

SLOUGH BOROUGH COUNCIL

REPORT TO: Audit and Corporate Governance Committee
DATE: 18th May 2021
CONTACT OFFICER: Steven Mair, Associate Director of Finance
WARD(S): All

PART I **FOR DECISION**

2018/19 ACCOUNTS, PLANNED IMPROVEMENTS IN THE COUNCILS **ACCOUNTS, FINANCIAL SERVICES, RESERVES AND GROUP ENTITIES**

1. **Purpose of Report**

To advise the Committee of the completion of the 2018/19 accounts and how the Council will be addressing the current issues in its accounts processes and financial services

2. **Recommendation(s)/Proposed Action**

The Committee is requested to agree:

- a. the accounts for 2018/19
- b. the Council's planned response to address the issues in its current approach to the preparation of its accounts, reserves and group entities
- c. the Council's planned response to improve its financial services

The Committee is requested to note the Council responses to the auditors recommendations which are dealt with elsewhere on the agenda

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

3a. **Slough Wellbeing Strategy Priorities**

The Council has a statutory duty to prepare and have audited annual accounts which underpin good governance, the financial management of the Council and thus the ability of Departments to deliver their services and meet the priorities shown below

1. *Starting Well*
2. *Integration (relating to Health & Social Care)*
3. *Strong, healthy and attractive neighbourhoods*
4. *Workplace health*

3b. **Five Year Plan Outcomes**

As noted above the proposal will underpin delivery of all of the Five Year Plan outcomes as without sound finances the ability to action these will be impeded

4. **Other Implications**

(a) Financial

These are dealt with throughout the report

(b) Risk Management

There are no risks in agreeing the recommendations. Risks would arise if the Committee decided not to accept the recommendations due to the excessive delay in producing the accounts, the need to address the auditors recommendations and take forward the financial service and the accounts

Recommendation from section 2 above	Risks/Threats/ Opportunities	Current Controls	Using the Risk Management Matrix Score the risk	Future Controls
Agree the accounts for 2018/19	No risks if recommendation agreed	To be developed as set out in the report	0	To be developed as set out in the report
Agree the Council's planned response to address the issues in its current approach to the preparation of its accounts	No risks if recommendation agreed	To be developed as set out in the report	0	To be developed as set out in the report
Recommendation from section 2 above	Risks/Threats/ Opportunities	Current Controls	Using the Risk Management Matrix Score the risk	Future Controls
Agree the Council's planned response to improve its financial services	No risks if recommendation agreed	To be developed as set out in the report	0	To be developed as set out in the report
Note the Council responses to the auditors	No risks if recommendation agreed	To be developed as set out in the	0	To be developed as set out in

recommendations which are dealt with elsewhere on the agenda		report		the report
--	--	--------	--	------------

(c) Human Rights Act and Other Legal Implications

There are no Human Rights Implications

(d) Equalities Impact Assessment

There is no adverse impact from the recommendations on race, gender or disability groups. There is also no possible impact for age, religion and sexual orientation

(e) Workforce

The proposals in the report will greatly enhance the skills and capacity of the finance service and will support the rest of the Council workforce through the benefitting from proper and robust financial management

5. Supporting Information

2018/19 Accounts

5.1 General Fund Revenue

The council had a net overspend of £0.051m for the 2018/19 financial year. This position is summarised in the table below:

REVENUE GENERAL FUND 2018/19 - SUMMARY PROVISIONAL (YEAR END) POSITION			
Directorate	Revised Full Year Budget	Draft Outturn	Full Year Variance
	£000	£000	£000
Adult and Communities	39.289	39.851	0.562
Children, Learning and Skills	29.112	30.395	1.283
Place and Development	5.713	7.446	1.733
Regeneration	1.659	1.350	(0.309)
Finance and Resources	9.838	11.601	1.763
Chief Executive Office	13.782	13.023	(0.759)
Non Service Areas	6.029	1.807	(4.222)

GRAND TOTAL	105.422	105.473	0.051
--------------------	----------------	----------------	--------------

% of revenue budget over/(under)	0.05%
---	--------------

Adult & Communities

– has overspent by £0.562m; mainly due to

Adult Social Care

This budget of **£33.2m** has overspent by **£1.361m** (4.1% of its budget). The underlying budget pressures lies within the Adult Social service and is caused by the effect of inflation on care packages. There have also been increases both in the numbers of clients being accepted, partly due to high level of transition from child to adult and for care, as well as the length of time some clients are spending in receipt of care services. This increase has been offset, but not fully covered, by underspends elsewhere within the service.

Community & Skills

This service area will have an underspend of **£1.166m**. This is due to various budget savings across the service with decrease in spend and increase in income in leisure management (saving £190k), library services delay in IT project (saving £140k), the curve project work delay (saving £90k), parks and allotments (saving £65k), vacant posts (saving £20k), Adult Communities planned project delays (saving £44k) and the anticipated recovery of contractual income from Essex County council.

Enforcement & Regulation

This service will overspend by **£0.163m**. This budget pressure is due to an income shortfall within the cemetery and crematorium service, there has also been a downturn in the income generated by the Registrars service since its relocation to the Curve

Children Learning & Skills

– has overspent by £1.283m due to costs in PFI and transport services.

Directorate Services

This service area will have an overspend of **£1.205m**. The main variances are due to additional PFI costs (approx. £0.700m) and the underwriting fees payable to Grove Academy.

Access & Inclusion

The Access & Inclusion service will have a final budget variance of **£0.462m** overspend. This is due to additional costs arising within transport service; increases in the number of 1:1 journeys, a rise number of SEN pupils accessing the service and an increase in the number of journeys made outside the borough.

School Effectiveness

The final year end position for this service is an underspend of **£0.271m**; this is due to a variety of staffing related cost savings.

Early Years & Development

The final year end position for this service is an underspend of **£0.218m**; this is mainly due to additional revenue to capital charges identified in respect to the children's centre's garden project.

SEND

This service has final year end outturn of **£0.096m** overspend. This reflects the cost of additional staff needed to cover key core functions.

Place and Regeneration

An explanation for the main variances within the Directorate is provided as follows:

Directorate Management Team

This service area will close with a final budget variance of **£0.216m** underspend.

The main reason for this is the vacancy of the director post which was budgeted for **£110k** and reduced project resources of **£77k**.

Major Infrastructure (Transport & Highways)

This service shows a final budget variance of **£0.015m** underspend which an extra **£0.033m** spend made at the end of the year. This was due to last minute traffic signals repairs of 50K, and more expensive Atkins works than expected in February.

Transport & Parking

This service area will close with a final budget favourable variance of **£0.233m** underspend as a result of 2 vacant posts, higher than expected income from parking and an extra £30k DEFRA funding.

Planning

This service area will close with a final budget variance of **£0.069m overspend**. This is mainly due to a £70k saving applied to Service leads restructure which was not realised. This was slightly offset by increased income.

Regeneration Development

This service area will close with a final budget variance of **£0.244m** underspend. This is due to extra income from acquisition and disposals, 1% and 4% respectively.

Regeneration Delivery

This service area will close with a final budget variance of **£0.031m overspend**. This is mainly due to a £70k saving applied to Service leads restructure which was not realised.

Building Management

This service area will close with a final budget variance of **£0.136m underspend**. This was mainly due to increased income from rents and charges. The adverse change from previous forecasts of £0.190m was due to Increase in reactive repair costs

Economic Development

This service area will close with a final budget variance of **£0.301m overspend**. This is entirely due to saving targets not being achieved.

Strategic Housing Services

This service area will close with a final budget variance of **£1.994m overspend**. This is due to higher than expected levels of Homelessness and the need for temporary accommodation. Recent reduction in homelessness numbers and more income from Home Improvements have led to a slight fall in the overspend as compared to previous forecasts.

Neighbourhood Services

This service area will close with a final budget variance of **£0.127m underspend** which is mainly due to vacant posts .due to increased levels of

Finance & Resources

– has overspent by £1.733m;

Customer & Communication

This service area will have a final budget variance of **£0.125m under spend**.

Most of this underspend was generated within the printing service as during the financial year there was more efficient use of printing devices.

OD&HR service's budget is overspent by **£0.060m**. There were some staffing related cost pressures during the year but these were generally managed.

Governance

The budgets within the Governance service have an overall overspend of **£0.387m**. These are due to unrealised recharge income and corporate savings targets not being met. There is also a pressure in relation to the Library case and unbudgeted additional HB Law charges

relating to the case. Staff vacancies in corporate procurement, committee services have assisted to contain the over spend.

Digital & Strategic IT

The final variance for Digital & Strategic Services is an underspend of **£0.012m**.

Corporate Resources

This service overspent by **£0.907m** for the current financial year. During the financial year there were some costs incurred across the organisation that have been picked up as a council cost. Bank and credit card services have been higher than budgeted as the council tries to encourage more use of online facilities. These costs will be offset by a reduction in cash handling elsewhere in the organisation. One off expenditure items such as bad debt write offs have also been incurred within this service centre. During the financial year these costs were accounted for and reported within the non service area heading which is showing an underspend.

Transactional Services

Transactional Services' (i.e. the arvato contract) year end outturn is an overspend of **£0.521m** as result of in- built contract savings not fully realised, the reduction in grant funding, two years' unfunded contract indexation, reduction in income from schools due to the conversion to academies and bank charges.

Corporate & Departmental Services

This service has a year end outturn of **£0.025m** overspend mainly in the housing benefits area; however this is an improved position due to the analysis of the housing benefits subsidies recoverable from the homelessness team.

Chief Executive

– has underspent by £0.759m; mainly due to additional recharges, savings within waste and cleansing and grounds maintenance due to staff vacancies, lower equipment and transport related

Non-Service Areas

–shows an underspend due to additional income from business rates £1.557m and surplus Business Rates income from 2017/18 of £1m as a result of being part of the Berkshire wide pilot

5.2 Capital Expenditure

The Capital Programme for 2018/19 totalled £239m. The council achieved expenditure of £177m. There have been some major schemes built during the year.

The final outturn for 2018-19 is as follows:

	18/19 Revised Budget £'000	18/19 Expenditure £'000	Variance £'000	Variance %
General Fund	216,337	157,580	58,757	27.2
HRA	22,463	19,849	2,614	11.6
Total	239,800	177,429	61,371	25.7

The main factors are highlighted in the table below:

Scheme	Slippage £m	Contribution to overall slippage %	Comments
James Elliman Homes	2.750	4.5	Officers were unable to source sufficient suitable properties in year to allow the full £25.950m budget to be spent.
LED Upgrade	2.150	3.5	SBC undertakes this scheme on behalf of other Berkshire Authorities
A332 Widening & Tuns Lane Transport Scheme	5.225	8.5	The roadworks were completed under budget
Strategic acquisition board	25.940	42.3	Insufficient projects identified
OLS Hotel	2.271	3.7	Change in payment profile for works
New HQ	7.591	12.4	Additional work required
Extra Care Housing	1.844	3	External providers unable to start work
Cemetery Extension	2.151	3.5	Land issues to be resolved
Leisure Projects	5.492	8.9	Completed under Budget
Total	55.414	90.3	

The schemes identified above account for 90.3% of all slippage on the entire capital programme (94.4% of the General Fund capital programme). If these schemes were excluded, the overall slippage would be 9.7% (5.6% on the General Fund capital programme).

5.3 Housing Revenue Account

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the cost in year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants.

31 March 2018		31 March 2019
£000		£000
	Expenditure	
10,160	Repairs & Maintenance	8,492
9,793	Supervision & Management	9,471
378	Rents, Rates, Taxes and other charges	223
11,812	Depreciation, impairments and revaluation losses of non-current assets	18,135
32,143	Total Expenditure	36,321
	Income	
(32,351)	Dwelling rents	(32,060)
(1,421)	Non-dwelling rents	(1,346)
(2,559)	Charges for services and facilities	(2,382)
(152)	Contributions towards Expenditure	(264)
(36,483)	Total Income	(36,052)
(4,340)	Net Expenditure or Income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement	269
262	HRA Services Share of Corporate & Democratic Core	274
(4,078)	Net Expenditure of HRA Services	543
4,406	(Gains)/loss on sale of HRA Fixed Assets	6,703
5,073	Interest Payable and Similar Charges	5,489
(84)	HRA Interest and Investment Income	(71)
400	Net interest on the defined benefit liability/asset	175
5,717	(Surplus) or Deficit for Year on HRA Services	12,839

5.4 Balance sheet

The Balance Sheet shows the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the authority may use to provide services, subject to the need. The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available if the assets are sold

01 April 2017 £000	Restated 31.3.18 £000		31 March 2019 £000
847,090	903,035	Property, Plant and Equipment	969,127
38,141	77,091	Investment Property	97,224
457	550	Intangible Assets	969
26,470	22,930	Long-Term Investments	25,788
9,320	8,161	Long-Term Debtors	32,487
<u>921,478</u>	<u>1,011,767</u>	Long Term Assets	<u>1,125,595</u>
24,053	18,808	Short-Term Investments	48,545
0	1,276	Assets Held for Sale	0
3	6	Inventories	1
34,346	47,835	Short-Term Debtors	35,996
19,800	9,900	Cash and Cash Equivalents	19,879
<u>78,202</u>	<u>77,825</u>	Current Assets	<u>104,421</u>
-67,559	-152,760	Short-Term Borrowing	-214,682
-39,710	-61,887	Short-Term Creditors	-56,595
-1,507	-2,447	Provisions	-4,266
-2,100	-2,100	Grants Receipts in Advance - Capital	0
<u>-110,876</u>	<u>-219,194</u>	Current Liabilities	<u>-275,543</u>
0	-8,462	Long-Term Creditors	-498
-223	-223	Provisions	-223
-170,370	-170,341	Long-Term Borrowing	-304,216
-312,944	-307,430	Other Long-Term Liabilities	-312,685
<u>-483,537</u>	<u>-486,456</u>	Long Term Liabilities	<u>-617,622</u>
<u>405,267</u>	<u>383,942</u>	Net Assets	<u>336,851</u>
-127,369	-103,832	Usable Reserves	-71,238
-277,898	-280,110	Unusable Reserves	-265,613
<u>-405,267</u>	<u>-383,942</u>	Total Reserves	<u>-336,851</u>

The net assets have reduced from £383.9m at 31.3.18 to £336.85m at 31.3.19.

5.5 Summary cash flow

There was a £9.98m increase in the council's cash and cash equivalents (that is, investments that mature in no more than three days), increasing from £9.900m in 2017/18 to £19.880m in 2018/19. A summary cash flow can be found in the table below

Restated 2017/18 £000		2018/19 £000
71,525	Net (surplus) or deficit on the provision of services	106,986
(100,063)	Adjustment to surplus or deficit on the provision of services for noncash movements	(129,259)
31,393	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities	25,159
2,855	Net cash flows from operating activities	2,886
89,052	Net cash flows from investing activities	177,789
(82,007)	Net cash flows from financing activities	(190,654)
9,900	Net (increase) or decrease in cash and cash equivalents	(9,979)
19,800	Cash and cash equivalents at the beginning of the reporting period	9,900
9,900	Cash and cash equivalents at the end of the reporting period	19,879

5.6 Pensions

The value of the council's Pension Fund increased by £7.4m over the course of the year, rising from £265.9m to £273.4m. The tables overleaf summarises the major elements that comprise this net change.

Pensions Assets and Liabilities Recognised in
the Balance Sheet

2017/18	2018/19
LGPS	LGPS
£000	£000
(496,297) Present value of the defined obligation	(511,755)
230,377 Fair value of plan assets	238,403
(265,920) Net (liability) / asset arising from the defined benefit obligation	(273,352)

Movement in the Value of Scheme Assets

2017/18	2018/19
LGPS	LGPS
£000	£000
224,452 Opening fair value of scheme assets	230,377
6,300 Interest income	5,960
Re-measurement gain / (loss):	
1,083 - The return on plan assets, excluding the amount included in the net interest expense	3,220
0 Other gains / (losses)	0
8,896 Contributions from employer	9,645
2,468 Contributions from employees into the scheme	2,851
(12,822) Benefits / transfers paid	(13,650)
230,377 Closing value of scheme assets	238,403

Movements in the Fair Value of Scheme Liabilities		
2017/18		2018/19
LGPS		LGPS
£000		£000
(494,657)	Opening balance at 1 April	(496,297)
(14,155)	Current service cost	(15,551)
(13,956)	Interest cost	(12,638)
(2,468)	Contributions from scheme participants	(2,851)
	Re-measurement gains and losses:	
0	- Actuarial gains / (losses) from changes in demographic assumptions	28,937
19,681	- Actuarial gains / (losses) from changes in financial assumptions	(28,817)
(134)	- Other	0
(702)	Past service cost	(3,266)
12,822	Benefits / transfers paid	13,650
(2,728)	Liabilities extinguished on settlements	5,078
(496,297)	Balance as at 31 March	(511,755)

5.7 Overall Issues and the Way Forward

The Council has received two highly critical external audit reports with extensive criticism of the accounts and related matters which encompass seventeen recommendations and four statutory recommendations which the Council will respond to at a public meeting of the Full Council on the 20th May

The Council also has reported and agreed that it has very significant savings to deliver and identify for 2021/22 and 2022/23

There are a wide range of financial implications and practices to improve and further matters to identify

In addition the Council will face a review by the MHCLG covering among other matters assessments of financial management, management of risk, deliverability of savings plan, efficiency of service delivery, and many other elements

The Council has a considerable lack of skills and capacity in its financial services and fundamental weaknesses in its financial processes, monitoring, financial modelling, training and development, accounting, budgeting, treasury management, company governance etc

There would appear to have been a lack of a holistic approach to finance and financial reporting resulting in a lack of corporate awareness of the seriousness of the financial position

Action has begun to address this situation which is exemplified by the external auditors reports. In addition to the management actions in the audit findings report the plans of the Council are shown below in the order of the Statutory Recommendations

Closure of Accounts Process

The Council has identified many areas for improvement in its accounting processes and these with the high level actions to be undertaken are shown below

- leadership – this will be provided by the Associate Director of Finance/DS151 who has unparalleled experience at this level and in this area of work
- technical support and training – this will be covered as noted in the section below on the finance team and will include whole team and dedicated individual one to one training and ongoing
- project planning – a very detailed project plan will be drawn up for the 2019/20 onwards accounts by the Group Manager supported by the technical advisors, other local authorities and the leadership. This will be continuously monitored. The plan will be joined up with the auditors prepared by client list

- corporate support – a paper will be put to the Executive Board and Cabinet summarising the planned approach and seeking formal approval for this to be a corporate priority – actual work will be circa 95% undertaken by finance staff. It will in future years require service officer 24 hour turn around re any audit queries
- quality assurance – a three stage quality assurance process will be implemented from bought in support covering QA checklists, balance sheet templates, audit trail and covering:
 - preparation
 - technical review
 - sign off review
- standardised working papers ensuring quality is addressed in all places and a complete line by line review of all working papers and account balances as at 31/12/19 to provide a quality assured base from which to prepare the 2019/20 and onward accounts. This will be provided by the technical advisors and the Group Manager. Normally an end date of October would suffice, given current staffing issues up to a year is targeted but may change depending on the findings from the reviews
- a review of the accounts to streamline unnecessary waste
- process reviews to remove duplication and processes which do not add value. This will be led by each Group Manager
- once the above is there will be monthly balance sheet preparation, reviews and sign off
- whole team approach - the involvement of the whole finance service to bring greater resilience and resource to this key requirement.
- communication – the project plan will include regular and early communication to all stakeholders. This will be provided by the Group Manager
- technical standards – the QA process will ensure the highest standard of technical proficiency
- interim audits – in future from 2022/23 half year hard close and interim audits will be actioned.

Benefits of the approach

Accounts Specific

The accounts are a statutory requirement with certain legal deadlines. They also form one of the bases for budgeting, strategic financial decision making, stakeholder information, certain borrowing approvals and evidence of financial stewardship among other matters

The time taken to publish the Annual Accounts determines the relevance of information and the pace at which behaviours can be influenced in the new financial year. A faster publication of the AA will enable management information earlier in the year to influence strategic decision making.

Publishing earlier also provides citizens and other key stakeholders with key performance information on a timelier basis, providing a rich source of information outlining how the Council is performing.

Whole service/Council benefits

The changes in approach required also provide an opportunity to improve financial management practices and quality across the finance function, driving the finance transformation agenda:

- efficiency and effectiveness are improved as finance staff are able to turn their focus to the new year sooner than would otherwise be the case
- treating the accounts in isolation from the budget does not develop holistic financial management either in the finance service or the Council as a whole and runs the risk of matters from one impacting on the other being missed or left too late to take positive action
- working to such standards enhances the project management skills of staff involved in the process
- it also broadens their technical understanding and awareness and provides them with a rounded view of financial matters which enhances the service they provide to the Government
- it focuses attention on continuous review and improvement
- staff experience, motivation and career development is enhanced
- an early and quality assured programme builds capacity to address issues in a timely manner should they arise and provides an extensive contingency should this be needed
- it sets a standard of quality, aspiration and timeliness which is then applied to other financial work
- it shifts focus from the past to the future – finance staff can add greater value to strategic decision-making

- it is an indicator of efficiency and effective financial management
- it improves accountability and transparency – results available quicker to scrutinise
- it sets ambitious goals, builds belief in staff, celebrates success
- it raises quality – focus on quality assurance
- it provides service and Council reputational benefits
- promotes continuous improvement – consistency, processes, goals, innovation, transformation – pace drives change
- culture – encourages a “can do” attitude, supports collaboration, develops holistic financial management as well as greater experience, skills and knowledge across the team

Finance Transformation

In addition to the benefits the finance service will gain from the above work to further address the issue of the skills and capacity of the finance service a two part approach is being followed – in the first instance additional temporary skilled financial resources which will allow the Council to address the matters noted above. These highly skilled specialist officers will be supplemented by temporary appointments to the finance team to fill skills and capacity gaps in the structure and address the current issues

In the longer term the following will be undertaken to ensure that the Council develops a quality fully functioning finance and commercial team:

- review of the team’s structure and related matters
- development and implementation of a comprehensive training and development programme
- planning for succession arrangements, productivity improvements, culture change
- implementation of high quality processes and quality assurance throughout the service
- introduction of a range of financial and commercial standards

Reserves

The Council has begun a robust process for continued review of its base budgets including savings proposals, pressures, mitigations, monitoring etc. This will all lead into an improved MTFS that will contain full detailed savings proposals backed up by appropriate plans and working papers. All savings will be allocated to a named department, officer and Member and all will be subject to continuous review by the finance service reporting into the Executive Board and Members

As a consequence of this work and as part of the budget process a risk analysis will be completed to inform by how much the reserves should be built up over the coming 5 years. This will lead to an increase in the savings target to finance the necessary increase in reserves which will be formalised as noted during the budget process

Group Entities

The Council has begun reviews of its management of third party organisations and will be implementing a series of changes which will include among other matters appointing Senior Responsible Officers to ensure that companies meet their objectives, putting in place new arrangements for holding companies to account, reviewing how the companies meet the Council's objectives, a review of the work undertaken by the companies, developing a clear approach to testing value for money etc. This will include a clear separation of all financial transactions, a review of Council officers on all boards, a review of all financial performance information and actions for all boards and identification of any risks the Council is facing

6. **Comments of Other Committees**

Full Council will consider the auditors statutory recommendations on the 20th May

7. **Conclusion**

This report will provide a starting point for a greatly enhanced financial service, quality financial management, better stakeholder engagement and allow the Council to meet its statutory duties

8. **Appendices Attached**

'A' - Slough Council 2018/19 accounts

9. **Background Papers**

'1' - Grant Thornton audit findings report and management response 2018/19

'2' - Grant Thornton Statutory Recommendations and management response