

## **RECOMMENDATION OF THE CABINET FROM ITS MEETINGS HELD ON 20<sup>TH</sup> SEPTEMBER 2021**

### **B) FINANCIAL MANAGEMENT UPDATE**

#### **1 Purpose of Report**

To provide Council with the first of a series of planned updates on work planned and being undertaken to improve all aspect of the Councils financial position.

#### **2 Recommendation**

Council is requested to note the current position of the financial recovery work.

#### **Report**

#### **2(A) Context and Summary**

2.1 As Members are aware the Council has in recent months:

- received two reports from the external auditor containing 17 recommendations and 6 statutory recommendations
- received an opinion for 2020/21 from the internal auditors building on a series of reports in recent years
- issued a S114 notice with a then estimated financial gap of £174m
- and is awaiting two reports from MHCLG and CIPFA commissioned as a consequence of the capitalisation direction submitted in 2020
- and will be submitting a capitalisation direction in excess of the £174m for the period 2016/17 to 2026/27

2.2 The financial position of the Council is unprecedented nationally and over time and covers a wide range of issues, all which are being addressed. The position continues to develop and resolving these matters will take an estimated 4 years in full as has previously been advised with the bulk, but not all, issues being identified in the first 2 years. Stabilisation of the Council's budgetary position will take beyond that

2.3 The report provides an update on the main issues currently being examined. Most of the work being undertaken is at the investigation and design stage although several major streams of work have already commenced

2.4 Grant Thornton the Council's external auditors recommended and the Council agreed that there would be a report to each Council meeting on the accounts. It is assumed that one outcome of the MHCLG/CIPFA review may be a requirement for a regular report to Council on the budget. Thus the opportunity has been taken to begin to develop a comprehensive update on the Council's finances, processes etc. This will develop further over time. It should also be noted that the embedding of

the greatly enhanced practise being developed will take some considerable time to fully implement as will the related culture change

- 2.5 Issues will continue to emerge throughout this process - they will be reported as and when available through the appropriate reports

### **EXECUTIVE SUMMARY**

- 2.6 This summary covers the seven substantive issues in the paper and advises how they are being led and managed. As much of this work is at the investigation and design stage the report below summarises and explains the current and planned positions. From the November Council report a usual RAG status report will also supplement this

**accounts** – the Council has accounts going back to 2016/17 that require prior period adjustments/review/completion. This report sets out the process the Council will be following going forward. This is a proven exemplary process that has been introduced and operated very successfully in other Councils. The process is heavily dependent on the finance team and is being launched on the 21<sup>st</sup> September with an aspirational target completion of 31/3/22 for all accounts upto 2020/21

at this stage the design is complete and is set out for Members information, investigative work continues on the Council's records to allow work to commence which will be driven through the finance team

completion of the accounts is extremely important as it is a significant identifier of the Council's actual financial position thus allowing it to budget with more confidence, ensure future issues are minimised and demonstrate its stewardship of public monies

**budget** - the Council has a series of budgets, capital, treasury management, revenue etc. The management of these has been and continues to be extensively reviewed

a review of the capital programme is nearing completion which subject to Member agreement will see a considerable reduction in the programme. In addition proposals to facilitate the generation of very necessary and significant asset sales are reported here and elsewhere on this agenda. These will finance the forthcoming capitalisation direction and reduce borrowings thus likewise reducing the revenue budgetary impacts of the capital programme which are excessive and which are extremely challenging for the Council. This is a major strand of the Council's future financial recovery

linked to this the treasury management strategy which depends on the capital programme will be significantly revised. In the short term the Council has over £230m of short term borrowing maturing in the next seven months and is currently engaging with MHCLG and HMT on instigating as necessary replacement borrowing

the revenue budget was neither fully prepared nor savings allocated out in the 2021/22 budget process and work has been ongoing since to verify budgets and savings plans for 2021/22 and to generate savings for the already Council agreed 2022/23 budget. A great deal of work has been undertaken by colleagues since July and this continues on an initial planned timeline to Scrutiny in November. Work will also continue beyond that date on the budgets for both years

work on the Housing Revenue Account is about to start and an initial plan to start to address the deficit in the DSG has begun. This will be subject of a separate review in November and may require a further year's work given the scale of the challenges facing the Council

**companies** - the Council has ten companies, 5 of which are active. The 5 dormant ones will be closed down. This report sets out the work to date and identifies that it is clear that significant improvements can be made to inform the Council's strategic use of companies and strengthen the governance, management, financial reporting and performance management of the companies

currently work has begun on three of the companies – GRE5, SUR and Housing companies, some of which has already been reported into Cabinet and Council

a full suite of activity will be undertaken during the next eighteen months

**internal audit -**

the council has a large number of outstanding actions in response to internal audit reports going back to 2016/17. A lot of work has been undertaken recently to agree outstanding actions and the focus is now turning to resolving these and more pro actively dealing with internal audit reports going forward. This will taken an estimated six to twelve months to get most matters to where they need to be

**systems -**

the Council utilises Agresso for its core financial and other systems. A review has been undertaken and requirements are being established which will allow the Council to improve its utilisation of the system and better under pin its financial and other work. This will be determined by November

**finance team -**

the Council has a very large quantum of work to do to rectify the previous issues and put the Council on a sound financial footing. The external auditors have recommended that the Council invests significantly in its financial, and other, resources and it is understood that this may be a similar requirement arising from the CIPFA review. While the Council has a number of highly professional national leaders now working for it with proven technical, leadership, project management etc skills there is a need to fill gaps in the service at a

more operational level. This is currently being addressed. As is the need to secure for the Council an appropriate permanent structure. The former requirements are imminent, the latter will be designed for October

## **financial management –**

as part of the change management of the Council finances new standards are being introduced. Those so far introduced are budget monitoring guidance, financial modelling, business cases for various magnitudes of work and VAT/taxation reviews

- 2.7 All projects have nominated finance team leaders and project plans where the identification and design work has been completed. In many cases both of these aspects remain continuously developing. At the current time much work is also focussed on resolving immediate issues such as treasury management which could otherwise put the Council at further severe risk. All current projects will with effect from the end of September be reported at a line by line level as well as through normal leadership, cultural and programme management processes
- 2.8 Assurance is currently also provided to Members through the fact that:
- the team has identified a wide range of issue which while very real and imminent were previously unknown to the Council
  - the CIPFA review is expected to not challenge the £174m as reported in the S114 report and agree that this sum will increase
  - the outcome of at least one of the two external reviews that have recently taken place is expected to be complimentary of the work undertaken by the finance team in the time available
  - the design of approaches etc to tackling the issues is progressing to a very high standard
  - all of these have or are being started to be dealt with, embedding good practise will take some considerable time
  - the regular reporting, such as this report, which is already taking place
  - weekly engagement with Lead Members on appropriate issues
- 2.9 All of the work is extensive, demanding and will continue to evolve

### **3 Accounts**

#### 2018/19 statement of accounts

- 3.1 The statement of accounts for 2018/19 was presented to the Audit and Governance Committee in May 2021, but the external auditors have not yet provided an audit opinion. The issues preventing an audit opinion are:
- a. a business rates appeal which had not been provided for;
  - b. impairment of a loan to Slough Childrens Trust; and
  - c. agreeing a way forward regarding the understatement of minimum revenue provision (MRP) for the period 2016/17 to date.
- 3.2 As the 2018/19 statement of accounts will have to be signed by the new S151 officer, appointed in May 2021, assurance is needed that the 2018/19 accounts are fairly presented.
- 3.3 Therefore, in view of the external audit issues and the need to provide assurance over the 2018/19 accounts, the plan will be to provide a form of triage on the working papers for 2018/19, which may result in further restatements to the 2018/19 accounts to address the issues raised by external audit.
- 3.4 This opportunity will be used to re-organise the statement of accounts to reduce duplication and put the notes into a more logical order to support the statements.

#### 2019/20 and 2020/21 statements of account

- 3.5 In order to try to catch up on lost time, the plan is to run the preparation of the further two year's accounts in parallel. The theory is that issues are likely to be the same for both years and therefore it will be quicker and more effective to address them at the same time. For example, if there are issues with capital accounting, then they will be prevalent in both years and therefore simpler to resolve at the same time for both years.

#### Materiality

- 3.6 The external auditors used 1.5% of gross expenditure as the threshold for assessing overall materiality when planning for the 2018/19 audit of accounts, which produced an overall materiality level of £5.9m. However in view of the s.114 notice issued in July 2021 and the new finance team's concerns over the weaknesses in internal controls referred to in the s.114 Notice, a lower level of materiality should be planned for.
- 3.7 Therefore, for the purpose of planning the preparation of the accounts for 2019/20 and 2020/21, overall materiality will be set at £4m based on 1% of gross expenditure in 2018/19 of £398m. Consequently, it is not proposed to report disclosure notes where the balance falls below this level.
- 3.8 Members allowances, exit packages, officer remuneration and related party transactions have all been identified as sensitive disclosures as they tend to attract the most interest, therefore officers plan to ensure that these are accurate to the nearest £.

## Approach

- 3.9 The aim will be to use a whole team approach using as many of the existing finance team as possible in order to upskill permanent members of staff and to spread the workload. This will need to reflect that a number of key finance staff are likely to be heavily involved in other tasks such as the expenditure control panels.
- 3.10 The standard approach is that individual officers will be assigned a disclosure note to prepare (the preparer) and that each disclosure note will be subject to first line QA review by a reviewer. Given that some staff assigned a review role may be unfamiliar with undertaking QA review, then all work be subject to second line QA review. This will ensure that both the quality is maintained and the first line reviewer and the preparer understand the standard that the Council is aiming for.
- 3.11 For the 2019/20 and 2020/21 accounts standard closing folders for both years will be set up with folders for each core statement and disclosure note
- 3.12 All working papers will be filed on these folders so that there is a clear trail back from the accounts to centrally filed working papers rather than information filed on personal folders which seems to have been the experience in the past.
- 3.13 For each core statement and disclosure note standard template workbooks will be used to collate information and produce the relevant disclosure. The purpose of using the standard template workbooks is to ensure there is a clear audit trail between the information reported in the accounts back to source documentation, and to provide clear evidence of quality assurance in the accounts preparation process.
- 3.14 Each accounts workbook is structured with the following:
- a) summary sheet to collate and summarise the work done and containing hyperlinks to supporting information
  - b) QA checklist – a standard checklist to evidence the QA, each checklist is tailored to the individual disclosure note
  - c) review sheet for the reviewer to document their review and the preparer to use to respond to queries raised through the review process
  - d) disclosure checklist – an extract from the CIPFA Accounts Disclosure checklist to ensure that the disclosure meets Code requirements
  - e) analytical review to compare the current year with the previous one and seek explanations for variances over £1m;
  - f) Grant Thornton (GT) expected paper checklist –an extract from GT’s expected working paper list relevant to the disclosure or core statement linked to the information requested;
  - g) disclosure note;
  - h) supporting working papers – which may be in the same workbook or hyperlinked files.
- 3.15 For 2018/19, the standard working paper filing system will be used and populated with the existing working papers. Discussions with external audit highlighted that although GT had provided an expected working paper checklist for the 2018/19 audit, the Council’s finance team did not complete this. Consequently, most of the working papers used to support the final accounts for 2018/19 had to be requested individually by GT and were supplied to them via GT’s audit software – Inflo.

- 3.16 A review of the 2018/19 working papers on the Council's X: drive does not readily show a suite of working papers pulled together for GT. A copy of the working papers provided to GT has been requested from them so that the Council has a record and can see what was provided, and from what source.
- 3.17 For all three years main accounts, the Council will be moving away from the Big Red Button approach which the Council had been using in previous years. Instead, the Council will use a model with in-built validation checks which has been used before. The format will be A4 landscape and thus easier to view on-screen which is the way most users of the accounts view the annual statement of accounts.
- 3.18 Clearly this will mean restating the draft 2018/19 Statement of Accounts into the new format, but the 2018/19 accounts will be subject to triage to provide assurance for the s.151 officer. Restating the accounts will form part of that triage and enable us to draw out underlying issues.

#### Risk areas

- 3.19 The following areas have been identified as high risk either by the external auditors or from the Council's own assessment of the previous year's accounts:

#### *Capital accounting and fixed asset register*

- 3.20 The risks seem to be completeness and accuracy due to lack of controls over disposals and transfers, and misclassifications - for example electricity sub-stations have been classed as investment property, and the Thames Valley University site acquired for investment development has been classed as an operational asset.
- 3.21 In addition, the Council has been valuing its assets on a 5 yearly cycle. However, the Covid-19 pandemic has impacted quite significantly on some classes of asset valuation. Therefore, continuing to use a 5 yearly valuation cycle may overlook significant changes in value between valuations for some asset classes.
- 3.22 Work on the IT budgets has highlighted that revenue expenditure has and is being incorrectly charged to capital.
- 3.23 Therefore, work will be to:
- a) confirm asset movements in year have been correctly identified and accounted for;
  - b) confirm disposals to third party sources (e.g. schools to the DfE academy listing), land registry etc
  - c) review and correct asset classifications
  - d) engage the valuer to provide revised valuations as necessary. This may identify errors in previous years' accounts, in which case an assessment will need to be made of the need for a prior year adjustment.
  - e) review the valuation cycle with a view to commissioning more frequent valuations for higher value assets.
  - f) review capitalisation of revenue costs.

### *Bank reconciliations*

3.24 GT's May 2021 report highlighted issues with the complexity of the processes for producing the bank reconciliation.

3.25 Work will be undertaken to:

- a) review and simplify the bank reconciliation process.
- b) review the number of accounts in use with a view to reducing these.

### *Capital commitments*

3.26 GT's May 2021 report highlighted that the capital commitments disclosure in the 2018/19 accounts had been produced from the approved capital programme rather than a list of outstanding contractual commitments.

3.27 Work on this note will link back to the Council's contracts register.

### *Debtors and creditors*

3.28 GT's May 2021 report identified that debtor and creditor balances were not regularly being reconciled to feeder systems and resolved items cleared down.

3.29 Work will be undertaken to review the evidence supporting debtors and creditors and ensure that reconciliation processes are in place and operating effectively.

### *Dedicated Schools Grant (DSG)*

3.30 GT's May 2021 report commented that the Council had reported the DSG balance as a negative reserve. The 2018/19 accounts reported a negative balance £7m in respect of central items (i.e. the Special Education Needs block).

3.31 CIPFA Bulletin 09 *Closure of the 2020/21 Financial Statements* highlights that under the School and Early Years (England) Regulations 2020 from 1 April 2020, schools budget deficits may not be funded from General Fund but must be carried forward as negative reserves to be funded from future DSG income unless permission has been obtained to fund the deficit from General Fund resources.

3.32 Whilst the above Regulations took effect from 1 April 2020, the CIPFA Closedown bulletin for 2019/20 suggested that the same accounting treatment could be applied retrospectively for 2019/20 i.e. for the DSG negative balance to be reported as a negative balance. Therefore, the Council will continue with this practice, but with a commentary on work being undertaken with schools and the DfE to rectify the position.

### *Group accounts*

3.33 GT's May 2021 report commented that the Council had a number of Group entities some of whom did not have year-ends which aligned with the Council year-end and recommended re-aligning those companies' year-ends to ease closedown.

3.34 In addition, the Council's review highlighted that there were a significant number of Group entities, which may not have been considered for Group accounts.



3.35 Work will be undertaken to re-assess the entire range of interests which the Council has engaged with to ensure that all those which are material to the Council have been consolidated and that the remainder have been appropriately reported.

#### *Long-term debtors*

3.36 GT's May 2021 report noted that a loan to James Elliman Homes had not been properly accounted for as a soft loan even though it was provided at a below market interest rate.

3.37 Other work on the Council's companies has highlighted concerns over the identification and accounting for loans to entities within the Council Group.

3.38 Therefore, work will be undertaken to confirm the completeness of loans advanced, the terms of those loans and the proper accounting treatment to be applied.

#### *Declarations of interest*

3.39 GT's May 2021 report noted concerns that:

- a) councillor and senior officer declaration forms were not dated and in some cases not signed; and
- b) interim staff were not required to complete the Register of Interests of Hospitality Register.

3.40 Work will be undertaken to ensure that:

- a) all declarations are signed and dated and are updated annually. Given that there were Council elections in May this year, then newly elected or re-elected Members should have had to renew their declarations.
- b) all interim staff occupying senior posts are included in the declaration process.

#### *HRA stock valuation*

3.41 GT's May 2021 report commented on consistencies between the Capita Housing Rents system and the Fixed Asset Register.

3.42 Work will be undertaken to ensure that the two systems are being reconciled monthly and that beacon properties used in the stock valuation process remain relevant and representative of the stock.

#### *Staffing numbers*

3.43 GT commented that the staffing report used to generate the number of full-time equivalent staff numbers for the banded remuneration disclosure had to be run several times before it was fit for purpose.

3.44 Work will be programmed to ensure that the payroll interrogation is properly run.

### *Financial instruments*

- 3.45 In addition to the soft loan issue highlighted above, the Council's investment in the CCLA Pooled Property Fund had been misclassified in the draft 2018/19 accounts, highlighting a lack of understanding about the current accounting for financial instruments under IFRS9 which came into effect from 1 April 2018.
- 3.47 Work to be undertaken will include a thorough revisit of the classification and accounting for all financial instruments.

### *PFI*

- 3.48 The Council has one PFI contract for three schools which commenced in 2006/07. Experience at other local authorities suggests that often the passage of time means that there is no-one at the authority with a reasonable understanding of the contract, which runs the risk that the future liabilities may be misstated.
- 3.49 Work will be undertaken to review the accounting against the financial model for the contract. This will help put the Council on the correct footing for when IFRS16 Leasing is implemented with effect from 1 April 2022.

### *Leases and investment property*

- 3.50 The Council has a substantial investment property portfolio (£108m). Review of the performance reporting of the investment property shows that no operating costs or financing costs have been taken into account. Therefore, there is a risk that costs and performance have been mis-reported in the accounts.
- 3.51 In addition, some of the leases appear to have been granted with rent-free periods. If the rentals have been accounted for on a cash basis, then there is a risk of misstating rents receivable.
- 3.52 Work will be undertaken to identify and review all leases and review the accounting treatment.

### *Minimum Revenue Provision*

- 3.53 The Council's review of previous years' accounts highlighted that MRP had not been calculated correctly in line with the Council's stated MRP policy since 2016/17. Issues identified include:
- a) not charging any MRP on the £150m balance of unfinanced capital expenditure as at 31 March 2016 for the five successive financial years;
  - b) basing MRP on new borrowing taken out rather than the amount of unfinanced capital expenditure incurred in the year;
  - c) applying a blanket asset life of 60 years (changed to 50 years in 2018/19) regardless of the asset's actual useful life;
  - d) incorrect discount rate used in the annuity calculations.
  - e) applying capital receipts to reduce the MRP
  - f) applying a "saving" from changing from a straight-line MRP approach to an annuity approach as if this policy had applied in the years before the change in the MRP policy.

3.54 The individual capital financing of each capital scheme since 1 April 2016 will need to be reviewed to establish the correct MRP charge for each scheme. This will need to match the annual capital expenditure and financing disclosure.

*Post balance sheet events (PBSEs)*

3.55 Because of the lapsed time since the end of each of the financial years' accounts it will be necessary to undertake a detailed post balance sheet events review to identify issues which have arisen since the relevant year-end. Clearly the three major issues which have occurred are:

- a) the Covid-19 pandemic which has impacted on asset values and income streams;
- b) the UK exiting the European Union; and
- c) the issuing of the s.114 Notice in July 2021, which impacts on the future financial position of the Council.

3.56 Work will be undertaken to assess the PBSEs in liaison with Grant Thornton.

*Going concern*

3.57 Going concern assessments have been an issue at other local authority audits for the past few years. The issuing of the s.114 Notice in July 2021 potentially calls into question the future financial viability and sustainability of the Council. However local authorities are creatures of statute and cannot therefore go out of business without statutory changes. The National Audit Office (NAO) published [Supplementary Guidance Note 01](#) to auditors in April 2021 on the application of ISA 570 *Going Concern* to NHS bodies and local authorities.

3.58 The final accounts closedown plan will include a going concern assessment for all years, and the Council will work closely with the external audit team to ensure that accounting and auditing standards are met.

**Accounts preparation team**

3.59 The Council will be using a whole finance team approach delegating individual notes to staff throughout the finance team. Training has been developed for these officers and this approach will upskill finance staff across the Council

**Accounts timetable**

3.60 A detailed timetable is being finalised but will need confirming based on staff availability. The broad outline will be:

Undertake triage of 2018/19 accounts	August 2021 to September 2021
Tackle high risk areas for 2019/20 and 2020/21	October 2021 to November 2021
Prepare accounts 2019/20 and 2020/21 accounts	December 2021 to January 2022
QA/review accounts	February 2022
Publish 3 statements of accounts plus 2 prior period adjustments	31 March 2022 – <b>aspirational provisional</b> date and subject to audit

## Technical guidance and training

- 3.61 Recognising that there has been a very substantial loss of senior finance staff, and that using the wider finance team will involve staff less familiar with financial reporting, all staff will need access to standard guidance such as the CIPFA Practitioner Guidance Notes to the Code. All guidance will be filed in the Guidance folder in the relevant year's closedown folder.
- 3.62 In addition, the Council will hold weekly technical briefings on specific issues. In the past these have been run as "Techy Tuesdays" to cover topics such as:
- a) understanding the auditor;
  - b) working papers and evidence;
  - c) leasing;
  - d) capital accounting;
  - e) provisions, creditors and contingent liabilities.

## External audit liaison

- 3.63 GT use a cloud based system called Inflo to document their audits and to raise queries with audit clients. One of the challenges is keeping on top of the volume of audit queries generated by such approaches. Therefore, to manage the process a dedicated progress chaser to manage queries and chase up progress will be needed and will be arranged.
- 3.64 During the accounts preparation period two-weekly meetings will be held with the auditors to keep them abreast of issues as they arise and present any technical papers where a judgement may be required.
- 3.65 Once the audit commences, weekly meetings will be held with GT to manage the process.

## Work Undertaken to Date, Issues Identified and Being Addressed

- 3.66 The group assessment work has identified that the Council has a number of companies of which some are dormant. Action will be taken to formally close the companies with Companies House as they are not needed by the Council.
- 3.67 Working paper folders have been set up for all three financial years -2018/19 to 2020/21. Work has started in trying to identify and review working papers.
- 3.68 Fortnightly external audit liaison meetings have been set up
- 3.69 A programme of technical training for finance staff has been set up to start 21 September 2021 commencing with working papers and evidence.
- 3.70 The latest version of the 2018/19 accounts, presented to the Audit and Corporate Governance Committee on 18<sup>th</sup> May 2021, have been reviewed to simplify and strip out any unnecessary disclosures. The initial review has identified at least seven disclosure tables that could be removed from the 2018/19 accounts as they are below the £4m materiality threshold noted in para 7 above. This will be revisited again prior to publication of the accounts for all three years to ensure that the

accounts are simplified, and any unnecessary disclosures are removed so far as regulations allow us to do so.

3.71 The aspirational plan is to publish all three years' accounts including prior period adjustments for the two years 2016/17 and 2017/18 on 31 March 2022 – the Council's website will be updated accordingly

## 4 **Budget**

- 4.1 The Council's budget consists mainly of capital, generating capital receipts, treasury management, revenue – general fund, HRA and the DSG and reserves
- 4.2 Taking each of these in turn the **capital programme** was inadequately reported and controlled and has led to excessive unaffordable borrowing
- 4.3 In order to address this the Council has begun a process of review of the programme that will generate options that will include:
- reviewing all projects funded through borrowing
  - stopping projects that are not essential for Health and Safety or do not have a clear business case
  - reducing allocations where possible
  - deferring expenditure where possible
  - re-profiling expenditure over longer periods if possible
- 4.4 This process is ongoing, will be reported to a future Council meeting and if agreed will see a major reduction in the capital programme in future years
- 4.5 Linked to the capital programme, financing the capitalisation direction and reducing the level of borrowing the Council has also begun a process of commencing a proactive, but orderly disposal process to **generate capital receipts** which will be used firstly to finance these issues. In addition the Council will shortly conduct a procurement exercise in line with the Public Contracts Regulations 2015, to obtain the support of external organisations who can assist the Council with an ambitious programme of asset disposals over the next five years. This is a key strand of the Council's financial recovery

### Assets identified for potential disposal

- 4.6 The Council owns approximately 6,700 property assets (land and buildings) with a total value of £1.2bn. A summary analysis is provided below

**Table 1 – Council-owned land and buildings at 1 August 2021**

Category		Estimated Value	No. of Assets
		£m	No.
1	Investment Assets and land awaiting redevelopment	250	55
2	Assets not currently used in delivering services	20	25
3	General Fund Assets	380	375
4	HRA Assets	550	6,000
	<b>Total</b>	<b>£1,200</b>	<b>6,455</b>

- 4.7 All of these assets will be subject to an options appraisal based on:
- current running costs eg repairs, maintenance and utilities
  - current use and potential for re-purposing
  - contribution to Council priorities
  - where relevant, current investment returns
  - any restrictions on disposal

- expected pre-sale costs eg dilapidations and marketing
- identified disposal opportunities
- expected sales proceeds.

4.8 Marketing efforts can then be prioritised accordingly, within the overall objective of:

- realising disposal proceeds of £200m within two years ie by 1 April 2024
- using this first tranche of capital receipts to finance any Capitalisation Directions received from the Government
- realising further disposal proceeds of between £200m and £400m within the following three years ie by 1 April 2027
- using these disposal proceeds to repay existing debt.

4.9 Members will be advised of option appraisal outcomes in due course. In addition, all property disposals will be subject to formal officer or member approval in accordance with the Council's Constitution and Scheme of Delegation before any binding sale contracts are entered into. Currently these requirements state that:

- all assets valued above £1m will be subject to Cabinet approval.
- assets with a value of £1m or less can be disposed of via delegated authority by the Executive Director of Place, in consultation with the s151 Officer and appropriate Lead Member.

#### Use of external consultants – Proposed Approach

4.10 A disposal programme of this size will be complex and will require detailed and specialist knowledge of both local and national property markets – especially for complex/high value assets. Options available are as follows:

- Option 1 - Use internal resources to develop and implement the disposal strategy
- Option 2 – Use internal resources to manage the process but appoint external specialists to deal with the operational aspects of disposal.

4.11 It is recommended that Option 2 is pursued and that the Council seeks external support from organisations with a successful track record of working with local authorities on large, high profile asset disposal projects.

4.12 The specialist's key tasks would include:

- analysis of local market needs
- option appraisal for all land and buildings currently owned by the Council
- advising on how best to dispose of Council assets in a way that that delivers expected levels of capital receipts but still represents value for money
- arranging condition and site surveys
- advertising land and property for sale
- proactively identifying and contacting potential purchasers
- completing due diligence work on prospective purchasers
- identifying where appropriate potential sub-lease or sale and lease-back arrangements
- negotiating sale prices, terms and conditions on the Council's behalf
- undertaking value for money assessments
- appointing and liaising with legal advisers, valuers etc.

- liaising with Council officers and reporting to senior management team and elected members as appropriate.

4.13 Procurement of these services will be carried out in compliance with:

- the Public Contracts Regulations 2015,
- Council procurement policies, and
- expenditure Control Panel requirements.

4.14 The revision of the capital programme and the sales of assets has a major impact on the **treasury management** strategy. Nonetheless changes to this have been undertaken to deal with issues identified as part of the Companies review

4.15 One other immediate treasury management issue is also being actioned which is the Council's borrowing

4.16 The Council had temporary borrowing of £413.5m at 9/6/21

4.17 The temporary borrowing falls due in a fairly even pattern over the remainder of the year. As stated in the s.114 Notice, having such a high level of borrowing from other local authorities presents a significant re-financing risk, in that local authority lenders may refuse to lend to the Council forcing the Council to borrow longer-term at fixed rates.

4.18 Since July the Council has had one authority expressing a wish to rollover the loan to Slough BC, which is welcome. Also cashflows have been better than expected and the Council rebased its cashflow on the balances as at 6 July 2021 of £63m – an improvement of £36.8m on the previous forecast.

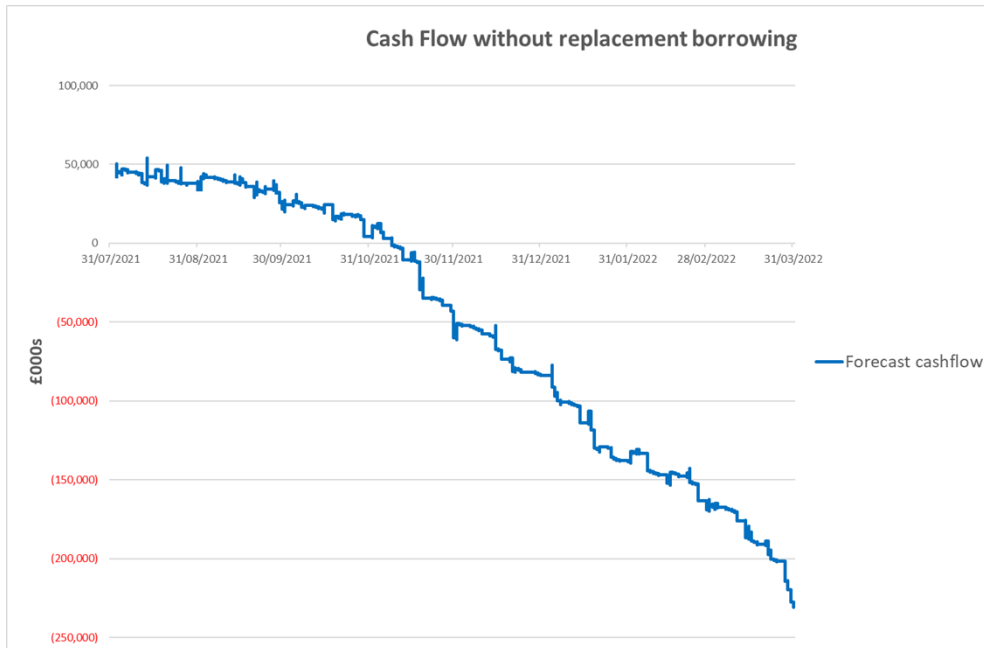
4.19 Nonetheless, if the lending authorities exercise their option to have the temporary loans repaid on maturity, then the Council will be required to repay £236.5m of temporary borrowing maturing before 31 March 2022 together with a £4m PWLB loan maturing in September 2021. The summary maturity profile of temporary borrowing by month from September 2021 to March 2022 is set out in Table 1 below:

**Table 1 Maturity of temporary borrowing by month to 31 March 2022**

Month	£m
September	27.5
October	19.5
November	56.0
December	25.0
January	36.0
February	30.0
March	42.5
	<b>236.5</b>

4.20 Modelling the Council's cashflows using the above information, the cash position is forecast to go overdrawn from 8 November 2021 and decline to around £240m overdrawn balance as shown in the chart below.





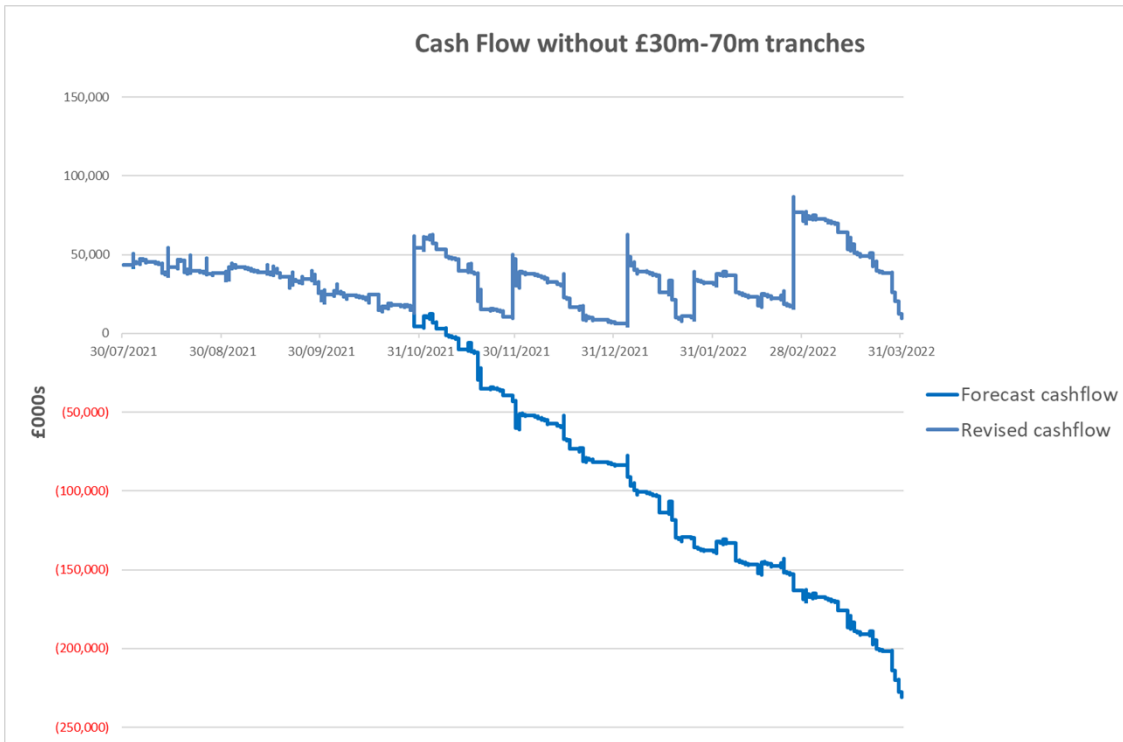
4.21 Using the above forecast, the Council would need to borrow to replace temporary borrowing from local authorities with effect from 29 October 2021 if none allowed a rollover of terms. The options are to take out a few large tranches of borrowing of between £30-£70m, or smaller but more frequent tranches of borrowing.

4.22 Modelling the two options will result in additional £240m drawdown up to 31 March 2022 as set out in the Table 2 below:

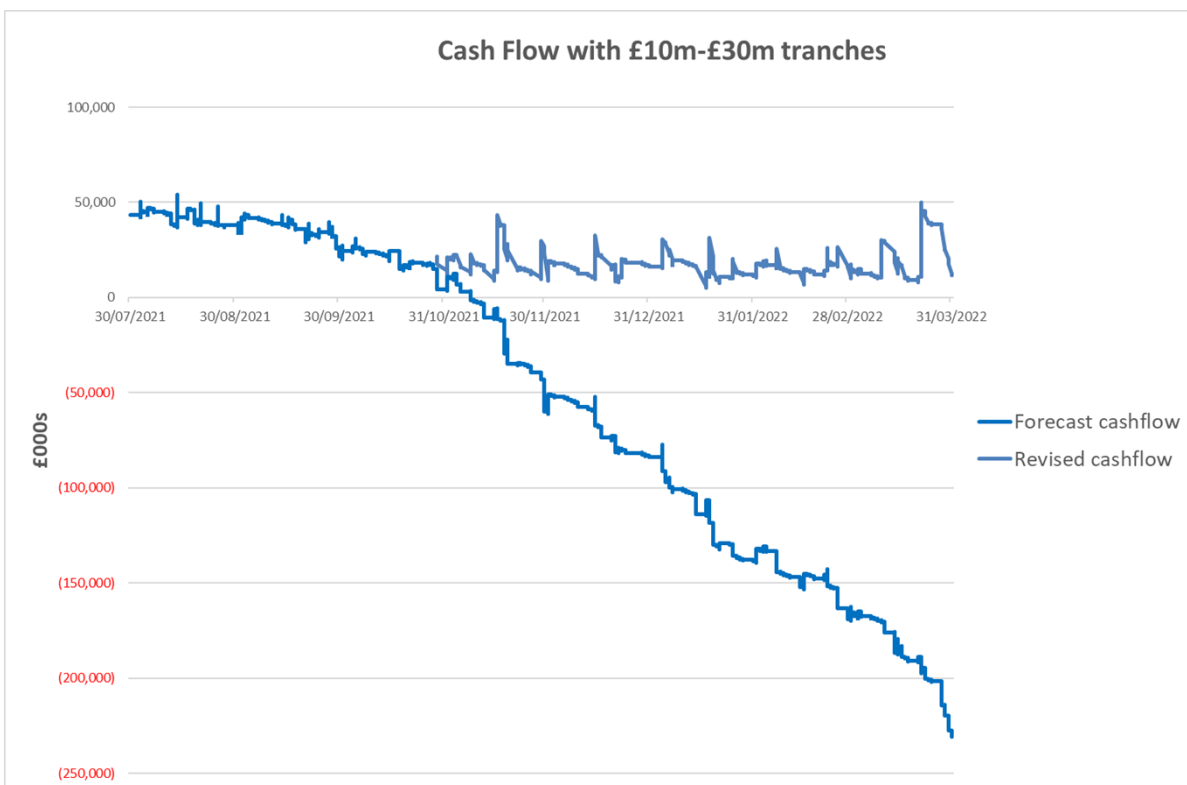
**Table 2 Schedule of replacement borrowing**

Date	£30-£70m	£10m-30m
	tranches	tranches
	£m	£m
29/10/2021	50	10
08/11/2021		10
16/11/2021		30
29/11/2021	40	20
15/12/2021		20
23/12/2022		10
04/01/2022	50	20
18/01/2022		20
25/01/2022	30	10
07/02/2022		10
22/02/2022		10
25/02/2022	70	10
10/03/2022		20
22/03/2022		40
<b>Total</b>	<b>240</b>	<b>240</b>

4.23 Modelling the cashflow with re-financing in five tranches of £30-£70m produces the following forecast. Whilst this reduces the number of deals, it results in an average cash balance of £26.9m.



4.24 Modelling the cashflow with 14 smaller tranches of £10-40m, this produces an average cash balance of £13.4m.



4.25 As reported in the S.114 Notice, the Council's current level of borrowing is unsustainable, and will need to be managed down to more sustainable levels. To do this the Council is embarking on a programme of asset disposals which aim to generate capital receipts, which can then be used to repay borrowing as it falls due.

4.26 In terms of borrowing strategy, if the Council replaces temporary borrowing with long-term borrowing, but then generate capital receipts enabling long-term borrowing to be repaid, then the Council runs the risk of having to pay premiums. Therefore for the period of the asset disposal strategy, the Council will aim to keep replacement borrowing on a more flexible footing, but balanced with the need to re-balance the overall debt maturity profile.

4.27 The Council can achieve the flexibility by replacing temporary loans from local authorities with short-term borrowing from the PWLB of up to 5 years (the period of the asset disposal programme).

4.28 In addition, the Council will consider whether it needs to borrow to finance the Capitalisation Direction. The above options will be considered

4.29 The Council's **revenue budget** for 2021/22 included a number of challenges comprising late completion of the budget, inadequate scrutiny of the proposals, allocation of only circa 50% of the savings proposals to departments thus compromising delivery/ownership etc

4.30 Since April the Council has addressed these issues, developed a short term plan to balance 2021/22 and 2022/23 budgets and is developing longer term planning for the financial years 2023/24 onwards. These actions include the below, some are short term, others will be developed over the medium/longer term beyond 2022/23:

- ownership of balancing both years 2021/22 and 2022/23 with departments with clear targets and requirements
- weekly meeting at Director and Leadership level tracking progress across all Departments, re savings developed and supporting documentation
- extensive engagement between finance and services to continually review all budgets, line by line reviews, correction of previous years issues, consideration of proposals etc
- all proposals being backed up with a business case, savings action plan and equality impact assessment
- peer and financial review of supporting documentation
- expenditure control panels reviewing all expenditure requests
- consideration will be given to extending the controls through restrictions to the Council's accounting system
- at this stage a further S114 is not needed but will be considered in October should this prove necessary
- introduction of zero based budgeting with effect from 2023/24. Zero-based budgeting (ZBB) is a method of budgeting in which all expenditure must be justified for each new period. The process of zero-based budgeting starts from a "zero base," and every function within an organization is analysed for its needs and costs.
  
- The key objectives from ZBB are to:
  - Challenge exist budgets;
  - Gain a better understanding of what drives costs;
  - Set the foundations for thorough financial and service planning in the Councils Plans

Which in turn supports:

- Budget holder ownership of budgets, with support and challenge from Finance Business partners
  - Increased transparency of budgets – which will flow into reporting and forecasting
  - The identification of efficiencies, including the identification of service duplication and consolidation opportunities
  - Data cleansing
- The Council will ensure that as part of resolving its budgets it will pro actively seek options for financial savings by transforming, stopping, deferring or reducing services. Examples include:
- where services are provided above the statutory minimum
  - full cost recovery for fees and charges
  - where services cost more than average
  - a review of assets, eg centralising/rationalising including Child Care Centres among others
  - reviewing regeneration objectives to ensure they are cost effective
  - a review of the levels of service provided eg waste collection, street cleaning etc
- In order to maximise the return from this area of income, all services will scrutinise their existing fees and charges and consider the following:
- have all possible overheads been allocated and absorbed to the relevant area
  - is the service at breakeven, or even able to go beyond breakeven for any differential services
  - thus to achieve breakeven as far as possible may require above inflation rises
  - are all fees and charges being increased by inflation as a minimum where not fixed by statute
  - can any further differential or premium services be provided at little or no extra cost for the revenue it would generate
  - how does the Council's charging structure differ from other councils and are there any ideas we could apply in Slough
  - how do the Council's charges benchmark against other councils?
  - are there departments/costs which are incurred in one part of the business to the benefit of others which could be cross-charged to increase recovery from end users via an increase in fees and charges?
  - do we know what users are willing to pay and for what
  - have we reviewed the legislation recently to understand what we can and cannot charge for and to what level we can charge?

- Approaches in seeking to mitigate contract inflation and contract management in general include:
- is the Council clear which contracts are coming up for renewal in the next 2-3 years? Suppliers incentivising us to renew without tendering may be masking a highly profitable contract from which a tender could drive greater savings.
  - when reprocurring, insisting on CPI rather than RPI which is generally a higher rate and nowadays seen as being of less relevance?
  - assessing the nature of the service for costs which stay the same (up front capital investment) or reduce over time (technology). Hence whether an element of the service provider's cost should not be inflated or at a different/lower rate and which can be specified in the contract.
  - challenging suppliers to provide the service at a fixed cost through the life of the contract, on the basis that they can drive savings from the contract
  - incentivising/encouraging suppliers to find savings during the contract period which can then be shared between us (i.e. a reducing contract value)
  - asking suppliers what technology can be implemented to drive further automation/robotics, efficiencies and hence savings to our benefit?
  - and more generally on income generating/cost recharging contracts, do we have clear terms for termination/variations which enable us to vary or end supplier costs at the same time without being caught carrying a cost which cannot be recharged – are the terms “back to back”?

4.31 The immediate work for 2021/22 and 2022/23 will continue through to October beyond which Scrutiny will take place in November, Council Tax Base report in December with formal reports to Cabinet and Council in the New Year

4.32 Given the financial issues the Council faces, budget, process etc work will continue to the end of the financial year through a continual rolling programme

## 5 Companies

5.1 The Council has several connected companies:

- a. Slough Urban Renewal (SUR) LLP (group structure includes LLPs for specific schemes)
- b. James Elliman Homes Ltd
- c. Development Initiative for Slough Housing Company (DISH) Ltd
- d. DISH RP (FP) Ltd \*
- e. DISH RP Ltd \*
- f. DISH CLS Ltd
- g. Ground Rent Estates 5 Ltd (GRE5)
- h. Herschel Homes Ltd \*
- i. Slough Asset Management Ltd \*
- j. Slough Direct Services Ltd \*
- k. Slough Children First Ltd \*\*

\*Dormant

\*\*became wholly owned by SBC on 1/4/21

5.2 Such companies can be highly effective when they are underpinned by strong governance arrangements, clear strategic objectives, effective reporting, transparent decision making arrangements, a strong performance management framework and clear roles and responsibilities. Weaknesses in any of these critical areas can result in significant issues and risk.

5.3 In light of recent internal and external reports and ongoing reviews of the Council's companies, it is clear that significant improvements can be made to inform the Council's strategic use of companies and strengthen the governance, management, financial reporting and performance management of the companies.

5.4 Recent internal audit reports have identified a range of governance and financial issues and the most recent year end audit report (FY 2018/19) also identified a series of specific issues in relation to income recognition, accounting for loans and other financial and governance matters.

5.5 Further investigation is required to fully understand these, and other issues, identified and to ensure that a clear way forward is developed with a bespoke rolling action plans for each company. This will include a re evaluation of internal audit actions to ensure that the action plans are comprehensive and continue to meet the Council's strategic objectives.

### Approach

5.6 As part of the Council's strengthened finance team, an interim Commercial Finance Director has been appointed with responsibility for reviewing the Council's company portfolio followed by the design and implementation of a range of measures to improve governance, scrutiny, financial management and reporting, performance management and value for money.

5.7 This role reports into the s151 officer and works across the Council's other directorates, especially the Place Directorate with significant commercial operations and partnerships.

- 5.8 An interim Companies' finance manager has also been appointed to provide financial and accounting services across some of the Council's companies (GRE5, JEH, DISH) to ensure that minimum service standards can be maintained and to ensure that the Companies and the Council can receive consistent, high quality, accurate and timely finance and performance management information. It should be noted that SUR financial, governance and management services are provided by the SUR team and reports into the Council.
- 5.9 The Council's core commercial finance team will be supported by additional internal and external resource on a project-by-project basis. A series of reviews and projects will be commissioned over the next twelve to eighteen months to consider a number of key themes and issues including:
- a) governance and scrutiny;
  - b) roles and responsibilities – directors and Council staff;
  - c) transparency and accountability;
  - d) risk management and oversight;
  - e) financial reporting and monitoring;
  - f) performance management and value for money;
  - g) strategy, rationale and ongoing viability;
  - h) accounting treatment and systems; and
  - i) compliance with Council's policies and processes.
- 5.10 In addition, a number of areas have been prioritised for early review including:
- a) GRE5 financial, contractual and governance review (Council-led review);
  - b) SUR governance review (Local Partnerships);
  - c) SUR OLS review (Council-led review);
  - d) SUR options review (Council-led review followed by external review); and
  - e) Housing companies governance review (Local Partnership).
- 5.11 An officer led Companies Corporate Oversight Board has been established in July 2021 to provide oversight and make decisions which have been delegated to officers. Whilst the early focus of this group is on SUR, officers will consider whether this Board or an alternative internal board structure is the most appropriate way for officers to receive regular reporting on company performance. Each company will have a senior responsible officer at senior leadership level and it is expected that the executive board will receive regular reports on the performance of each company to ensure that performance is being reviewed at a cross council level
- 5.12 An important aspect of the review will be ensuring member oversight of the companies. In the past some members have been appointed as company directors alongside officers. This may still be a recommended approach, for instance, the Lead Member for Children's Services has been appointed to the board of directors for Slough Children First Ltd to ensure that she has strategic oversight of the delivery of statutory children's services. However member oversight can be achieved in a number of ways, including:
- Cabinet taking shareholder/company member decisions where these are strategic in nature. For instance cabinet may decide to review and approve annual business plans;
  - Overview and scrutiny having an opportunity to scrutinise cabinet level decisions, including pre-decision scrutiny;

- Audit and Corporate Governance Committee receiving performance reports in relation to internal audit and accounting matters

### Work Undertaken to Date, Issues Identified and Being Addressed

#### GRE5

- 5.13 A comprehensive review of GRE5 has taken place to consider a number of key areas including but not restricted to the following:
- a) clarifying the rationale for the acquisition of GRE5, objectives and exit strategy;
  - b) governance arrangements – including the role of directors, conflicts of interest and decision making;
  - c) scrutiny arrangements;
  - d) reporting within GRE5 and between GRE5 and the Council, including financial, performance and risk management;
  - e) financial planning and management arrangements,
  - f) accounting arrangements and treatment (GRE5 and the Council) including separation of duties and systems;
  - g) management and resourcing within GRE5, SLAs and roles and responsibilities;
  - h) overall project review to inform the development of a total project cost forecast and future funding requirement/budget;
  - i) funding strategy including leaseholder obligations and Homes England grant funding;
  - j) key contracts for future development works including a requirement for associated parent company guarantees;
  - k) loan review – execution, recoverability and accounting for loans;
  - l) litigation review – insurance claim and leaseholder matters;
  - m) tax planning and VAT planning;
  - n) compliance with Council policies and statutory requirements.
- 5.14 A significant number of issues have been identified in relation to these areas some of which have been prioritised for immediate action (Q2 FY21/22) to enable GRE5 to enter into key development contracts to enable work to start on site to address the fire defects at Nova House. Key actions prioritised for Q2 include:
- a) Cabinet report in June – first update since 2019 with a full update on Nova House, latest cost projections, funding strategy, risks and other key issues;
  - b) Council report in July – first update since 2019 with a number of decisions required to address issues identified in relation to non-execution of loan, significant cost escalation and new loan requirement;
  - c) Council approval to provide loan funding to GRE5 including a revision to the Council's Treasury Management Strategy to permit a loan to GRE5 and enable the Council to provide a Parent Company Guarantee;
  - d) appointment of SRO and shareholder (Council) team to oversee changes, make key decisions, prevent conflicts of interest and provide regular oversight;
  - e) negotiation with Homes England to secure grant funding to close the funding gap on Nova House;
  - f) finalisation and signing of key contracts – Development Agreement and Parent Company Guarantee;
  - g) GRE5 Director changes – with further Director recruitment still required;



- h) appointment of Company Finance Manager – further GRE5 appointments are still required due to under resourcing;
- i) establishment of regular financial reporting within GRE5 and into the Council;
- j) establishment of new financial management arrangements between the Council and GRE5.

5.15 Following the Q2 focus on the above actions, a GRE5 action plan will be developed in Q3 which will identify all actions (GRE5 and the Council) including an update on previous internal audit comments and relevant recommendations within the Local Partnerships review.

### *SUR*

5.16 Three key workstreams have been prioritised and have been completed or are in development including:

- a) SUR governance review;
- b) SUR OLS review; and
- c) SUR Options review.

5.17 SUR governance review – externally led review (Local Partnerships) which provided an overall positive opinion on SUR governance and financial arrangements but raised concerns with regards to the Council’s internal governance arrangements (see key themes below).

5.18 A Council SUR governance action plan and tracker has been established and is reviewed by the newly Corporate Oversight Board on a regular basis to consider progress against actions and their implementation. The next review date is mid-September 2021. Progress is ongoing although the SUR Options Review has been prioritised in Q3. Key issues/themes:

- a) lack of clarity on role of directors;
- b) high turnover of directors and insufficient number of directors;
- c) lack of internal performance reporting;
- d) lack of scrutiny and oversight;
- e) conflicts of interests;
- f) lack of clarity and transparency re internal decision making;
- g) insufficient financial reporting and understanding; and
- h) inappropriate risk and reward balance.

5.19 SUR OLS Review – internal review of the OLS scheme to consider progress, performance, loans and compliance with Facility Agreement and governance arrangements. Cabinet was presented with an update report in July and a range of measures have been successfully implemented in July/August to strengthen the Council’s financial and governance arrangements in relation to compliance with loan agreements. Further action may be required in September/October subject to the outcome of the SUR September Board meeting and review of performance.

5.20 Options Review – Montague Evans has been commissioned to develop the SUR Options Review (commissioned in July) with first draft reporting on 30<sup>th</sup> August and ongoing work expected in Q3 to further develop and test options. Corporate Oversight Board to provide direction and inform presentations and reporting to Cabinet and Council. Significant work required to test options and update the

Council's financial plans. Issues in relation to affordability, compliance with Partnership Agreement and Options Agreement

- 5.21 Following the Q2 focus on the above actions, a SUR action plan will be developed in Q3 which will identify actions including an update on previous internal audit comments and relevant recommendations within the Local Partnerships review.

*JEH/DISH*

- 5.22 In June 2021, the Council commissioned Local Partnerships to undertake a governance review across the Council's housing companies (DISH and JEH). This has highlighted a number of themes which are common to several of the Council's companies in relation to strategy and objectives, conflicts of interest, clarity of roles and responsibilities, consistency of directors, insufficient oversight and scrutiny and inconsistent and irregular reporting.

- 5.23 LP also recommended that the Council should undertake a wider review of the Council's housing companies including the identification of options for the delivery of the Council's housing strategy. This work is expected to start in Q3 and will be considered alongside the outcome of the SUR Options Review. Given the Council's financial challenges and the level of debt in JEH, it is critical that the options review considers an exit strategy alongside the Council's ongoing statutory obligations.

- 5.24 A number of measures have already been put into place or are in development including:

- a) appointment of a Company Finance Manager;
- b) establishment of new regular reporting arrangements;
- c) establishment of the Corporate Oversight Board;
- d) analysis of internal resource requirements for the Council's companies and SLA requirements;
- e) resolution of housing management system transfer requirements between the Council and its companies;
- f) review of business plan and financial viability;
- g) pause on DISH RP; and
- h) pause on all JEH acquisitions.

- 5.25 Further work is required in Q3 to establish a forward action plan for each company including an update on previous internal audit comments and relevant recommendations within the Local Partnerships review. This will also include the production of management accounts for 2020/21 which are outstanding.

## **6 Procurement and Internal Audit**

### Procurement Strategy

- 6.1 A procurement strategy is being written and will form the basis of implementing a procurement function based on best practice.
- 6.2 Implementation of the strategy is predicated on bringing in permanent resources in the Autumn onwards and will be implemented in line with this.
- 6.3 In addition, the Council is developing its social value policy of which the team is leading, working closely with the Council's Policy Team. Research suggests that social value delivers savings as well as delivers on our obligations Public Services Act 2012 with regard to economic, social and environmental well-being in connection with public service contracts.

### Joint Procurement and Contract Management guidance

- 6.4 Procurement and Contract Management guidance and practice notes are being prepared

### Contract Management

- 6.5 A contracts categorisation process is being developed to identify high risk and high value contracts which needs to be prioritised for implementation of contract management plans.
- 6.6 Recruitment of Contract Management Support lead is required to move this forward and build a comprehensive contracts register, which has already commenced by the Commercial Team, and IT is being prioritised. In addition it is necessary to design a process to keep the contracts register up to date and train lead contract managers within the organisation.
- 6.7 The Council does not currently have a contract management IT system and options are being explored on how the Council can use its finance system for this purpose.

### Contract Procedure Rules and Financial Regulations

- 6.8 Planned improvements to the financial regulations and contract procedure rules include:
  - reviewing and putting in appropriate controls
  - reviewing the thresholds to remove unnecessary administration and to allow greater efficiency and flexibility in procuring at lower levels;
  - distinguishing between services and works
  - alignment to the Scheme of Delegation that is being refreshed to reflect SBC's restructure. In this new Scheme of Delegation, the emphasis will be on a principled based approach whereby the new EDs and ADs will have the delegated authority to manage and direct their own directorates.
- 6.9 Timeline for implementation is being agreed, they will be presented to a future Strategic Finance Board for consideration and then onto Members for approval

### Finalisation of 2020/21 Internal Audits

- 6.10 All Internal Audit reports from 2020/21 have been finalised, this includes actions owners and target dates being assigned to all Internal Audit reports for that year.
- 6.11 Executive board were kept informed of progress in finalising audits on a weekly basis and priority has been given to those reports with a negative opinion.

### *Completion of Internal Audit actions*

- 6.12 Actions have been added to the overarching plan and are being monitored by:
- obtaining updates from action owners
  - frequent liaison with Executive Directors and Associate Directors
- 6.13 Evidence of actions completed is being obtained and quality assured by Group Manager Commercial.

### *Internal Audit actions from previous financial years*

- 6.14 There are a large number of outstanding Internal Audit actions
- 6.15 The actions have been included in an action tracker and the data cleansed to
- ensure actions are assigned to current officers
  - removed actions related to follow up audits which repeat actions already on the tracker
  - removed duplicate actions from multiple financial years to improve clarity on actions that need addressing

### *Governance*

- 6.16 The officer Risk and Audit Board has been re-invigorated to ensure that it monitors outstanding Internal Audit actions, has representation across Directorates and produces and reviews a strategic risk register, among other matters:
- terms of reference have been reviewed to ensure that Internal Audit monitoring is a core function of the board.
  - membership has been reviewed to ensure that it includes Associate Directors and subject matter experts that can advise the board accordingly.
  - meetings will be held on a monthly basis.

### Internal Audits 2021/22

#### *Internal Audit Plan 2021/22*

- 6.17 A revised 2021/22 Internal Audit Plan was approved by the Audit and Corporate Governance Committee on 29th July.
- 6.18 Leads have been identified and dates of Audits planned.
- 6.19 35 Audits will be undertaken in this financial year including 4 quarterly follow up audits.

### *Completed Audits 2021/22*

- 6.20 To date five audits have been completed and two have been finalised.
- 6.21 There is a target of finalising audits within two weeks of the draft being issued, Internal Audit are now required to be part of the process of finalisation of the audits due to the criticality of identification of appropriate owners and deadlines to actions assigned.

## **7 Agresso**

7.1 Agresso - UNIT4 System was implemented at SBC in 2016 on the instigation of Finance but over the years SBC has embraced the following functions and it serves as an ERP (Enterprise Resource Planning System):

- Finance
- Procurement
- HR
- Payroll

7.2 Though the Council's system is 5 versions behind the latest version it is still fit for purpose.

7.3 The system was implemented by Arvato, but their contract was terminated and an ongoing contract for Support and Development Work commenced 3 years ago with Myriad Consulting an approved Unit 4 Solutions provider.

7.4 Their original scope was limited to a call out support function, but a full suite of development work was agreed in 2019. Due to scope creep and a host of other issues including the team spending eight months rebuilding the organisations hierarchies on the system to match the latest organisational restructure a lot of the agreed development work remains undone. The work on the restructure has been completed and puts SBC on a sound footing for fully embracing the systems functionality.

7.5 A detailed report on the current position finalised by SOCITIM advisory in August 2021 gives the Council a strategic situational analysis and provides recommendations on the way forward with various aspects of the ERP. Its available on request.

### **Current Status**

7.6 As the ERP is fundamental to the information flow in the organisation the new S151 officer has assumed strategic oversight over the system and is working on how to embed the right structure, resources, and practices in the organisation to maximise the output of the system and significantly reduce the costs arising from the inefficient operation that currently subsists.

7.7 The initial requirement which is in progress is:

1. SBC agreeing with Myriad the level of project work outstanding, the resources required from them to complete as well as factoring in SBC and other external resources that will ultimately impact delivery. Once done a fixed contract will be issued to close out all HR, Payroll, and Interface Projects.  
Timeline: This analysis should be completed by end of September 2021 and initial indications are that the projects should all be complete by the end of October 2021.
2. Establishing what needs to be in place to provide best utilisation of the system for the finance and procurement modules as both have not had any real development from implementation and this has resulted in a myriad of manual interventions being undertaken for core financial management and reporting.

Timeline: Consultation will commence on this in October 2021, and we'll invite Unit 4 solution providers to tender for the agreed scope of works.

3. Ascertaining the current costs of support and development work and providing a forecast of potential savings and realistic budgets for this and the next 2 financial years.  
Timeline: This will be available by the end of September.
4. Gathering information from similar sized public sector organisations that utilise the functionality SBC currently has in place or will have in place post the imminent completion of the project work to determine a fit for purpose internal team structure for supporting the ERP and managing business as usual.  
Timeline: This will be available by the end of October.
5. Ensuring that the right resources are in the IT department to provide the support necessary for the ERP system to run optimally and interface with all other SBC systems.  
Timeline: This will be done by the end of November.
6. Instituting a Project Board that will see the above processes through and assume responsibility for approving any further developmental and project work required to ensure the ERP remains fit for purpose.  
Timeline: to be determined

## **8 Finance Team**

- 8.1 The finance service is currently supplemented by a number of temporary staff who are leading the delivery of the various issues reported here, among other matters
- 8.2 Grant Thornton have issued statutory recommendation which the Council has agreed stating that the finance service should have sufficient skilled resources to support the accounts production and financial management. They subsequently issued a second recommendation that the Council should invest significantly in the finance service
- 8.3 It is likely that the CIPFA report will recommend that the Council enhance financial capacity

### Short/Medium Term

- 8.4 To cover the next six to eighteen months an analysis is being completed that will identify what level of temporary resource is needed to lead and support the Council's financial recovery

### Medium/Long Term

- 8.5 For the longer term a permanent structure will be designed for October along with training and development programmes, a trainee accountant scheme, appropriate job descriptions and a recruitment approach etc which will secure for the Council a permanent quality service which will be instrumental in taking forward the financial future of the Council



## 9 Financial Management

9.1 A range of financial management practise improvements are being designed and developed and are summarised below

### Business Cases

#### *Revenue Requirements*

- 9.2 The Council previously required a business case to be produced to secure budget approval for revenue costs and to approve the most appropriate procurement approach. For example, a request to tender, contract extension, request for quote and exemptions.
- 9.3 The Council had several business case templates that are used to inform decision making which attempt to standardise the type of information provided. Whilst some financial information is requested in each business case, the majority of information was procurement-focused with an emphasis on *how* services/works/expenditure will be procured and compliance with procedures and rules.
- 9.4 There was light and inconsistent consideration given to the rationale and case for proceeding with services/works/expenditure. This was also the case for value for money considerations. Financial information in relation to costs, assumptions, funding, financial risks and savings is basic and decision making has been significantly improved by strengthening and standardising the minimum financial information requirements included in business cases.
- 9.5 As part of the Council's approach to strengthen its financial governance and as a result of the Council's current financial pressures, it is more important than ever that robust, transparent and consistent arrangements are put into place. This will significantly improve decision making, accountability, financial planning, value for money and service delivery.
- 9.6 Such changes will also support behaviours and the development of a culture that is underpinned by a shared responsibility for continuous improvement, efficiency, excellence and collaboration.
- 9.7 A new standard business case template for all revenue spend has thus been introduced. . The new business case format is based upon the principles that underpin HMT's five case approach which provides information on the:
- **Strategic case** – to demonstrate that activity/services have a strong rationale and strategic fit, and that risks, dependencies, constraints and objectives are clearly understood from the outset;
  - **Economic case** – to demonstrate that a wide range of options have been carefully considered rather than jumping to a single solution. This provides an opportunity to consider wider benefits, including cost savings. This stage is critical in confirming if one of the options represents a strong value for money case and should proceed to procurement;
  - **Commercial case** – to clearly consider the wider commercial options including procurement strategy. This is important in demonstrating that the preferred option

can be achieved in the market-place and that the best deal can be secured for the Council based upon its procurement rules. This builds upon the existing procurement arrangements that are already operational across the Council;

- **Finance case** – to demonstrate that the proposals are affordable and that financial risks and financial issues have been considered. To verify that saving levels are sufficient and achievable and that arrangements are in place to deliver and track these savings; and
- **Management case** – to show that proposals can be delivered with the required level of governance and management, including a thorough consideration of all risks. This is also an opportunity to ensure that performance measures and benefits are agreed, that arrangements are put into place to achieve these and that performance can be measured and reported.

9.8 All of these components should be considered as part of a decision to proceed with a business case. The template allows for a proportionate approach to be adopted ensuring that information is provided in sufficient detail relative to the level of risk and value of the business case.

#### *Significant Change Programmes/Capital Investments etc*

9.9 For more significant budgets savings/investments a new methodology has been further developed. This is also based on the “Five Case Model” as outlined in HM Treasury Green Book and is the best practice standard recommended by HM Treasury for use in Central Government, departments and other Government bodies and by those with responsibility for deciding how public money should best be spent.

9.10 The application of this methodology will have the following advantages:

- ✓ To raise the **quality of proposals** both in terms of their scoping, delivery and public value, as a result of the more effective comparison of the alternative options for the achievement of objectives
- ✓ To support the prioritization of proposals and the management of the Councils challenges through the provision of **standard and consistent information**
- ✓ To reduce the costs and timescale associated with production of business cases and **improve the efficiency** and throughput of the spending approval process through clearer structure and presentation.

#### *Why is the business case important?*

9.11 Policies, strategies, programmes and projects will only achieve their spending objectives and deliver benefits if they have been scoped robustly, planned realistically from the outset, considered dependencies and interdependencies and major risks have been taken into account.

9.12 The business case, both as a product and a process, provides decision makers, stakeholders and the public with a management tool for evidence based and

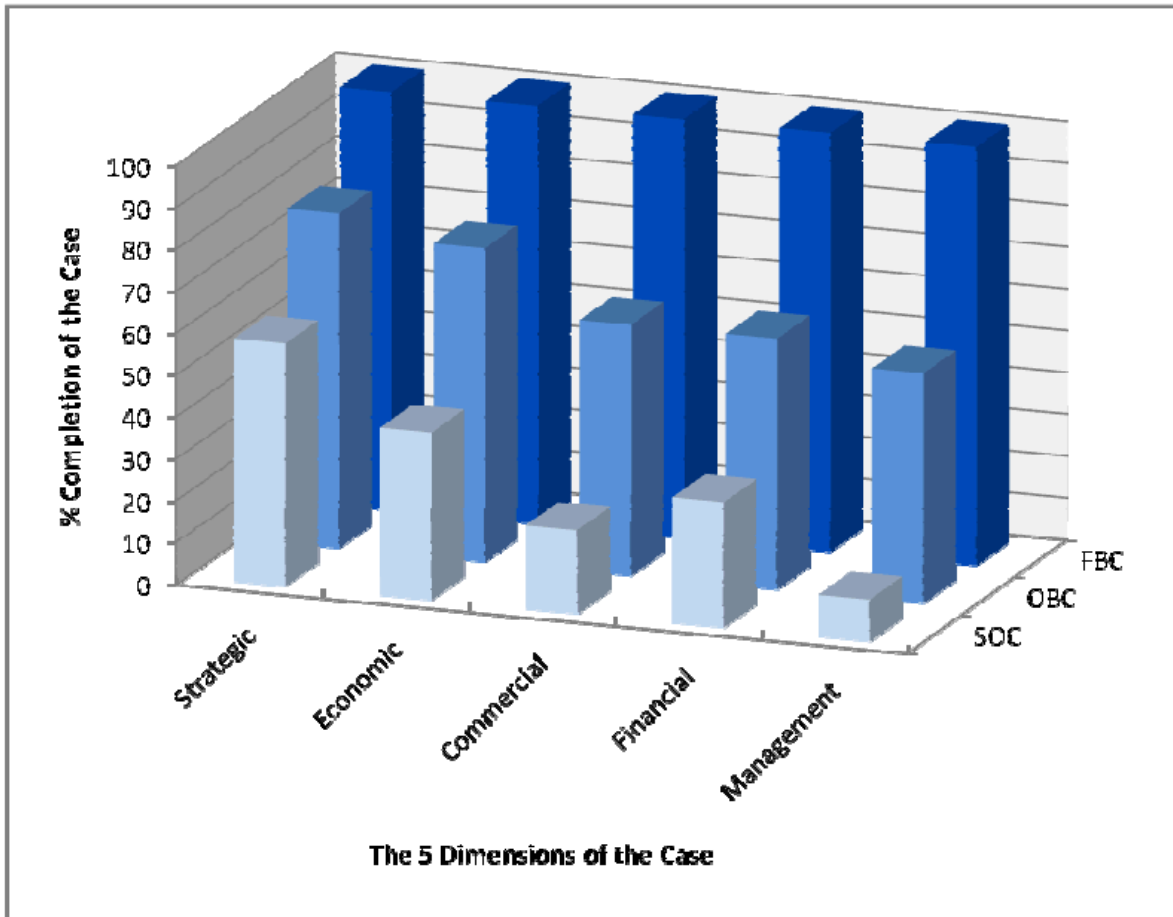
transparent decision making and a framework for the delivery, management and performance monitoring of the resultant scheme.

9.13 The business case in support of a proposed project or programme must evidence:

- ✓ That the intervention is supported by a compelling **case for change** that provides holistic fit with other parts of the organization and public sector - the "strategic case"
- ✓ That the intervention represent best **public value** - the "economic case"
- ✓ That the proposed solution is attractive to the market place, can be procured and is **commercially viable** - the "commercial case"
- ✓ That the proposed spend is **affordable** - the "Financial case"
- ✓ That what is required from all parties is **achievable and deliverable** – the "management case".

9.14 The business case development process is key to public value in spending decision, in terms of its scoping, options selection, delivery, monitoring and evaluation. The business case therefore should not be simply used as the vehicle for gaining approval for a proposal, because to deliver public value all five components need to be planned for effectively. It should be developed over time and should remain a "live" document. It is an iterative process and at each key stage, further detail is added to each of the five dimensions. The level of detail and completeness of each of the five dimensions of the case are built up at different rates during the process.

9.15 There are 3 key stages in the evolution of a project business case, which correspond to key stages in the approval process. These are the Strategic Outline Case (SOC), the Outline Business Case (OBC) and the Full Business Case (FBC). The graph below demonstrates how each 'case' is typically developed at each phase. By the Full Business Case phase all five cases should be fully developed.



#### *Overview of the Five Case model*

- 9.16 The Strategic Case:** This demonstrates how the proposal will provide business synergy and strategic fit and is predicated upon a robust and evidenced based case for change. This includes why change or intervention is required, as well as a clear definition of outcomes and the potential scope for what is to be achieved. It also requires the Council to demonstrate that the spending proposal has clear and concise spending objectives which are Specific, Measurable, Achievable, Relevant and Time constrained (SMART).
- 9.17 The Economic Case:** The main purpose of this case is to demonstrate that the proposal optimises public value (to the UK as a whole). It explains how this is achieved by identifying and appraising a wide range of realistic and achievable options, known as the “long list”, in terms of how well they meet the objectives and critical success factors agreed for the scheme; and subjecting a reduced number of options known as the “shortlist” to cost benefit analysis (CBA).
- 9.18 The key to a well scoped and planned scheme is the identification of the right range of options or choices in the first instance, because if the wrong options are identified, the scheme will be sub-optimal from the outset. From the long list, a “preferred way forward” should be identified from which the shortlist will be drawn including “do nothing” and “do minimum” options to be subjected to CBA. The CBA should be prepared for all the shortlisted options and all of the costs and benefits

should be discounted and a Net Present value (NPV) should be provided for each option. Quantifiable and not quantifiable costs should be considered. The preferred option must be clearly stated. It should be subjected to sensitivity analysis and risk analysis.

- 9.19 The Commercial Case:** This is to demonstrate that the preferred option is commercially feasible and will result in a viable procurement and well structured deal. This includes planning and management of procurement for the preferred option and also ensures that the Council is clear about how the procurement can be done competitively, in accordance with EU and WTO rules and regulations for public procurements. If the preferred option is an internal option that requires a restructuring the same principles apply, with specific internal issues clearly set out and addressed. This should cover issues such as contracts, staffing and risk allocations.
- 9.20 The Financial Case:** This is to demonstrate that the preferred option will result in a fundable and affordable deal. This requires the Council to set out the capital and revenue requirements for the proposal over the expected life span of the service/project, together with an assessment of how the project/deal will impact upon the balance sheet, income and expenditure account and pricing (if applicable) of the public sector organisation. Any requirement for external funding must be supported by clear evidence of spending authority for the scheme together with any funding gaps.
- 9.21 The Management Case:** This is to demonstrate that the preferred option is capable of being delivered successfully in accordance with recognised best practice ( Programme and Project Management methodology) and there are robust arrangements in place for change and contract management, the delivery of benefits and mitigation of risk. It also requires the Council to specify the arrangements for monitoring during implementation and for post implementation evaluation, as well as for Gateway reviews and contingency plan for risk management.

#### VAT and Taxation Reviews

- 9.22 VAT compliance was seen as a risk to the Council and a partial exemption calculation, necessary each year, had not been completed since 2013/14. This represented a large financial risk to the Council. If the 5% tolerance had been exceeded the Council could have been liable for repaying VAT reclaimed, adding to its pressures.
- 9.23 A Member of staff in the finance team has now been given responsibility for VAT and has been working with a specialist consultancy PSTax to resolve all O/S queries from HMRC and complete the 2019/20 partial exemption calculation which had been requested.
- 9.24 All O/S queries from HMRC have now been dealt with and the 2019/20 partial exemption calculation for 2019/20 completed, with VAT within the 5% tolerance.

9.25 If HMRC did an inspection they could ask for previous partial exemption calculations going back to 2016/17. This year, 2017/18 and 2018/19 will now be completed, building on the previous work completed. The financial risk, based on the work completed, suggests the previous years are low risk.

9.26 The Partial Exemption claim for 2020/21 is planned to be completed by October 2021 and submitted to HMRC

9.27 A review of VAT compliance is to be undertaken in October/November 2021

#### Financial Modelling Standards

9.28 The Council did not operate financial modelling in a consistent high standard way. An approach to financial modelling has now been designed which covers the following in order to assist ensure that before the creation of any modelling the objectives of the model and audience/users of this information are considered, is correctly focussed on delivering aims and requirements in a manner usable by all to a high professional and consistent standard.

9.29 The financial standard covers the following

#### Methodology

- They can be readily used and adapted without risk of unintended errors by parties other than the model author.
- There is a logical structure and flow of information which allows all users to understand how and why the results change under different inputs. There should be a clear distinction between inputs, formulae/workings and outputs of any modelling created.
- Intermediate calculations and schedules used to derive the final results are comprehensible as intermediate outputs independent of the specified final results
- Formulae used should not over complicate the data and model, as this will make it more difficult for users other than the author to interpret.
- A printout of any section of the model should be comprehensible without reference to a computer or the underlying formulae / algorithms that constitute the mechanics of the model.
- Any errors introduced into the model should be immediately obvious because of the overall transparency of the model and therefore do not lie undiscovered until it is too late.
- To aid this, models should aim to include control/check formulas throughout to validate data and formulae.
- The model should be dynamic, e.g. capable of being updated for actuals in subsequent years and for running sensitivities.

#### Assumptions

- Assumptions should be indicated unless obvious by transparency of the model
- Appropriate tax and accounting assumptions should be included.
- Inputs should be at a level that allow a baseline to be formed for any future changes in the budget/contract, e.g. at a post level, reasonable breakdown of non-pay, any investments should be broken down, assumed cost reductions going forward should be transparent.

- Assumed future investment analysis, key assumptions, interest assumed to be paid on any loans etc. (cost inflation, numbers of resources etc assumed, unit prices re volumetrics etc). There should be a clear link between provisions in any contract or the underlying assumptions (especially any payment mechanism) and the model, e.g. pay indexation, drawdown of resources etc.
- Assumptions around assumed interest rates, margin, cost reductions, indexation rates etc should be clear in the inputs section.
- The source of the data/assumptions should be included as a reference in the model.

#### Controls

- Models should contain version control to allow for a logical explanation of changes over time to the models inputs, workings and outputs.
- The model should be developed with a data book and user guide. This should include reference to any relevant accounting policies.
- The split of costs, revenues etc should be clear between services. Unit costs should be detailed and split down.
- Models may need to be updated monthly and summarised annually.
- Models need a very comprehensive summary sheet, e.g. organisation financing, future investment analysis, key assumptions. This should link to all the relevant financial provisions in the contract. It should also include some other basic analysis e.g. NPV analysis, key dates (e.g. contract start and end). In addition anything to enhance the presentation e.g. graphs, tables etc. should be included.
- A 'one page' summary financial statement should be included which "manage the message" as per level 1 requirement
- The model should be set up with 'what if' scenarios/sensitivities.
- The model should project forward and consider benchmarking and comparators.
- Sensitivity of data should be considered – for instance password protect and secure file locations should be considered.

#### Format & Presentation

- Consider the audience/users, what title best describes what this model does and in what format should the model therefore be presented (e.g. charts, tables etc).
- Size the model layout so it can be formatted for ease of printing and that all sections of the model can be printed in a readable size.
- Make sure your model is user friendly and can be readily understood by parties other than the model author.
- Ensure you have clear and meaningful headings along with appropriate totals and sub totals.
- Consider suitable fonts and colouring to make appropriate information stand out, as well as to differentiate between actual, budget, and or different periods if applicable.
- Be mindful of using abbreviations and acronyms and where necessary provide a key for the user.

## Budget Monitoring

- 9.30 The Council did not have corporate budget monitoring guidance and thus this has been developed to ensure consistency of approach, high professional standards etc
- 9.31 The guidance is extensive and is designed to enhance the preparation of monthly monitoring reports to ensure they are produced and consolidated as efficiently as possible. Standardising the procedure will ensure comments are produced in a style which can be lifted from one report to another without reformatting or additional analysis. The reports are the Executive Board, Cabinet and Executive Directors and the reports are aiming to explain the following five key points across several budget items:
1. Why is there a variance/risk/opportunity?
  2. Why has it has changed from last month?
  3. How is this going to be financed/utilised going forward?
  4. What is being forecast to the year-end?
  5. What action is being undertaken to resolve any issues?
- 9.32 Covering all budget items:
1. Overall budget (revenue and capital)
  2. Efficiencies/Savings
  3. Growth
  4. Reserves - Are there any budgets you have received from reserves and are these being spent on the purpose for which they have been given
  5. Income growth



## 10. Implications of the Report

### 10.1 Financial implications

10.1.1 These are set out throughout the report. Should the work being undertaken not be completed then the Council's financial position would quickly become untenable to the extent that direct cash financial support from Government or other sources would be needed to allow the Council to function as a going concern

### 10.2 Legal implications

10.2.1 The Council has a number of statutory duties in relation to financial management. This includes a best value duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of efficiency, economy and effectiveness

10.2.2 Decisions in relation to financial management will need to be made by all levels of the organisation. Full Council will be responsible for estimating and setting the budget for the purpose of setting council tax. Full Council is also responsible for approving the policy framework. Decisions made at Full Council level will include responsibility for approving an updated 5 year plan, approving the Treasury Management Strategy and approving the Capital Programme. Cabinet is responsible for determining how expenditure will be incurred, so long as this is in accordance with the overall budget. This means that Cabinet should be involved in decision making around service provision, where these decisions are not within delegated authority for officers

### 10.3 Risk management implications

103.1 There are a range of risks associated with this work. These and mitigations are noted below. The mitigations will take time to develop and embed and thus the after mitigation RAG ratings are assuming the longer term. These mitigations will continue to be developed and the position continuously assessed

Risk	RAG Mitigation	Before	Mitigation	RAG Mitigation	After
MHCLG/CIPFA/Grant Thornton may not have confidence that the Council can address all the matters to the quality and in the time needed	Red		<p>Employment of new finance team</p> <p>Employment of temporary additional resource</p> <p>Creation of appropriate permanent finance structure</p>	Green	

			External review comments on the newly instigated finance service	
Accounts completed	not	Red	<p>Employment of national experts</p> <p>Creation of robust project plan as developed and successfully used elsewhere</p> <p>Utilisation of proven whole team methodology</p> <p>Ongoing engagement with external audit</p> <p>Extensive training</p>	Green
Budget may not be brought into balance		Red	<p>Development or more rigorous processes and timelines</p> <p>Continuous weekly meetings at all levels – officers and Members from July</p> <p>Proposal for asset sale process at a level that will have a material impact on borrowing levels in the longer term</p>	Green/Amber

		<p>Cleansing of all budgets over the coming 18 months</p> <p>Major reductions in the capital programme</p> <p>Agreement from all involved that all matters have to be considered</p>	
Weaknesses in Council's strategic use of companies, governance, management, financial reporting and performance management continue	Red	<p>Holistic reviews of all companies planned and in some cases underway</p> <p>Some issues already being addressed through Cabinet and Council. (Others will take place over the coming 18 months)</p>	Green
Internal Audit reviews not actioned or consider the holistic requirements of the Council	Red	<p>Pro active management of internal audit now taking place and chasing down of responses to and implementation of actions</p>	Green
Systems continue to fall behind the latest version, development work is not taken forward and priorities are not identified or resourced	Red	<p>Structure, resources and practices are under review and will be analysed, reviewed and assessed to</p>	Green

		address the issues	
Finance Team reverts back to being under resourced and under skilled	Red	<p>Current team of interims are secured for the short to medium term</p> <p>Skills transfer takes place which is already underway</p> <p>Training developed which is underway</p> <p>Additional required temporary and permanent resources are identified and secured</p>	Green
<p>Poor financial management practises continue</p> <p>New practices are not embedded</p>	Red	<p>Range of new processes introduced on a phased basis</p> <p>Officers trained in the new approaches</p>	Green

#### 10.4 Environmental implications

10.4.1 The work being undertaken will allow the Council to continue to function and thus help address its environmental aspirations

#### 10.5 Equality implications

10.5.1 The work being undertaken will allow the Council to continue to function and thus help meets its equality requirements

### 11. **Background Papers**

S114 notice  
Grant Thornton 2018/19 audit reports  
2018/19 accounts  
2021/22 budget reports