

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 12th October 2020

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WARD(S): All

PORTFOLIO: Cllr Swindlehurst: Leader of the Council

PART I **NON-KEY DECISION**

MEDIUM TERM FINANCIAL STRATEGY 2021/22 – 2023/24

1. Purpose of Report

- 1.1 This report sets out the Council's plans for preparing a balanced budget for 2021/22 and Medium-Term Financial Strategy for 2021/22 - 2023/24.
- 1.2 All local authorities are facing significant financial challenges, especially given the current COVID-19 national emergency, and Slough Borough Council is no exception. The Council is continuing to manage the pressures it faces in-year however it must also recognise the material impact on its medium term financial plans due to Covid-19. This reassessment of impact is due to lower revised estimates in respect of core funding levels (eg Council Tax and Business Rates); savings that have been identified as non-deliverable due to the reprioritisation of resources to tackle COVID-19; and an acknowledgement that income streams may not recover to previous levels due to the impact of the pandemic on employment levels and business viability. There is also significant anticipated growth in demand for children's and adult social care arising from the pandemic.
- 1.3 The latest Medium-Term Financial Strategy estimates that there will be a projected cumulative budget gap of £17.887m by 2023/24.
- 1.4 The Section 151 officer, in the Revenue Budget report to Full Council in February 2020, highlighted the low level of general reserves in Slough and Members had agreed a strategy to increase reserves substantially over the medium-term. The COVID-19 pandemic, and current financial position of Slough Children's Services Trust, has meant it may not be possible to implement this strategy in the short-term and, at the current time, the General Fund reserves are insufficient to cover the projected funding shortfalls in 2021/22 and beyond. Uncertainty around future central government funding adds to the scale of this risk.
- 1.5 The Council therefore needs to consider the affordability of its services and ensure that, where they can afford to do so, service users meet the cost of the services they receive, as is the case in other councils. This report includes an outline strategy for reducing the Council's costs and it is essential that the council is committed to transforming its services to keep within the ever tighter financial constraints it is likely to face in future.

- 1.6 While every attempt will be made to protect key services, it is important to highlight, and for Members to recognise, the level of savings required will inevitably impact on service levels in some areas. All impacts will be assessed and considered during the budget setting process. It is also important to highlight that the Council is required to make these savings in order to match its expenditure to its level of expected income from council tax, business rates and central government which is being severely reduced due to the COVID-19 pandemic. The Council will therefore be taking all actions necessary to ensure a balanced budget is delivered for 2021/22, as required by legislation. Members are also aware the Council has a strong history of balancing its revenue budget by year-end; and the Period 5 monitoring indicates significant in-roads have been made in reducing the Council's overspend from that reported to Cabinet at the end of Quarter 1.
- 1.7 If a council is not able to set a balanced budget in 2021/22 or, if its financial position markedly deteriorates in 2020/21 to a point that its available financial reserves are not sufficient to cover any forecast overspend, prior to COVID-19 that Council's Section 151 Officer would have to issue a Section 114 notice.
- 1.8 However, Members are asked to note for information: there has been a change of government guidance due to Covid-19. Now if the Section 151 officer believes a Section 114 notice is required, he or she would need to write a formal report to Cabinet and the Management team and begin discussions with MHCLG. Such an action may result in a Council being able to borrow for revenue purposes, adding to future revenue pressures to balance its budget and/or a level of government intervention into its general running, e.g. the appointment of a Commissioner to oversee cost reductions; it would not result in more funding being provided by central government. Members are aware, the Council must always contain its expenditure within the level of its available resources. This overarching principle has not changed due to COVID-19 and plans are being developed to ensure it is able to continue to do so in the future.
- 1.9 Given the current national focus and interest around the ongoing viability of local authorities in England, it is important to state that Slough Borough Council is not in a current financial position that would require a Section 114 notice to be considered and/or issued, nor discussions to be entered into with MHCLG.

2 Recommendations/Proposed Action

The Cabinet is requested to resolve:

- (a) That the updated MTFS targets for 2021/22 – 2023/24 be noted.
- (b) That the need to set a balanced budget over the whole of the MTFS period be noted.
- (c) That the issues and actions set out in this report which are informing the development of the Council's MTFS be noted.

3. The Slough Joint Wellbeing Strategy, the JSNA and the Five Year Plan

- 3.1 This report indirectly supports all of the strategic priorities and cross cutting themes. The maintenance of excellent governance within the Council helps to ensure that it is efficient, effective and economic in everything it does. It helps to achieve the corporate objectives by detailing how the Council is delivering services to its residents within the financial parameters of the approved budget.

4 **Other Implications**

(a) Financial

The financial implications are contained within this report.

(b) Risk Management

| Risk | Mitigating action | Opportunities |
|------------------------|--|--|
| Legal | None | None |
| Property | None | None |
| Human Rights | None | None |
| Health and Safety | None | None |
| Employment Issues | A number of posts may be affected by changes proposed. If necessary these will be managed through the council's restructure, redundancy and redeployment policy and procedure. | None |
| Equalities Issues | An EIA will be produced for each proposed saving | None |
| Community Support | None | None |
| Communications | None | None |
| Community Safety | None | None |
| Financial | Detailed within the report | None |
| Timetable for delivery | Risk of overspend and making further savings elsewhere | Decisions that could bring savings proposals forward |
| Project Capacity | None | None |
| Other | None | None |

(c) Human Rights Act and Other Legal Implications

None.

(d) Equalities Impact Assessment

There is no identified need for the completion of an EIA.

5. **Financial Context**

5.1 The current Medium Term Financial Strategy (MTFS) was approved by Council in February 2020 and assumed a mix of council tax increases, efficiency savings and income generation to balance the budget between 2020/21 to 2022/23, although there were still un-identified, ongoing savings required of £4.680m over the period. That projection has now been extended by a further year, into 2023/24, and has been updated to include the latest assumptions.

5.2 The MTFS approved in February 2020 also assumed, via the Capital Strategy, that the cost of providing for the Minimum Revenue Provision (MRP) element, required to repay the capital element capital spending would be funded each year

from new capital receipts. MRP is £4.165m in 2020/21 rising to £6.215m in 2023/24.

- 5.3 In addition the MTFS also approved £5.8m of transformation spend in 2020/21 and 2021/22 from capital receipts. There are £10m of HRA capital receipts on the balance sheet that could be used as an alternative funding source. Dependent on decisions the Council may have to find additional savings or sell some of its capital assets to fund MRP costs in future years. The Strategic Acquisition Board is currently undertaking a root and branch review of all the Council's assets (including commercial assets) with a view to ensuring the Council has a flexible asset base suitable for delivering quality customer-focussed services. Assets deemed surplus to requirements will be disposed of where commercially viable and necessary.
- 5.4 Alongside other authorities, the Council is reviewing its use of capital receipts to fund MRP as an ongoing strategy. It is recognised that, this legal mechanism, is not sustainable in the long-term as it requires the continual disposal of assets. Both CIPFA and MHCLG indicated, following discussions with Peterborough Council, that they have concerns regarding this approach although the current financial regulations remain unchanged.
- 5.5 It should be recognised that to completely withdraw from using capital receipts to fund MRP with immediate effect would require the Council to make significant and "unnecessary" service cuts at a time of national emergency. Therefore, the MTFS proposes withdrawing from the use of this strategy on a reducing basis over the medium term (by 1 April 2024). If this strategy is adopted, the Council will need to identify approximately £18m of assets for disposal, from an asset base of over £1bn which includes over £243m of land and buildings and £97m of investment property, over the next three years. If commercial assets are identified for disposal a further financial balance needs to be struck as they are currently being used to generate additional income for the general fund.
- 5.6 The medium term financial planning process is an essential part of the Council's resource allocation and strategic service planning framework. The Medium Term Financial Strategy (MTFS) integrates strategic and financial planning over a three year period. It translates the Strategic Plan priorities into a financial framework that enables members and officers to ensure policy initiatives can be delivered within available resources, and can be aligned to priority outcomes.
- 5.7 The drivers for the Council's financial strategy are:
- To set a balanced budget over the life of the MTFS whilst protecting residents from excessive council tax increases, as defined by the government, through the legislative framework covering Council Tax referenda.
 - To fund priorities agreed within the period, ensuring that service and financial planning delivers these priorities.
 - To deliver a programme of planned reviews and savings initiatives designed to keep reductions to service outcomes for residents to a minimum.
 - To maintain and strengthen the Council's financial position so that it has sufficient contingency sums, reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery of service outcomes for residents.

- Ensuring the Council maximises the impact of its spend to deliver priority outcomes in the context or reducing resources.

5.8 Like many councils, Slough faces considerable financial challenges, particularly increasing numbers and costs of supporting vulnerable people and children in care. However, it has routinely been recognised that the Council's level of reserves are relatively low, in comparison to other Unitary Authorities, which means that it has less time and potentially fewer options than others to bring its budget into balance.

5.9 Slough has made a substantial commitment to regeneration and to the development of the local economy. To fund this important investment borrowing has substantially increased which are impacting on the revenue budget.

5.10 In the current year council spending has come under considerable pressure due to Covid-19 and a year-end overspend of £2.135m is projected based on spending to August 2020. In the main this is due to particular service pressures in Children's and Adult's Social Care and Temporary Accommodation costs. The Council has also found it harder to deliver savings than it had expected, which has also meant that some savings targets have not been achieved. These additional pressures are reflected in the 2021/22 budget forecast.

5.11 In summary the Council's challenge over the next three years is set out in the table below:

| | £'000 |
|--|---------------|
| Budget gap in original MTFS | 3,719 |
| Children's growth added | 1,300 |
| Savings slippage | 1,412 |
| Reduced CT income (Taxbase & Collection) | 2,254 |
| Spread loss of CT/NNDR (over 3 years) | 1,333 |
| Minimum Revenue Provision | 5,425 |
| Interest payments | 1,075 |
| Increased pension deficit | 750 |
| Reduce £1m growth provision by £750k | (750) |
| Increased business rates | (1,466) |
| Other Grant Adjustments | (28) |
| | <u>15,024</u> |
| | |
| Increasing by 2023/24 => | 17,887 |

5.12 The Government has introduced funding mechanisms to partially compensate local authorities for additional expenditure and lost fees and charges income in 2020/21. However, to date, it has made no allowance for the significant Council Tax and Business Rates income losses the Council is currently experiencing due to COVID-19 which will need to be resolved over the next three years.

5.13 The Council relies on approximately £100m of Council Tax and Business Rates income to fund its net budget of £124m.

5.14 The Council is currently estimating a shortfall in Business Rates and Council Tax of £4m due to the COVID-19 pandemic. In line with central government guidance, this collection fund loss will need to be recovered over 2021/22 – 2023/24, at £1.3m per annum.

- 5.15 Businesses have been given some protection by central government, in 2020/21, via grants, Business Rate reliefs and the furlough scheme. Unfortunately, it is anticipated some businesses will become unviable due to COVID-19. Central government has recently agreed not to undertake a Business Rates revaluation during 2020/21. This revaluation had been anticipated to reduce Business Rates income further for the Council. Therefore its delay has resulted in an income projection that is higher than that estimated in the approved MTFS in February 2020.
- 5.16 If people lose jobs, due to the pandemic, and cannot find alternative employment they will be entitled to Council Tax support which covers up to 80% of their Council Tax bill. If house building and home sales slow the Council's taxbase will grow at a much lower rate than previously anticipated. This has a direct adverse impact on the amount of income the Council is likely to receive in the future.

6. Policy Context

- 6.1 Despite COVID-19, the council will still be spending over one hundred million pounds in 2021/22 delivering services to the residents of Slough and investing in the future of the borough through major capital schemes.
- 6.2 It is important that the council considers how best it can continue to meet its policy objectives within the tighter financial constraints that it now faces.
- 6.3 This will undoubtedly require a level of prioritisation and the budget plans will focus on the following key policy outcomes, as set out in the Council's five-year plan:
- Outcome 1: Slough children will grow up to be happy, healthy and successful;
 - Outcome 2: Our people will be healthier and manage their own care needs;
 - Outcome 3: Slough will be an attractive place where people choose to live, work and stay;
 - Outcome 4: Our residents will live in good quality homes
 - Outcome 5: Slough will attract, retain and grow businesses and investment to provide opportunities for our residents
- 6.4 These policy outcomes are not achievable without sustainable council finances. The proposals within this report have been developed to help make the finances of the council more financially viable in the future.
- 6.5 The council always considers the affordability of the services it provides, so council tax-payers do not have to subsidise non-core council services.
- 6.6 The revised projection is shown in para 5.11 above.

7. Budget Pressures

- 7.1 Next year cost pressures are expected to amount to approximately £15m. These are driven by a number of factors:
- a) **Previous spending decisions**— for example the borrowing costs associated with capital investments made by the council.
 - b) **Demographic changes** – as the population of Slough increases, demands on its services will also increase. To an extent this will be matched by additional council tax income.

- c) **Spending pressures on Children's Services and Adult Care** are placing increased pressure on council budgets.
- d) **External changes beyond the council's control**, such as changes to grant allocations from central government.
- e) **Under-delivery of savings** – some of the savings identified for 2020/21 have not been delivered and therefore have an impact on the 2021/22 budget.
- f) **Under-achievement of income targets** – in some cases it has not been possible to deliver increased income even by setting higher charges.

8. **Proposed Savings**

- 8.1 The Council approved £2.370m of savings for 2021/22 in February 2020.
- 8.2 To balance the budget going forward directorates are implementing the Our Futures Council-wide restructure; reviewing all service provision; assessing expenditure reductions across supplies and services, transport costs, third party expenditure; and further income generation initiatives.

9. **Funding**

- 9.1 Over 50% (£61.569m) of funding for the council is from Council Tax paid by residents.

Business Rates

- 9.2. The next largest funding stream relates to Business Rates. The council is estimating that it will collect £83.185m of Business Rates in 2021/22. 50% of this is returned to Government and 1% passed to the Fire Authority, leaving £40.671m to fund all Council services.
- 9.3 In theory, as the business rates income is derived from local businesses, the Council should retain the remaining 49%. However, Business Rates are re-distributed across the country based on assumed need and a top-up and tariff system equalises business rate income across the country.
- 9.4 Business rates income can be subject to significant volatility; one or two empty properties or appeals can have a substantial impact on the level of business rates collected. This makes it difficult to predict with accuracy the level of business rate income.

Revenue Support Grant

- 9.5 An annual payment of Revenue Support Grant of £6.222m has been assumed throughout the MTFs period but this will not be confirmed until late December 2020. The Government uses a complex formula to allocate funding to councils. This formula includes a wide range of social, economic and demographic factors. £6.222m reflects the amount the Council received in 2020/21.

New Homes Bonus

- 9.6 The council receives new homes bonus as an incentive for housing growth, this equates to an expected £1.905m as part of the financial settlement in 2021/22 and this amount has been assumed in the budget for the year.

Adult Social Care Funding

- 9.7 The Council will receive a share of the £1bn of extra government funding for Adult Social Care in 2021/22. The Council's related share for 2020/21 was £2.833m.
- 9.8 The Adult Social Care budget also relies on £3.873m of Better Care Funding (BCF) via the NHS.

10. Medium Term Funding Risks

Reserves

- 10.1 Councils hold reserves for the following reasons:-
- a) **Covering unforeseen spending pressures** – for example a major flood or other incident could have a big, uninsurable, impact on council services. This would place undue pressure on the current year's budget.
 - b) **Manage general risk and uncertainty** – councils operate in very uncertain times, where there can be significant changes to in year funding. This means that councils need to hold reserves to protect themselves against big funding shifts and buy them time to bring their budget into balance.
 - c) **Meeting known risks and future commitments** – often these are known as earmarked reserves. These are reserves held for a specific purpose, for example an insurance reserve.
 - d) **Holding monies on behalf of other bodies** – the schools revenue balances are an example of this.
- 10.2 Slough has total reserves of £16.320m, which are split between general reserves of £8.173 and earmarked reserves of £8.147m, of which £2.675m are immediately available for general use. These are set out in the table below:-
- | | |
|--|----------------|
| | £'m |
| General Reserves | 8.173 |
| Available earmarked reserves for general use | 2.675 |
| Total | 10.848 |
| Less: Projected 2020/21 deficit (as at period 5 monitor) | <u>(2.135)</u> |
| | 8.713 |
- 10.3 Members are aware that the Slough Children's Services Trust (SCST) has a current deficit of £5.5m. Senior officers and DfE officials have entered into negotiations regarding the future treatment of this deficit and the ongoing funding of SCST. The Council is clear that it should not be expected to fund this deficit as SCST was established as an independent organisation outside of the Council's control. Therefore this deficit is not reflected in the table above, however it remains a significant risk.
- 10.4 Reserves play an important role in managing risks and uncertainty and help councils adjust their financial position to manage sudden changes in funding, without having an immediate and adverse impact on service users. Although they can only be used once.
- 10.5 There is no mathematical formula for assessing the level of reserves but clearly the financial risks that the council faces can provide a guide as to the level of reserves that the council should maintain.

- 10.6 The projected level of reserves are close to the minimum level assessed by the Section 151 officer and CIPFA's resilience index highlights the level of reserves in Slough as being high risk. As noted previously, pre-COVID 19, Members had agreed a strategy to significantly increase the level of these reserves.
- 10.7 Given the financial challenges that the council faces, it will not be possible to continue to rebuild reserves within the short term, although it is important that the council looks to rebuild reserves, in line with Full Council's agreement in February 2020, across the medium to long term.

11. Strategy to Reduce Costs

11.1 Directorates are now reviewing the following areas to reduce costs

- a) A review of contracts – the council delivers a large share of its services through third party contracts. This includes a review of existing council contracts to ensure that they provide value for money and that the service level within them is affordable, whilst maintaining quality service provision.
- b) A review of services. This means that there is a need to challenge current service provision and consider a range of delivery options and service levels.
- c) Review of the council property portfolio. A substantial and increasing share of the council's budget is taken up with servicing debt. The council will need to consider whether it is able to liquidate some of its assets to reduce the heavy burden of debt repayments. The impact of Covid-19 has meant more staff working from home, questioning the need for overall office space. A rationalisation would lead to reducing the revenue costs of the operating buildings.
- d) Review of Agency Staffing. The Council is spending circa £12m pa on agency staffing. Although a lot of these staff are vital in covering hard to fill posts in services Directors are reviewing the impact of deleting these posts, which can be done at short notice.
- e) Transport, the council spend £7m pa, including Home to School Transport. Directors are reviewing options for savings.
- f) Income, review of fees and charges to ensure they at least match neighbouring boroughs and wider consideration of parking charges.

11.2 The council also needs to make its case to the Government for more assistance to enable it to manage the increased pressures that it faces. This includes

- a) Protecting existing council funding in the form of government grants and business rates
- b) Lobbying government to ensure that central funding better reflects the demographic pressures that Slough is facing around Children's and Adult Social Care

12. Legal Implications

12.1 The provisions of the Local Government Finance Act 1992 (LGFA 1992) set out what the council has to base its budget calculations upon and require the council

to set a balanced budget with regard to the advice of its Chief Finance (section 151) Officer. The setting of the budget is a function reserved to Full Council which will consider the draft budget which has been prepared by the Cabinet. Once the budget has been agreed by Full Council the Cabinet cannot make any decisions which conflict with it, although variations and in-year changes can be made in accordance with the council's Finance Procedure Rules (set out in Part 8 of the council's Constitution).

12.2 Section 30(6) LGFA 1992 provides that the council must set its budget before 11 March in the financial year preceding the one in respect of which the budget is set.

12.3 The provisions of section 25, Local Government Act 2003 require that, when the council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance (section 151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. It is essential, as a matter of prudence that the financial position continues to be closely monitored.

12.4 Members must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered as agreed and that new expenditure is contained within available resources.

13. Risk Management

13.1 Given the level of financial uncertainty and current service pressures, there is clearly a risk that the current budget may prove difficult to deliver.

13.2 This risk has been mitigated by trying to ensure that budget estimates are realistic and reflect current activity, along with known demographic and economic pressures.

13.3 A key risk for the council is that its finances are not sustainable in the long term and it does not have enough reserves to enable it to effectively manage the financial risk that it faces in the medium term.

13.4 The budget strategy sets out the steps that the council needs to take as a matter of urgency to make its finances more sustainable. This includes the need to build its reserves to a more realistic level in the medium term.

14. Conclusion

14.1 The Council's finances have been adversely affected by the COVID-19 pandemic. Officers are taking steps to ensure the Council is able to set a balanced budget for 2020/21 at Full Council in February 2021.

15. Background Papers

- Revenue Budget Report to Full Council – February 2020
- Capital Budget Report to Full Council – February 2020
- Treasury Management Strategy Report to Full Council – February 2020
- Q1 Revenue Monitoring Report to Cabinet – September 2020
- Other working papers within the Finance Service Area