

## **SLOUGH BOROUGH COUNCIL**

**REPORT TO:** Audit & Corporate Governance Committee

**DATE:** 18<sup>th</sup> May 2021

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**WARD(S):** All

### **PART I** **FOR DECISION**

#### **GOING CONCERN STATEMENT – IN RELATION TO THE 2018/19 ACCOUNTS**

##### **1. Purpose of the Report**

- 1.1 To inform the Audit and Governance Committee of the S151 Officer's assessment of Slough Borough Council as a "going concern" for the purposes of producing the Council's Statement of Accounts for 2018/19.

##### **2. Recommendations**

- 2.1 Members review and approve the assessment made of the Council's status as a "going concern" as a basis for preparing its 2018/19 Statement of Accounts.

##### **3. Background**

- 3.1 The Council's Statement of Accounts are prepared on a going concern basis: i.e. on the assumption that the functions of the Council will continue in operational existence for the foreseeable future from the date that the accounts are authorised for issue.
- 3.2 The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.
- 3.3 Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts drawn up under the CIPFA Code

of Practice on Local Authority Accounting therefore assume that a local authority's services will continue to operate for the foreseeable future.

### COVID-19

- 3.4 The current restrictions in place within the United Kingdom in response to COVID-19 have created significant issues for many businesses and residents and as a result, from April 2020, the Council has experienced financial pressures in terms of lost income lost and additional expenditure incurred. The government has provided some financial support for Local Authorities to help mitigate some of the pressures being experienced due to the crisis. The Council has received a total, to date, of £20.955 million in general support funding from central government in this regard.
- 3.5 The Council has carried out a detailed assessment of the likely impact of COVID-19 on its financial position and performance during 2019/20, 2020/21 and beyond. This included consideration of the following:
- Loss of income on a service by service basis, due to temporary closures, reduction in demand, and increased collection losses.
  - Additional expenditure on a service by service basis, e.g. provision of new and expanded services in response to the crisis (such as additional costs relating to temporary accommodation for the homeless), and additional costs associated with changes to working practices (such as remote working).
  - Changes to government policy, e.g. changes to business rate reliefs, guidance on supplier relief, additional funding for local authorities, and additional responsibilities which sit alongside this.
  - The impact on the Council's capital programme, e.g. delays caused by government restrictions, and whether there is a need to rephase work for other reasons.
  - The impact on the Council's subsidiaries and joint ventures.
  - The impact of all of the above on the Council's cash flow and treasury management, including availability of liquid cash, impact on investment returns, and availability of external borrowing if required.
  - The estimated overall impact on the Council's General Fund and Housing Revenue Account reserves.

### 2021/22 Financial Position

- 3.6 Cabinet have proposed a revenue budget of £133.574m for 2021/22; the latest Quarter 3 revenue monitoring report for 2020/21 indicates a forecast in-year underspend of £2.874m.
- 3.7 The 2021/22 proposals include savings of £15.576m and funding for growth and pressures of £12.593m. The proposals also contain a general COVID

contingency amount of £6.025m and a further provision, for 2021/22, of £0.375m.

- 3.8 Like some 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.
- 3.9 The Council required flexibility due to two unique one-off funding pressures arising in 2021/22:
- A 2019/20 Business Rates rebate (of £5.3m) following a Valuation Office Agency Tribunal decision; and
  - The Department for Education (DfE) seeking Slough Borough Council to write-off the Slough Children's Services Trust's (SCST's) historic deficit of approximately £5.5m when a new Local Authority Company, Slough Children First, is created from 1 April 2021.
- 3.10 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.
- 3.11 MHCLG officials have indicated that Ministers are minded to 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"*
- 3.12 MHCLG are therefore expected to permit the capitalisation of £12.200m of revenue spend in 2021/22 to balance the budget; and the revenue budget proposals have been prepared on that basis. 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.
- 3.13 A general fund capital programme of £100.439m has been proposed for 2021/22, inclusive of £46.154m of investment funded via Council borrowing.
- 3.14 Full Council will debate and agree the budget proposals at its meeting on 8 March 2021.

#### Medium Term Financial Strategy – 2021/22 to 2023/24

- 3.15 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.
- 3.16 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 of reducing resources.
- 3.17 The MTFs indicate a balanced budget for 2021/22 and a current funding gap of £13.025m for 2022/23 and £19.260m for 2023/24. The political and officer leadership of the Council is committed to ensuring robust proposals are developed, in year, to ensure these funding gaps are closed by the time the revenue budget is due to be agreed,
- 3.18 The MTFs assume future Council Tax increases, at 1.99%, the maximum currently allowed without a referendum by central government. It also assumes central government's Adult Social Care precept (3% in 2021/22) will be passed on to residents in full.
- 3.19 The financial landscape for the Council is likely to remain challenging for the foreseeable future. The delay to the Comprehensive Spending Review until the Autumn of 2020 means that there will be little certainty over the council's longer term funding outlook and this will need to be carefully managed as the council considers the recovery actions it needs to take and commit to. In addition, the Fair Funding Review and move to 75% Business Rate Retention have been delayed again with an earliest implementation date of 2022/23.
- 3.20 The outcome of these reviews will determine the quantum of funding available to local government and the share available to the Council. The added uncertainty brought about by the exit from the European Union will serve to compound these issues. There is a risk that funding reductions may continue beyond this point placing further pressure on the MTFs.
- 3.21 The Council has continued to effectively manage its resources during a period of increasing cost pressures and a backdrop of many years of government funding reductions. The future funding outlook for the public sector and local government is extremely uncertain and the impact of Covid 19 and the recovery from it will undoubtedly impact on the council and its communities for a number of years.

- 3.22 The Council continues to have a robust financial standing with sound and continuously improving financial management procedures and processes in place.
- 3.23 The Council continues to face a range of significant budget pressures including general inflation, cost pressures in the care sector, increases in the number of adults and children needing support and rising levels of need, increases in demand for everyday services as the population grows, and increases in core costs such as wage increases, the national living wage and pension contribution.
- 3.24 The MTFs sets out the Council's approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards corporate priorities. The MTFs describes the financial direction of the council over the planning period and outlines the financial pressures it will face.

#### The Council's Projected Financial Position – Capital

- 3.25 The provisional outturn for the 2020/21 capital programme is a £86.555million underspend against a revised capital budget of £163.341million. £25million of the underspend is attributable to schemes within the Regeneration Directorate, and £18.495m from within the Place and Development Directorate, that have been delayed due to the COVID-19 pandemic. which has not been utilised during 2019/20. In December 2020 the Government announced that PWLB rates could no longer be accessed to fund assets used primarily to generate yield. In February 2021 the Strategic Acquisition Board (SAB) agreed to cease all future commercial property acquisitions.
- 3.26 The three year general fund capital programme from 2021/22 to 2023/24 allocates £147.557m of funding sourced through a combination of grants, Section 106, borrowing and Council capital resources. £40.608m of Council capital receipts have been allocated to the programme and overall borrowing funds 45% of the total general fund programme, Annual increases in interest payments of £1.821m have been built into the revenue capital financing budget and MTFs from 2021/22 to service the expected borrowing arising from implementing this capital programme.

#### The Council's Balance Sheet at 31st March 2019

- 3.27 The robustness of the Council's balance sheet for 2019/20 and 2020/21 will be reassessed on completion of the draft financial statements and reported to the Audit and Governance Committee during 2021/22.
- 3.28 The authority's net assets amounted to £344.424m at 31 March 2019 (£388.251m as at 31 March 2018). The Council had net total Capital and Revenue Usable reserves of £71.238million at 31 March 2019, (£103.832million, 31 March 2018), set out in the table overleaf

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**Detailed total Capital and Revenue Usable reserves**

	<b>31.03.18</b>	<b>31.03.19</b>
	<b>£000</b>	<b>£000</b>
Capital receipts	28,312	23,985
Major repairs reserve	15,107	12,457
Capital Grants unapplied	32,443	13,200
HRA	17,838	16,265
Earmarked Funds	6,318	4,781
General Fund	3,814	550
Total	<u>103,832</u>	<u>71,238</u>

The reduction in reserves was primarily due to the Council utilising its own funds for investments in Property, Plant and Equipment and Investment Property and also due to the correction of accounting errors in the 2018/19 accounts.

The Council's Cash Flow

- 3.29 The Council maintains short and long term cash flow projections. The Council maintains long term borrowing commitments to support the capital programme and the Property Investment Strategy. Borrowing is predominately undertaken via short-term loans from other local authorities and from the Public Works and Loans Board (PWLB).
- 3.30 As at 31 March 2019 the Council held £48.545m of short-term investments (£18.808m, March 2018). This section will be updated on completion of the 31st March 2020 balance Sheet.
- 3.31 On 31st January 2021, the Authority held £702.7m of borrowing and £39.7m of treasury investments. Of the £702.7m borrowed £349.5m is borrowed short term (with less than a year to maturity) from other local authorities. The Council, with its Treasury management advisors, ArlingClose, monitor the Council's exposure to interest rate fluctuations on a regular basis.
- 3.32 The current operational boundary for long term debt is set at £909m for 2021/22. The authorised limits have been increased to £952m for 2021/22, £984m for 2022/23 and £997m for 2023/24 to support increased spending on the Council's capital programme. The Council will be undertaking a root and branch review of its entire Capital Programme during 2021/22 and therefore

these boundaries will be subject to review and potential revision during 2021/22 as part of the future setting of the capital strategy and supporting programme.

#### The Council's Governance Arrangements

- 3.33 The Council has approved and adopted a code of corporate governance in its Annual Governance Statement, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.
- 3.34 The governance framework comprises the systems and processes, and culture and values, by the Council is directed and controlled and its activities through which it engages with, leads and accounts to the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 3.35 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 3.36 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of all managers within Slough Borough Council who have responsibility for the development and maintenance of the governance environment.

#### The External and Regulatory Framework

- 3.37 The Council is required to set a balanced budget each year, taking into account the robustness of budget estimates and the adequacy of its reserves. In addition to the legal framework and central government control there are other factors such as the role undertaken by External Audit as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.

#### Commercial Investment and Income Generation

- 3.38 The Council has a number of local authority owned companies that it uses for the efficient delivery of housing services and regeneration initiatives within Slough:
- DISH RP
  - DISH

- James Elliman Homes
- Slough Urban Renewal

3.39 The Council does not include any ‘surpluses’ derived from these companies to fund its Medium Term Financial Strategy to ensure that any future funding risks are minimised. An surpluses, as they materialise, are used to increase the Council’s general and earmarked reserves.

3.40 The Council’s Director of Transformation and Director of Regeneration sit on the Boards of all Slough’s local authority companies. They have obtained assurance from the SUR General Manager that *“the SUR LLP and its subsid[iarie]s are financially stable in that they have defined funding routes and arrangements in place [e.g. loan notes]”*.

#### Revenue Reserves

3.41 In recent years the Council’s general fund revenue reserves have reduced and are at a very low level. Our most recent reported balances are as follows:

<b>Date</b>	<b>General Fund Balance</b>	<b>Earmarked Reserves</b>	<b>Housing Revenue Account Balance</b>
	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>
31 March 2018	(3.814)	(6.318)	(17.838)
31 March 2019	(550)	(4.781)	(16.265)
31 March 2020 (provisional outturn, subject to review and audit and is expected to change)	(2.971)	(7.575)	(13.149)

3.42 The Council manages its cashflow to ensure that it has a reasonable amount of liquid cash that can be accessed readily, and typically has between £15m - £20m invested in overnight money market funds and short-term deposit accounts in this respect. The Council was allocated a total of £33.380m of additional section 31 grants in respect of additional business rate reliefs applied as a result of COVID-19. These grant payments along the announcement by government that central share payments of Business Rates can be deferred significantly reduced any liquidity risk that the Council may otherwise have faced. The Council is able to borrow short term from other local authorities if required and has access to longer term borrowing from the PWLB within two working days if required. The Council has sufficient



headroom compared to its Capital Financing Requirement and would therefore be able to borrow should any cashflow issues arise.

### Financial Transformation

3.43 In order to radically improve the pace and quality of the Council's financial services and thus the financial standards that the Council operates and consequentially the robustness of its future assessments of its going concern position the Council has instigated a series of actions. These actions will in the future underpin more robust financial management of the Council and thus enhance its assessment of its going concern status. This work has already begun to make an impact and will allow stakeholders to have greater confidence in the future on the Council's finances

3.44 This work includes:

- Securing a highly skilled core team of financial experts in various key aspects of Council finances – accounts, budgets, third parties, commercial activity, business cases and major projects as well as many other aspects of the Council's financial management
- A re focussed Strategic Finance Board which has begun receiving and agreeing financial standards papers, budget information and processes, accounts updates with a particular focus on ensuring that the Council's 2021/22 budget will balance and its 2022/23 targeted savings will be identified
- Developing a training and development programme for the finance team to ensure that they are adequately skilled to produce high quality accounts and financial management information
- Planning for a proper budget process for 2022/23 and going forward
- Introducing a high quality accounts programme of work with project plans, quality assurance, communications, review of financial statements, root and branch review of ledger balances and supporting working papers and evidence among other matters
- A series of reviews on the 2021/22 budget proposals and base budget and preparation of the 2022/23 budget in a more timely manner
- Introducing a range of high quality financial standards beginning with budget monitoring, financial implications, procurement reviews of contracts, financial modelling among others

## **4. Section 151 Officer Opinion**

4.1 Having regard to the Council's arrangements and such factors as highlighted in this report, the Section 151 Officer concludes that Slough Borough Council remains a going concern and that it is appropriate that the Council's Statement of Accounts for 2018/19 have been prepared on this basis.