

# Slough Borough Council

## Section 24 Statutory recommendations

- 14<sup>th</sup> July 2021



Slough Borough Council  
Observatory House  
25 Windsor Road  
Slough  
SL14 2EL

14h July 2021

Dear Sirs

[Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014](#)

### Our responsibilities

As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources, we have additional powers and duties under the Local Audit and Accountability Act 2014. These include powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have concluded that it is appropriate for us to use our powers to make written recommendations under section 24 of the Act, due to inadequate arrangements and capacity at the Council to prepare reliable financial statements and supporting working papers and concerns regarding the Council's financial sustainability and levels of reserves. Further details are set out in the attached report. This report follows statutory recommendations we issued in May 2021 and the Report issued on July 2<sup>nd</sup> 2021 by the Council's Section 151 Officer under S114 of the Local Government Finance Act 1988.

### What does the Council need to do next?

Schedule 7 of the Local Audit and Accountability Act 2014 requires the following actions:

The Council must consider the recommendation at a meeting held before the end of the period of one month beginning with the day on which it was sent to the Council.

At that public meeting the Council must decide

- whether the recommendations are to be accepted, and
- what, if any, action to take in response to these recommendations.

Schedule 7 specifies the meeting publication requirements that the Council must comply with.

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# Background to the recommendations

We have concluded that it is appropriate for us to use our powers to make written recommendations under section 24 of the Act, due to inadequate arrangements in financial management at the Council exposed further by the recent report by the Council's S.151 officer under s114 of the Local Government Finance Act 1988. This report is in addition to the statutory recommendations made in May 2021 in respect of the Council's financial reporting arrangements and its management of its reserves position. The Council's 2018/19 accounts remain unsigned.

## Financial management arrangements at Slough Borough Council

We were appointed as auditor to the Council for the 2018/19 financial year. We have been unable to complete our 2018/19 audit and, due to this delay, have been unable to commence our 2019/20 or 2020/21 audits. Our concerns with regard to the Council's governance have continued to increase and these have been communicated in our reports to Audit Committee. In May 2021, due to issues arising from our continuing 2018/19 audit, we issued statutory recommendations in respect of the following :

- Finance capacity and skills
- Preparation of financial statements
- Levels of usable reserves
- Financial governance and monitoring and controls relating to Group entities

The Council has proposed a response to these recommendations and we will follow them up in the course of our audit.

On 2 July 2021 after a period of detailed review of the Council's finances, the Council's section 151 officer has issued a report under S114 of the Local Government Finance Act 1988. This is a very serious matter. These powers have been rarely used by S151 officers and most recently have been issued at the now demised Northamptonshire County Council and at the London Borough of Croydon. In the case of the former, the external auditor issued an Advisory Notice, telling the Council that their forthcoming budget was ultra-vires. In the case of the latter the external auditor issued a Public Interest Report in respect of the inadequacy of the Council's financial management arrangements in October 2020. This report reflects our response to the Council's Section 114 report.

The report issued on 2 July 2021 reflects a number of failings in the Council's financial management which are unacceptable in a public body funded by taxpayers. The Council has failed to put adequate arrangements in place over a number of years to ensure robust financial management. This must change. It is imperative that the future actions proposed by the S151 officer are fully supported.

The S151 officer's S114 report highlights a number of issues which fall well below the financial management standards which should be expected of a public body. The report reflects the following key weaknesses:

- The Council has been incorrectly calculating MRP since 2016/17, over stating asset lives, incorrectly using capital receipts and omitting some expenditure from the calculation
- Council borrowing has quadrupled from circa £180m to £760m with a consequential revenue impact
- The Council faces a range of financial pressures
- The Council has effectively no unallocated general reserves
- The Council has been incorrectly charging some revenue costs to capital.

Our statutory recommendations are a reflection of the serious nature of the issues identified in the S114 report which reflect the longstanding weaknesses in financial management at the Council.

# Background to the recommendations

## Council Reserve position

In our statutory recommendations report in May 2021 we noted that;

- Levels of general fund reserves at the Council have remained stable over a number of years however the level of earmarked reserves has continued to decline with earmarked reserves reducing from £30.9m in 2012-13 to £4.780m in 2018-19. There is no evidence that the Council has properly understood the risks involved in running down reserves which are ultimately largely earmarked to support its revenue position
- In the 2021-22 budget report to Council, forecast reserves were £11.425m at the end of 2020-21. This assumed £8.173m of General Fund Balance and £3.252m of Earmarked Reserves. However due to findings arising from the 2018-19 financial statements audit, a substantial over accrual of anticipated profits from the Council's interests in Slough Urban Renewal has resulted in a further reduction of general fund reserves of £7.573m in the 2018-19 accounts
- There remains further risk that these reserve levels will reduce further. The reserves are subject to the finalisation of our 2018-19, 2019-20 and 2020-21 financial statements audits, and the confirmation of the final 2020-21 outturn
- The Council has identified a significant savings programme of £15.576m for 2021/22, this being a bigger programme than we have seen delivered in recent years by the Council. This coupled with the adjustments required to the Council's reserves arising from the audit indicates that general fund reserve levels (both earmarked and unearmarked) are at unsustainably low levels. Urgent action is needed from the Council
- In addition, the Council is subject to continuing financial pressures arising from Covid 19, business rate appeals (c£5.3m), and the ongoing discussions with Department for Education on the recoverability of financial support to Slough Children's Trust.

Due to the matters listed above, the Council has recently sought financial support through MHCLG.

In his S.114 report the S151 officer has noted that:

“Overall the projected in-year spending on services is significantly above the approved revenue budget and the level of revenue reserves held by the Council. The current estimated negative General Fund balance as at 31 March 2021 is £56 million. The additional in-year deficit is for 2021/22 is estimated to be £40 million (assuming the £15m existing capitalisation direction is agreed). If further action is not taken, it is estimated that by 31 March 2025 there will be a negative General Fund balance of £159 million. Local Authorities are not permitted legally to exceed their revenue funding including reserves”

The position described by the s114 report represents a failure of financial governance by members collectively. It also reflects failings by senior Council officers collectively to exercise appropriate controls over budgets, ensure proper accounting practices were put in place and to put proper governance in place of Council companies.

Page 5 sets out our statutory recommendations. We would also note that we are considering our powers in respect of the legality of budgets set by the Council in the period since 2018/19.

# Recommendations made under section 24 schedule 7 of the Local Audit and Accountability Act 2014

Area	Recommendation	Management Response/ Responsible Officer/ Due Date
Addressing the S114 report	<p>The Council should put in place arrangements to address the issues raised by the S151 officer as set out in his section 114 report. In our view the Council should:</p> <ul style="list-style-type: none"> <li>• Report progress against the action plan to full Council at every meeting</li> <li>• Support the S151 officer's root and branch review of all aspects of the Council's finances</li> <li>• Invest significant extra resource in finance capacity, internal audit and risk management to ensure robust processes are brought into place across all of the Council's financial and budget management arrangements to meet statutory financial obligations.</li> </ul>	<p>The Council will put in place arrangements to address the issues raised in the S114 report and:</p> <p>fully supports the proposals to report progress to full Council at every meeting</p> <p>is fully supportive of the ongoing work of the S151 officer in reviewing in detail all aspects of the Council's finances</p> <p>will be investing significant additional resources in the services indicated to achieve the very necessary outcomes identified. It will also be separately identify whether this same approach would be beneficial in the core function of data and analysis</p>
Improving governance at the Council	<p>The Council should develop a comprehensive project plan for the improvement in governance arrangements :</p> <ul style="list-style-type: none"> <li>• Commission/learn from any external governance review undertaken with regular reporting through the Audit Committee</li> <li>• Strengthen Scrutiny and Audit Committee arrangements with external support to members</li> <li>• Establish a separate Finance Committee to monitor financial performance on a monthly basis</li> </ul>	<p>The Council will develop a comprehensive plan for governance and ensure that it:</p> <p>learns from reviews undertaken, commissions others as necessary and reports regularly to the Audit Committee</p> <p>engages additional support for Scrutiny and Audit Committees</p> <p>establishes a separate finance committee to monitor financial performance</p>



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