SLOUGH BOROUGH COUNCIL

REPORT TO:	Overview & Scrutiny Committee
DATE:	18th February 2021
CONTACT OFFICER:	Neil Wilcox, Executive Director Corporate Services (S151)
(For all enquiries)	(01753) 875358
WARD(S):	All

PART I
FOR COMMENT & CONSIDERATION

MEDIUM TERM FINANCIAL STRATEGY 2021/22 – 2023/24

1. Purpose of Report

1.1. This report provides the Overview & Scrutiny Committee with an opportunity to scrutinise the budget and make any recommendations to Cabinet ahead of it's meeting on 22nd February 2021. The report sets out the proposed revenue budget for 2021/22 and the Medium Term Financial Strategy 2021/22 to 2023/24. It updates the Interim Budget Report which Cabinet agreed in December 2020, including changes arising from the Final Local Government Finance Settlement and further work on savings and budget pressures.

1.2. Full Council will meet on 8th March 2021 to set the Council revenue budget for 2021/22.

1.3. The recommendations within this report propose:

- An increase in the Council's element of the Council tax for a band D property by £70.83 for 2021/22, giving a band D Council Tax of £1,490.30 per year, excluding the precepts from Police, Fire and parishes.

- This equates to an increase in the Council's general band D Council Tax by 1.99%, the maximum permitted without a referendum as previously planned; and an increase in the Council's Adult Social Care Precept by 3.00% as confirmed by Government in the Final Local Government Settlement.

1.4. Prior to use of a one-off capitalisation directive there was as a budget gap of £10.154m in the 2021/22 General Fund Revenue budget. This was due to three one-off pressures; the 2019/20 Business Rates Deficit, the Slough Children's Services Trust historic deficit and the impact of Covid-19.

1.5. The Ministry of Housing, Communities and Local Government [MHCLG] have recognised these one-off pressures and this report is prepared on the basis that Slough Council can utilise a one-off capitalisation directive to capitalise up to £12.200m of revenue spend to address them. Whilst this direction supports the Council's revenue budget for 2021/22 and avoids a significant depletion of the Council's available reserves, work will need to continue and be completed by the end of September 2021 to identify further savings to address the underlying budget gap going into 2022/23.

1.6. In the context of the financial challenge the Council faces over the medium-term, this report sets out necessary advice for Councillors on:

- The financial position of the Council;
- The context for service delivery;
- National and local financial matters affecting the Council's services for residents and businesses;
- Proposals about how to address these issues;
- Revenue budgets for service delivery, pressures, savings and income generating solutions and proposed fees and charges; and
- The risks associated with the financial position in the short and medium term.

1.7. There are a number of appendices to the report which set out the revenue budgets for General Fund and the Housing Revenue Account; the Flexible Capital Receipts Strategy; Fees and Charges for 2021/22; Dedicated Schools Grant allocation; and Council Tax Setting.

1.8. Members are aware that the Council is currently in the midst of a fundamental restructure, affecting all staff. It is intended that the new structure will be implemented by 1 April 2021. The appendices reflect the current accounting structure of the Council. Once the restructure is implemented the accounting structure will be changed and virements will be made in-year to ensure the revenue budget matches the new operating model.

1.9. This report and the recommendations within it are closely linked to other reports on this agenda in respect of the Capital Strategy and the Treasury Management Strategy and those reports should be considered alongside this report.

1.10. The Capital Strategy 2020/21 to 2023/24 sets out the proposed capital programme and associated funding. The revenue implications of the capital programme in terms of the interest payable and MRP have been taken into account in the budget and MTFS.

1.11. The Treasury Management Strategy sets out the key funding indicators in relation to the capital programme.

1.12. The Committee is asked to consider these reports and make any recommendations to Cabinet which meets on 22nd February, before submission to Full Council on 8th March 2021.

2. Recommendations/Proposed Action

2.1 Members are recommended to note and take into account the statutory S25 report of the S151 officer at Appendix M in determining:

(a) The proposed budget for 2021/22;
(b) The medium term financial plans for 2021/22 – 2023/24;
(c) The level of reserves.

2.2 Members are also recommended to note:

(a) The use of £5.106m of Capital Receipts to fund the Minimum Revenue Provision (MRP) in 2021/22 and £3.144m in 2022/23;

(b) In 2021/22, £12.200m of revenue spend will be capitalised in accordance with the Capitalisation Directive from MHCLG (see section 14);

(c) The Dedicated Schools Grant [DSG] settlement for 2021/22 (see Section 13) and the allocation of £193.905m as set out in Appendix L;

2.3 Members are asked to recommend to Council to approve:

(a) The Council Tax Support Scheme (CTSS) is not to be to varied or revised for 2021/22;

(b) With regard to the 2021/22 General Fund and Housing Revenue Account budgets, and the Medium Term Financial Strategy:

I. The General Fund Budget Requirement of £133.574m for 2021/22;
II. Proposed savings of £15.576m for 2021/22 and overall savings of £23.573m for the three years to 2023/24;
III. Growth and pressures of £12.593m for 2021/22 and overall pressures of £19.178m to 2023/24;
IV. The Housing Revenue Account budget for 2021/22 of £36.790m as set out in Appendix F;
V. The forecast reserves of £14.458m at the end of 2021/22 as set out in Appendix G;

(c) The strategy for the use of flexible capital receipts to deliver transformation and ongoing savings as set out in Appendix H;

(d) The calculations for determining the Council tax requirement for the year 2021/22 in accordance with the Local Government Finance Act 1992 as set out in Appendix J;

(e) The Council increase the Council tax for a band D property by £70.83 for 2021/22, giving a band D Council Tax of £1,490.30 per year, excluding the precepts from Police, Fire and parishes as set out below:

i. Its general band D Council Tax by 1.99%, the maximum permitted without a referendum as previously planned; and

ii. Its Adult Social Care Precept by 3.00% as confirmed by Government in the Final Local Government Settlement.

2.4 Notes the following Council tax increases and precepts as detailed in Appendix J:

(a) Parish Precepts of £185,244;

(b) The Police and Crime Commissioner for Thames Valley has increased Council tax for a band D property to £231.28 per annum, a 6.9% increase on 2020/21, resulting in a precept of £9,442,862;

(c) The Royal Berkshire Fire Authority is expected to agree an increase of £1.35 for a band D property to £68.95 per annum, a 1.99% increase on 2020/21, resulting in a precept of £2,815,139;

(d) This gives a total Band D Council Tax of £1,790.53 plus any Parish precept where applicable set out in Appendix J.

2.5 The Fees and Charges for 2021/22 as set out in Appendix K.

3 Appendices

3.1 The following appendices are attached to this report:

A	Summary of General Fund Revenue 2021/22 to 2023/24
B	Summary of General Fund Revenue Budget 2021-22 by Directorate
C	General Fund – Growth and Pressures
D	General Fund - Savings
E	Budget Movements since December 2020 Report
F	Housing Revenue Account Budget 2021-22 to 2023-24
G	Reserves Forecast to 2023/24
H	Flexible Capital Receipts Strategy
J	Council Tax Setting
K	Fees and Charges Schedule
L	Dedicated Schools Grant
M	Robustness of Estimates and Reserves (S25 Report)

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

4.1 This report supports all of the strategic priorities and cross cutting themes. 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.

5 Other Implications

(a) Financial

5.1 The financial implications are contained within this report.

(b) Human Rights Act and Other Legal Implications

5.2 Section 31A of the Local Government Finance Act 1992 requires billing authorities to calculate their Council Tax requirements in accordance with the prescribed requirements of that section. The function of setting the Council Tax is the responsibility of Full Council. The function of preparing estimates and calculations for submission to Full Council is the responsibility of Cabinet. The Council is required by the 1992 Act to make estimates of gross revenue expenditure and anticipated income, leading to a calculation of a budget requirement and the setting of an overall budget to ensure proper discharge of the Council’s statutory duties and to lead to a balanced budget. The budget should include sufficient allowances for contingencies and financial reserves.

5.3 Local authorities owe a fiduciary duty to Council tax payers, which means it must consider the prudent use of resources, including control of expenditure, financial prudence in the short and long term, the need to strike a fair balance between the interests of Council tax payers and ratepayers and the community's interest in adequate and efficient services and the need to act in good faith in relation to compliance with statutory duties and exercising statutory powers.

5.4 Section 25 of the 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.

5.5 Full Council is responsible for setting the overall budget framework. However, some of the proposed savings will be subject to further analysis and decision making and as such the savings are an estimate. Individual service decisions will be subject to officer or Cabinet approval, taking account of the statutory framework, any requirement to consult and consideration of overarching duties, such as the public sector equality duty. A contingency has been set aside to deal with a risk that when Cabinet considers these proposals it does not agree that the savings can be met within the specific statutory framework. In an extreme case, Cabinet may have to refer the budget to Full Council to re-consider the overall budget framework.

5.6 The Local Government Act 2003 and associated regulations set out rules in relation to use of capital reserves. S.15 requires local authorities to have regard to relevant statutory guidance. The statutory guidance on flexible use of capital receipts confirms that local authorities cannot borrow to finance service delivery, however they can use capital receipts from sale of assets to finance the revenue costs of reforming services. The guidance states that qualifying expenditure is expenditure on a project that is designed to generate ongoing revenue savings in the delivery of public services or transform service delivery in a way that reduces costs or demand for services in future years. The Council is expected to publish an annual Flexible Use of Capital Receipts Strategy, although this can be included in wider strategy documents.

(c) Risk Management

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

5.8 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. Including:

- The ability to contain demographic demand pressures;
- The speed of recovery and buoyancy of the general and local economy from COVID 19;
- Adverse interest rate movements;
- Increased inflationary pressures;
- Impact of Brexit on the Economy

- Delivery of capital receipts to fund MRP and the flexible use for transformation purposes and avoid prudential borrowing charges;
- Future local government financing settlements from central government and potential impacts from changes to the Fair Funding Review;
- The capacity of Officers to deliver the savings and income projections in line with assumptions whilst still managing the impact of the pandemic.

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

5.10 Additionally, the Council's 2018/19 and 2019/20 accounts are still being audited which may mean there could be some movement in the assumed baseline level of reserves.

5.11 Following the Central Government announcement around public sector pay, the budget assumes no pay award in 2021/22, except for staff on the lowest pay scales. However, the final pay award is set by the LGA and therefore there is a risk that they decide to award an increase. The impact of a 2% pay award would be in the region of £1.2m for the Council. The MTFS assumes a 2% pay award in 2022/23 and 2023/24.

(d) Equalities Impact Assessment

5.12 All Equalities Impact Assessment statements for the proposals in this report will be submitted alongside the Full Council report.

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 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 requires a level of prioritisation and the budget plans focus on the following key policy outcomes, as set out in the Council's five-year plan:

- Slough children will grow up to be happy, healthy and successful;
- Our people will be healthier and manage their own care needs;
- Slough will be an attractive place where people choose to live, work and stay;
- Our residents will live in good quality homes;
- 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 Council more financially resilient in the future but further work is still required.

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 Officers will be meeting with Slough's Chamber of Commerce and representatives from the Slough Business Improvement District to discuss the proposals contained within this report. Verbal feedback from these meetings will be provided at Cabinet and will be included in the budget report to Council.

6.7 Certain savings proposals will require further consultation, if agreed in principle by Full Council, before implementation. These savings proposals are highlighted in Appendix D and relevant further reports will be submitted to Cabinet in due course to be formally agreed.

7. Financial Context

7.1 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. However, 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.

7.2 The MTFS approved in February 2020 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 £5.106m in 2021/22 rising to £6.573m in 2023/24.

7.3 In addition, the MTFS also approved £5.8m of transformation spend in 2020/21 and 2021/22 from capital receipts, which has been reviewed and updated as part of this report.

7.4 In the current financial year £10m of HRA capital receipts on the balance sheet can be used as an alternative funding source to fund MRP and transformation. The Council will sell more of its assets to fund MRP costs in 2021/22 and 2022/23, transformation costs and repay costs of capitalisation as a one-off until further savings or additional income is identified. 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 as necessary.

7.5 Alongside other authorities, the Council has reviewed its use of capital receipts to fund MRP as an ongoing strategy. It is recognised this legal mechanism is not sustainable in the long-term as it requires the continual disposal of assets. Both CIPFA and MHCLG have made public announcements that they have concerns regarding the sustainability of using this approach whilst recognising that this approach is legal. To date, the current financial regulations remain unchanged.

7.6 It should be recognised that to completely withdraw from using capital receipts to fund MRP with immediate effect would increase the budget gap further and require a higher capitalisation directive. Therefore, the MTFS proposes withdrawing from the use of this strategy on a reducing basis over the medium term (by 1 April 2023). If this strategy is adopted, the Council will need to identify approximately £11m of assets for disposal to fund this, from an asset base of over £1bn which includes over £243m of land and buildings and £97m of investment property, over the next two 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.

7.7 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.

7.8 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.

7.9 Like many councils, Slough faces considerable financial challenges, particularly increasing in the numbers and cost of supporting vulnerable people and children in care and central government funding reducing. 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.

7.10 Slough has made a substantial commitment to regeneration, the provision of affordable homes and the development of the local economy. To fund this important investment borrowing has accordingly increased which has an associated impact on the revenue budget.

7.11 In the current year Council spending has come under considerable pressure due to Covid-19. This has meant the Council has also found it harder to deliver savings than it had expected, which has meant that some savings targets have not been achieved with a knock-on impact in future years. These additional pressures are reflected in the 2021/22 budget proposals.

Local Government Finance Settlement 2021/22

7.12 The Final Local Government Finance Settlement was debated and agreed by Parliament on 10th February 2021 with very little change to the Provisional Local

Finance Settlement in December. The budget and MTFS has been adjusted to take this into account.

7.13 The following funding was confirmed for 2021/22 in the Final Settlement:

- A general Council Tax increase of 4.99% in 2021/22 (1.99% general and 3% Adult Social Care Precept);

- Local Council Tax Support Grant of £2.329m to compensate Councils for the reduction in tax-base, and therefore reduced Council Tax income, due to increased numbers of Local Council Tax Support claimants;

- Collection Fund compensation grants to compensate for the 2020-21 deficits on Council Tax and Business Rates. These have been estimated as the Government will issue the final allocations in the new financial year;

- Revenue Support Grant of £6.257m;

- The New Homes Bonus scheme will be maintained for a further year but with no new legacy payments providing £1.095m in funding for 2021/22 and £0.547m for 2022/23;

- A one-off increase to Social Care Grant of £0.450m;

- A one-off increase to Homelessness Prevention Grant of £0.857m; and

- A new one-off Lower Tier Services Grant of £0.272m for 2021/22 only.

8. Proposed Budget 2021/22 and MTFS

General Fund Revenue

8.1 The proposed budget and MTFS for Slough Borough Council is set out in the table below, with further detail provided in Appendix A and B. Changes to the proposed budget since the Interim Report in December are analysed in Appendix E.

	Approved Budget 2020-21	2021/22 Proposed Budget	2022/23 Proposed Budget	2023/24 Proposed Budget
	£'000	£'000	£'000	£'000
Base Position	121,270	124,983	133,574	134,952
Pay and Contract Inflation	3,140	2,602	3,700	3,700
Growth and Pressures	7,517	12,593	3,520	3,065
Savings	(7,955)	(15,576)	(4,933)	(3,064)
Corporate Items:				
Increased Pension Deficit	0	750	750	750
Covid Pressures	0	6,025	(6,025)	0
General Contingency	0	375	1,291	785
Minimum Revenue Provision	0	5,106	1,113	354
Capitalisation of MRP (2 years)	0	(5,106)	1,962	4,611
Interest Payments	1,011	1,821	0	0
Total Expenditure[1]	**124,983**	**133,574**	**134,952**	**145,153**
Financed by:				
Council Tax	(60,921)	(60,847)	(63,920)	(67,284)
Business Rates	(33,869)	(33,531)	(32,797)	(33,819)
Collection Fund (surplus)/ deficit	(1,970)	7,815	1,768	1,767
Revenue Support Grant	(6,222)	(6,257)	(6,351)	(6,478)
New Homes Bonus	(2,260)	(1,095)	(547)	0
Covid Support Grants	0	(6,375)	0	0
Other Government Grants	(18,970)	(23,130)	(20,079)	(20,079)
Total Financing	**(124,212)**	**(123,420)**	**(121,926)**	**(125,893)**
Budget Gap	0	10,154	13,025	19,260
Movement to / (from) Reserves	(771)	2,046		
Capitalisation		(12,200)		
Net Position	**0**	**0**	**13,025**	**19,260**

[1] Note Net Council Spend was shown as £124,212K in the February 2020 Budget Report. It has been adjusted here to show the £771K movement from reserves in the Financing section.

8.2 The February 2020 Budget has been updated and the updated assumptions set out below:

a) £15.576m of savings in 2021/22 with a total of £23.573 of savings across the period of the MTFS set out in appendix D;

b) Contingency provision of £0.375m in 2021/22, £1.666m in 2022/23 and £2.451m in 2023/24;

c) Additionally, a £6.025m contingency has been included for Covid related costs and is also assumed to cover further savings slippage.

d) Following central government's recent announcements concerning a public sector pay freeze, there is no allowance for a general pay award in 2021/22, although a provision has been included of £0.200m for staff on the lowest pay.

Budget Pressures

8.3 In 2021/22, budget pressures including pay, contract inflation and other corporate adjustments. These are driven by a number of factors:

a) COVID -19 - in particular a substantial reduction in the income provided to the Council via Council Tax and Business Rates;
b) Spending pressures on Children's Services and Adult Care are placing increased pressure on Council budgets;
c) 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;
d) External changes beyond the Council's control, such as changes to grant allocations from central government;
e) Previous spending decisions– for example the borrowing costs associated with capital investments made by the Council;
f) 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;
g) Under-achievement of income targets – in some cases it has not been possible to deliver increased income even by setting higher charges.

8.4 The funding and budget pressures over the next three years are set out in Appendix A and specific growth and unachieved savings are set out in Appendix C.

Council Tax

8.5 The Council Tax Base was agreed at Cabinet on the 18th January 2021 and the Tax Base for 2021/22 was set as:

i)	Parish of Britwell	810.4
ii)	Parish of Colnbrook with Poyle	1,830.3
iii)	Parish of Wexham	1,348.3
iv)	Slough Town	36,839.7
v)	All areas	40,828.7

8.6 The Council is required to calculate its Council Tax requirement for 2021/22 in accordance with the Local Government Finance Act 1992. These calculations are set out in Appendix J.

Council Tax Support Scheme (CTSS) and Court Costs

8.7 The Council Tax Support Scheme (CTSS) was amended for 2020/21 and is not to be varied or revised for 2021/22. The CTSS scheme will be uprated in line with the advice from Department of Work and Pensions (DWP) and Ministry of Housing Communities and Local Government (MHCLG).

8.8 Court costs for 2021/22 will be unchanged from the 2020/21 charges.

Business Rates

8.9 The next largest funding stream relates to Business Rates. The gross rates for 2021/22 have been estimated as £104.421m. This is distributed between the Government (50%), the Local Authority (49%) and the Fire Authority (1%).

8.10 In theory, as the business rates income is derived from local businesses, the Council has a valid claim to retain all of its 49% allocation. However, Business Rates are redistributed across the country based on assumed need and a top-up and tariff system equalises business rate income across the country. Of the £51.166m retained business rates, Slough pays a tariff of £19.694m which is re-distributed nationally across Local Authorities.

8.11 Slough has estimated £3.060m of S31 grants in respect of reliefs that the Government has granted for business rates and additionally pays a levy of £1.001m on the growth. Therefore, of the £104.421m business rates collected, Slough keeps net business rates of £33.531m as set out in the table below:

	£'000
Total Business Rates (NNDR) Income	104,421
Slough's share (49%) of total NNDR Income	51,166
S31 Grant to compensate reliefs and indexation	3,060
Tariff	(19,694)
Levy	(1,001)
Net Business Rates Income	**33,531**

8.12 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. This will undoubtedly mean a reduction in Business Rates income. There may be an extension to some elements of this scheme but this will not become clear until the Chancellor’s budget.

8.13 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.

9. Flexible Capital Receipts Strategy

9.1 With effect from 1st April 2016, the Secretary of State under section 15(1)(a) of the Local Government Act 2003, allowed Local Authorities to use Capital Receipts to fund revenue expenditure. This expenditure has to be spent on projects which generate ongoing savings or reduce demand for services.

9.2 The Council has made use of this flexible use of capital receipts to fund transformation change costs to deliver ongoing savings. This direction was due to finish at the end of 2021/22 but has been extended to 2024/25 as part of the LG Finance Settlement.

9.3 Full details of the Flexible Capital Receipts Strategy are set out in Appendix H which outlines the proposed spend on a scheme by scheme basis and an update on the savings achieved under the programme during 2020/21. The table below summarises the use of the Transformation Fund up to and including the proposals for 2021/22. The Capital Programme 2021/22, on this evening's agenda also takes into account these figures.

	2016/17 £'000	**2017/18** £'000	**2018/19** £'000	**2019/20** £'000	**2020/21** £'000	**2021/22** £'000	**Total £'000**
Flexible Capital Receipts Requirement	5,499	6,124	6,280	7,337	4,402	4,551	35,687
Contingency	-	-	-	1,453	-	500	2,576
Total	**5,499**	**6,124**	**6,280**	**8,790**	**4,402**	**5,051**	**38,263**

10. Housing Revenue Account

10.1 The annual changes in rents and service charges reflects the need to increase income in order to meet the increase in utility and service costs, and to provide sufficient financial resources to reinvest in the programmes of improvement for social housing to ensure that the needs of local residents are met; the increases follow government guidance and are based upon the previous September's inflation rate. These increases are built into the HRA 30 Year Business plan and are intended to ensure that the Housing service, annual housing repairs and maintenance programme, and the long term capital investment programmes, provide decent homes to meet local needs over the life of the Business Plan.

10.2 The increases to the Housing Rents and Service Charges that take effect from Monday 5th April were agreed by Cabinet on the 18th January 2021 as follows:

(a) Council house dwelling rents for 2021/22 to increase by 1.5% (Consumer Price Index (CPI) + 1%) over the 2020/21 rent with effect from Monday 5th April 2021. This is in line with current government guidelines and legislation.

(b) Garage rents, heating, utility and ancillary charges to increase by 0.5% with effect from Monday 5th April 2021. This is based upon the September 2020 CPI figure.

(c) Service charges to increase by 0.5% with effect from Monday 5th April 2021. This is based upon the September 2020 CPI figure.

(d) 'Other committee' property rents to increase by an average of 0.5% from Monday 5th April 2021 in line with the September 2020 CPI figure.

(e) Properties leased from James Elliman Homes to increase by 1.5% (CPI + 1%) from Monday 5th April 2021. This is based upon the September 2020 CPI figure.

(f) DISH property rents are recommended to increase by 1.5% (CPI + 1%) over the 2020/21 rent and service charges to increase by 0.5% both with effect from Monday 5th April 2021. This is as per the Council's recommendation to the DISH Board.

10.3 The proposed Housing Revenue Account budgets for the next three years are set out in the table below:

	Approved Budget 2020/21 £'000	Proposed Budget 2021/22 £'000	Proposed Budget 2022/23 £'000	Proposed Budget 2023/24 £'000
Expenditure	32,577	30,046	30,048	30,436
Income	(35,699)	(36,790)	(37,328)	(38,029)
Net Cost of Service before interest payable on HRA Debts	**(3,122)**	**(6,744)**	**(7,280)**	**(7,593)**
Interest Payable on HRA Debt	5,563	6,195	6,511	6,528
Net HRA (Surplus) / Deficit	**2,441**	**(499)**	**(717)**	**(1,014**
Opening HRA Balances	(13,419)	(10,978)	(11,477)	(12,193)
(Surplus) / Deficit	2,441	(499)	(717)	(1,014)
Closing HRA Balances	**(10,978)**	**(11,477)**	**(12,193)**	**(13,207)**

11. Capital Programme

11.1 The table below summarises the General Fund and HRA Capital Programmes over the next three years.

Capital Expenditure and Financing (estimate)	**2020-21 £'000**	**2021-22 £'000**	**2022-23 £'000**	**2023-24 £'000**
General Fund	76,786	100,439	33,857	13,261
Housing Revenue Account	63,058	40,672	53,874	67,197
Total Expenditure	**139,844**	**141,111**	**87,731**	**80,458**
Funding:				
Grants	(9,299)	(29,114)	(8,003)	(830)
Section 106	(90)	(2,364)	0	0
Capital Receipts	(6,402)	(30,308)	(17,500)	(8,738)
Major Repairs Reserve	(14,719)	(8,965)	(9,265)	(4,849)
RCCO	(1,871)	(4,783)	(8,020)	(8,162)
Inst. Funding (HRA)	0	0	0	(49,000)
Borrowing (General Fund)	(62,995)	(46,154)	(13,354)	(7,131)
Borrowing (HRA)	(44,468)	(19,424)	(31,589)	(1,748)
Total Financing	**(139,844)**	**(141,111)**	**(87,731)**	**(80,458)**

11.2 The detail of the Capital Programme is set out in the Capital Strategy which is also on this agenda.

General Fund Capital Programme

11.3 Key schemes within the General Fund Capital Programme are:

Capital Scheme	**Proposed Budget 2021/22** £'000	**Proposed Budget 2022/23** £'000	**Proposed Budget 2023/24** £'000	**Total** £'000
Cemetery Extension	2,500	2,315	1,233	**6,048**
Schools Modernisation Programme	996	600	200	**1,796**
Special School Expansion – Primary, Secondary and Post 16	5,323	2,484	0	**7,807**
Secondary Expansion Programme	1,510	500	0	**2,010**
Chalvey Extra Care Housing	6,313	6,000	0	**12,313**
Major Infrastructure Projects	19,537	3,000	0	**22,537**
Environmental Initiatives	3,668	1,206	1,371	**6,245**
Hub Development	8,072	5,000	0	**13,072**
Youth Hub	5,000	0	0	**5,000**
Thames Valley University Site	3,000	0	0	**3,000**
James Elliman Homes	5,000	0	0	**5,000**
Community Investment Fund	840	840	840	**3,150**

Housing Revenue Account Capital Programme

11.4 Key schemes within the HRA Capital Programme are:

Capital Scheme	**Proposed Budget 2021/22** £'000	**Proposed Budget 2022/23** £'000	**Proposed Budget 2023/24** £'000	**Total** £'000
Boiler Replacement and Heating	500	500	330	**1,330**
Kitchen & Bathroom Replacement	700	700	700	**2,100**
Garage & Environmental Improvements	2,000	2,000	2,000	**6,000**
Windows and Door Replacement	700	700	700	**2,100**
Affordable Homes	35,849	49,051	62,348	**147,248**

12. Reserves

12.1 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.

12.2 Slough had total General Fund reserves of £15.748m at 31st March 2020, split between general reserves of £8.173m and earmarked reserves of £7.575m.

12.3 Slough Children's Services Trust had an accumulated deficit of £5.4m that needed to be funded between the Council and the DfE to avoid it going into liquidation during 2020/21. It has been assumed that the DfE will fund £3.0m of this amount in 2020/21 with the remaining £2.4m being funded from Council reserves that will be replenished by an element of the MHCLG Capitalisation Directive in 2021/22.

12.4 The Housing Revenue Account reserve was £13.419m at 31st March 2020. It is forecast to draw down £2.441m from reserves in 2020-21 and to increase its level of reserves to £13.207m by 2023/24.

13. Dedicated Schools Grant

13.1 The Dedicated Schools Grant provides funding for schools and is split into four blocks. Allocations for 2021/22 were published on the 17th December 2020. Details of the 2021/22 DSG allocation together with the Management Plan are included in Appendix L and are summarised in the table below:

	2021/22 Proposed £'000
Schools Block	149,602
Central Schools Services Block	1,015
High Needs Block	28,058
Early Years Block	15,230
Total	**193,905**

13.2 The DSG has a forecast deficit at the end of 2020/21 of £16.960m, which is a £4.632m increase since 31st March 2020 due to the overspend on the High Needs Block. Slough has developed a detailed management plan for the deficit, as required by the Department for Education [DfE], which was presented to Schools' Forum in January 2021.

13.3 DfE guidance states that "…DSG is a ring-fenced specific grant separate from the general funding of local authorities, and that any deficit an authority may have on its DSG account is expected to be carried forward to the next year's schools budget and does not require to be covered by the authority's general reserves." Therefore the deficit has not been taken into account when proposing the General Fund budget and reserves levels.

14. Capitalisation Directive

14.1 Like other local authorities, Slough BC took the opportunity to hold discussions with MHCLG about seeking permission for a Capitalisation Directive to help balance the budget in 2021/22. Other councils that have been harder hit by Covid-19 have also requested support using this means in 2020/21.

14.2 A capitalisation directive permits a Council to capitalise revenue expenditure if it is unable to set a balanced budget and has considered all other options, has limited reserves, and is increasing its Council Tax by the maximum permitted. The direction will only be granted in exceptional circumstances. Only the Secretary of State can permit this action legally.

14.3 MHCLG have indicated that they will agree to Slough's request. Their external advisor concluded, *following a detailed review of SBC's financial* position:

"The Council has limited resources in terms of revenue reserves to balance the 21/22 revenue budget. Without the two unexpected items in terms of business rates and the children's trust the budget would have been balanced"

14.4 MHCLG are therefore expected to permit the capitalisation of £12.200m of revenue spend in 2021/22 to balance the budget; and this report has been prepared on that basis. A verbal update will be provided at the Cabinet meeting. The capitalisation direction will be funded by future capital receipts over a five year period and this assumption has been included in the Capital Strategy and proposed Capital Programme 2021/22 to 23/24.

14.5 The recent Capitalisation Directions that MHCLG has issued for Bexley, Eastbourne, Luton and Peterborough had specific conditions attached. It is expected that Slough will be given similar conditions if this support is agreed. These conditions are likely to include the following:

- Slough may only capitalise expenditure when it is incurred;
- Where expenditure is capitalised, the Council will charge annual Minimum Revenue Provision using an asset life of no more than 20 years;
- Where the capital financing requirement is increased as a result of the capitalisation of expenditure under this direction, any further borrowing must be obtained from the Public Works Loan Board (PWLB) and is subject to an additional 1 percentage point premium. Where any borrowing to which these conditions initially apply is refinanced, the conditions must continue to apply to the resulting borrowing.

14.6 The capitalisation is planned to be funded by using capital receipts but in the short-term the Council may need to use borrowing. The Council has sufficient 'surplus' capital receipts to fund the capitalisation direction, including some of the assets outlined below, and officers are currently preparing an Asset Disposal Plan to cover the next five years.

14.7 The Council has almost £100m of assets purchased via the Strategic Acquisition Board (SAB) which could potentially be disposed of to fund the capitalisation direction and/or pay for elements of the Council's Capital Programme 2021/22 to 2023/24. However, this would add to revenue pressures as they income from these investments exceeds their cost of borrowing. It can be seen in the table below that these assets are a mixture of Distribution, Office, Retail, Strategic and Warehouse retail.

Property	Type
Leaseplan 165 Bath Road	Office
Cornwall House	Office
Lego, 33 Bath Road	Office
Upton Lodge 2A Yew Tree Road	Office
Unit 26 Wexham Business Village	Office
Acquasulis House, 12 – 14 Bath Road	Office
Unit 27 – 28 Wexham Business Village	Office
174 – 178 High Street (W H Smith)	Retail
Waitrose Gosport – Stoke Road	Retail
Odeon, Churchill Way, Basingstoke	Retail
233 – 249 High Street, Slough	Retail
Land at Norway Drive	Strategic
Land South Side Stoke Road (Stoke Wharf)	Strategic
Leasehold interest of the 5th Floor, Hatfield Car Park	Strategic
100 A Wexham Road	Strategic
Freehold interest of 21, Roysdale Way, Euroway Industrial Estate, Bradford, West Yorkshire	Distribution
Halfords 280 Bath Road	Warehouse-Retail
Wickes West Street Wolverhampton	Warehouse-Retail
Total Value (£m)	**£100m**

15. Strategy to achieve a sustainable MTFS for 2022/23 onwards

15.1 Whilst the Capitalisation Directive is welcomed and addresses the one-off pressures immediately facing the Council, continued focus and work is needed to identify further ongoing savings to address the underlying revenue budget gap from 2022/23 onwards to produce a more sustainable budget.

15.2 The Council faces a serious challenge over the period of the MTFS as set out in the table below:

Budget Gap 2021/22 to 2023/24

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Expenditure	124,943	133,574	134,952	145,153
Income	(124,212)	(123,420)	(121,926)	(125,893)
Budget Gap	**0**	**10,154**	**13,025**	**19,260**
Movement (from) / to Reserves	**(771)**	**2,118**		
Capitalisation Directive		**(12,200)**		
Net Position	**0**	**0**	**13,025**	**19,260**

15.3 The effect of continuing pressures on Council services, loss in funding and the risk of non-delivery of savings that must be planned for means that there remains a residual gap of £13.025m in 2022/23 and £19.260m in 2023/24. The Council will need to put in place a plan to address the 2022/23 gap by the end of the September 2021 to ensure a full year effect is achieved from 1 April 2022.

15.4 Directorates will continue to review 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 is identifying assets for disposal to reduce the heavy burden of debt repayments and to cover the cost of the capitalisation directive and MRP in 2021/22. 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) A fundamental review of the Capital Programme; ensuring all proposed schemes have robust business cases and offer quantifiable service improvements and value for money.

e) Income, review of fees and charges to ensure they at least match neighbouring boroughs and wider consideration of parking charges.

16 Chief Financial Officer's Robustness/S25 Report

16.1 The Section 151 Officer's report is set out as Appendix M to this report. In summary, the Section 151 Officer considers:

a) the estimates in 2021/22 to be robust subject to the risks set out in the main report; and

b) the level of reserves are currently barely adequate to cover unforeseen demands and will need to be increased going forward.

16.2 The MTFS is not currently sustainable and further action is urgently required to develop additional savings plans to reduce spending in 2022/23 and 2023/24.

16.3 Cabinet and the Corporate Management Team are committed to this work and realise that this remains an ongoing challenge for the Council that cannot wait until the next 2022/23 budget setting process but needs to start immediately.

16.4 The S151 Officer will closely monitor and report the delivery of the savings and the viability of further transformation plans to Cabinet as part of budget monitoring.

16.5 New items in the capital programme will be subject to further business cases, S151 Officer sign-off and Cabinet approval before proceeding.

16.6 To be clear, and to avoid any ambiguity, in the opinion of the S151 Officer the Council does not need to issue a S114 notice i.e. in the event that the Council does not have sufficient resources to fund its statutory duties, as it still holds a minimum level of reserves and its estimates are robust.

16.7 The Council is, like many authorities, in an extremely challenging financial position and is reliant on identifying significant savings and the results of the government's review of local authority funding, anticipated in 2021/22, in order to have a sustainable MTFS in the future.

17 Background Papers

- Revenue Budget Report to Full Council - February 2020
- Capital Strategy to Full Council - February 2020
- Treasury Management Strategy to Full Council - February 2020
- Q3 Revenue Monitoring Report to Cabinet - February 2021
- Interim MTFS Report to Cabinet - December 2020
- Council Tax Bases for 2021/22 to Cabinet - January 2021
- 2021/22 Housing Rents and Service Charges to Cabinet - January 2021
- Other working papers held within the finance service area