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Dear Stephen

Royal Borough of Windsor and Maidenhead – Financial Sustainability and Governance

Grant Thornton UK LLP was appointed as your external auditors for the five-year period commencing 2023/24.

As the appointed auditor our responsibilities include to give an opinion on the financial statements and assess the arrangements for Value for Money (VFM) - securing economy, efficiency and effectiveness in the Council's use of resources.

We also have additional powers and duties under the Local Audit and Accountability Act 2014. These include powers to issue a public interest report, make statutory recommendations and to apply to the Court for a declaration that an item of account is contrary to law. This letter is an informal communication ahead of a more formal consideration of the use of these powers and reflects the serious emerging issues arising from our 2023/24 VFM audit.

Whilst our VFM work is ongoing, the work to date has identified a number of serious concerns about the financial challenges that the Council is facing and the risks to the Council's financial sustainability and effective governance in the short and medium-term. In raising these concerns, I want to acknowledge the open and transparent approach that both you and Elizabeth Griffiths (S151 Officer) have taken in discussing the Council's challenges and some of the historical issues which impact on the Council with us as your newly appointed auditors.

Background

The Council is aware that it faces significant challenges to its financial sustainability. On 22 May 2024 a financial update informed the Cabinet that the Council was to approach Government to seek Exceptional Financial Support (EFS). This support sought to provide financial capacity to enable the Council to address historic problems including the need to transform services and address the current underlying deficit.

The Council's General Reserves are estimated to have fallen below £4 million and recent reviews of earmarked reserves have left very limited opportunities to re-prioritise these reserves to support the General Fund. This situation, together with ongoing spending pressures, capacity challenges and governance weaknesses significantly increases the level of risk the Council faces. Further detail on this is set out below.

Our responsibilities

As part of our VFM responsibilities we are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money, recommendations are made setting out the actions that should be taken by the Council. The Code expects where auditors identify significant weaknesses in arrangements as part of their work, they raise them promptly with those charged with governance.

Whilst we have not yet completed our Value for Money work for 2023/24, the findings to date indicate a large number of significant concerns that are set out in more detail below:

Initial Findings

1. The Council has not yet published a draft outturn for 2023/24 but reported at Month 11 that service expenditure was projected to exceed the budget by £10.392 million which would require the use of £6.755 million of General Fund reserves to balance the budget. The 2022/23 outturn reported the forecast balance of General Fund reserves at £10.213 million and the Section 25 report considered as part of the 2024/25 budget expected the General Fund reserves position to fall below £4 million at the end of 2023/24.
2. You have informed us that current year (2024/25) financial monitoring projects an overspend of £6.293 million in 2024/25. There continues to be a large overspend in relation to Adult Social Care which is currently provided through Optalis, your jointly-owned company with Wokingham Borough Council. Service overspending in Adults Services was significant in 2022/23 due, in the main, to rising demand and costs, but underspending elsewhere compensated for this. The 2023/24 financial monitoring report in April 2024 projected a £7.038 million overspend in Adults and Health. Both Optalis and Achieving for Children (AfC) provide statutory services for the Council which are subject to demographic and market pressures and the Council's contractual relationship with both of these companies should have been set up and maintained on an appropriate and clearly understood approach to sharing risk. The Council's base budget for Adults Services does not reflect the current level of demand and contractual arrangements and as a consequence, the overspending is being perpetuated. There is therefore a risk that the Council will not be able to recover the position in 2024/25. Furthermore, the Council has not previously been able to demonstrate that it can successfully achieve this level of in-year savings.
3. The Council has not produced a full bank reconciliation since March 2021. This fundamentally undermines the integrity of both external and internal financial reporting and the financial information on which decisions are made. Ongoing work to reconcile differences has the potential to further detrimentally impact on the Council's financial position. Specifically, potential errors have been identified in the amount of income attributed to national non-domestic rates in 2022/23 and 2023/24. You have also informed us of errors in debt control processes relating to adult social care invoices which were not paid.
4. External financial reporting and the timely audit of the financial statements is integral to ensuring the Council is accountable for its stewardship of public funds. The Council's 2020/21 financial statement were not signed off by our predecessors until April 2024. The 2020/21 opinion included a limitation of scope in respect of the collection fund in respect of business rates. The 2021/22 and 2022/23 financial statements remain unaudited. Historic capacity issues within the finance team combined with the ongoing bank reconciliation issues mean that at the time of drafting this letter the 2023/24 financial statement have not been produced and presented for audit, the national deadline for their production being 31 May 2024. The inability of the Council to produce complete, accurate and timely financial statements and subsequently complete the audit raises significant concerns over the governance arrangements at the Council and undermines the ability of decision makers to have confidence that decisions are being taken based on a true financial position.
5. We have identified concerns about the governance, efficiency and effectiveness of the Council's wholly-owned property company which is currently the subject of an external review. The company provides services to the Council which include carrying out valuations, asset management, acquisitions and disposals. The company also plays a critical role in bringing forward the development of a golf course owned by the Council which represents a potential future capital receipt originally estimated at £200 million. The Council's borrowing decisions in recent years have been taken in the context of realizing this capital receipt and the possibility of achieving a lower value because of suggestions that a lower density of development should be pursued represents a significant risk to the Council's future financial sustainability as a consequence of its high level of debt.
6. You have shared with us concerns about the historic impact of eight years of council tax cuts and freezes which have significantly eroded the Council's income levels in comparison with similar authorities. The consequence of this has been felt most significantly in the staffing resource available to ensure that the Council is administered professionally and effectively. We have noted that there are significant gaps in the Council's capacity and these are exemplified by current vacancy levels within the finance team and insufficient capacity in dealing with legal and procurement issues. These gaps in capacity are impacting on your ability to complete the work to identify errors and take appropriate action.
7. The Council is now in a position where it is dependent on securing EFS from Government in order to provide the resources and time required to i) dispose of capital assets to underpin the Council's financial position in the short term ii) continue to deliver budgeted savings iii) implement a transformation strategy which successfully reduces costs and brings the Council's service expenditure back within budget iv) secure the capacity it needs to ensure the Council is effectively managed, particularly in respect of finance and other core functions. Delivery of the

transformation programme and building essential capacity in the organization will require investment of resources in the short-term. Asset sales will also have an impact on the Council's short-term financial position through loss of income.

These initial findings set out an extremely challenging situation, particularly because of the low level of reserves available and the risk that the Council's reserves will be fully depleted.

Next Steps

Whilst we are yet to conclude our 2023/24 VFM work and reach our final judgements, the concerns raised above will result in our reporting a number of significant weaknesses in arrangements. Our initial reporting timeline was a draft VFM report by the end of September 2024. We will now await the outcome of the other ongoing reviews referred to above and reflect on what, if any, additional work may be necessary to conclude our VFM judgements for 2023/24. Should any additional work be required we will first discuss this with the S151 Officer and agree a revised timetable taking into account our obligation to report in a timely way.

We recognise that the Council is aware of its situation and is in discussions with Government about EFS which, if secured, would help to address the financial risks that it faces. We also acknowledge that action is being taken across all the areas set out above and that external support is being utilised as part of this process.

Specifically, the Council has proactively sought independent advice and support from CIPFA. The Council is also considering utilizing consultants to assist with the underlying rising costs in adult social care that would involve significant up-front costs but ultimately will generate significant revenue savings. Once again this will put further pressure on the already depleted levels of reserves and balances.

We are also mindful that the recent General Election has also resulted in some uncertainty about the timescales in which a resolution to your request for EFS can be found.

The Council should continue to act with urgency to put in place a credible recovery plan, recognizing that sufficient capacity within its finance function is an essential requirement which needs immediate attention. The Council's Statutory Officers should also continue to give careful consideration to the duties the law places on them.

We request that this letter is shared with all members at the earliest opportunity. This letter, and management's response, should also be included within the September 2024 Audit and Governance Committee's papers.

Yours sincerely



Peter Barber, Engagement Lead

For Grant Thornton UK LLP

cc Elizabeth Griffiths – Section 151 Officer