. Where we raise observations we report these to management and the Governance Committee. The Council is not required to take any action to these, however it is good practice to do so and we have included any responses that the Council has given us.

02

Audit of the financial statements



Audit of the financial statements



KPMG provides an independent opinion on whether the Council's financial statements:

- Give a true and fair view of the financial position of the Council as at 31 March 2024 and of Council's income and expenditure for the year then ended; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

We conduct our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We also fulfil our ethical responsibilities under, and ensure we are independent of the Council in accordance with, UK ethical requirements including the FRC Ethical Standard. We are required to ensure that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Our audit opinion on the financial statements

We have not expressed an opinion on the financial statements.

The Accounts and Audit (Amendment) Regulations 2024 (the "Amendment Regulations") require the Council to publish its financial statements and our opinion thereon for the year ended 31 March 2024 by 28 February 2025 (the "Backstop Date").

We have been unable to obtain sufficient appropriate audit evidence over a number of areas of the financial statements as we have been unable to perform the procedures that we consider necessary to form our opinion on the financial statements ahead of the Backstop Date. These areas include, but were not limited to short term debtors, cash & cash equivalents, investment property, other service expenses, revenue from external customers and other service income and government grants and contributions and the balance of, and movements in, usable and unusable reserves for the year ended 31 March 2024 in relation to both the Group and the Council.

In addition, we have been unable to obtain sufficient appropriate evidence over the disclosed comparative figures for the year ended 31 March 2023 due to the Backstop Date. Therefore, we were unable to determine whether any adjustments were necessary to the opening balances as at 1 April 2023 or whether there were any consequential effects on the Council's income and expenditure for the year ended 31 March 2024.

Any adjustments from the above matters would have a consequential effect on the Council's net assets and the split between usable reserves and unusable reserves as at 31 March 2024 and 31 March 2023, the Collection Fund and on its income and expenditure and cash flows for the years then ended.

The full audit report is included in the Council's Annual Report and Accounts for 2023/24 which can be obtained from the Council's website.

Further information on our audit of the financial statements is set out overleaf.

Audit of the financial statements



The table below summarises the key financial statement audit risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

| Significant financial statement audit risk | Procedures undertaken | Findings |
|--|---|---|
| <p>Valuation of land and buildings</p> <p>There is a risk that the amount in the accounts does not accurately represent the fair value of the asset.</p> | <p>We critically assessed the independence, objectivity and expertise of the valuers used and the instructions provided to them, in developing the valuation of the Council's properties at 31 March 2024 (£362 million at 31 March 2024, of which £129.9 million was subject to valuation in year);</p> <p>We compared the accuracy of the data provided to the valuers for the development of the valuation of assets valued in year to underlying information;</p> <p>We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;</p> <p>We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation as part of our judgement;</p> <p>We agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the CIPFA Code; and</p> <p>Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.</p> | <p>We did not identify any material misstatements relating to this risk.</p> <p>We raised a recommendation relating to increased management review of valuation outputs.</p> <p>We considered the estimate to be balanced based on the procedures performed.</p> |
| <p>Valuation of investment property</p> <p>There is a risk that the amount in the accounts does not accurately represent the fair value of the asset.</p> | <p>Procedures performed are the same as those performed for land and buildings above, except investment property is valued differently, so we have evaluated in line with the relevant standards and the CIPFA Code.</p> <p>The Council has a £65.4 million portfolio, primarily consisting of industrial estates and office space.</p> | <p>We challenged management regarding the underlying valuation of investment properties resulting in an adjustment posted by management of £7.81 million. This was due to a difference in expected yield identified by our valuation specialist.</p> <p>We also raised a recommendation relating to increased management review of valuation outputs.</p> <p>We still consider the estimate to be optimistic based on the procedures performed and will work with management to refine the estimate..</p> |

Audit of the financial statements



| Significant financial statement audit risk | Procedures undertaken | Findings |
|---|--|--|
| <p>Management override of controls</p> <p>Management are in a unique position to manipulate or circumvent the systems in place.</p> | <p>Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.</p> <p>Evaluated the selection and application of accounting policies.</p> <p>In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments.</p> <p>Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.</p> <p>We analysed all journals through the year and focused our testing on those with a higher risk.</p> | <p>We did not identify any material misstatements relating to this risk.</p> |
| <p>Valuation of post retirement benefit obligations</p> <p>The amount estimated for pension liability in the accounts is not accurate.</p> | <p>Understood the processes and controls the Council have in place to set the assumptions used in the valuation;</p> <p>Assessed the actuary and the methodology/key assumptions made;</p> <p>Checked and re-calculated using data provided by the Council;</p> <p>Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;</p> <p>Confirmed the accounting treatment and disclosures made are accurate and in line with the CIPFA Code.</p> | <p>We have completed our work on post retirement benefit obligations and found the valuation to be balanced.</p> |

03

Value for Money



Value for Money



Introduction

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or ‘value for money’. We consider whether there are sufficient arrangements in place for the Council for the following criteria, as defined by the National Audit Office (NAO) in their Code of Audit Practice:



Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services.



Governance: How the Council ensures that it makes informed decisions and properly manages its risks.



Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

Approach

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor’s Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We make performance improvement observations where we identify opportunities to improve in areas where we have not identified any weaknesses.

Summary of findings

| | Financial sustainability | Governance | Improving economy, efficiency and effectiveness |
|---|------------------------------------|------------------------------------|---|
| Commentary page reference | 13 | 15 | 17 |
| Identified risk of significant weakness? | ✘ No | ✘ No | ✔ Yes |
| Actual significant weakness identified? | ✘ No | ✘ No | ✘ No |
| 2022-23 Findings | No significant weakness identified | No significant weakness identified | Significant weakness identified |
| Direction of travel | ↔ | ↔ | ↓ Reduction in risk |

Value for Money



National context

We use issues affecting Councils nationally to set the scene for our work. We assess if the issues below apply to this Council.

Financial performance

Over recent years, Councils have been expected to do more with less. Central government grants have been reduced, and the nature of central government support has become more uncertain in timing and amount. This has caused Councils to cut services and change the way that services are delivered in order to remain financially viable. Some Councils have initiated innovative plans to raise new funds, such as through increasing commercial activity. Some have questioned whether commercialisation activities open Councils to excessive risk or could be a poor use of taxpayer monies.

Some Councils have issued what are known as “section 114” notices, in this instance a declaration that they cannot generate sufficient resources to meet the costs they need to incur. In some instances, this has resulted in a need for exceptional financial support from central government (such as approval to sell council buildings to meet costs) and severe cutbacks to services.

Education

Many schools are now the responsibility of academy trusts, however some schools are still controlled and overseen by the local Council. Dedicated funding is provided by central government to run schools, however due to cost pressures many Councils have overspent against their central government allocation, particularly in relation to “high needs” expenditure (i.e. to support students with special educational needs and disability (SEND)). In response to this, the Department for Education has created the “safety valve” arrangement, where Councils are given additional funding whilst education costs are brought under control, with an expectation that schools reserves are brought back to break-even over time. When the safety valve arrangements end, some Councils are concerned that structural sustainability issues will not be resolved, and Councils will be financially unviable.

Infrastructure assets

Councils make use of their infrastructure assets data to support decisions in relation to roads, parks, and pavements they are responsible for. Some Councils have experienced issues with the quality of their records for infrastructure. From a financial reporting perspective, temporary arrangements have been put in place to ensure financial statements can be prepared whilst infrastructure records are improved. However, if records are not up to date, Councils will struggle to identify assets they are responsible for and when assets are life-expired and require replacement. That may result in a worsening quality of infrastructure that everyone depends on.

Local context

The Council has the same issues as most unitary authorities with demand for services and significant rises in inflation in the year ended outstripping the revenue streams used to fund them and the requirement to use reserves to fill the funding gap.

The Council's reserves in 2023/24 concluded with £66 million in the General Fund (inclusive of earmarked reserves), so it is possible to utilise reserves and continue services without significant changes in the medium term. However, management acknowledge the funding gap increases greatly into 2026/27 and has already begun planning for efficiencies and changes in delivery to mitigate the future challenges.

The Council has been on a journey of improvement, particularly in terms of governance, over the past few years. Some services are still requiring improvement according to reporting from the Regulators, which caused a significant weakness identified and reported by the previous auditors and a risk of significant weakness as part of our risk assessment process for 2023/24. Our findings in relation to this risk are noted on page 19.

Financial Sustainability



How the Council plans and manages its resources to ensure it can continue to deliver its services.

We have considered the following in our work:

- How the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Council ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the Council identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Conclusion on financial sustainability

We did not identify a risk of significant weakness in the area of financial sustainability. This is due to the procedures performed during our risk assessment identifying the Council to have appropriate and effective processes in place to deliver financial sustainability in 2023/24.

Delivery of the financial plan and position on reserves

The Council set a balanced budget for the 23/24 financial year, recognising in the Medium Term Financial Plan that savings were required in order to achieve this, with total assumed savings in the budget of £8.118 million (£2.823million brought forward from 2022/23). The 2023/24 Quarter 4 Performance Report states that that 52% of the total identified savings were achieved, with a net adverse variance in the actual outturn position of £6.099 million, funded from the Financial Resilience Reserve.

The reserves position is positive compared to other similar authorities as noted in the below extract from the CIPFA Resilience Index 2022-23 and other benchmarking (discussed in the *Improving Economy, Efficiency and Effectiveness* section).



Source: CIPFA Resilience Index 2022-23

The total General Fund for the year saw a small increase of £173k, leaving a balance of £8.39 million (£8.22 million 2022/23). The Council do also maintain earmarked General Fund reserves of £57.8 million for various purposes, many of which can be utilised should it be required. The primary drivers for the adverse variance to budget were a 14% increase in Children Looked After (CLA) causing a £8.506 million overspend and a significant increase in families presenting as homeless, responsible for a variance against budget of £1.459 million.

Financial Sustainability

Capital programme progress

The Council set a capital development programme totalling £50.129 million for 2023/24 in the General Fund and further HRA capital spending of £33.564 million approved. Provisional outturn against the General Fund balance was £45.6 million, with the larger projects including £7.1 million in the Highways Infrastructure Programme and £6.071 million on Leisure Centre Procurement.

Approval of financial plans and monitoring of Financial results

Guidance is issued by the finance team to Assistant Directors on an annual basis, typically shortly after the previous financial year end. This includes guidance for Budget Managers to propose a budget with efficiencies, supported by Finance Business Partners. Business cases are reviewed and challenged by the Corporate Management Team (CMT) and are then taken through a Lead Member group challenge process, in turn scrutinised at the Policy Committee. Following the finalisation of proposals, a final budget is produced and approved through the Policy Committee and recommended to full Council for final approval. The 2023/24 Budget & Medium-Term Financial Strategy 2023/24-2025/6 was approved by Council on 28 February 2023.

We reviewed internal audit's Annual Assurance Report, where the Council was given 'Limited Assurance'. This is partly due to 44% of audit receiving limited or no assurance in the year 2023/24. Although the report identifies deficiencies and agreed recommendations to mitigate these, we do not consider these to be severe enough to be classified as a significant weakness over financial sustainability. The Council should endeavour to improve identified areas, particularly those that will improve financial management.

Forward look

The Medium Term Financial Strategy 2024/25-2026/27 shows savings required across the period of £8.5 million in order to balance the MTFS, with £4.6 million due in 2024/25.

The Council's 24/25 Quarter 1 Performance and Monitoring Report suggests a net variance of £4.987 million against budget and only 41% of identified savings in the 24/25 Budget are on track for delivery by the year end, underlying the on-going challenges faced.

| Key financial and performance metrics: | 2023-24 (£m) | 2022-23 (£m) |
|--|--------------|--------------|
| Planned surplus/(deficit) | Breakeven | Breakeven |
| Actual surplus/(deficit) ¹ | (6.099) | 4.191 |
| Usable reserves* | 66.1 | 78.4 |
| Year-end cash position | 24.2 | 54.2 |

¹ to the Council's Revenue Budget, not the Statement of Accounts

*includes earmarked General Fund Reserves, General Fund balance of £8.4 million 23/24 (£8.5 million 22/23)

Governance



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

We have considered the following in our work:

- how the Council monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Council approaches and carries out its annual budget setting process;
- how the Council ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the Council monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour.

Conclusion on governance arrangements

We did not identify a risk of significant weakness in the area of governance. This is due to the procedures performed during our risk assessment identifying the Council to have appropriate and effective processes in place to monitor and assess risk.

Risk management

The Council's guiding governance document is the Constitution, last updated in May 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, which further formalises the risk management structures within the authority.

There are five levels of risk register operated within the Council. Lower level risk registers are reviewed by operational and/or directorate management teams, with the opportunity to promote the risk to the Strategic Risk Register. Roles and responsibilities for various registers, identification of risk, and practicalities of raising a risk are clearly defined. 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 Audit & Governance Committee throughout the year.

Fraud, Laws and Regulation and Officer compliance

The effectiveness of internal controls is monitored by the Audit & 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 Audit & Governance Committee, following input by the CMT. Any recommendations raised by Internal Audit or the Counter Fraud teams are reported to the Audit & Governance Committee. Our review of the Audit Committee papers confirmed that there were appropriate discussions and follow up of recommendations for both Internal Audit and Counter Fraud.

We have reviewed internal audit's report on Employee Gifts & Hospitality and Declarations of Interest, where 'No Assurance' was given. KPMG also noted issues with maintenance of declarations of interests as part of external audit procedures. We have raised an Other recommendation in this area, although we do not believe this is indicative of a significant weakness overall.

Governance



View from the Regulators

The Council is subject to a number of inspections by the regulator. We have outlined the key metrics in the table to the right.

We have touched on some of the key conclusions from the annual internal audit cycle in the previous page and in our work over *Financial Sustainability*. The Annual Assurance report does not cover core financial systems in 2023/24 due to the change in systems. Although it identifies several areas of improvement, which the Council should action in order to reduce weaknesses in governance, we do not believe this in itself constitutes significant weakness. The direction of travel regarding internal audit opinions however will continue to be of interest into 2024/25.

The latest Children's services inspection from Ofsted was 22 April 2024, however picks up a theme of a number of years, whereby the Children's services are assessed as 'Requires improvement to be good'. We have reviewed this further as part of our conclusion on *Improving economy, efficiency and effectiveness* as it relates to improving delivery of services primarily.

| | 2023-24 | 2022-23 |
|--|--|---|
| Key areas for improvement reported in the Annual Governance Statement | Review of procurement governance to align with transformation programmes; monitoring mandatory training; strengthen arrangements for monitoring and recording declarations of interests, gifts and hospitality; target improvement of response times to FOI and enquiries; implement recommendations from the Housing Repairs Taks Force; review governance of the Climate Programme Board and embed climate action across the organisation. | Cyber Essentials Plus certification; deliver phase 2 of the Finance Transformation Plan; catch up on completion/sign off Statutory Accounts; introduction of new Manager Induction training; address issues in MOSAIC payments audit; Directorate of Adult Care & Health Services transformation programme to continue and DACHS Commissioning Board to continue delivering up to date spot contracts for external provision. |
| Head of Internal Audit Opinion | Limited assurance | Reasonable assurance |
| Ofsted rating | Children's Services – April 2024 Requires Improvement. | Children's Services – last rating 2019 Requires Improvement |
| Care Quality Commission rating | No overall rating – individual services rated as 'Good' | No overall rating – individual services rated as 'Good' |

Improving economy, efficiency and effectiveness



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

We have considered the following in our work:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the Council evaluates the services it provides to assess performance and identify areas for improvement;
- how the Council ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the Council commissions or procures services, how it assesses whether it is realising the expected benefits.

Conclusion on arrangements for improving economy, efficiency and effectiveness

We identified a risk of significant weakness in this area as part of our risk assessment process. This was driven primarily by an Ofsted inspection of Children's services, published 12 July 2024, that had a conclusion of 'Requires Improvement'.

We have outlined our response to this risk on page 19.

We have concluded that there is not significant weakness in arrangements to improve economy, efficiency and effectiveness.

Assessing Value for Money and Opportunities for Improvement

The Council had a target of £5.3 million regarding cost savings for the financial year 2023/24, which we noted above having not been met in year. Efficiencies are built into the budgeting process as previous outlined above. A similar level of savings were included in budgets for 2024/25 with £4.6 million of savings. The Council is on track to make just 41% of these as at Q1.

Typically cost saving performance is reported as part of regular reporting to the Council and Corporate Management Team, allowing the Council to assess the level of value for money being achieved. All approved savings proposals generate a monthly savings tracker that is reported monthly as part of the budget monitoring process and included within the Quarterly Performance and Monitoring Report, reported through the Policy Committee and the Corporate Management Team also have a monthly meeting dedicated to performance.

Monitoring of Performance of Services

Performance reporting and monitoring of efficiency plans occur at various levels, with each major saving identified in a Directorate reported through the Policy Committee and up to Council. The Audit & Governance Committee review the Strategic 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 to the Policy Committee as part of the Quarterly Performance and Monitoring Report. All collated information is subject to initial scrutiny by the CMT.

Improving economy, efficiency and effectiveness



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).

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 the Council's level of band D council tax rates are higher than average for England and similar local authorities and non-ringfenced reserves as a percentage of net revenue expenditure and as a percentage of service spend is around the average nationally.

We have reviewed the CIPFA outputs for the Council. 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 lower risk compared to its Nearest Neighbours and other Unitary Authorities, with areas such as the 'Reserves Sustainability Measure' and 'Level of Reserves' at the lower 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 these show a reduction in overall reserves and an increase in net service spend per head, alongside increases in children social care and other demand-led services, the Council trends in the same direction as the mean for all English single tier local authorities. There is one slight outlier, which is Total expenditure on housing services per head and Reading shows as one of the highest of single tier authorities and remaining above average, even with a reduction year on year.

Partnership Working, including Managing Outsourced Services

The Council have two long standing Private Finance Initiatives (PFIs):

- i. North Whitley Housing PFI: a thirty year contract to maintain 1,250 dwellings, now in year 20. This represents a regular outlay of c£7.9 million annually.
- ii. Waste PFI: this is a twenty five year contract between Reading, alongside Wokingham and Bracknell Forest, and RE3 Limited, now in year 17. This represents a regular outlay of c£3.2 million annually.

Although taken together, these represent a significant annual outlay to the Council, they are smaller in terms of annual payment than many PFIs seen nationally to deliver similar services, partly through collaboration with other neighbouring authorities in the case of the waste contract. This remains one of the larger 'unalterable' costs in the annual budget.

The Council also has a number of local partnerships (including the recently established Berkshire Prosperity Board) and those required through the provisions of services alongside local NHS bodies and other Councils in the region.

Value for Money – risk of significant weakness



Children's services

Risk that value for money arrangements may contain a significant weakness linked to improving economy, efficiency and effectiveness.

Significant Value for Money Risk

As reported in the latest Ofsted report relating to children's services, there is a risk that the Council does not have in place adequate arrangements to offer consistently good services.

Our response

We will perform the following procedures:

1. Consider the development of the Council arrangements in place to establish the required improvements per the Ofsted report.
2. Understand the process for identifying drivers and actioning the change required per the action plan.
3. Conduct interviews with senior management and those in the directorate to understand the issues and how they are progressing to resolution.

Our findings

Findings

Although the latest report still shows 'Requires improvement to be good', two of the four sub-categories have improved to 'Good' from the original report having all four in the headline domain.

We met with the Executive Director for Children's Services who was confident the services are moving in the right direction and supported this with communications with Ofsted showing further improvement to the action plan.

The transformation programme underway is also expected to yield further results and there are numerous methods of monitoring and governance in place to improve quality, whilst also maintaining a value for money focus.

As the trajectory of travel is positive and the rating is still a weakness to rectify, we do not think on balance that this represents a significant weakness for 2023/24.

Conclusion

Based on the findings above we have not identified any significant weakness in arrangements.

Action plans responding to the prior year weakness identified have been reviewed and monitored throughout the year and are showing improvement.

Improving economy, efficiency and effectiveness risk



Arrangements for children's services – additional review

The Council received a report from Ofsted in 2019, which concluded services 'Requires improvement to be good'. This follows from a 2016 report showing Reading's children's services were 'Inadequate'. The previous year's Value for Money conclusion stated the further focused visit in 2022/23 did not show enough improvement and a significant weakness was reported.

In our conclusion we have interviewed the Director of Finance and the Executive Director of Children's Services, as well as reviewed relevant governance and reporting, including Ofsted's focused visit in 2023/24 and the full report that landed just after the period, being inspected in April 2024, however highly relevant to the arrangements in place during the period.

In this, the Council's ratings improved to 'Good' for two of the four sub-categories and Ofsted note that significant progress has been made in some areas. Although the report notes services are still not consistently good, the trajectory of travel is clearly improvement and there is a body of evidence to show that the Council continues to monitor, govern and arrange for improvement across the economy, efficiency and effectiveness of these services.

There is an on-going continuous improvement plan with KPIs and regular monitoring. A number of Committees receive monitoring and provide scrutiny, including the Adult Social Care, Children's Services and Education Committee.

The Council's Children's services are run through its subsidiary, Brighter Futures for Children. This area of the budget does have challenges financially, although these are echoed across the national picture, where all similar Councils have seen a spike in caring for children. In Reading's case, this involves an older population of around fifty children that have complex needs accounting for 80% of the spend. In general rising costs appear to be due to more demand than supply available, thus higher payments to achieve placements or continue existing residential schemes.

Financially there are three Panels to manage placements at Director level, with financial oversight, but aimed primarily at achieving the best quality of outcome for those being placed.

There is also evidence of an increasingly joined up approach in informal partnerships between Councils, such as 'Berkshire West Safeguarding Children Partnership', a collaboration hosted by Reading that includes West Berkshire and Wokingham neighbouring unitaries and the local ICB and Police force. This allows for region-wide strategies to tackle Children's services issues and allocate funding and resources more holistically.

Value for Money: Recommendations



The recommendations raised as a result of our work in respect of value for money in the current year are as follows:

| # | Grading | Issue, Impact and Recommendation | Management Response/Officer/Due Date |
|---|---------|--|---|
| 1 | Other | <p>Issue</p> <p>As part of the financial statements audit and internal audit’s annual assurance report, deficiencies were found in the Employee Gifts & Hospitality and Declarations of Interest register.</p> <p>Impact</p> <p>The Council may be vulnerable to conflicts of interest. There is a risk of undue influence over decisions where undeclared interests, gifts or hospitality are not identified. This also exposes the Council to accusations of undue influence, where decisions are made without these considerations, regardless of whether this has or has not been exercised.</p> <p>Recommendation</p> <p>The Council should apply a more rigorous approach to declarations of interests and gifts & hospitality, with centralised and regularly updated/reviewed registers.</p> <p>To ensure these are kept up-to-date, these could be tracked through the Audit and Governance Committee.</p> | <p>The Council will review and improve the arrangements for managing Employee Gifts & Hospitality and the Declarations of Interest register. Progress on implementing audit findings will continue to be included in regular performance reports to the Audit and Governance Committee.</p> <p>Officer: Monitoring Officer</p> <p>Due Date: 31/3/25</p> |

Value for Money: Recommendations



Below we have set out our findings from following up recommendations raised identified in prior years by your previous auditor:

| # | Grading Issue, Impact and Recommendation | Update as of January 2025 | Management Response/Officer/Due Date |
|---------|---|---|---|
| 1 Key | <p>Issue</p> <p>Improving economy, efficiency and effectiveness: Failure to significantly improve external inspection findings of Children's services which mean that the service is assessed as having under-performed for a number of years.</p> <p>Recommendation</p> <p>We recommend that the Council continue to implement the actions required by Ofsted and critically assess performance in this key area of service provision including the acceleration of the pace of change to ensure that all children's circumstances improve.</p> | <p>KPMG: Management have put in place governance that has driven an increase in two of the four domains in the most recent report to 'Good' – although it still shows 'requires improvement' overall, this demonstrates implementation of actions and progress, therefore we do not feel this should remain a significant weakness in 2023/24.</p> | <p>Further to the decision in January 2025 to bring back in house the services provided by Brighter Futures for Children - estimated to be transferred during Autumn 2025 but by no later than 1 April 26 - the Council will continue to prioritise these services which will include setting up an independently chaired Improvement Board.</p> |
| 2 Other | <p>Issue</p> <p>Governance: How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud</p> <p>Recommendation</p> <p>We recommend that management ensure that the remediation and improvement implement in the key controls surrounding key reconciliation of accounts payable, accounts receivable, general ledger, payroll and bank reconciliation and review and approval in the accounts payable and accounts receivable processes are continuously being applied and monitored.</p> <p>Further, we also recommend the continuous improvement of controls around intercompany accounting arrangements between the Council and Brighter Futures for Children.</p> | | <p>The Council transferred back the Brighter Futures for Children finance team on 1 April 2024 which now forms part of the Council's Finance Service.</p> <p>All key process and controls are monitored by the Finance Leadership Team who ensure staff agree all relevant intercompany transfers between the Council and Brighter Futures for Children</p> |



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