SLOUGH BOROUGH COUNCIL

REPORT TO:	**Cabinet**
DATE:	9 March 2022
SUBJECT:	**Section 25 Report**
PORTFOLIO:	Cabinet Member for Financial Oversight, Council Assets & Performance - Cllr Anderson
CHIEF OFFICER:	Steven Mair
CONTACT OFFICER:	Mike Thomas
WARD(S):	All
KEY DECISION:	**YES**
EXEMPT:	**NO**
DECISION SUBJECT TO CALL IN:	**YES**
APPENDICES:	**None.**

1 SUMMARY AND RECOMMENDATIONS

1.1 This report provides detail of the Director of Finance's report under section 25 of the Local Government Act 2003 and advises the Cabinet of the Director of Finance's recommendations including the risks when considering the 2022/23 budget.

1.2 This report is made under section 25 of the Local Government Act 2003, which Council is required to have regard to when making decisions in accordance with s.31A of the Local Government Finance Act 1992.

2 RECOMMENDATIONS

2.1 The seriousness of the Council's financial position cannot be understated. It faces a financial deficit of £223.1m up to the end of the current financial year and a further estimated £84.1m for 2022/23. The current estimates for 2022/23 show that the budget requirement is 78 per cent greater than sources of funding. It is only with confirmation of significant financial support for the Council from the Department for Levelling Up, Communities and Housing that I can provide members with some assurance on the robustness of the budget estimates and the adequacy of reserves.

2.2 It must also be acknowledged and understood that Slough's position is precarious. Whilst I have been able to give some assurance on the financial position, this is based on the inclusion in the capitalisation directions of sums for general balances, some earmarked reserves and contingencies. The delivery of the budget and its associated savings still requires both members and officers to maintain focus to ensure the budget and agreed savings are delivered throughout the year and in future years.

2.3 On the basis of the risks and issues raised in paragraphs 2.1 and 2.2 and the rest of this report, in my opinion as Director of Finance, Cabinet is recommended to approve the budget on the basis that:

a) the proposed level of Council reserves are adequate to support the budget for 2022/23 having regard to an assessment of current financial and other risks set out extensively in this report and assuming these risks do not increase beyond those that can be contained by the Council. It should also be noted that matters will continue to be identified and will change throughout the coming financial year and beyond

b) the estimates are robust for the calculation of the budget within the confines of the many risks noted throughout this report. Particular attention is drawn to the following specific conditions and risks:

(i) the recommended level of general balances, for 2022/23 is £20m, although this is the bare minimum as a percentage of Net Revenue Expenditure, and places the Council in the lowest quartile in comparison to similar authorities

(ii) the budget which has levels of contingency and conditions built in to reflect the considerable risks the Council is facing and is predicated on continuing support from DLUHC ;

(iii) agreement of the Capitalisation Directive for 2022/23 and future years as proposed to DLUHC in February 2022 at estimated figures of £223m to 31/3/22 and £84m for 2022/23

(iv) agreement by DLUHC that they will agree to capitalisation directions or other support to equal the actual figures for the outstanding, current and forthcoming years as the accounts for the years are closed

(v) agreement by DLUHC that they will agree to capitalisation directions or other support to equal the estimated figures for future years as the budgets are prepared for these future years

(vi) agreement by DLUHC that they will agree to capitalisation directions or other support or agreed mechanisms to supplement the level of revenue budget savings that the Council can achieve as discussed and as will be reviewed. Further that they will agree to finance/support on a recurrent basis any recurrent gap that would arise if the £20m annual level of savings was not achieved in a sustainable manner

(vii) the current level of Council general reserves outside of the support from DLUHC relating to specific risks and specific initiatives is currently nil. These reserves will be established and built up over time once a more stable finance base has been created.

(viii) as at the end of December 2021, the Council has a small amount of earmarked reserves of £14m. The majority of these funds were accumulated during 2020/21 and 2021/22 as part of the Government's covid response measures to be used for specific purposes such as helping local business and managing the outbreak of covid and cannot be used for general purposes

	£m
Better Care Fund	1.3
Grants for closed businesses	5.3
Business Support Grant	4.3
Outbreak Management Fund	1.4
Other	2.1
Total	**14.4**

(ix) as the Council has no complete and fully accurate accounts since 2015/16 and will not have these complete up to 31/3/22 until well into the financial year 2022/23 the financial position is subject to considerable potential change which may impact on the robustness of the budget

(x) the Council embeds the good practise now being designed but notes that this will take time to fully develop and thus as with the accounts the various estimates will be subject to change

(xi) the Council has a major dependency on asset sales which will significantly impact on the budget for 2022/23 and beyond and which will thus again affect the level of robustness of the budget

Reason:

The recommendation enables the Director of Finance (s151 officer) to meet his statutory responsibilities.

Commissioner Review

"On 1st December 2021, the Secretary of State issued Directions to Slough Borough Council under Section15(5) and (6) of the Local Government Act 1999. Annex B of the Directions provides that Commissioners shall exercise…

The requirement from Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of the Authorities financial affairs, and all functions associated with the strategic financial management of the Authority. This Direction included as d) the power to amend budgets where Commissioners consider that those budgets constitute a risk to the Authority's ability to fulfil its best value duty.

The set of budget reports presented to this cycle of meetings exposes the recklessness in the way the Authority has managed its affairs over the past few years and the scale of both central government support required and the challenge in re-establishing financial stability.

Commissioners consider that the proposals contained in this set of budget reports meet the requirements of the Directions. It should be made clear however, that no variation from either the general or specific proposals identified can be agreed or acted upon without the prior approval of Commissioners who reserve their right to amend budgets if required. This will require commitment and determination from all Councillors and every budget holding officer who will need to recognise their personal accountability in these matters.

At this stage it is not proposed to extend any additional funding, whether by cashflow or longer term finance to any of the Council's subsidiary companies and the Council's shareholder representatives should be required to make this clear.

It will be essential for a full appraisal of the Council's let estate, both GF and HRA but excluding HRA housing, to be undertaken and reported. In the first instance it should be explicit that all renewals and new leases or licenses will be based on the principles of normal commercial terms and a fully repairing and insuring basis.

This budget specifies a level of capital receipts required to balance the budget overall. This figure needs to be regarded as a minimum goal in cash terms to be achieved by year end and a disposal strategy will need to be brought forward to identify a significant increase in receipts banked in the early years of the MTFS.

Commissioners do not underestimate the scale of the challenge, both financial and operational, facing the Council. We will continue to provide advice and challenge to assist the Authority on its journey back to mainstream local government."

3 INTRODUCTION

3.1 In coming to a view on the robustness of the estimates there are a wide range of factors to take into account, including:

- the Slough Council context
- local risks impacting Slough's budget setting for 2022/23
- risks affecting the sector
- inherent risks
- Slough Council's financial management including the availability of support from the Department of Levelling Up, Communities and Housing (DLUHC)

4 SLOUGH BOROUGH COUNCIL CONTEXT

4.2 In March 2021 the Council requested Exceptional Financial Support from the Ministry of Housing, Communities and Local Government (MHCLG) (now known as the Department for Levelling Up, Housing & Communities (DLUHC)) in respect of the financial year 2021/22 to help it balance its budget. MHCLG agreed in-principle to provide support and commissioned CIPFA to undertake an independent and detailed financial assurance review of Slough Borough Council (the Council). Since the original capitalisation request for 2021/22 of up to £15.2m, the Council has identified further very substantial liabilities for previous years, which the Council is unable to meet from its reserves. These past liabilities also impact substantially on the financial position for the Council in the current financial year and beyond

4.3 The Director of Finance, as statutory Chief Finance Officer under s.151 issued a report under s114 of the Local Government Finance Act 1988 in July 2021, outlining the then estimated total potential liabilities across the Council of some £174m up to 2024/25, which had not been accounted for hitherto. As recognised by CIPFA in its report in October 2021, there was a high likelihood that this figure could grow, and this has proven to be the case. The latest forecast is that the Council will need an unprecedented level of support of a capitalisation direction of circa £479m to 2028/29 in order to place it on a sustainable financial footing for the future, of which £223m is required to deal with historic issues and £84m for 2022/23 to enable the Council to deliver a legal budget for 2022/23. These figures assume that the Council can deliver circa £20m per annum of recurrent incremental savings. This will be very challenging and the required capitalisation direction would increase substantially, would be beyond the potential asset sales that the Council could generate and would leave the Council with a significant unfunded recurrent annual gap 2028/29 if this level of savings was not achieved.

4.4 On 1 December 2021, the Secretary of State for Levelling Up, Housing and Communities made a statutory direction requiring the Council to take prescribed actions and that certain functions be exercised from this date by appointed Commissioners, acting jointly or severally. The functions to be exercised by the Commissioners include the requirement from section 151 of the Local Government Act 1972 to make arrangements for the proper administration of the Council's financial affairs, and all functions associated with the strategic financial management of the Council, including providing advice and challenge to the Council in the setting of annual budgets and a robust medium term financial strategy, limiting future borrowing and capital spending. The Explanatory Memorandum to this Direction confirms that in practice most decisions are expected to the taken by the Council, however the Directions are designed to give the Commissioners the power to tackle weaknesses identified to ensure the Council is better equipped to meet the best value requirements.

4.5 In the medium to longer-term the Council cannot become a financially self-sustaining council without considerable Government support. The availability of significant future support is a key assumption underpinning the 2022/23 budget and will be for several future years.

4.6 The Council's financial position has been the subject of regular briefings to members and DLUHC throughout 2021/22. The seriousness of the financial situation and how the Council found itself in this position remain of significant concern. This has been acknowledged and a financial recovery plan agreed. Whilst the current request of Government is unprecedented it has to be noted that the accounts and audits of the 2018/19 (including eight prior period adjustments and four in-year adjustments), 2019/20, 2020/21 and 2021/22 are yet to be completed, and it is very likely that more amendments may be uncovered during the continuing closure of the accounts process. It should also be noted that in the scale of the many issues identified and that continue to be identified and the financial impact that these have had to date it has not been possible and will not be possible to secure a fully compliant, secure and stable position for some years. Issues will continue to be identified that will affect the financial position particularly during 2022/23

4.7 The 2022/23 budget needs to be seen in this context and on the back of the actions taken by various bodies in response to the identification of these serious financial failings, which have included:

- the identification of an extensive range of issues by the finance team throughout 2021/22

- the issue of statutory and non-statutory recommendations from the external auditor in May 2021
- a significant number of recommendations from internal audit including a Head of Internal Audit Annual Opinion in August 2021 which concluded the system for internal controls, governance and risk management was inadequate
- reports from both Department for Levelling Up, Housing and Communities (DLUHC) and Chartered Institute of Public Finance and Accountancy (CIPFA), both of which identified significant weaknesses in financial management processes, governance and internal control
- as referred to above, a statutory direction by the Secretary of State including the appointment of Commissioners to remain in force until 30 November 2024, unless amended

4.8 The Council's very serious financial challenges have arisen over a period of several years and represent the combined impact of a wide range of issues. Examples to note are as follows:

- inadequate minimum revenue provision - the single biggest amount within the capitalisation direction is due to the incorrect accounting for Minimum Revenue Provision for many years. The amount undercharged from 2008/09 to 2021/22 is £70m, with a further £29m needed for 2022/23
- inadequate provisions estimated at £25m (of which £11m is for bad debts) in a range of areas including bad debts such as adults social care, sundry debts and insurance
- incorrect capitalisation of revenue costs totalling £48m, the majority of this is for the period to 2021/22 which includes £22m of costs incorrectly capitalised relating to transformation funding, £8m for incorrectly recognised overage costs and £16m for incorrectly capitalised costs of property and IT staff to projects
- non receipt of expected dividends from Company investments and potential liabilities in respect of winding up some of these companies totalling c£21m
- inadequate budget estimation and failure to deliver planned cost savings

4.9 As a result at the time of the s114 notice the Council effectively had no unallocated general reserves and a very significant general fund deficit

4.10 The Council has for several years suffered greatly from a lack of:

- understanding of and transparency about its true financial position
- corporate (at all levels) and financial ownership, drive and leadership of the problem as it understood it
- professional financial standards at all levels
- tight financial management by budget holders

- skilled project management
- development and leadership of the Council’s finances and finance team
- financial drive, control, positive attitude, ownership at all levels and roles
- evidenced based decisions set within a context of value for money

4.11 All of which led to:

- no (complete and accurate) accounts for 5 years
- no proper management of its budgets
- poor financial systems
- effectively no general reserves
- the need for an astonishing level of capitalisation direction that exceeds any in the Country from what is a very small Council
- a very large DSG deficit with no plans to tackle it
- very poor governance of all of its companies
- many extremely adverse internal and external reviews with very little response from the Council up to May 2021

4.12 These problems are now being addressed but designing, implementing and embedding new processes together with the required changes to organisational financial management culture and process will take an estimated 4 years to achieve. More detailed assessments of the improvement timeframe will only become possible as the situation in Slough develops locally and will inevitably vary. Realistically the Medium-Term Financial Strategy will need to outline the actions required over the next decade in order to set the Council on a firmer and more sustainable financial footing

5. LOCAL RISKS IMPACTING SLOUGH’S BUDGET SETTING FOR 2022/23

5.1 In addition to the general risks affecting the sector as a whole, which are set out in section 5 onwards, there are a number of specific local risks that need addressing in order to develop a sustainable financial strategy, as follows:

- commitment from the Department of Levelling Up, Housing and Communities to the approval of a capitalisation direction of £307m necessary for setting a legally balanced budget for 2022/23. The approval of future capitalisation directions is also fundamental to allow the Council to set legal budgets in 2023/24 and beyond. Without these directions the Council cannot set a budget
- identification and delivery of up to £600m asset disposals and recognition of capital receipts. This needs to be undertaken with the support of expert advice in order to obtain best value for the Council

- the Council’s Dedicated Schools Grant deficit has continued to grow. The overall deficit has grown from £4.9m in 2015/16 to £20.6m at 31 March 2021, and could potentially grow to £43m by 2024/25 if no further action is taken. This is now being addressed but given the size of the deficit and the previous lack of action, agreement of a statutory override in order to enable the deficit management plan to be enacted will be required as repayment becomes due during 2023/24.

- the Slough Children First Company remains in a challenging financial position and will need to manage its budget very robustly to meet its statutory responsibilities and remain a going concern. A revised business plan was considered at the previous Cabinet agenda and the Council have raised significant concerns about the ability of the company to deliver its planned savings of £4.7m on its £40m gross budget. It has previously overspent its budget and is currently projecting a £1.3m overspend in 2021/22

- the Council and the Children’s Company do not have a track record of delivering savings. In order to achieve the financial recovery plan targets, very significant annual revenue savings will be required, subject to support from DLUHC and DfE

- the Council’s 2018/19 (including eight prior period adjustments), 2019/20, 2020/21 and 2021/22 accounts have yet to be prepared/finalised and signed off. It is expected that the audit for each of these year’s accounts will be completed by winter 2022 thus allowing greater certainty on which to base the future financial strategy. However, any issues arising from these audits will potentially impact the budget and MTFS

- the current finance team is heavily dependent on interim support, particularly at the senior level, which is unsustainable in the medium term. Whilst a re-structure of the department and a major recruitment exercise is being planned this will not begin to have a sustained impact until 2023/24

- the financial issues faced by the Council over the past 12 months have highlighted weaknesses across all aspects of the function and the Council including financial reporting, controls and financial oversight. These areas are being improved through the implementation of the finance recovery action plan but this will take time to fully implement and embed

5.2 There are areas of risk that remain subject to **volatility.**

- **Capital Receipts** - In certain areas, such as capital receipts the planned receipts estimated to the Council can be volatile depending on both the prevailing local economic conditions and timing and this has an adverse impact on the financing of the Capital Programme. This risk has been exacerbated by the impact of the Covid-19 pandemic. However, the Council has procured experts to assist it generate the necessary receipts

- **Fees and charges** The Council is currently budgeting to collect approximately £45.9m (2022/23) in fees and charges including rents from commercial properties, fees in respect of contributions to adult care costs, payments for social care from the NHS, planning fees, car parking charges, building control and planning fees etc. These are closely monitored and are sensitive to local economic conditions. Variances are reported through the General Fund revenue budget monitoring reports to Cabinet. The Government have provided grant funding to compensate councils for the loss of income as a result of the Covid-19 pandemic which has mitigated some of this risk

- **Demand Led Budgets** - Adults and Children's Social Care budgets are demand led. The impact of high-profile national cases can lead to a significant increase in safeguarding concerns and the subsequent referrals and demand for placements within Children's Services. Demand for Adult Social Care is increasing with an ageing population living longer and with more complex needs. Whilst future years' estimates have been made based on cost and volume assessments there is a risk that these assessments may be exceeded particularly in respect of Slough Children's Services. There is also the risk of provider failure as prevailing market conditions may deteriorate. The Council, however, has invested significantly in social care in recent years including additional social workers to assist in managing these risks given the considerable demand and price pressures

- **Council Tax Collection** - There is a risk that future local economic conditions will deteriorate and that the current projected levels of council tax collection will fall leading to a deficit on the Collection Fund. This risk has increased since 2013/14 with the localisation of council tax benefits and welfare reform. The risk has been exacerbated by the Covid-19 pandemic. The Council has budgeted on the basis of collecting 98% of 2022/23 Council Tax. The total business rate base has been set at £103.9m for 2022/23. The performance against these collection rates will be monitored on a monthly basis and the Council has a good track record of managing this risk

5.3 The Council has been in continual discussion with DLUHC about a significant package of support through a Capitalisation Directive and other matters which may allow the Council to develop a sustainable medium term financial strategy. Even with additional support, improving the Council's underlying financial position will take several years to rectify. The support has yet to be confirmed but may come with additional conditions.

6 RISKS AFFECTING THE SECTOR

Continuing uncertainty due to the COVID pandemic

6.1 The Covid pandemic has had a significant social and economic impact at all levels: international, national, local and individual and its repercussions, whilst as yet unquantifiable, will undoubtedly be felt over the medium term in the guise of recession, increased demand for mental health and social care services and children's attainment levels and life chances. Those least well-off will sadly be hit the hardest putting increased pressure on the Council's budget

Short Term nature of the Local Government Finance Settlement and Fair Funding Review

6.2 The forthcoming year, 2022/23, will be the third year where local authorities will only receive a single-year finance settlement. The October 2021 Spending Review was the first multi-year Spending Review since the end of 2019 with single year Spending Rounds in October 2019 and 2020. Despite the October 2021 Spending Review projecting public sector resources to 2024/25, local authorities have continued to only receive a single settlement for 2022/23. The Council's funding beyond 2022/23 will be determined by the outcome of the Review of Relative Needs and Resources (previously the Fair Funding Review) and the reforms to the Business Rates Retention System under the Levelling Up agenda. At this time there is no indication of future funding levels, and the Council is unable to financially plan with any certainty beyond 2022/23

6.3 The Government have recompensed local authorities for in-year costs and injected significant amounts of money into the economy as well as announcing additional limited support for Covid pressures in 2022/23 as part of the Local Government Finance Settlement. Together with Brexit, the impact of which is also continuing to be felt, means the Council and local government more generally faces significant uncertainty over the medium term in terms of future funding levels. Where possible these uncertainties have been estimated in the ask to Government

Legislative Changes/Burdens

6.4 There have been a number of major legislative changes/burdens that go back in some cases some time but given Slough's particularly fragile financial state continue to potentially impact on Council funding in future years. These include:

- **The introduction of the Business Rates Retention System** from 2013/14 represented a significant transfer of financial risk from central government to local government, as business rate income is volatile and subject to some local variation based on such factors as the prevailing economic conditions and levels of appeals. Since 2013/14, local government has had to bear the cost of 50% of any losses in business rate income including those arising from successful appeals. Business Rates income is considered to present a high risk due to a number of factors including, the level of business rates appeals, the current restructuring within the retail sector, and the potential ongoing impact of Brexit. The Covid-19 pandemic and subsequent economic contraction has only added to this inherent risk

- The **Check, Challenge and Appeal (CCA) system** was introduced from 1 April 2017 by the Ministry for Housing Communities and Local Government (MHCLG). The CCA system is intended to manage the flow of cases through the system in a structured and transparent way, and each step in the application process must be fully completed in sequence to submit an appeal. The Council has made a provision of £8.2m for business rate appeals and this is considered sufficient based on the current information available to the Council. However, the retail sector is currently going through significant change with many retail businesses restructuring how they engage with their customers by moving more to on-line channels rather than having physical stores. This could potentially have a significant impact on business rates income. The economic impact of the Covid-19 pandemic and any ongoing impacts from Brexit will also hit business rates income as a result of the economic downturn.

- **Welfare Reform and the localisation of Council Tax Benefit.** As part of the previous Government's welfare reforms programme, localisation of Council Tax Benefit was implemented in 2013/14. The Government reduced the amount spent in 2013/14 on Council Tax Benefit by 10% nationally. Pension age claimants were protected from any reduction in help with Council Tax Benefit meaning that reductions in support could only be applied to working age claimants. If the Council had passed on the full reduction in funding this would have equated to a cut in help to working age low-income households of around 17%. Funding for Council Tax Support is incorporated within the Business Rates Retention System and an element of it is now funded via Revenue Support Grant and/or Top Up Grant. This means that as these grants are cut, the amount available to fund Council Tax Support is also cut and local authorities must either pass on this reduction to claimants or find alternative savings to offset the reduction and any change in demand. For 2022/23 the Council has approved an increase to the income bands within its Council Tax Support Scheme and will therefore continue to provide additional help for working age citizens and because the scheme protects residents from the cost of living increase, this lowers the risk assessment.

- A further direct impact of welfare reform was the impact of the **introduction of Universal Credit**, and the move of Housing cost support for low income, working age citizens which will, in the future, be administered by the Department for Work and Pensions (DWP) rather than the local authority. The natural migration to Universal Credit is ongoing and as at December 2021 the current HB caseload is 11,000. The Council retains responsibility for pensioner, temporary and supported accommodation claims as well as responsibility for the administration of Council Tax Support. Due to the impact of the pandemic the planned 'managed migration' of the remaining working aged housing benefit claimants to Universal Credit has been put on hold and Government has yet to confirm when it will resume. The pandemic has also seen an increase in demand for Council Tax reduction, rises in temporary accommodation claims and increases in the number of changes in income experienced by existing claimants which has increased the administrative burden on the service. The Council will continue to look at ways in which it can reduce its administration costs in order to mitigate any loss in Housing Benefit Administration grant received by the Council

- **Better Care Fund** - The Government has continued its commitment to an alignment of funding for health and social care which is to be shared between the NHS and local authorities with social care responsibilities. The Spending Review 2021 confirmed that the BCF grant will continue in 2022 to 2023 and be maintained nationally at its current level (£2.077bn).

- **The Disabled Facilities Grant** will also continue and will be worth £573m nationally in 2022 to 2023. The CCG contribution will again increase by 5.3% in line with the NHS Long Term Plan settlement. The Policy Framework and

Planning Requirements will be published in early 2022. The estimated amount of Better Care Fund for the Council in 2022/23 is £7.2m (revenue element). However, this is not new money to the Berkshire health and care economy, but rather represents a requirement to focus existing resources towards more integrated out-of-hospital services, including social care and to develop a clear focused action plan for managing delayed transfers of care (DTOC) in line with the NHS Five Year Forward View. The local flexibility to pool more than the mandatory amount will remain and plans for the 2022/23 Better Care Fund in Berkshire will require agreement from the Health and Wellbeing Board, with local plans signed-off by the local authority and Clinical Commissioning Group. Whilst the funding is certain for the Better Care Fund for 2022/23, funding in 2023/24 and future years has yet to be agreed between the partnership. The recent NHS White Paper proposes to bring health and care services closer together and will mean a period of change and some uncertainty.

- **Inflation** has been applied to various budgets, specifically to pay, energy and some contract budgets. Whilst Government announced a pay increase of 2 per cent for public sector workers this is separate from the negotiation in respect of Local Government. Some inflation assumptions are necessarily based on estimates at a point in time (e.g. energy costs). These markets are currently very volatile and remain largely driven by international factors that are difficult to predict with any certainty. The risk assessment puts a figure to the potential for a higher level of inflation that would not seem to be unreasonable to include in the budget as it may materialise

- **Borrowing** - In an environment of extremely low interest rates and to ensure that the Council has a degree of flexibility whilst being able to obtain value for money from its activities the use of short-term temporary borrowing (short term rates being lower than long term fixed rates at present) has proved beneficial. For the purposes of the 2022/23 budget the Treasury Management Policy will recommend minimising interest costs by taking on short term debt using the intra-authority market (where good value can still be obtained) and consideration of longer term PWLB debt where prudent and in order to maintain a balanced debt position. As the overall strategy is to reduce the total debt burden through a range of means then a degree of flexibility through the use of temporary loans is felt appropriate

- **Investments –** The Council is currently revising its Treasury Management strategy to reflect its current position**.** The Treasury Management Policy identifies the security of capital as the main priority; with liquidity and yield as lesser priorities. To maintain security the Council adopts robust credit criteria and applies this to all investment counterparties. Potential future longer-term investment opportunities will be considered on the fundamental principles of security, risk and yield.

- **Other investments** The Council has made a number of investments in which it anticipates it will make a financial return such as the £95m investment property portfolio. Future economic conditions may be such that there is a risk that forecast returns on these investments might not materialise. The relative risk assessment against these investments is therefore high. These risks will be managed through robust due diligence throughout the investment lifecycle.

7 INHERENT RISKS

7.1 As a Unitary authority the Council provides the broadest possible range of services and has an inherently higher level of risk than many other authorities simply due to the complexity and nature of the services it provides. Additionally, the Council has taken policy decisions to establish several alternate delivery models including wholly owned companies and PFI arrangements which whilst potentially having advantages also have the potential to increase the Council's risk profile.

7.2 Other inherent risks include the:

- Significant staffing shortages within the department and the potential difficulties in recruiting sufficient qualified staff given the Council's financial position and reputation

- risk of grant clawback including Government and European funding and housing benefit subsidy

- Council's risk as an employer which has and will require the Council to budget for the cost of severance packages incurred in the delivery of the required budget savings, service transformation and restructuring. The Government have indicated that they may introduce exit cap regulation which would make workforce restructuring more difficult. There are further risks from other employee related claims

- full effects of any economic measures with the potential for higher demands on services e.g. social care for both Children's Services and Adults Services and falling income levels

- risk of major litigation, both currently and in the future

- risk of claims arising from the Council's ownership of land and property and potentially historic service failings

- need to retain a general contingency to provide for any unforeseen circumstances, which may arise

8 SLOUGH COUNCIL FINANCIAL MANAGEMENT

8.1 The extensive issues in Slough's financial management across the many elements of this report have been well analysed, documented and reported on to the Council and elsewhere within the corporate body.

8.2 There are many aspects to this and much remains to be done. Fundamentally putting the other related issues to one side at the budget level the robustness of the estimates depends on the quality of the budget setting process, the detailed, rigorous and quality assured back up to the savings proposals, likewise the review of all existing estimates and the basis of these, adopting a zero-based approach, the ownership of estimates by all concerned, and the agreed imperative of living within the approved estimates or finding equal value alternative options.

8.3 Slough has begun the process of designing what is needed eg functional capacity and capability assessments, business cases, and action plans. However, embedding these fully across the Council will take another two years. Zero Based Budgeting as a technique for delivering savings, for example, will require a great deal of data cleansing and analysis to provide a fit for purpose base to work from. Attitudes of all departments in working to agreed budgets will similarly take time to embed culturally.

8.4 The 2022/23 and very likely the 2023/24 budgets will contain inherent but in the longer term reducing financial management risks. Mitigations to minimise this position have operated as far as possible during 2021/22 and will develop further in 2022/23.

Preparation for 2022/23

8.5 The Council has taken a much improved approach to developing its Medium-Term Financial Strategy (MTFS) given the challenging circumstances in which it finds itself. The first fundamental review of departmental budgets has begun, and the budget has taken place in the light of the S114 notice issued in July 2021 and the on-going discussions with DLUHC as to the level of support that may be forthcoming including the conditions attached to that funding. All savings and pressures previously identified within the 2021/22 budget have been reviewed and where appropriate have been amended.

8.6 All aspects of the Council's budget, efficiency savings, additional income, service reductions and pressures have been subject to review, with Directors, Assistant Directors and Group Managers being required to review the plans they put forward in previous years and confirm delivery of the proposals. This work will continue in 2022/23 to ensure that a high standard of budgeting is developed over the coming year. Budget proposals have subsequently been reviewed by:

- the Finance Business Partnering Team
- Executive Directors (Corporate Leadership Team)
- Lead Councillors

8.7 The Council's HRA and Capital Programme is undergoing a similar review process alongside a review of all the Council's companies.

8.8 The assumptions on which the budget is based are contained within the main budget report presented elsewhere on the agenda, however, key assumptions include:

- agreement of the Capitalisation Directive for 2022/23 and future years as proposed to DLUHC in February 2022 at estimated figures of £223m to 31/3/22 and £84m for 2022/23

- agreement by DLUHC that they will agree to capitalisation directions or other support to equal the actual figures for the outstanding, current and forthcoming years as the accounts for the years are closed

- agreement by DLUHC that they will agree to capitalisation directions or other support to equal the estimated figures for future years as the budgets are prepared for these future years

- agreement by DLUHC that they will agree to capitalisation directions or other support or agreed mechanisms to supplement the level of revenue budget savings that the Council can achieve as discussed and as will be reviewed. Further that they will agree to finance/support on a recurrent basis any recurrent gap currently estimated to be £41m and effective as at 2028/29 in a sustainable manner

- Council Tax increase – at 2.99% per annum

- finance settlement – the figures are as per the Governments Final Settlement announcement

- pay assumptions – 2% per annum

- inflation – non pay budgets have been increased where necessary in order to maintain service levels by either CPI (assumed at 2%) or as contractually specified – most notably energy price inflation is significantly above CPI

- reserves and provisions – that the reserves and provisions identified as needed as the accounts are closed and budgets prepared will be added into future years capitalisation direction and supported by DLUHC

- asset sales and capital receipts of up to £600m across the longer term are planned and to finance the capitalisation direction and reduce borrowing

- the Council has scaled back its Capital Programme to a minimum in the light of its financial situation. Over the next five years it will carry out projects totalling £165m (£73m General Fund and £92m Housing Revenue Account). The net cost of which (after the application of specific grants and contributions) will be predominantly funded from borrowing. The Council's external borrowing is projected to reduce to significantly over the period from asset sales. The associated capital financing costs together with the revenue implications of the specific schemes are provided for within the capitalisation directive and relevant revenue accounts

8.9 It should also be noted that to deliver the Council's policy priorities and a balanced budget in each year of its MTFS 2022/23 to 2028/29 very significant savings in the order of £20m will be required per annum in addition to further capitalisation directions. The £20m per annum savings will require cost cutting to a degree not seen anywhere else as the Council basic net revenue funding is £107m and of this debt charges will total circa £ 32m or 30% of net revenue for 2022/23 (excluding investment income). In addition, the deficit on the Pension Fund is £5m or 5% of net revenue. In essence 35% of basic net revenue is committed before savings can be made.

8.10 The continued need to deliver a high level of savings poses an inherent risk to the delivery of a balanced budget position as over time they become more complex and difficult to deliver. Consequently, it is important there is an absolute continued focus on savings delivery to ensure they are identified and delivered as planned.

8.11 To provide some resilience to the 2022/23 budget and future position, a contingency has been included in the Capitalisation Directive for 2022/23 and beyond to allow for and to mitigate any potential shortfall or slippage in the delivery of higher risk savings.

8.12 The longer-term position will need continual review given the magnitude of the position the Council finds itself in, the uncertainties associated with that and the inability at this stage to advise on the long-term going concern of the Council.

8.13 In order to allow the Council to set a budget for 2022/23 and to start to plan for 2023/24 and beyond the following mitigations will be needed during 2022/23:

- all budgets approved by Council as at the 1/4/22 are cash limited, including all Companies, and all Departments and Companies will have to manage within those sums for the whole of 2022/23
- a level of contingency as funded from the capitalisation direction will be held centrally against unforeseen events and risks and will be used to increase the council's reserves as at 31/3/23 if not required
- no sums can be released from those contingencies except in extreme circumstances and only then with the approval of Cabinet following a report by the Director of Finance and appropriate Executive Director
- all expenditure of whatever type and funded by whatever means will be subject to approval by an expenditure control panel,
- any expenditure incurred outside of this process will be reported to Cabinet as part of the budget monitoring process
- a review will be undertaken of all estimates as part of the ongoing work of the finance department, along with the continued work on the accounts
- continuous budget meetings will be held with Executive Directors to review issues, savings, mitigations, and delivery of efficiencies.
- thematic reviews of budgets covering types of expenditure, income, and contracts in order to assess the potential for savings.

Adequacy of Reserves and Balances

8.14 The prudent level of reserves a Council should maintain is a matter of judgement. The consequence of not having adequate reserves can be significant. In normal circumstances the Council would be setting its budget and identifying reserves and provisions in a systematic manner. However, in the current circumstance the setting of the level of general fund and earmarked reserves is much less secure due to the extreme circumstance in which the Council finds itself. As at 31 March 2021 the

Council effectively has no general fund balances to call upon to manage the risks highlighted above. An initial estimate has been included in the submission to DLUHC for £20m to assist in managing any issues during 2022/23. The medium-term financial plan also expects at least £1m per annum to be put in reserves from revenue balances. This is the bare minimum position and will be subject to on-going review and risk assessment

8.15 As the financial situation improves and the Council becomes more capable of managing its finances then the Council will look to create a range of general and specific earmarked reserves in order to manage future risks. These reserves will be determined having regard to a risk-based assessment. Within this assessment it is to be noted the risk to the Council's finances associated with funding reductions from Central Government and other external funding bodies is high, and this is compounded by the effects of major legislative changes as described earlier in this report. The impact of the Covid-19 pandemic has significantly worsened the future economic outlook for the UK and worldwide and the economic impact of Brexit remains uncertain

8.16 In setting the budget for 2022/23, estimates were made at the time of the required level of reserves and provisions, and this was included in the submission to DLUHC as part of the capitalisation directive. Provisions relate to known events, which have occurred and that have given rise to a liability for the Council, where the exact amount or timing of the payment is not clear. As a result of the forensic investigation of the accounts during 2021 amounts have been requested from Government as part of the capitalisation directive to ensure adequate provisions are in place for items such as bad debts, insurance claims and other known liabilities. Others may well be identified and further needed as part of this process

8.17 In addition to known liabilities, the budget also has regard to various risk issues where at the time of setting the budget there is no contractual liability but there is a possibility that payment may be required at some point in the future; in these cases earmarked reserves are normally created. These reserves are established to cover specific risk issues as highlighted in the Council's risk registers. For 2022/23 no earmarked reserves have been set due to the nature of the anticipated on-going support from Government. As a benchmark the lower quartile for similar authorities would be an expectation of general fund balances and earmarked reserves to be at around 25 per cent of Net Revenue Expenditure. In Slough's case this would mean an additional £15m would need to be set aside

8.18 In reviewing the adequacy of reserves, the Director of Finance recommends the level of the General Fund Balance to be £20m in 2022/23 having regard to the risks set out in this report and the request for financial support being discussed with Government. The Director of Finance is of the view that the level of reserves is adequate solely for 2022/23, having regard to the risks identified and the level of contingency in the budget. The revised Medium Term Financial Strategy will in the future identify in greater detail the plans for replenishing reserves

8.19 CIPFA (Chartered Institute of Public and Finance and Accountancy) in its review of financial resilience within councils have stated that there should be no imposed limit on the level or nature of balances required be held by an individual Council. However, in light of recent high-profile failures and funding concerns being raised by authorities they launched a financial resilience index which uses a basket of 15 indicators to measure individual authorities' financial resilience compared to their comparator group. Key indicators include:

- the level of reserves held as a percentage of net revenue expenditure
- the average change in reserves over the last three years
- the reserve "burn rate"
- the cost of adult social care as a percentage of net revenue expenditure
- the average cost of children's social care as a percentage of net revenue expenditure
- OFSTED rating
- the auditors value for money conclusion

8.20 It is anticipated that the requirement to formally report on these indicators will be incorporated into a new Financial Management Code and the Council will identify and consider these as it develops its MTFS.

9 CONCLUSION

9.1 Slough's budget deficit:

a) has moved from an initially submitted one year request of £15.2m to a 10 year £479m problem, potentially rising well beyond this if £20m of additional, recurrent annual savings are not delivered

b) has changed continuously throughout 2021/22 as work has been undertaken

c) will continue to change throughout the next 12 months while the accounts up to 31/3/22 are prepared and audited and the budget for 2023/24 worked up in detail

d) is of a magnitude which has not been seen before across the UK and is accompanied by a range of issues that are likewise extremely wide ranging, unique in their appearance and size at one Council, and, of a significance that will take several years to correct in full

9.2 In these circumstances it is impossible to give an assurance that is normally required within a S25 report. The best that can be said is that:

a) the Council is now beginning to utilise well designed processes which will take time to embed and operate fully across all areas and which need to be supplemented by further improved processes

b) has an increased awareness of financial management's importance, requirements and the necessity of preparing and living within a budget, taking appropriate financial decisions and operating sound governance

c) is better able to meet its budgetary challenges given the focus it has applied to this work since May 2021 and will continue to do so in future years

d) has kept DLUHC fully involved in all aspects of its financial situation and will do so in the future

e) given the above, the contingency built into the budget estimates, the assumption that DLUHC will support the Council in full as it continues its work on the accounts, estimates and financial processes and that managers will manage within their allocated budgets it should be able to manage within these estimates for 2022/23.

In providing this statement, the Director of Finance will maintain an on-going and robust review of all risks, including those associated with the delivery of budget savings decisions and report throughout the financial year.

Steven Mair
Director of Finance (Chief Finance Officer)
Date 28 February 2022

10. Implications of the Recommendations

10.1 Financial implications

10.1.1 The recommendation has a direct financial impact on the setting of the Council's budget for 2022/23 and the Medium-Term Financial Strategy.

10.2 Legal implications

10.2.1 The Council is required to take account of the Section 25 report as part of its budget setting deliberations.

10.3 Risk management implications

Summary of risks.

Category	Risk/Opportunity	Controls	Residual Risk Score (1 (Low) to 10 (high)	Additional Controls
Financial	The Council is fully appraised of the Director of Finance's views on the robustness of the budget setting process.	Inclusion of all Executive Directors in detailed planning and agreement of the budget.	6	Budget monitoring process and regular reporting on achievement of budget and savings.
Financial	The Council is fully appraised of the Director of Finance's views on the adequacy of reserves.	Risk assessment of the level of reserves and the building of contingency into the base budget to protect future volatility.	8	Regular assessment and review of new and existing areas of volatility or uncertainty.

10.4 Environmental implications

10.4.1 No specific environmental implications arise from this decision.

10.5 Equality implications

10.5.1 The budget is subject to an equality impact assessment which is reflected in this report.

10.6 Procurement implications

10.6.1 There are no procurement implications of this report

10.7 Workforce implications

10.7.1 There are no workforce implications of this report

10.8 Property implications

10.8.1 This report has no direct implication on properties.

11. Background Papers

None – detailed report added as Section 3 above.