SLOUGH BOROUGH COUNCIL

REPORT TO: Council

DATE: 10th March 2022

SUBJECT: 2022/23 Budget

PORTFOLIO: Cllr Anderson – Financial Oversight, Council Assets and Performance

CHIEF OFFICER: Steven Mair, Director of Finance (s151 Officer)

CONTACT OFFICER: Akram Rizvi

WARD(S): All Wards

EXEMPT: No

APPENDICES: The following appendices accompany this report:

Appendix	Description
A1	2022/23 General Fund Budget Summary
A2	2022/23 General Fund Budget Build
A3	2022/23 Directorate Budget Summaries
A4	2022/23 Proposed Savings
A5	2022/23 Growth to Directorates for Pressures and Inflation
B	2022/23 Council Tax Resolution
C	2022/23 Dedicated Schools Grant
D	2022/23 Housing Revenue Account Budget and Business Plan
E	Fees and Charges Policy
F	Expenditure Control
G	Equalities Impact Assessments
H	Section 25 Report
I	Members Allowances Scheme 2022-23

1 Executive Summary

Financial Overview

1.1. Fundamentally the Council's position is extremely serious as it:

- faces a financial deficit of £223m up to the end of the current financial year and
- a further £84.1m for 2022/23
- has a 2022/23 budget requirement of £191.7m compared to sources of funding totalling £107.6m, that is some 78% greater than its sources of funding
- faces a potential longer-term deficit of £479m and
- requires DLUHC support to this value to enable the S151 officer to provide some assurance on its position as set out in Appendix H

1.2. Included within the capitalisation direction is provision to build the General Balance to £20m and provides for some earmarked reserves to enable risks to be managed.

1.3. It must be acknowledged and understood that Slough's position is very precarious

1.4. Whilst the S151 officer has been able to give some assurance on the position, given the inclusion in the capitalisation directions of sums for the General Balance and some earmarked reserves and contingencies, the delivery of the budget and its associated savings requires both members and officers to maintain focus throughout the year to ensure the budget is delivered within the identified resources

Issues Overview

1.5. It has become apparent in the last 10 months that 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

1.6. 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

Key Financial Requirements

1.7. In order to manage this scale of issue and to put Slough on a sustainable financial footing the Council will have to:

- deliver all of the savings set out in this report in 2022/23 in full
- dispose of assets/generate capital receipts of up to £600m
- identify, plan for and deliver £20m of additional recurrent revenue savings every year from 2023/24 up to and including 2027/28
- which will require a radical change in the Council's size, functions and approach
- operate much higher standard of business planning, report writing, financial management (across all disciplines)
- have a very heavy focus on budget management throughout all year

Key Financial Budgetary Issues

1.8. The report recommends:

- an increase in council tax of 2.99%
- savings of £19.959m, see appendix A4
- growth of £8.178m, see appendix A5 and para 3.8.19

2 Recommendations:

1.9. Subject to the approval of the recommendations by Cabinet on 9th March 2022:

1.10. The following is recommended to Council:

1. Approval of the 2022/23 budget to enable the Council Tax for 2022/23 to be set;

2. Approval of the Model Council Tax Resolution 2022/23 as set out in Appendix B;

3. Delegate authority to the Director of Finance, to place a notice in the local press of the amounts set under recommendation 2 within a period of 21 days following the Council's decision;

4. Approve the Medium-Term Financial Strategy (MTFS) as based on the estimated financial deficit in the Capitalisation Direction and to be funded by capitalisation of:

    a. £223.1m up to 2021/22
    b. £84.1m for 2022/23
    c. £171.1m for beyond 2022/23

5. Approve the Capital Receipts Flexibility Strategy as agreed in 2021/22.

6. Approve the overall General Fund revenue budget of £191.7m, to include:

    a. growth for pressures for contract inflation and pay inflation of £8.178m
    b. proposed savings by directorate of £19.959m

1.11. To note the following:

7. The balanced budget position for 2022/23 requiring savings of £19.959m and the projected financial deficit between 2023/24 to 2028/29

8. The inclusion within the Capitalisation Direction of £1m per year from 2022/23 onwards as a means to rebuild the General Fund and Earmarked Reserves balance

9. The intention to increase Council Tax by 1.99% in 2022/23

10. The intention to increase Council Tax by a further 1% in 2022/23 in respect of the Adult Social Care Precept

11. The assumed funding for the protection of social care 2022/23 through the Better Care Fund

12. that due regard has been had to the s.25 report by the Director of Finance at Appendix H

1.12. To agree the following:

13. Note the Cabinet's approval of the Fees and Charges Policy Framework, and that Council approve this for non-executive functions

14. Approval of the Members Allowances Scheme for 2022-23 at Appendix I

Reason:

This report is required to enable the Council to set a legally, balanced budget for 2022/23 which is set out in the context of the overall capitalisation direction.

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 Report

1.1. Policy Context

1.1.1. Prior to 2020/21, the Council as with other local authorities operated in a challenging environment where funding from Government had reduced year on year and demands for services was increasing.

1.1.2. The Covid-19 pandemic compounded these issues and also resulted in unprecedented changes across the whole of the public sector as a means to manage the pandemic.

3.1.3 Since the approval of the 2021/22 capital and revenue budgets, there have been exceptional financial developments which have been extensively reported to Council. These developments, namely the S114 notice and subsequent emerging issues and others that will undoubtedly continue to be identified, will have lasting implications for 2022/23 and beyond and which will have consequences for all aspects of the Council including its finances, planning and future delivery of services. The Council:

- is seeking a capitalisation direction of £307.1m up to 31/3/23 at this stage, although it is possible this figure will change as work continues to identify all the issues. Further capitalisation directions will be needed beyond this period
- is planning asset sales in the region of £600m
- requires annual additional recurrent revenue savings/income of circa £20m per annum to be delivered
- is carrying borrowing that has risen from £170m in 2016/17 to £760m in 2021/22
- is dealing with an extensive range of further adverse financial management issues
- has a large number of statutory and other audit recommendations to address
- has series of recommendations from the Governance and CIPFA reviews to respond to
- likewise has a large number of statutory directions from the Secretary of State to action, and these may increase over time

3.1.4 The cumulative impact of the above proportionately exceeds the scale of issues faced by any other Council by a considerable margin. In 2022/23 alone, the extent of the capitalisation direction means that without it, the authority would overspend by 78%. All of these issues have to be successfully dealt with, will radically change the focus, service delivery and size of the Council's services going forward and will significantly impact on residents and staffing within the Council. Good progress is being made in many areas but there remains a great deal to be done which will take some considerable time to conclude.

3.1.5 The scale and severity of the challenge now facing the Council cannot therefore be understated. This report proposes recommendations to Cabinet for approval by Full Council that will enable the Council to set a legally, balanced budget for 2022/23 and as means to fundamentally address these issues beyond 2022/23.

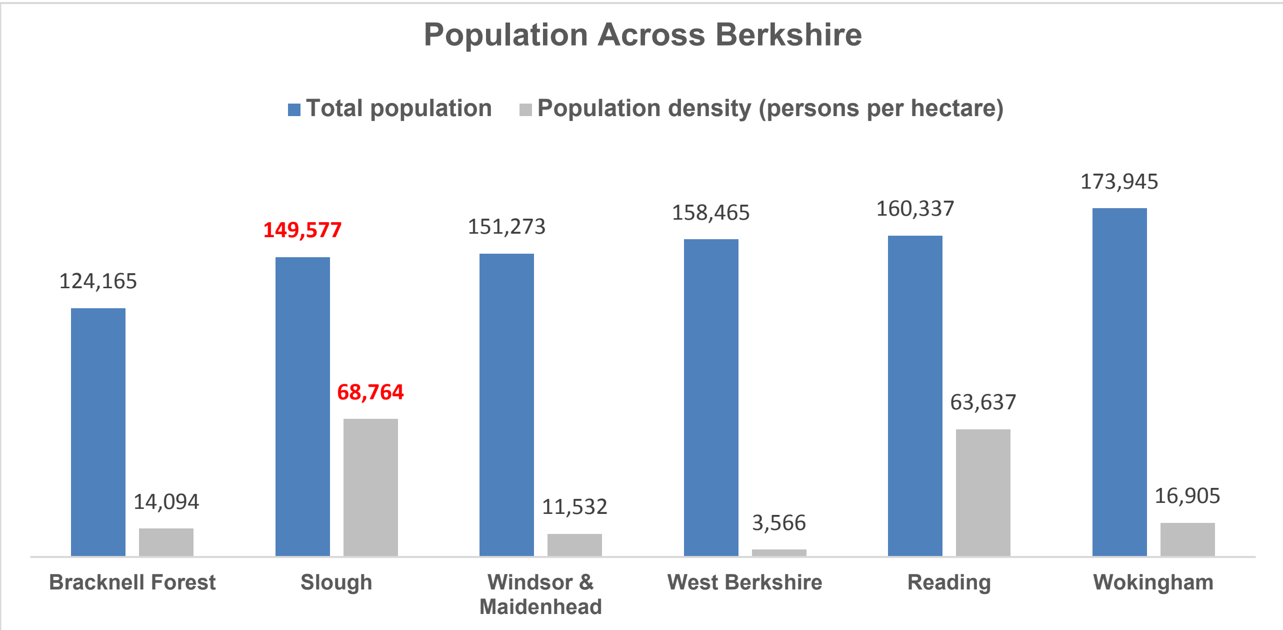
3.2 Insights into Slough

3.2.1 Separate to the pressures from the Covid-19 pandemic and the issues referred to above, Slough operates in a unique environment that presents a challenge to providing services. This section will present some highlights to contextualise the ongoing challenge for the Council.

Population

3.2.2 Slough is home to 149,000 people and rising and is one of the most diverse places in the country. Slough's population continues to grow, reaching 149,577 in mid-2020, and is one of the most ethnically and religiously diverse in the UK. Approximately 120 different languages are spoken in our schools. 40% of residents were born outside the UK and half the babies born here in 2016 had both parents born outside the UK.

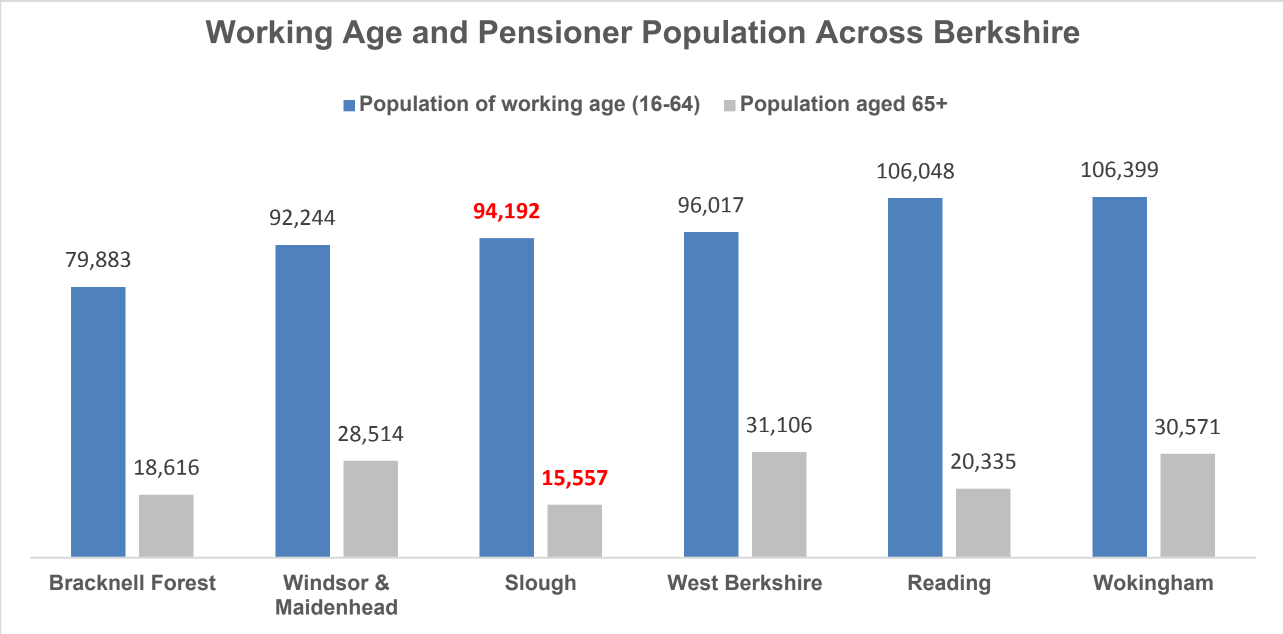
3.2.3 Slough has the second smallest population within Berkshire, but it is also the most densely populated by a noticeable margin:



Source: ONS Population Estimates, 2020, Berkshire Data Observatory

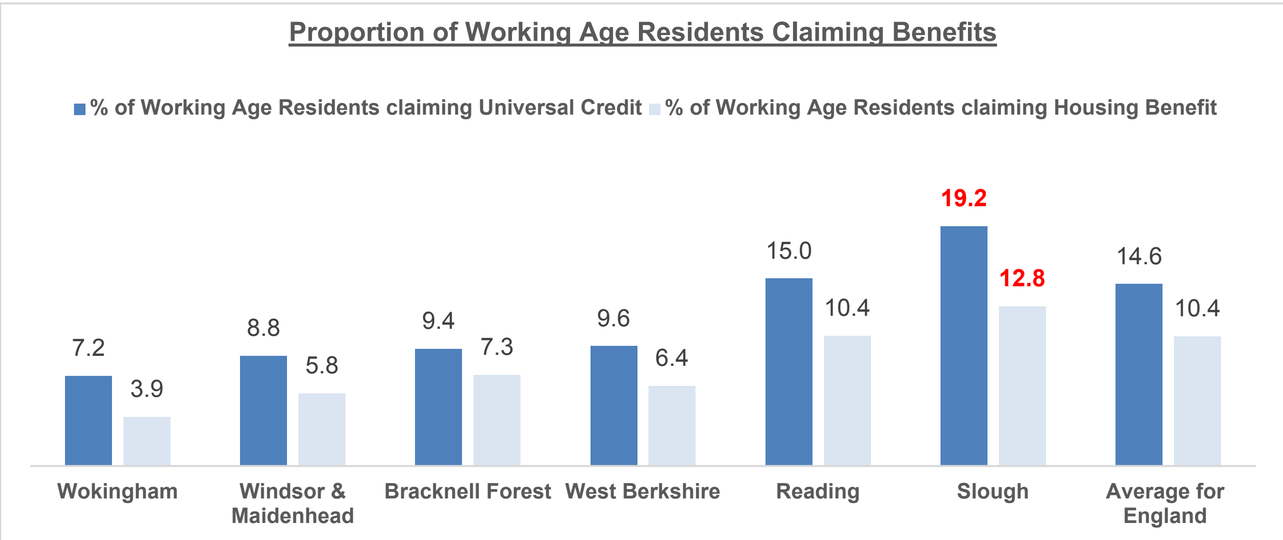
3.2.4 The population structure is younger than the national average and includes many families, a high proportion of children, and working age adults. In 2020, there were an estimated 12,415 infants (aged 0 to 4), 34,362 children and young people (aged 5 to 19) and 87,243 adults (aged 20 to 64). While proportionally lower than other areas, the older population (15,577 adults), is growing.

3.2.5 Within Berkshire, Slough has the 3rd lowest proportion of working age residents (aged 16-64) and the lowest proportion of residents aged 65 or over:



Source: ONS Population Estimates, 2020, Berkshire Data Observatory

3.2.6 Compared to the working age population in Berkshire and average for England, Slough has the highest proportion of such residents claiming Universal Credit and Housing Benefits:



Source: Department for Work and Pensions, May 2021 (HB) and September 2021 (UC)

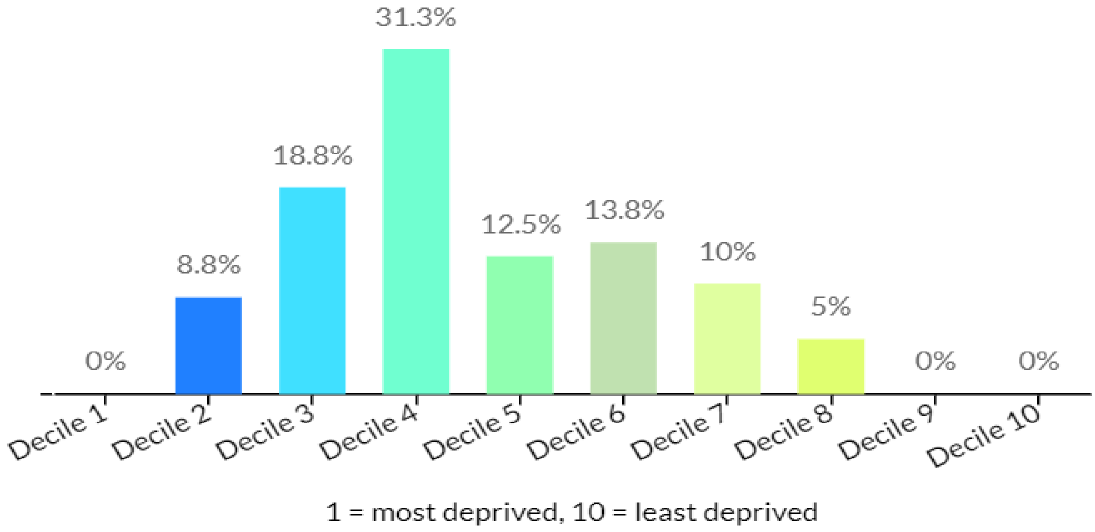
Deprivation

3.2.7 Slough remains the most relatively deprived area within the Thames Valley, followed by Reading and Milton Keynes, coincidentally the three areas with the highest levels of serious violence in 2020/21. The pandemic has affected Slough particularly badly with increases in claims for unemployment-related benefits, with the average rate of claimants across LSOAs increasing fourfold and with an average rate of 89 in 1,000 persons aged 16-64 claiming unemployment support

3.2.8 Based on the 2019 Indices of Multiple Deprivation, Slough has above average levels of deprivation. This is the case in the domains of:

- Income

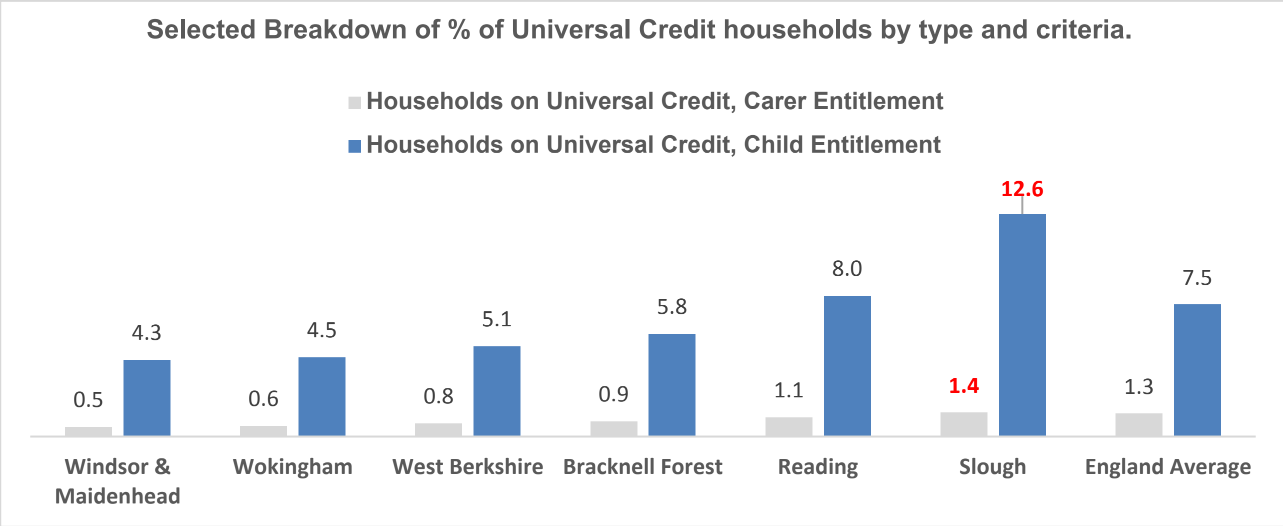
- Education (young people and adult skills)
- Housing affordability
- Physical and mental health
- Crime



Source: Overall Index - Slough, Indices of Multiple Deprivation, 2019

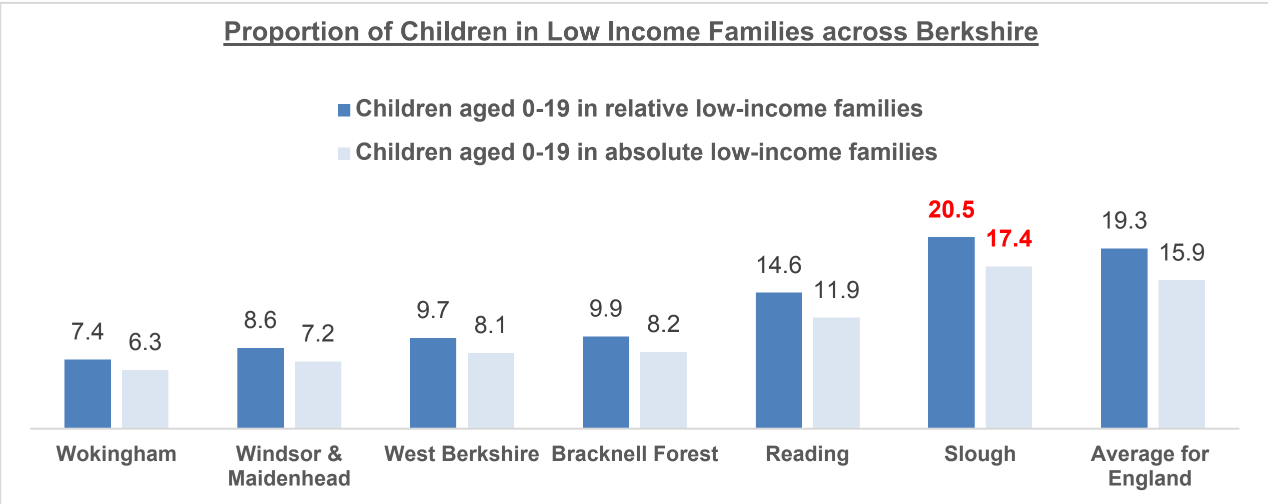
3.2.9 Life expectancy varies between wards with men expected to live on average, up to 78.4 years of age and women up to 82.5 (both approximately 1 year less than the England average). Healthy life expectancy for both men and women are lower than the England average: women on average can expect to live the last 24 years of their life in poor health (compared to 20 years in England), while men can expect to live the last 18 years of life in poor health (compared to 16 years in England). Key health and wellbeing challenges for the borough include ensuring a healthy start to life, improving childhood obesity, oral health, smoking, physical inactivity, diabetes, TB, alcohol and substance misuse, mental health issues and early deaths from cardiovascular disease.

3.2.10 Compared to the average for Berkshire and England, Slough also has a higher proportion of claims from households for the child and carer’s entitlement of UC.



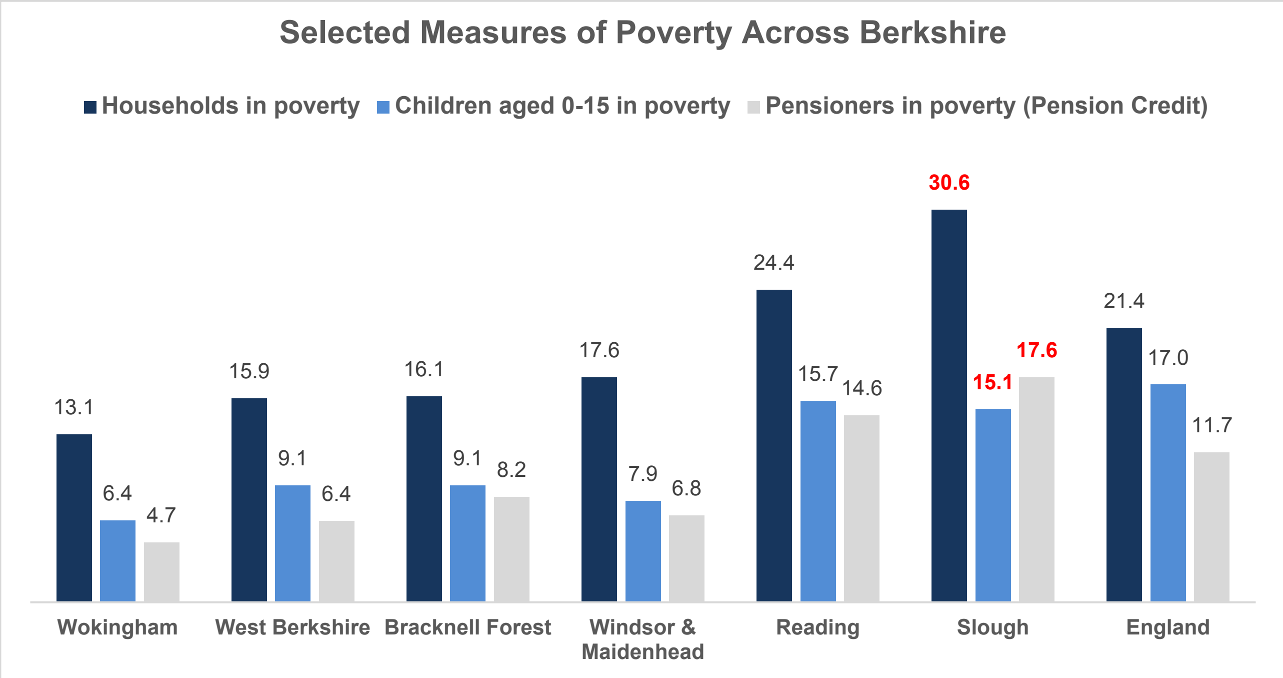
Source: Department for Work and Pensions, August 2021

3.2.11 Along with the higher proportions of households claiming child entitlement for UC and the higher numbers of lone parent households in Slough, there are higher proportions of children (aged 0-19) in low-income households.



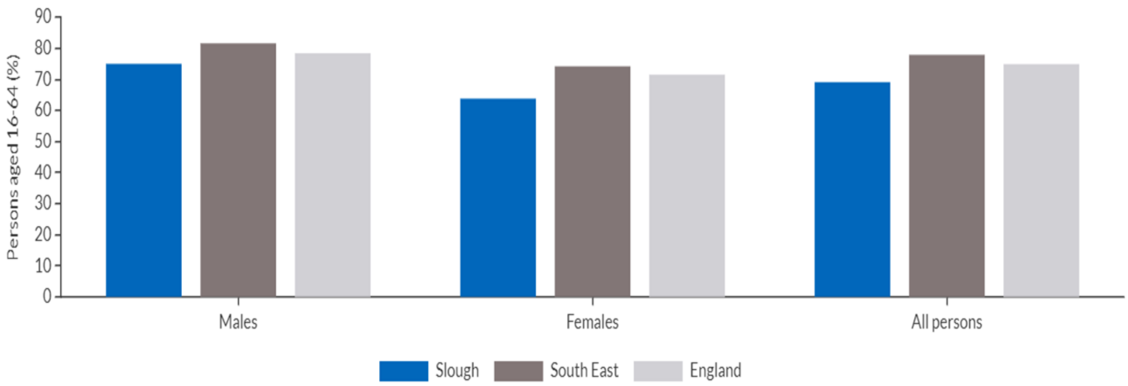
Source: Department for Work and Pensions, Annual Data 2019/20

3.2.12 The proportion of other households and residents in Slough classed as being in poverty is also high when compared to neighbouring authorities and the average for England:



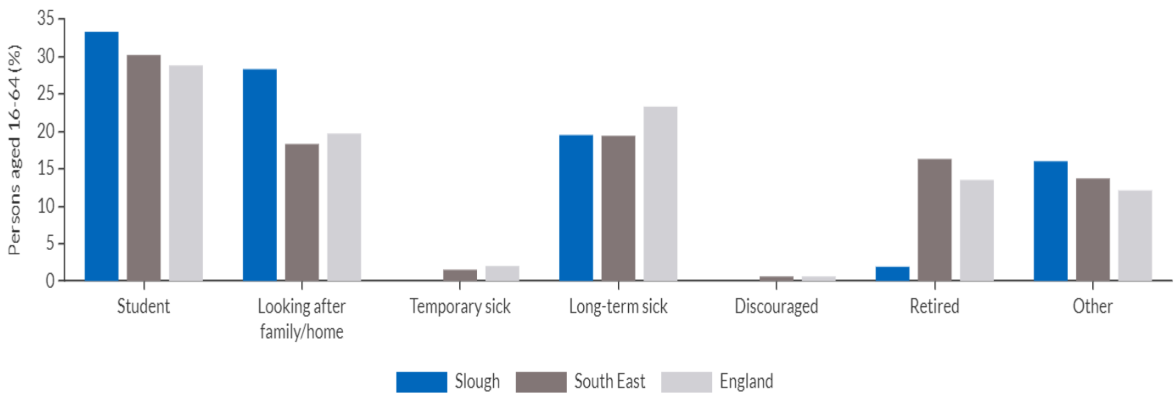
Economic Activity

3.2.13 Slough's economically active population is lower than the average in the South-East and in England as a whole. This is the case for males and females, with the female economically active rate gap larger than that for males. This economic activity gap will be a drive of low income and poverty in the borough.



Source: Office for National Statistics Annual Population Survey, September 2021, Berkshire Data Observatory

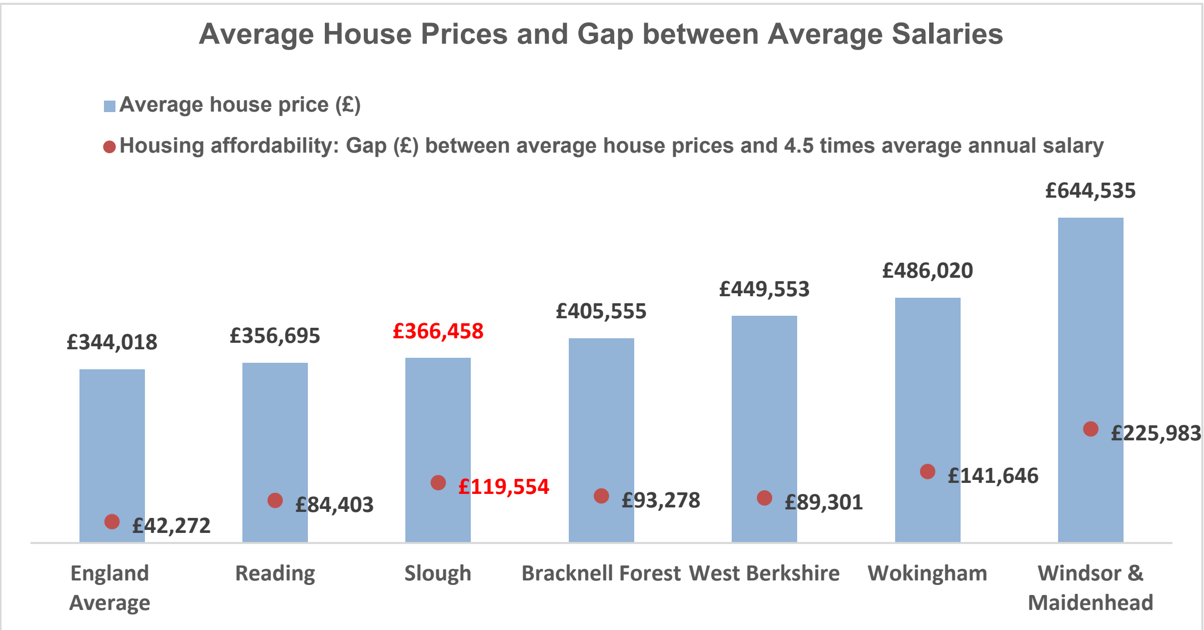
3.2.14 Slough has a relatively high proportion of residents who are economically inactive due to caring responsibilities at home and for wider family members.



Source: Office for National Statistics Annual Population Survey, September 2021, Berkshire Data Observatory

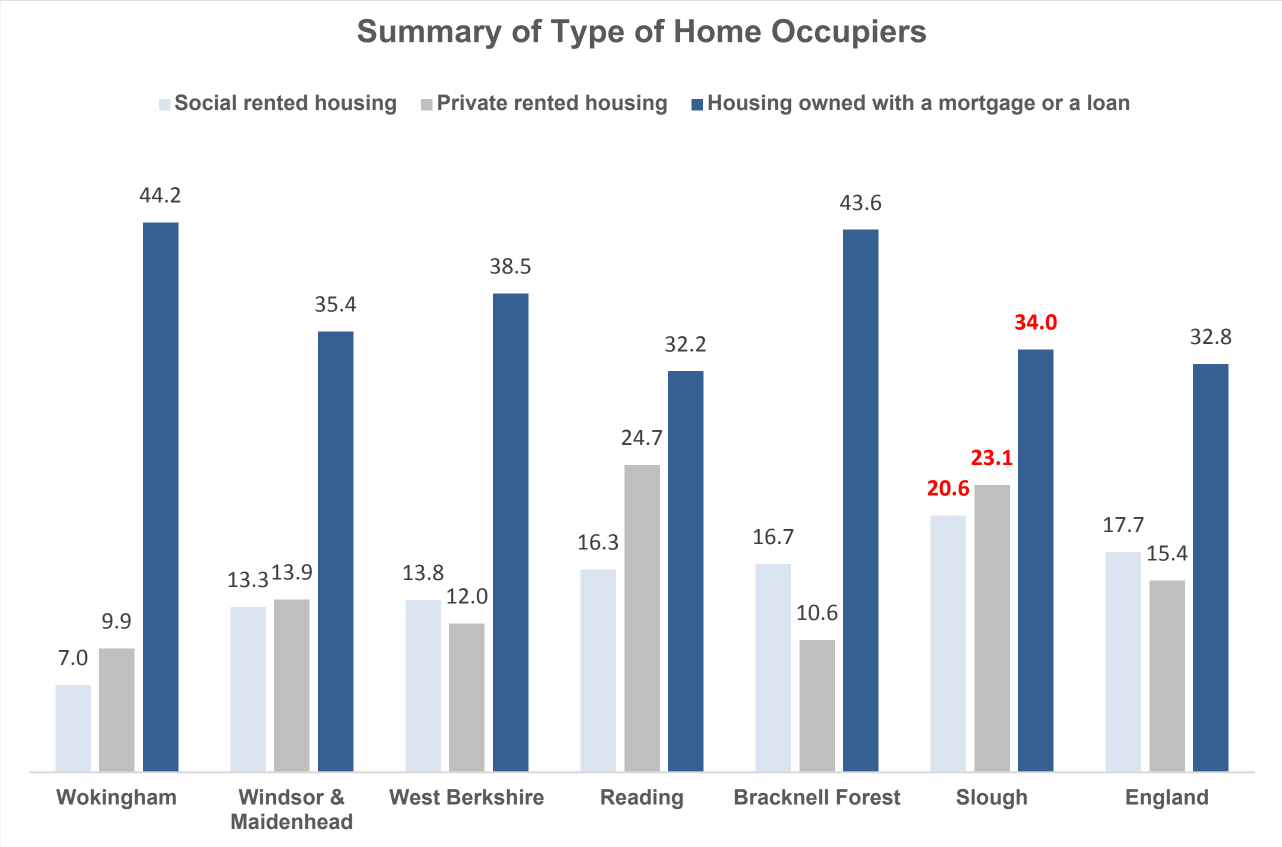
3.2.15 Slough residents were relatively heavily reliant on government support during the pandemic. For example, In April 2021, 23.0% of the working aged population in Slough were claiming government-based benefits due to the pandemic (a combination of 10.9% on the Job Retention Scheme (JRS), 6.2% on the Self-Employment Income Support Scheme (SEISS) and a 5.9% unemployment claimant count increase since March 2020).

3.2.16 Whilst the average house price in Slough is the 2nd lowest in Berkshire, the relatively higher levels of poverty and low income illustrated above means that the housing affordability (i.e. the gap between average house price and 4.5 times average annual salary) is disproportionately higher than in neighbouring authorities



Source: Valuation Office Agency, 2020

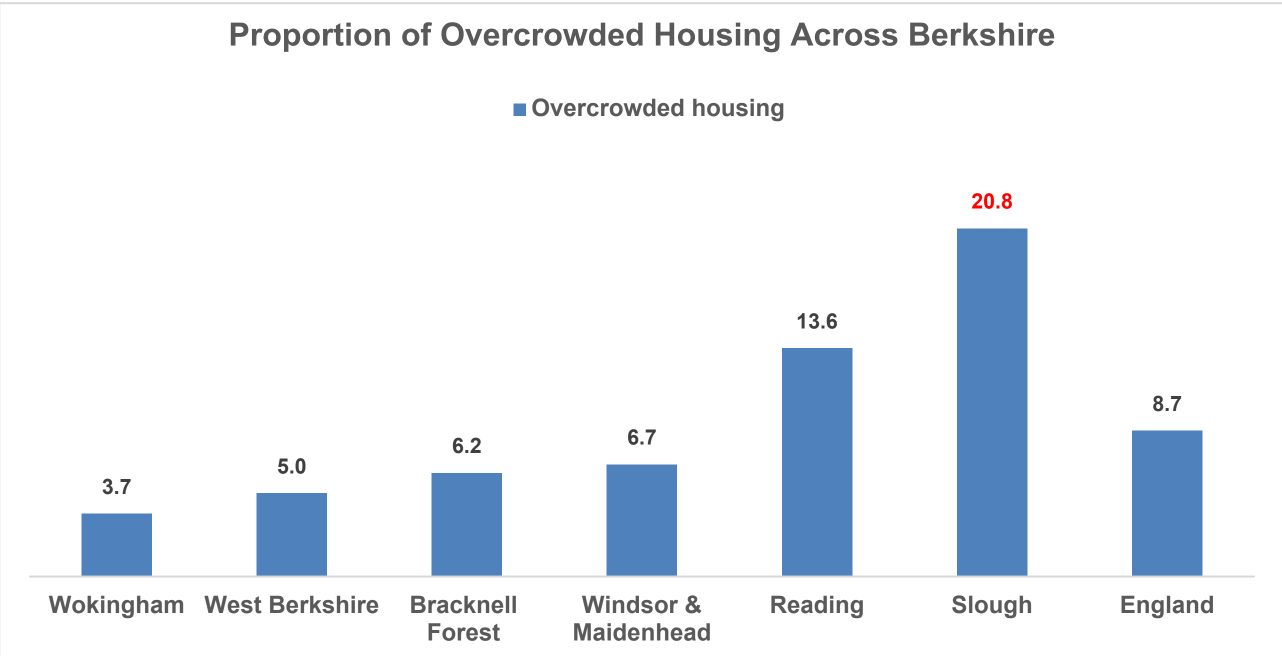
3.2.17 Compared to neighbouring authorities in Berkshire, Slough has a lower proportion of residents who own their own homes and a higher rate of socially or privately rented accommodation. The level of socially rent accommodation (defined as being rented from a Local Authority, Housing Association or Registered Social Landlord) is particularly high when compared to neighbouring authorities and the average across England



Source: Census 2011, Office for National Statistics

3.2.18 Slough has 54,880 dwellings and the second highest average household size in the country (2.8 people per household)

3.2.19 Slough has the highest proportion of overcrowded housing compared to neighbouring authorities and a level significantly higher than the average for England. A household is defined as overcrowded if there is at least one room fewer than needed for household requirements using standard definitions. [NB: the Census 2021 data releases begin in May 2022)



Source: Census 2011, Office for National Statistics

Core Spending Power

3.2.20 The Core Spending Power is a measure used by the Government to assess an authority's ability to spend based on Settlement Funding Assessment, grants and Council Tax assumptions. In comparison to neighbouring authorities in Berkshire, the Council's measure of Core Spending Power (adjusted to remove Council Tax) is the highest in the region.

3.2.21 This will partly be due to the way grants such as the new Services Grant and Social Care and Improved Better Care fund are allocated based on the statistics highlighted above results in the Council receiving higher allocations than neighbouring authorities where such pressures are less severe in comparison. These statistics and ongoing pressures in Slough are further evidenced by the lower amount of reward-based funding such as the New Homes Bonus received by the Council compared to neighbouring authorities

3.3 Corporate Plan Update

3.3.1 The Council's current corporate plan is the 2020-2025 Five-Year Plan. A draft plan for 2021-26 was approved by Full Council in March 2021, however, the emerging financial issues have rendered it redundant, and it was subsequently not published on the Council's website.

3.3.2 The Five-Year Plan made extensive commitments and the five priority outcomes which comprised its core are no longer fit for purpose. A new corporate plan is required to recognise the scale and severity of the challenges facing the Council and to provide the basis for a new strategic framework for the Council.

3.3.3 Services have recently completed Functional Capability Assessments, as required by the DLUHC directions. These will feed into a new, three-year corporate plan which will lay out SBC's strategy for its recovery and establish new priority outcomes for the council.

3.3.4 The development of this new plan will be overseen by the Recovery & Improvement Board. It is anticipated that the plan will be drafted in early April, before being presented to Cabinet and Full Council for approval in May 2022.

3.4 Post-March 2021 Full Council

3.4.1 Following the approval of the 2021/22 Budget and MTFS at March 2021 Full Council, a Section 114 (s114) notice was issued on 2 July 2022 and presented at a meeting of Full Council on 22 July 2021. The background to this, subsequent events and decisions are briefly discussed below to contextualise the proposals in this report for 2022/23 and beyond.

Original Capitalisation Direction – December 2020

3.4.2 In December 2020, under the previous Director of Finance, a capitalisation direction from DLUHC was provisionally secured for up to £15.2m to balance the 2021/22 General Fund revenue budget. This was a short-term and grossly understated measure using one-off resources that required the Council to either generate capital receipts or undertake further borrowing (and liabilities) to finance the capitalisation. This measure means additional savings would need to be identified in 2022/23 to bring the Council's net expenditure back within its limit from ongoing funding sources.

Section 24 Statutory Recommendations – May 2021

3.4.3 The previous Director of Finance left the organisation in May 2021, the current Director of Finance took up the post at this time and issued a s114 in July 2021. the Council's external auditors, Grant Thornton also issued a report under Section 24 of the Local Audit and Accountability Act 2014. Section 24 (s24) of this Act grants auditors the power to issue statutory recommendations and make written recommendations.

3.4.4 At a meeting of Full Council on 20 May 2021 and 22 July 2021, Grant Thornton issued their s24 report which highlighted the following inadequacies in:

- capacity and skills within the finance department
- preparation of financial statements
- general and earmarked revenue reserves
- financial governance and monitoring over its outside groups and companies
- address the S114 report (22/7/22)
- improve governance in the Council (22/7/22)

3.4.5 Under s24 of the Act, the Council has a responsibility to respond to these recommendations by:

- considering the recommendations in a meeting held within one month of the recommendations being sent to the Council
- at that meeting decide whether the recommendations are to be accepted, and what actions are to be taken in response to the recommendations

3.4.6 These recommendations were responded too at a meeting of Full Council on 22 July 2022 with an agreement to implement them all.

Issues Identified April to July 2021

3.4.7 Since the approval of the 2021/22 budget in March 2021, numerous financial issues have been identified and were reported in the S114 notice that meant that the Council would not be able to balance its budget even with the then capitalisation indicative permission from DLUHC.

3.4.8 The final decision on this further capitalisation was dependent on two independent reviews one by CIPFA on the Council's financial management and one on Governance of the Council by Jim Taylor. Both commissioned by DLUHC and both of which commenced in July 2021. The challenges facing Slough not being just budgetary ones, but also approaches to financial decision-making, leadership and management, processes, quality assurance and review etc were equally not robust and so highly detrimental to the Council.

3.4.9 The ongoing review of the Council's finances led by the new Director of Finance and s151 Officer identified a range of issues, some of which relate to previous years and which if known at the time would have severely affected the Council's ability to set a legal, balanced budget in 2019/20, 2020/21 and 2021/22. Some of these are summarised below.

Issue	Comment
Minimum Revenue Provision (MRP)	MRP has been incorrectly calculated since 2016/17 by over stating asset lives, incorrectly using capital receipts and omitting some expenditure from the calculation
Borrowing / Debt	Borrowing has quadrupled from circa £180m to £760m over the same period with a consequential revenue impact
Provisions and Reserves	There are effectively no unallocated general reserves
Accounting Treatment	Revenue costs have been incorrectly charged to capital, e.g. IT projects, has been charged to capital and will need to be reversed
Other	There are a range of other financial pressures and issues facing the Council.
Treasury Management	The Treasury Management strategy did not link accurately to the capital programme, and the risks associated with high levels of borrowing and in particular high levels of temporary borrowing. This had not been explained to Members nor a plan proposed to address the risk
Financial Reporting	The Statement of Accounts for 2018/19 are yet to be signed off by external audit and 2019/20 and 2020/21 audits are not yet complete. General Fund reserves reduced to £550k at 31.03.19 as a result of the audit with further changes expected
Controls/Governance	Governance and financial management processes in relation to Council-owned companies are weak. Some of these companies require ongoing financial support and others involve contractual arrangements which expose the Council to significant financial risk.
Controls/Governance	Weak financial processes, reporting and internal controls. Improvements are needed to budget monitoring, more accurate data input is needed and bank balances and control accounts need to be reconciled more regularly
Provisions and Reserves	Inadequate provisions including for NNDR exposing the Council to risk of pressures on their budget. No insurance reserve or PFI sinking fund, with balances used to fund previous years' budgets and revenue spending,
Poor Planning	The Council's MTFS, Treasury Management and the Capital Programme approved by Council in March 2021 were all flawed, in several respects and require considerable improvement The HRA 30-year business plan was not updated for the 2021/22 budget.
Poor Planning	Estimates of local tax income and collection rates, critical to budget estimates, have not been accurate in recent years.

3.4.10 Considerable work has been undertaken to identify and understand the extent of these issues and begin to rectify them. Current progress is as follows:

Progress	Comment
Minimum Revenue Provision (MRP)	The Capitalisation Direction reflects the corrected calculation of MRP and the accounts for the prior years will be updated as a result
Borrowing / Debt	The revised capital strategy reflects the projected level of borrowing for a significantly smaller future capital programme
Provisions and Reserves	The General Fund balance reduced to £550k as a result of the historical issues identified during the audit of the 2018/19 accounts. Since then, officers have been carrying out extensive reviews of the Council's accounts and finances and have identified additional historical issues which will reduce the balance even further and bring this into a substantial deficit position which will not allow the Council to set a 'balanced' budget for 2022/23 without normalising this position. As a result, the Council is seeking a capitalisation direction of £307m from DLUHC to address the historical issues identified to date and top up its General Fund balance to £20m.

Progress	Comment
Accounting Treatment	Initial training on several technical areas were presented to the wider finance department and ongoing work to correct the accounts and processes will enforce correct account practice
Treasury Management	The Treasury Management strategy for 2022/23 has been written in conjunction with the revised capital strategy and have been cross-checked against each other
Financial Reporting	Good progress is being made on completing the accounts for the three years from 2018/19 to 2020/21 as well as preparing for the closure of the 2021/22 financial year. The accounts will be completed on a staged basis throughout 2021/22 and 2022/23, with the 2018/19 accounts expected to be completed by March/April 2022. Officers are currently in the process of resolving the issues raised by the auditors and CIPFA as part of their respective reviews as well issues identified as part of our own comprehensive internal review, these include: ➢ Review of adequacy of business rates appeals provision ➢ Correcting accounting treatment of an advance made to Slough Children's Trust ➢ Resolving historical understatement of minimum revenue provision ➢ Review of adequacy of provisions ➢ Data cleansing exercise to ensure entries on the asset register are accurate and up to date ➢ Reconciliation of HRA assets to rent collection data ➢ Review of debtor and creditor balances
Controls/Governance	Several changes have been made to strengthen the Council's arrangements with its companies, and in some instances further work will be required throughout 2022/23 to establish actions and a clear way forward. In 2021/22, actions have been prioritised on the highest risk areas/companies which has included GRE5 and SUR followed by JEH and DISH. Budgets for 2022/23 onwards have been informed by the outcome of work to date and reflect plans to stop or significantly reduce the scale of activities across of the Council's companies. Future activities also build upon recent improvements and actions which have impacted upon the operation, governance and oversight of the four trading companies.
Controls/Governance	It is recognised to ensure effective budget monitoring it was essential that the council's budgets were set accurately at cost centre level (matching income and expenditure incurred) as well as having a framework of reporting in place that demonstrates from cost centre through to overall council wide summary the variances from budget, why they have arisen, the corrective action to be taken, the impact of this action and the impact on future years. To achieve this objective will require a number of actions, some of which have been implemented, others that will be implemented over the next six months. These actions include: ➢ Realigned budgets for 2021/22 ➢ Identified budget holders for each cost centre ➢ Identify the reporting hierarchy for each directorate from budget holder to Executive director ➢ A robust budget monitoring timetable ➢ Monthly budget monitoring meeting; which will eventually phase into risk based budget monitoring ➢ Monthly Departmental financial update report – signed off by Executive Directors ➢ Considered where models can be developed to aid in forecasting outturn thereby improving projections of full year income/expenditure ➢ Supporting managers in identifying realisable savings for 2022/23 and beyond ➢ Providing training to all budget holders This has been identified and reported in various guises and a team is in place to clear the backlog of reconciliations, streamline reconciliation process, document procedures, and ensure there is an appropriate mechanism in place to monitor all the periodic

Progress	Comment
	reconciliations required to ensure adequate controls and financial governance is in place. The project is primed for completion by 31st March 2022. The project has been exacting due to: ➢ Limited or no knowledge of processes due to departures of key staff ➢ Manual processing of large amounts of data, ➢ Daily processes not being completed for months, ➢ No basis or documentation for clearing suspense accounts A summary project update as at the end of January 2022 follows: ➢ NNDR Recs – All details obtained and input going through the reconciling items ➢ Council Tax – All details obtained. ➢ Housing Benefit Payments – Bank Reconciliations and account reconciliation complete as of December 2021; handover to new team to be completed this week ➢ Control Account Reconciliations – Accounts Payable and Accounts Receivables are up to date ➢ Bank account and suspense account reconciliations are being reviewed, of the 44 codes in question 10 require extensive remedial work whilst the others will be cleared and fully reconciled by the end of February 2022.
Provisions and Reserves	The capitalisation direction includes an amount to build the General Fund balance, and budgets for an amount to be appropriated to reserves thereafter. In recognition of the low level of provisions held by the Council, the CD includes an amount allocated for bad debts and provisions typically held by a unitary authority
Poor Planning	The Treasury Management Strategy and Capital strategy have been revised and written in accordance with each other. The Council's 30-year Housing Revenue Account (HRA) Business Plan has been updated and latest assumptions are detailed in the 2022/23 Budget report, covering three years. The business plan will be updated periodically to ensure alignment with the Council's housing strategy. Slough Council also has membership with Capita Consultancy, an expert in the market supporting many other local authorities and will provide on-going support with updating and reviewing the 30 year business plan.
Poor Planning	Work is commencing to monitoring the in-year collection of Council Tax and Business Rates against precepted, approved amounts with earlier analysis of how this will impact accounting and budgeting under the Code of Practice guidance.

3.4.11 As at 31 March 2021, the estimated negative General Fund balance prior to any additional support by MHCLG was £56m. The additional in-year deficit for 2021/22 was estimated at £40m (assuming £15m existing capitalisation direction is agreed). Without further action, it was estimated that by 31 March 2025, there would be a negative General Fund balance of £159m. This excludes the original £15m, giving a gross total of £174m

Section 114 Notice and beyond – July 2021 onwards

3.4.12 The MTFS approved at March 2021 Full Council included a remaining budget gap of £43m over the next three years net of £23m of proposed savings. The issues highlighted above have changed these assumptions. To recover from this financial deficit, the Council needs for 2022/23 and beyond:

➢ a further capitalisation direction from DLUHC which is broken down as follows:

Breakdown of Capitalisation Direction	Pre-22/23 £'000	2022/23 £'000	Post 2023/24 £'000	Total £'000
Base Capitalisation Direction	223,064	84,055	171,571	**478,690**

**This is additional capitalisation of existing costs to manage the savings requirement down to an achievable level*

- to identify in time for March 2022 Cabinet, additional savings to at least deliver the previously committed savings for the 2022/23 budget

- adequate reserves to support the setting of a legal budget by the statutory deadline of 11 March 2022, per Section 30(6) LGFA 1992

- and in accordance with the provisions of Section 25 of the Local Government Act 2003 that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance (section 151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of proposed financial reserves. This is included at Appendix H.

3.4.13 Following the identification of the issues, and others, in paragraph 3.4.9 above, on 2 July 2021, the s151 Officer issued a report under s114 of the Local Government Finance Act 1988 to advise Councillors that the Council faced an extremely serious financial situation.

3.4.14 A s114 report can be issued where the Chief Financial Officer believes that the expenditure of the authority incurred (including proposed expenditure) in a financial year is likely to exceed the resources (including borrowing) available to it to meet that expenditure.

3.4.15 The s114 report referenced the Council's approved revenue and capital budget for 2021/22 from March 2021 Full Council. This report had advised Members on the challenges facing local authorities but in particular for Slough to balance its budget from:

- increasing numbers and cost of supporting vulnerable people and children in care;

- reductions to funding from Government

- the lower level of reserves held by the Council in comparison to other Unitary authorities.

3.4.16 The s114 report reported that projected in-year spending on services would be very significantly above the approved revenue budget and the level of revenue reserves held by the Council.

3.4.17 Spending controls were implemented that would prevent any new agreements for any expenditure without explicit written consent from the s151 officer. Measures were introduced to stop all non-essential expenditure prior to the meeting of Full Council in July 2022, where Members were asked to approve measures to control spending and improve the finances of the Council.

3.4.18 It has become apparent that the Council has for several years suffered greatly from a lack of:

- understanding of its true financial position

- corporate 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, ambition, positive attitude, ownership

- evidenced based decisions set within a context of value for money

3.4.19 All of which has led to:

- no (complete and accurate) accounts for five 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 external reviews with very little response from the Council

3.4.20 Since May 2021 the Council has:

- implemented new ways of working which will not only expedite the audit process but also support the production of more accurate accounts in future

- designed a proper budget process covering 2021/22 and 2022/23

- begun early work on the budget for 2023/24

- begun reviews of its companies

- revised its internal audit plan

- reviewed some of its financial systems

- designed a functional structure and process to develop the Finance team

- ➢ started reviews of the Dedicated Schools Grant

- ➢ identified and is rectifying its insurance budgets and processes

- ➢ prepared an initial business plan

- ➢ reviewed its PFI scheme

- ➢ developed an action plan for revenues and benefits

- ➢ designed various financial management standards:

    - Budget monitoring guidance
    - Financial modelling standard
    - Business case approaches
    - A fees and charges policy (attached to this report as Appendix F)
    - Expenditure control processes
    - A procurement strategy
    - budget processes and allocations

3.4.21 The scale of the issues are such that embedding all of the better practice will take some years. To support prudent controls, it is proposed to continue with the expenditure control panels into 2022/23. Appendix F sets out the process.

3.4.22 The expenditure control panel applies to all expenditure irrespective of funding source and requires completion of a business case that requires the following:

- ➢ justification for how the submission meets criteria for approval

- ➢ detailed budgetary information

- ➢ confirmation if procurement support is required

- ➢ sign off from the appropriate service director

3.4.23 The scale of the issues are such that embedding all of the better practise will take several years.

3.5 National Context

3.5.1 Since late Summer 2021, there have been several significant events and announcements from the Government that have implications for the Public Sector and Local Government in particular. These are discussed below.

September 2021: Social Care Reforms

3.5.2 On 09 September 2021, the Government published its “Building Back Better” plan which set out details of reforms to Health and Social Care. This plan announced funding of £5.4bn for 20223/24 to 2024/25 to deliver the funding and system reform commitments which included:

Item	Announcement
Capping Costs	➢ From October 2023, a cap of £86k will be introduced on the amount that individuals will need to spend on their personal care over their lifetime. ➢ Legislation included in the 2014 Care Act will allow self-funders to ask their Local Authority to arrange their care for them so that they can secure better value care.
Financial Assistance for those without substantial assets	From October 2023, those with less than £20k in assets will not have to make contributions to their care from savings or from the value of their home.
Financial Assistance for those without substantial assets	Those with assets between £20k - £100k will be eligible for means tested support. This new upper limit of £100k compares to the previous limit of £23.25k. In summary if a person's total assets are: 1) <u>Over £100k</u>, full fees must be paid and the maximum that a person will have pay toward their lifetime personal care costs will be £86k. If by contributing toward this, the person's remaining assets drop below £100k, they may be eligible for means-tested support. <u>*Once the £86k cap is reached, Local Authorities will pay all eligible personal care costs.*</u> 2) <u>Between £20k and £100k</u>, the local authority will fund part of the care costs. Individuals are expected to contribute towards care costs from their income, however if this is insufficient, they will contribute a maximum of 20% of their chargeable assets per year. If this contribution results in the value of the person's remaining assets falling below £20k, they will continue to contribute from their income but not from their chargeable assets. 3) <u>Less than £20k, individuals will not contribute toward their care costs from their assets but will have to pay a contribution toward care costs from their income</u>

<u>September 2021: Health and Social Levy</u>

3.5.3 The announcement also included a new UK wide 1.25% Health & Social Care levy. This increase will be introduced from April 2022 as part of National Insurance Contributions and will initially apply to working age employees, self-employed and employers.

3.5.4 From April 2023, this 1.25% increase will be applied as a separate Levy to NIC and will also apply to individuals working above the State Pension age. The revenue raised will be ringfenced both health and social care. Receipts from the Levy will be split between MHCLG, DHSC and NHS England. The share of funding from this levy to Local Government was projected at £5.4bn to 2024/25.

3.5.5 The Government recognised that this would result in an additional pressure for public sector employers that would erode their spending power and originally announced offsetting compensation to public sector organisations.

<u>October 2021: Budget and Spending Review</u>

3.5.6 As with all local authorities, the Council's planning is heavily reliant on policy and decisions from Central Government such as for funding settlements and wider reforms. The withdrawal process from the European Union and the onset of the Covid-19 pandemic disrupted business-as-usual processes for the Government and so since 2019 local authorities have faced increased uncertainty, particularly on funding.

3.5.7 The Government's Budget for 2022 and Spending Review (SR) for 2022/23 to 2024/25 was announced on 27 October 2021. This was the first multi-year SR since 2015 which covered the period 2016/17 to 2019/20, the full SR was deferred in place of one-year Spending Rounds 2020/21 and 2021/22.

3.5.8 The SR2021 was broadly positive but did not contain the certainty that Local Government needs on future years funding e.g. proposals for reforming the New Homes Bonus scheme which was consulted upon earlier this year and the "Fair Funding Review" into the longer-term future of funding for the sector.

3.5.9 The total budget for Government department's resource spending will increase by £90bn (3.8%) in real terms by 2024/25 (a cash increase of £150bn a year). The relevant announcements for Local Government included:

Area	Announcement
Council Tax	Referendum Limit for core increases set at 2.00% Social Care Precept set at 1.00% (reduced from 2.00% in 2021/22)
Settlement Funding	Funding for Local Government to increase by c£4.5bn between 2022/23 to 2024/25
Social Care Reform Funding	From the £5.4bn funding announced in September 2021, £3.6bn will be available between 2022/23 to 2024/25 to implement cap on personal care costs and changes to means testing.
Social Care Reform Funding	Funding of £1.7bn allocated for 2022/23 to 2024/25 "to improve the wider social care system"
Social Care Reform Funding	Funding of £500m to improve the social care workforce.
Other Funding	Separate allocations of: ➢ £200m Supporting Families ➢ £37.8m for Cyber Security ➢ £34.5m to "strengthen local delivery and transparency
Business Rates	➢ A freeze to the Business Rates multiplier in 2022/23 ➢ A 50% relief for retail, hospitality and leisure businesses in 2022/23 ➢ A new relief for businesses investing in improvements for 100% of their business rates bill for 1 year.
Business Rates	More frequent valuations from 5 years to 3 years commencing in 2023
Public Sector Pay	Central Government employees can expect pay rises over the next three years as the economy recovers. Local Government is negotiable outside of this process but the above sets an expectation for additional pressures on budgets for 2022/23 to 2024/25

3.5.10 The October 2021 SR's key message for Local Government was that funding will increase between 2022/23 to 2024/25 by:

- £4.8bn through the Local Government Finance Settlement

- £3.6bn specifically for Adult Social Care reforms (funded by the Health and Social Care Levy)

3.5.11 It would appear that this funding will profile as follows with the majority of it "front-loaded" to 2022/23:

Local Government Funding:	2022/23 (£'bn)	2023/24 (£'bn)	2024/25 (£'bn)	Total (£'bn)
Settlement Funding	1.500	1.500	1.500	**4.500**
Supporting Families programme	0.040	0.070	0.090	**0.200**
Cyber Resilience	0.012	0.013	0.013	**0.038**
Unallocated	0.048	0.017	(0.003)	**0.062**
Local Government Funding: SR 2021	**1.600**	**1.600**	**1.600**	**4.800**

3.5.12 The H&SC levy set out that in total, additional funding of c£13bn would be shared between the NHS and Local Government. Of this, £5.4bn had been earmarked to fund reforms to Adult Social Care. The SR2021 confirms that of this £5.4bn, £3.6bn will be allocated directly to Local Government to implement the cap on personal care costs and changes to the means test, again, the majority being "front-loaded" to 2022/23:

Local Government Funding	2022/23 (£'bn)	2023/24 (£'bn)	2024/25 (£'bn)	Total (£'bn)
Social Care Reform Funding	1.800	1.200	0.600	**3.600**

3.5.13 The SR2021 also announced the following elsewhere in the Public Sector which has indirect impacts for the Council overall:

Area	Announcement
Education	An additional £4.7bn by 2024/25 for the core schools' budget, over and above the SR19 settlement for schools. Furthermore, an additional £2.6bn to 2024/25 will be available for new school places for children with special educational needs and disabilities (SEND) in England.
Housing	Re-confirmation of previous announcements on: ➢ the Affordable Homes Programme (£7.5bn to 2024/25) ➢ Remediation to the highest risk buildings with unsafe cladding (£3bn); ➢ £639m which is a cash increase of 85% compared to 2019/20 for rough sleeping.
Criminal Justice	An additional £540m by 2024/25 to recruit 8,000 police officers to meet the government's commitment of 20,000 additional officers by 2023; Additional funding of £785m in 2024/25 to manage the increased number of offenders being brought to justice and reduce waiting times in the criminal courts.
Health	£4.2bn over the next three years for 40 new hospitals and over 70 hospital upgrades

Economic Forecasts

3.5.14 The Chancellor of the Exchequer announced a new set of fiscal rules to ensure delivery of the SR 2021 remains within the Government's means. This includes:

➢ To have public sector net debt (excluding the Bank of England) as a percentage of GDP falling by the third year of the rolling forecast period. In addition, HM Treasury will supplement this by:

a. A target to balance the current budget by the third year of the rolling forecast period

b. A target to ensure that public sector net investment (PSNI) does not exceed 3% of GDP on average over the rolling forecast period

c. A target to ensure that expenditure on welfare is contained within a predetermined cap and margin set by the Treasury.

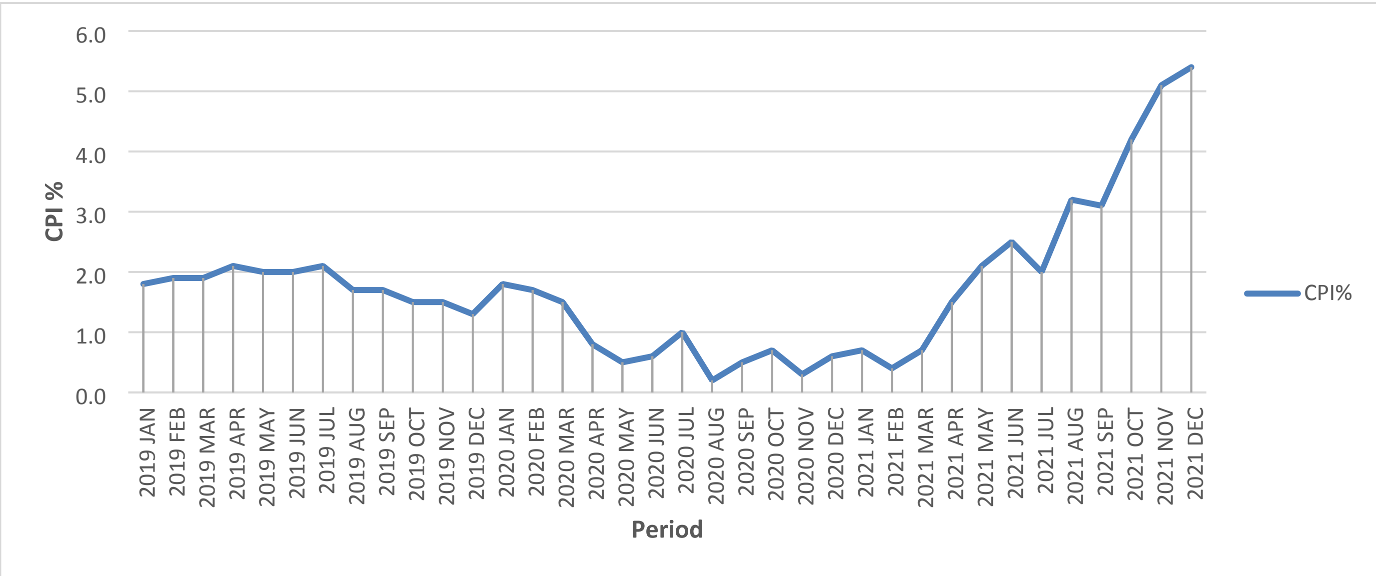
3.5.15 The economic forecasts as at October 2021 showed an improvement compared to previous announcements in March 2021 and signalled economic recovery from the severe effects of the pandemic. The forecasts indicated a rise in overall public spending and as well as taxation.

3.5.16 The improved forecasts were estimated to reduce the budget deficit by almost half to £183bn in 2021/22, £51bn lower than in the March 2021 forecast at which point borrowing reached a peacetime record of £320bn (or 15.2% of GDP) in 2020/21. Whilst this recovery is welcome, the Government still has a very large budget deficit with very high levels of debt to manage.

3.5.17 However, the issue that is now of more concern, particularly for the Council and residents is that of inflation. This was flagged as a risk in the SR2021 and was forecasted to peak at over 4% but would return to the accepted target level of 2% by 2023 or 2024.

Inflation and Cost of Living

3.5.18 Since the October SR, inflation has breached the assumptions above and was reported as at December 2021 at 5.4%:



3.5.19 A higher rate of inflation would put further pressure on council expenditure through rising energy bills and through the potential for wage demands to increase (these are mitigated to some extent in the budget setting assumptions).

3.5.20 High prices for goods and services will put further pressure on household finances, with individuals and families paying more for food, energy, housing costs, and other essentials. Many households in Slough will struggle to absorb those higher prices for a sustained period, which risks a reduction in savings and an accumulation of debt.

3.5.21 Households will experience lower levels of disposable income, which in turn will reduce consumption that drives local business and employment. Local businesses that have absorbed losses through the pandemic may find that the level of demand for their services does not pick up at a sustainable rate and some businesses may be forced to scale back or close.

3.5.22 These pressures on household and business finances could have a significant knock-on effect to council finances through a greater level of requests for emergency support, such as welfare payments and emergency accommodation requests, as well as households and businesses having a decreased ability to pay existing monies owed and accumulating new monies owed.

3.5.23 The outlook for inflation remains uncertain, with both the possibility that higher prices are sustained for a long period of time and that higher prices are a transitory feature of economic shocks caused by the pandemic. Regardless, higher prices are a reality now and the effects will be felt by households, businesses and the council during the year ahead.

Household Energy Costs

3.5.24 On 03 February 2022, the Government announced measures to assist households with the rising cost of household energy following an increase to the energy price cap effective from 1 April 2022. The support package includes:

- Household rebate of £150 for those in Band A-D properties. This rebate will not impact Council Tax but will use Council Tax data to identify eligible households. Local authorities will be refunded for the cost of the rebate as well as increased administrative costs. Local authorities will also receive £144m in discretionary funding to help people with their energy bills who are not eligible for the £150 rebate (e.g. those in Band E-H properties or those exempt from paying Council Tax.

- Energy Bill Discount Scheme. Domestic electricity customers will receive a £200 cash discount on their bills in the Autumn. Funding will be provided by the Government to energy suppliers, who will then pass this on to their customers in October 2022. Customers will repay the £200 to their suppliers in equal instalments over 5 years, starting in 2023/24.

3.6 Local Context

December 2021: Provisional Local Government Finance Settlement

3.6.1 The Secretary of State for the Department for Levelling Up, Housing and Communities (DLUHC) announced the Provisional Local Government Finance Settlement for 2022/23 on 16 December 2021.

3.6.2 The announcements within the provisional settlement were broadly in line with the October SR 2021. Of the c£1.5bn of additional funding announced in SR21, the provisional settlement contained:

- £822m to fund a new one-off Services Grant.
- £636m to fund additional social care grants.
- £70m to apply inflation to RSG allocations.

3.6.3 The ongoing review of the Council's finances and the Capitalisation Direction adds complexity to establishing the full impact of the settlement. This includes the risk of delayed deliverability or feasibility of savings. Therefore, the additional resources from the settlement are to be held as contingency to mitigate against the above until the Council's finances and MTFS can be reset.

March 2021 Assumptions & Provisional Settlement

3.6.4 In March 2021, Full Council approved a Medium-Term Financial Strategy (MTFS) which included the following assumptions on all General Fund funding for 2022/23 to 2023/24. The net loss in funding in 2022/23 over 2021/22 was estimated at £9.880m.

3.6.5 Based on the information released, the Council identified additional funding of £5.596m in 2022/23 above its assumptions for 2022/23 in the March 2021 MTFS. However, approximately half of this may not be recurrent and so could be an issue for the years beyond 2022/23.

Grant	March 2021			December 2021	
	Approved 2021/22 £'000	Estimated 2022/23 £'000	Estimated (Increase) / Decrease over 2021/22 £'000	2022/23 Provisional Settlement £'000	Actual (Increase) / Decrease over 2022/23 £'000
Local Council Tax Support Grant	(2,329)	0	**2,329**	0	**0**
Collection Fund Compensation Grant	(1,141)	(1,141)	**0**	(1,141)	**0**
COVID General Grant - 21/22	(4,525)	0	**4,525**	0	**0**
COVID - Income Grant - 21/22	(1,850)	0	**1,850**	0	**0**
Revenue Support Grant	(6,257)	(6,351)	**(94)**	(6,451)	**(100)**
New Home Bonus	(1,095)	(547)	**548**	(1,422)	**(875)**
Social Care Grant	(3,333)	(2,883)	**450**	(4,661)	**(1,778)**
Public Health Grant	(7,535)	(7,535)	**0**	(7,535)	**0**
PFI Grant	(3,678)	(3,678)	**0**	(3,678)	**0**
Better Care Fund	(3,873)	(3,873)	**0**	(3,989)	**(116)**
Independent Living Fund	(317)	(317)	**0**	(317)	**0**
Lower Tier Services Grant	(272)	0	**272**	(291)	**(291)**
LCTS Admin Support Grant	(166)	(166)	**0**	(166)	**0**
Housing Benefit Admin Support Grant	(486)	(486)	**0**	(486)	**0**
2022/23 Services Grant (one-off)	0	0	**0**	(2,088)	**(2,088)**
Market Sustainability and Fair Cost of Care Fund	0	0	**0**	(348)	**(348)**
Total Funding			**9,880**		**(5,596)**

2022/23 Services Grant

3.6.6 Within the provisional settlement was the 2022/23 Services Grant which was funded by the additional resources announced in the SR2021 and is to fund general responsibilities. The Council's allocation is £2.088m for 2022/23.

3.6.7 DLUHC have since clarified that whilst this is labelled as a one-off grant, it will continue until 2024/25 but future allocations will be consulted upon shortly. Furthermore, the 2022/23 allocation will be excluded from any proposed baseline for transitional support as a result of any proposed funding reform changes.

New Homes Bonus

3.6.8 In 2021/22, the Council received £1.095m for the New Homes Bonus (NHB) grant and had anticipated a grant of £0.547m in 2022/23 and £0m in 2023/24. This reflected the assumption that NHB would continue to reduce and cease altogether. A consultation on the future of the NHB was launched by DLUHC in April 2021 but there is as at yet no update to the outcome of this.

3.6.9 The future of the NHB scheme remains uncertain and the Council will not assume anything in future years for this unless otherwise advised by DLUHC. However, for 2022/23, the Council is expected to receive £1.422m in NHB and this represents payments for years 9 and 12 of the scheme:

NHB Payments	2021/22 £m	2022/23 March 2021 Estimate £m	2022/23 Provisional Settlement £m
Year 8	(0.275)	0.000	0.000
Year 9	(0.547)	(0.547)	(0.547)
Year 10	0.000	0.000	0.000
Year 11	(0.272)	0.000	0.000
Year 12	0.000	0.000	(0.875)
Total Grant	(1.095)	(0.547)	(1.422)
Original Estimated Loss over 2021/22		**0.548**	
Net (Gain) for 2022/23			**(0.875)**

Social Care Grant

3.6.10 As anticipated from the SR2021, the provision settlement contained additional funding for Social Care and nationally this is an increase of £636m. The Council's allocation for 2022/23 totals £4.661m which is £1.778m higher than estimated for 2022/23 in March 2021.

3.6.11 This allocation includes an amount for "equalisation" to reflect that some authorities such as the Council cannot raise as much through the ASC Precept.

Improved Better Care Fund (IBCF)

3.6.12 The IBCF grant has been rolled forward again with an increase for inflation. In March 2021, the Council had assumed that this would be frozen, the gain therefore over March 2021 assumptions is £0.116m.

Market Sustainability and Fair Cost of Care Fund

3.6.13 This is a new grant totalling £162m nationally and in relation to social care reforms (preparing local markets for adult social care reform and to help move towards paying a fair cost of care) and has been distributed using the existing Adult's Relative Needs Formula. The Council's share of this is £0.348m.

Public Health

3.6.14 The Public Health grant is announced outside of the settlement by the Department of Health and Social Care (DHSC) and the allocation for 2022/23 was confirmed on 07 February 2022. The Council assumed in March 2021 that this would be frozen for 2022/23 but the DHSC have uplifted the grant by 2.81% which equates to £0.317m extra for 2022/23. The total grant allocation for 2022/23 is £7.851m.

Settlement Conclusion

3.6.15 The Ministerial statement on the settlement concluded with the indication that Government will revisit Local Government funding reforms assumed to mean the Fair Funding Review and Business Rates Reset "shortly."

3.6.16 Whilst this and the additional funding for 2022/23 is welcome news, the Council in particular needs more clarity on the proposed reforms and future funding streams (including New Homes Bonus) in order to reset it's MTFS.

<u>Covid-19 and Local Government Reforms</u>

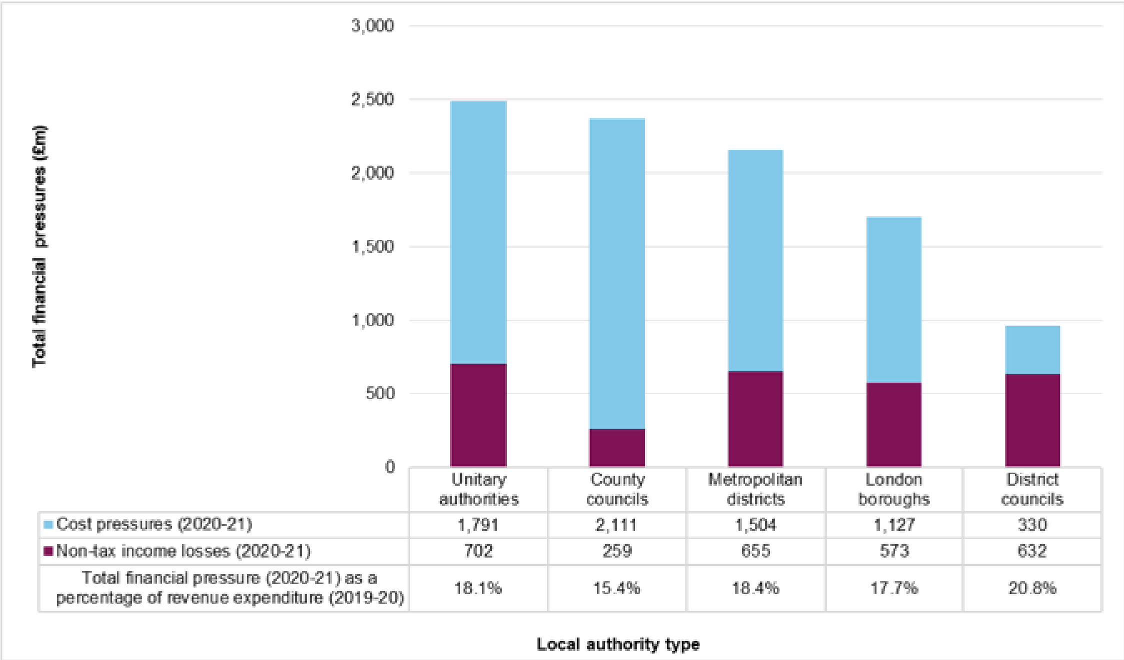
Pre-pandemic

3.6.17 In October 2021, the National Audit Office (NAO) reported on the overall state of Local Government finances. Their assessment summarised that before the pandemic, in additional to reductions due to austerity and rising service demands, local authorities were increasingly:

- reliant on reserves, new income sources e.g. commercial and reductions to service to balance their budgets
- dependent on local economies and residents for funding i.e. c83% of income in 2019/20 compared to c59% in 2010/11
- spending more of their budgets on social care c69% in 2019/20 compared to c59% in 2010/11.

Pandemic

3.6.18 The pandemic and restrictions introduced to contain the virus had significant impacts on the public sector and local government in particular e.g. additional cost pressures and disruption to services including those that raised income. The NAO estimated that Unitary authorities such as the Council on average had incurred pressures related to Covid-19 that equated to c18% of their 2019/20 revenue expenditure and incurred the highest level of non-tax income losses compared to other categories of authorities



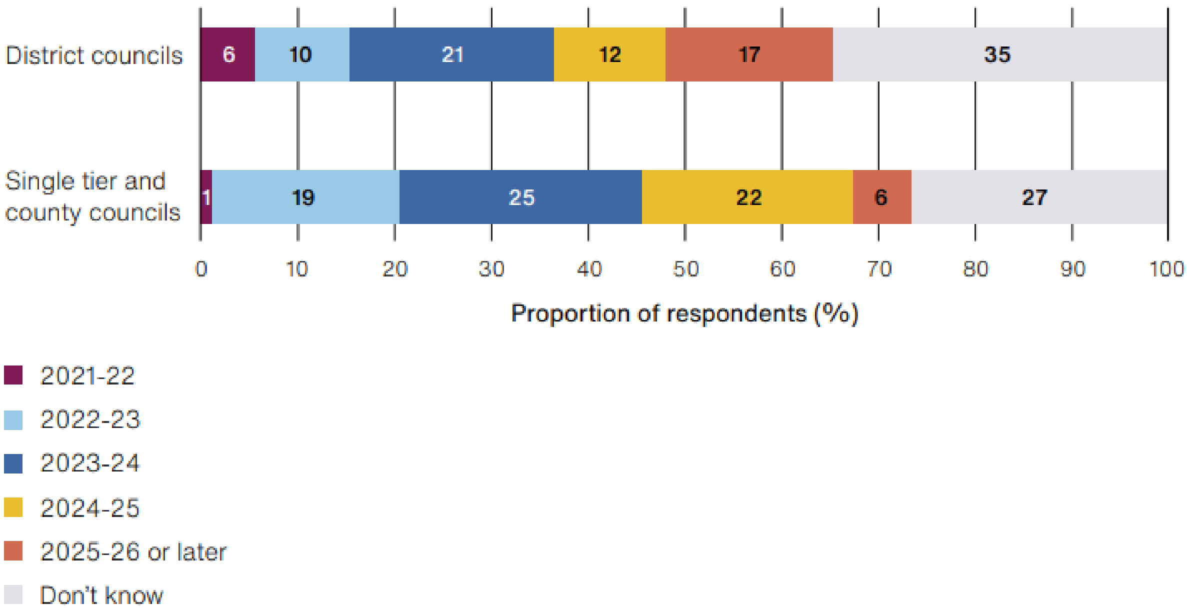
Source: National Audit Office, October 2021

Post-Pandemic

3.6.19 Compared to 2020/21, the severity of the pandemic has reduced and the overall signs have been that recovery (including the economy) is continuing, however, there are still sudden periods of uncertainty e.g. the effects of the Omicron variant in December 2021. A survey by the NAO shows that full recovery is not anticipated by the majority of respondents until up to 2024/25:

Year in which survey respondents expect their finances to return to pre-COVID-19 levels

Many survey respondents do not expect their finances to return to pre-COVID-19 levels until 2023-24 at the earliest



3.6.20 The issue for the Council is that resolving its current financial challenges will require a degree of certainty in order to set a realistic MTFS. The Council faces uncertainty from the continued effects of the pandemic on its residents and services

3.6.21 The negotiations for withdrawing from the European Union and then Covid-19 resulted in delays to Government decisions. These delays, depicted below mean that as of 2022/23, the Council is still reliant on a single-year view of funding from Government.

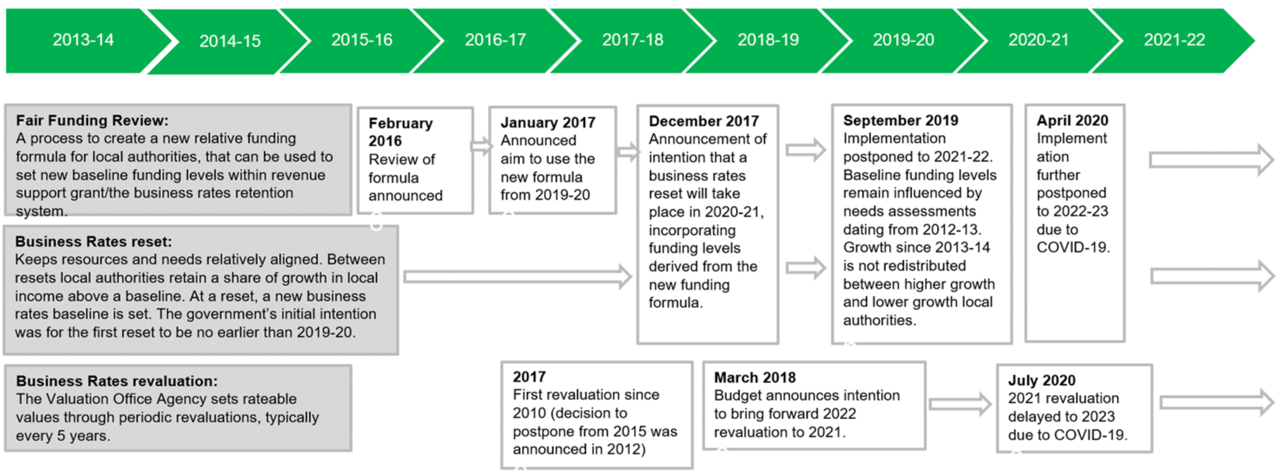
3.6.22 More specifically, the Fair Funding Review (FFR) sought to introduce new and update other formulae to re-calculate shares of funding from Retained Business Rates and Revenue Support Grant. These formulae have not been updated since before 2013/14 and so are vastly outdated. The review was initially meant to conclude for implementation in 2019/20.

3.6.23 Closely linked to the FFR is the Business Rates Reset which will for the first time since introducing Business Rates Retention, reset baseline levels of retained Business Rates and adjust for growth since 2013/14. This too was set to be implemented originally in 2019/20.

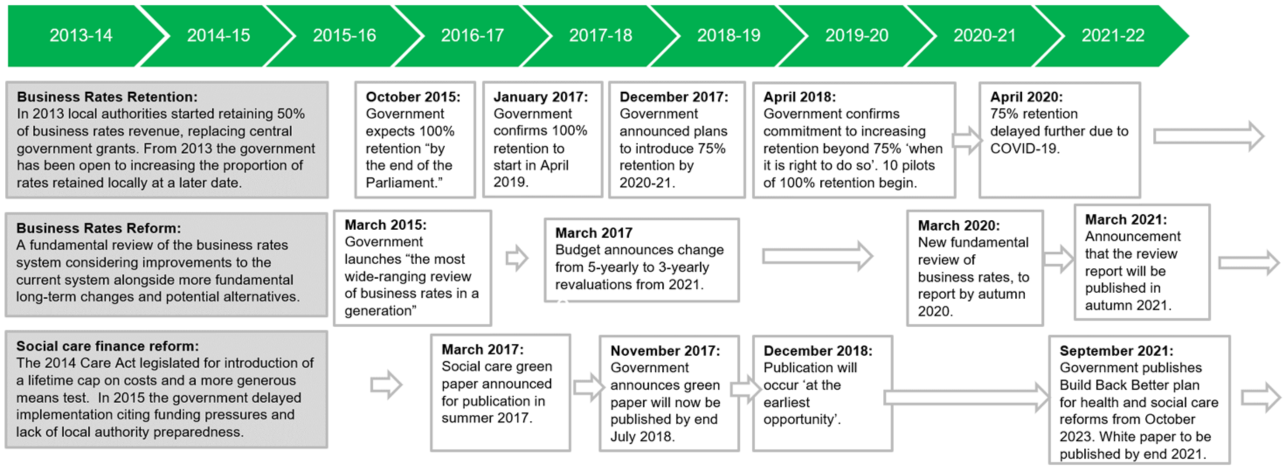
3.6.24 Following the FFR and Business Rates Reset are decisions on the longer-term arrangements for the Business Rates Retention scheme where the shares of retained rates were originally meant to increase from the initial 50% share in place of fewer grants from Government. The move to 75% retention was delayed in April 2020 due to the then scale of the pandemic facing the country.

3.6.25 Prior to the pandemic, there were calls from both industry and local authorities on reforming Business Rates itself. The significant adverse impact on businesses from the pandemic particularly on high street businesses such as retailers, hospitality and leisure has heightened this call for wider reforms.

3.6.26 Social Care funding reforms were first announced in March 2017 where a green paper was due to be published by Summer 2017. This paper was repeatedly delayed and in September 2021, the Government published its “Build Back Better” plan which included the announcement of the Health & Social Care levy funded by increased National Insurance contributions.



Source: NAO, Financial sustainability of local authorities 2018, March 2018; House of Commons Library, Reviewing and reforming local government finance, August 2020



Source: NAO, Planning for 100% local retention of business rates, March 2017; House of Commons Library, Reviewing and reforming local government finance, August 2020; House of Commons Library, Adult Social Care: government's ongoing policy review, September 2019

Levelling Up

3.6.27 On 02 February 2022, the Government published it's Levelling Up White Paper and outlined proposals for reversing the UK's geographic inequalities. It is expected that the funding reforms discussed above will now be address under the Levelling Up agenda.

3.6.28 The white paper sets out 12 "national missions" to be achieved by 2030 and enshrined in law under the Levelling Up and Regeneration Bill and the proposals of interest to Local Government are:

Theme	Proposal
Devolution	A new devolution framework which will set out options for places in England that wish to unlock the benefits of devolution so that every part of England that wishes to have a 'London-style' devolution deal will have one.
Transparency and Data	Transforming the Government's approach to data and evaluation through the creation of a new independent body to improve the transparency of local government performance.
Localism	Simplifying the local growth funding landscape
Localism	Utilising £16bn of the Local Government Pension Scheme for investments in local projects.
Localism	Decentralising the £2.6bn UK Shared Prosperity Fund to local leaders as far as possible.
Localism	Granting authorities the power to require landlords of empty shops to fill them if they have been left vacant for too long.
Localism	68 more councils to be supported by the High Streets Task Force.
Housing	All homes in the Private Rented Sector will have to meet a minimum standard – the Decent Homes Standard.
Education	55 Education Investment Areas (EIAs) will be designated where school outcomes are currently weakest and will benefit from intensive investment and support.

3.6.29 In light of the extent of the delays depicted above and change in scope of reforms, it is unknown at this time what this might mean for future funding. In fact, in Autumn 2021, the Secretary of State had already suggested to a Select Committee that 75% Business Rates Retention may not proceed after all.

3.6.30 Given the uncertainties discussed above and the Council's ongoing financial challenges following the section 114 notice, a full MTFS is deferred until there is more stability evidenced in the Council's improvement work and until clarity is sought from DLUHC on their proposals for reforms.

3.7 Key Service Updates

Place & Community

3.7.1 The Directorate provides a broad range of services including planning and regulatory advice and enforcement, community safety initiatives, delivery of construction projects, provision of grounds maintenance, street cleansing, waste management, highways maintenance, adult learning, community development, leisure and library services.

Pre-Pandemic pressures

3.7.2 Prior to covid the primary focus was on regeneration delivery, highway construction, controlling the demand for temporary accommodation and improving the provision of housing services. The key pressures included:

- higher than budgeted costs for temporary accommodation
- high demand for housing repairs and maintenance
- income expectations for the DSO which were dependent on economies of scale from highways construction projects and the provision of chargeable waste collection services
- delivery of regeneration projects on time and to deliver income projections

Covid pressures

3.7.3 Covid lock downs have had differing impacts on the delivery of many of the Council's services. They have undermined income generating services notably leisure centres, libraries, parking and letting of Council buildings together with chargeable waste collection services. Face to face meetings are an important part of community based and housing officer work and these services have had to adapt to new ways of working to keep going. Along with all other social housing providers, there has been a build up a backlog of non-essential repairs which took time to work through once restrictions were lifted. More positively, core outdoor services of waste collection, street cleansing, grounds maintenance and highways maintenance were sustained throughout covid lockdowns. The all-in service providing accommodation to rough sleepers has seen focussed support enabling a return to mainstream living for many.

Continuing impact of C19 on the service now

3.7.4 The Councils libraries and buildings are yet to return to being fully open and footfall at the leisure centres is building back up. Staff illness with covid and self-isolation continues to put pressure on services.

Post-Pandemic risks/opportunities

3.7.5 Covid restrictions has given office-based staff experience of working from home. Some disciplines have found that this is more effective than working in the office but this is not the case for all teams. Enabling teams to have the option to return to office working will ensure that where staff work from brings the best overall outcome, whether that is at home, in the office or from a drop-in centre such as a library or a locality hub.

Section 114, Recovery and future direction of service

3.7.6 The directorate will pivot from provision of regeneration and construction projects to enabling others to do so. This requires a strong Local Plan and investment in Economic Development officers so that property developers understand what we need where and how we can support them in providing this.

3.7.7 Disposal of buildings and land is essential to paying off our debt and reducing interest payments, teams previously involved with managing construction projects will reorientate to work in asset disposals and leases.

3.7.8 Services will move to self-service wherever practicable including, for instance, operational services such as litter picking and aspects of grounds maintenance in parks and open spaces through the coordinated encouragement, training and support of volunteers.

MTFS update

3.7.9 The Directorate will be reduced in size to reflect the reduced number of services that are to be provided and the reduced volume of activity required of from remaining services. Income generating teams will be sized so that they are fully supported by income, wherever practicable, through monitoring of performance metrics and management of productivity.

3.7.10 Where possible, displaced staff will be redeployed to realigned services and activities and branding of teams will be simplified so that it is easily understood and communicated what they do and who does it. Unnecessary tasks and services will be stripped out to focus on doing the basics well.

3.7.11 Budget holders will be provided with accurate accounts and will be held to account for controlling costs and achieving income targets. Costed savings plans will be monitored to ensure that they are delivered with alternative plans implemented where we encounter previously unknown issues or experience demand pressures from these or other areas.

People: Adults

Pre-Pandemic pressures

3.7.12 Before the pandemic started adult social care was already experiencing a range of pressures leading to increased activity and the council finances. The priority then as is it is now – to support people with social care needs to live independently at home with as much choice and control of the care they receive as possible. Increasing numbers of people were being referred to adult social care and this led to an increase in assessments, safeguarding work and new care plans to meet people's needs.

3.7.13 As well as an increasing number of new people requesting support, the levels of need of people who were in receipt of social care was also increasing. This increasing level of dependency added to people having an increasing range of multiple conditions led to increase in the level of hours that people required to be supported often with two carers needed to support people at any one time. Adult social care has a good relationship and support of the local provider services – but pre-pandemic the service were beginning to see increasing pressures on recruitment and retention of social care staff as well as inflationary pressures and levels of price for services above levels that the council was able to afford.

3.7.14 Direct Payments were seen as a good option to deliver value for money as well as meeting people's needs well and the Council was seeing increasing numbers of people taking their care option as a direct payment and taking control of their care and support.

Continuing impact of C19 on the service now

3.7.15 During and since the pandemic started adult social care has seen a continued and increasing levels of demand for assessment and support and increasing workforce and provider pressures.

3.7.16 The Council is supporting more people than ever before with social care needs and paying more for the care that people receive. Peoples' level of dependency has continued to increase, and this is likely to continue further as the Council fully understands the impact of covid on people who have care needs especially the impact of long covid.

3.7.17 The focus on keeping people safe and ensuring that people are discharged safely and well through the discharge to assess programme has led to more people being discharged from hospital with social care needs than ever before. The long-term financial impact of this is still unknown but is a significant risk for Slough as it is for other councils.

3.7.18 The Council has been delivering a successful adult social care transformation programme that has helped manage some of the impacts of the pandemic but the focus on managing through the pandemic has meant that some key commissioning activity had to be put on hold.

3.7.19 The Government's one-off funding support for social care although helpful has not been easy to manage as new and existing grants require time and resources to ensure that best value is achieved. A sustainable funding offer for social care would be more helpful rather than the one-off funding/grants.

3.7.20 The social care provider market has managed well throughout the Pandemic but a reduction of workforce and rising inflation and costs is leading to increasing prices that other local councils and the NHS are paying leading to a significant distortion of sloughs social care market and prices.

Post-Pandemic Risks and Opportunities

3.7.21 There are significant risks post pandemic for adult social care in Slough. These include:

- a reduction in the social care workforce – with people choosing to leave the workforce for better pay and less stressful work and recruitment into social care becoming harder for the same reasons.

- staff across all parts of adult social care in Slough have worked hard and tirelessly over the last two years but the workload is very demanding

- all parts of adult social care are facing increasing costs and inflation pressures as well as the need to pay the workforce more to ensure people stay and people can be recruited.

- Slough may not be able to secure sufficient resources as the price Slough can afford to pay will be less than other local councils will be paying – this could lead to hand-backs of care and reduced capacity for new care requests.

- more people needing support than planned as people's health and mental health has been impacted by the pandemic. The impact of long covid on adult social care demand is uncertain too.

- the impact of the discharge to assess programme – with the Government funding for the first 6 and then 4 weeks ending in March 22 as well as the long-term impact of the numbers of people discharged from hospital during the pandemic – could leave the council with increased costs.

- increasing levels of dependency and therefore costs

- not being able to deliver the social care reform or Integrated care system changes that will be required during 2022 and 2023 due to lack of capacity and resources.

3.7.22 There are some opportunities for adult social care. These include:

- successful delivery of the ASC transformation programme.

- Social care reform will bring additional funding to meet new burdens and existing responsibilities – although it is likely that this new funding will not match the cost of the new burdens.

- the Health and Care Bill and integration white paper could bring changes that support Slough residents with improved health and wellbeing

Section 114 Recovery and Future Direction of Service

3.7.23 The delivery of the adult social care transformation programme is key to the delivery of the adult social care strategy and ensuring that the service can live within its budget and also ensure it is meeting its statutory responsibilities.

3.7.24 Promoting people's independence to support them to live at home with as much choice and control over their lives as possible as well as ensuring people are safe will remain the key direction of travel for adult social care. Enabling this to happen in an integrated way with the local Integrated Care System as well as opportunities for more joint working across east Berkshire councils will provide options to support this delivery.

MTFS update

3.7.25 Adult social care has a good track record of delivering against agreed savings – including a previous successful transformation programme. But even with these savings the budget has not kept pace with increasing number of people/complexity of needs and increasing costs across all parts of adult social care.

3.7.26 The new transformation programme 2021-24 will deliver changed ways of working and deliver efficiencies and cost savings and deliver better outcomes for residents with social care needs.

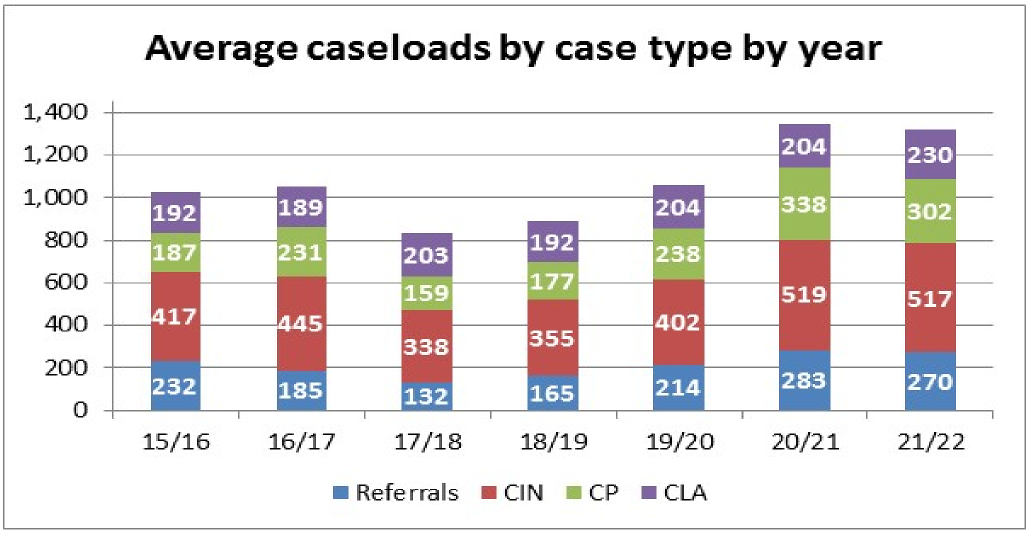
3.7.27 The social care reform, including changes to financial charging will also need some dedicated resource to ensure the changes are delivered well and are aligned to the transformation programme and the adult social care strategy.

<u>*Slough Children First*</u>

Pre-Pandemic pressures

3.7.28 Slough Children First had seen a sharp increase in the numbers of referrals into social care in the second half of 2019/20 leading up to the pandemic. Referrals into social care averaged 266 per month in the second half of the year, compared to 166 from the previous year, addressing the rising neglect and abuse of children in Slough.

3.7.29 The impact of the increasing caseloads adding pressures to the social work case holders, resulting in an increase in the levels of turnover of staff and the subsequent demand for agency workers to meet the new demands.



3.7.30 Slough Children First undertook an organisation restructure just prior to the pandemic, making a number of staff redundant and reshaping services to ensure capacity to meet demand in the right areas, increasing the number of social worker posts in the structure by 8, giving rise to meet capacity of 1,600 cases. Although this helped address the pre-pandemic pressures, it did not meet the demands falling out from the pandemic.

3.7.31 The rising cases also impacted on legal spend, with the number of legal proceedings rising from 30 children in proceedings and 25 in Public Law Outline (PLO) to 85 children in proceedings with a further 3 pending, and 23 in PLO by December 2020. The impact of pre pandemic legal fees is an estimated increase of £360k.

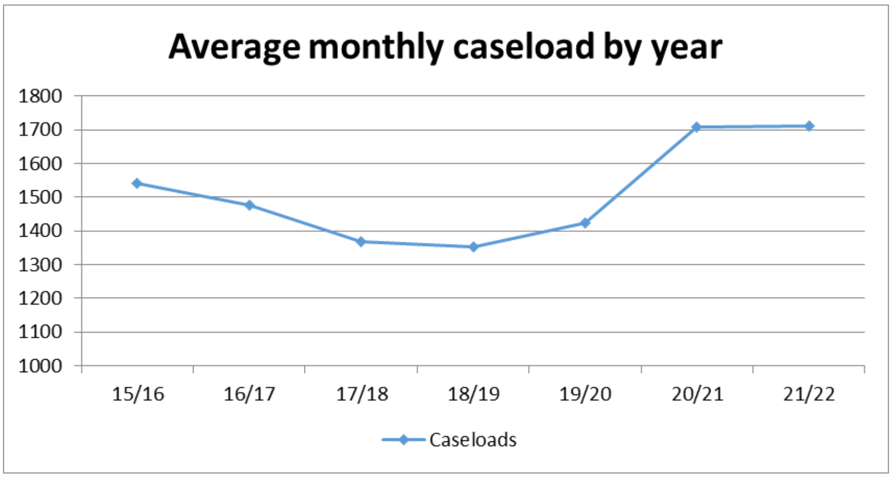
Impact of Covid

3.7.32 Covid has had a significant impact on children services, with rising food poverty, levels of alcohol and drug abuse and a significant increase in the level of mental health concerns for young people, resulting in increased referrals into social care nationwide. This has not only increased demands on social care workers, but has had a significant bearing on children looked after placements, with increases in demand on a short supply.

3.7.33 Staffing has been a significant issue for the company during the Covid period. Turnover has on average been at 21% pre pandemic, with the highest turnover seen in front line services. During the pandemic, turnover is now at an average of 34%.

3.7.34 Caseloads fell initially in 2020/21 during the 1st lockdown, referrals had reduced significantly with schools being closed and many other professionals not having contact with families. Social workers were able to close cases, taking caseloads down to 1,454 by the end of March 2020 from an all time high of 1,745 in January 2020. However, referrals into social care started to rise rapidly, and by November 2020, caseloads had reached a peak of 1,891.

3.7.35 Slough Children First had modelled for projected increases in caseloads and were early to market to bring in additional teams to help address the demands on service. 3 teams were brought in at a cost of £1,128k in 2019/20. Caseloads have remained much higher than pre-pandemic levels, averaging 1,708 per month in 2020/21 and 1,710 year to date in 2021/22, compared to 1,404 annual averages from 2016/17 – 2019/20.



3.7.36 This also led to significant staffing pressures and consistently high levels of turnover. This resulted in the need to retain three Innovate teams, each team comprises five social workers a manager and administration support to cover a specific caseload.

3.7.37 Legal proceedings have remained high, and with complexities in need along with delays in court, has led to further increases in legal spend. Current year estimates appear to show continued rising solicitor costs by approximately (£70k), plus higher hourly rates (£70k). During the pandemic due to court delays, volumes and complexity of cases requiring additional expert advice, disbursement costs have increased on average £360k per year. Delays in court hearing due to the pandemic mean proceedings now take on average 41 weeks as compared with prior to the pandemic of 26 weeks. Overall, the legal costs for 2021/22 are likely to peak at around £1,948k due to all these combining factors, a rise of £700k from 2019/20 spend of £1,247k. The Joint Legal team estimate that 15% of charges for hours are driven by Covid.

3.7.38 Children Looked after numbers have increased by 52 from 196 at the beginning of the pandemic to 248 at the end of November 2021. 22 of these are from growth in Unaccompanied Asylum Seeking Children (UASCs), with the remainder from within the community. Although it is difficult to identify specific cases as being due to the impact of Covid, it is no doubt that volumes are increasing faster than ever before as for the four years prior to Covid, annual average volumes were fairly stable at around 193. Growing volumes of young people in care leads to pressures on the availability of local provision for placements resulting in placements at distance and at unit rates we have little negotiation over due to national placement shortages. Complexity of cases and the limited availability of placements is leading to increases in average unit weekly rates of £11 per week per placement between 2020/21 to 2022/23.

Post-Pandemic Risks and Opportunities

3.7.39 The company has seen significant growth in the numbers of UASCs. Slough Children First signed up to the National Transfer scheme (NTS) in July 2021, but now there is a formal direction to do so. The organisation has seen huge growth in volumes presenting to Slough, four from the NTS, but the overwhelming majority (21) have come from the dispersal hotel in Slough. These referrals were initially assessed as adults by the Home Office through a short form Merton assessment, but the young people, with the help of legal advice are challenging this. Until the age dispute is decided, the organisation is responsible for their care, with the risk that costs will not be refunded by the Home Office. Placement costs of £52k plus £50k of legal costs have been already incurred on four young people now deemed to be adults, which are not the responsibility of the company, however we have a legal obligation until the age can be defined. Legal challenge in UASC cases disputing age assessments is putting pressure on legal costs this year, but with growth of an additional expert social worker in the Children Looked After service, it is hoped that a more streamlined and timely approach to age assessments and Home Office notification will reduce this risk of further challenge.

3.7.40 The 0.07% quota for Slough is 30 and the company are currently supporting 31. It is forecast that these 31 will cost the Council around £1m this year, with grant income of £813k, leaving a significant shortfall on the costs incurred. There is risk attached to the £813k income forecast with some disputed cases. There is an opportunity to apply for exceptional costs funding from the Home Office, but the funding pot equates to £13k per authority.

3.7.41 Staffing remains a key priority for the organisation in terms of increasing the numbers of permanent workers in key front-line posts. A stable workforce not only provides a more cost-effective staffing model, but will deliver improved outcomes for children and families from stability in their social worker. The efficiencies to be gained could be significant, with greater ability to rehabilitate children back home and out of care, reducing numbers in care and associated costs. Delivering more effective legal processes by gaining confidence of local judges through stability of workers and learning of the court systems.

3.7.42 The development and implementation of the workforce strategy is targeted to address these concerns, but this is not a short win. The introduction of the strategy is a key part of savings targets to reduce agency spend. The development of a comprehensive recruitment and retention strategy aimed at improving the ratio of key front-line posts from 54% perm to 64% permanent staff. In order to achieve this the organisation is looking at pay and award structures, as well as recruitment initiatives such as international recruitment which has so far proved successful, additional ASYE cohorts, the conversion of agency to permanent and direct recruitment.

3.7.43 Savings attached to this are £1,089k, along with the assumption that some of the overspend for 2021/22 will be reduced through the release of the Innovate teams. The national shortage of social workers is forcing increases in rates and salaries in a very competitive market with qualified and experienced social workers having their pick of employee and terms and conditions.

3.7.44 Early help services moved to the company on the 1 July 2021, work is ongoing at developing a more targeted service with the aim of diverting referrals in statutory services. This will take a little time to embed, training staff to work with key areas of need, and planning on signposting existing workload into the community to create the capacity to address the more targeted support needs.

3.7.45 The company is looking to go to tender on a number of new initiatives to develop sufficiency of placement closer to Slough, development strategic partnerships with local providers. This is intended to drive better rates for our young people, but also better services with improved outcomes, delivering longer term savings. Having greater local provision will also reduce travel time for social workers having to undertake regular visits, creating capacity in the workforce.

3.7.46 The commissioning activity is looking to develop the 16+ market, working with young people towards independence at 18 and the ability to hold down a tenancy of their own. Options to delivering support to those most vulnerable, rather than the current standard offer in the market, creating a more flexible and value for money solution are being reviewed.

3.7.47 The commissioning team are working with providers to look at newly developed residential offerings in slough for the children with most complex needs, but providing them the opportunity to stay closer to friends and family and maintain their school placement.

3.7.48 Slough Children first are looking to develop the in-house fostering service, having recently received a ‘good’ Ofsted rating from being inadequate, it provides a platform to build from. The new management of the team have started to build greater stability in the workforce and with the development of strategies allowing a greater focus on the needs ahead.

General MTFS Update

3.7.49 The forecast outturn position for the organisation is a loss of £915k against budget. Pressures in placements due to a growth in the number of looked after children, including UASC’s, Innovate teams to help manage high caseloads, increased agency rates and legal fees are offset by savings in non-case holding vacancies and additional income from public health and for Covid related costs.

3.7.50 Staffing initiatives to increase the number of ASYE’s and recruitment from overseas for experienced social workers is an area of work that is leading to improving numbers of permanent workers and reducing costs. A pilot for semi-independent provision as an alternative to residential care is delivering placement savings and other commissioning activity is seeing improving rates for 16-18 year-old in case.

3.7.51 Slough Children First has identified net savings of £2,673k for 2022/23 after covering growth of £2,052k, total savings of £4,725k

3.7.52 The interim business plan for Slough Children First for 2022/23 to 2024/25 sets out the company’s strategic priorities over the next three years. The plan illustrates how the priorities will be delivered and how the impact of the plan will be measured through the outcomes achieved for children and their families in Slough.

3.7.53 The interim plan was approved by Cabinet on 21 February 2022.

3.8 <u>Financial Context</u>

Foundation

3.8.1 An authority’s Medium-Term Financial Strategy (MTFS) integrates strategic and financial planning over a defined period e.g. four-years. It translates Strategic Plan priorities into a financial framework to enable Members and Officers to ensure policy initiatives can be delivered within available resources which are aligned to priority outcomes.

3.8.2 The Council’s last approved MTFS from March 2021 Full Council for 2022/23 estimated a shortfall to a balanced budget of £13.026m. Following the issue of the s114 notice in July 2021, the estimated position for 2022/23 was revised to take account of an estimated increase in the deficit on Business Rates resulting in a total savings requirement for 2022/23 of £19.959m:

		2022/23		
	March 2021 MTFS £’000	**Changes to Funding Assumption £’000**	**Further Savings Required £’000**	**July 2021 MTFS £’000**
Forecast Expenditure	**139,885**			**139,885**
Savings Required	**(4,933)**		(15,026)	**(19,959)**
Net Forecasted Expenditure	**134,952**	0	(15,026)	**119,926**

Estimated Funding Available	**(121,926)**	2,000		**(119,926)**
Shortfall to Balanced Budget	**13,026**	**2,000**	**(15,026)**	**0**

3.8.3 The position above is separate to the financial deficits and pressures that have been identified following the s114 notice. This is discussed in more detail further below.

2022/23 MTFS and Budget Build before Financial Deficit & Capitalisation

3.8.4 The savings requirement above of £19.959m is to fund the unavoidable pressures on the Council's budgets from inflation, demands on services and changes to the Council's overall funding envelope from Council Tax, Business Rates and Government grants. This is broken down as follows:

2022/23 Budget Build Summary (£'000)								
Breakdown	**Demand growth £'000**	**Contract Inflation £'000**	**Pay Inflation £'000**	**Corporate Movements £'000**	**Final Funding Changes £'000**	**Sub-Total £'000**	**Savings Required £'000**	**Balanced GF Position before Financial Deficit funded by Capitalisation**
Service Directorates	1,947	2,788	1,443	857	0	**7,035**	(19,959)	**(12,924)**
Other Council Wide Budgets	0	0	0	(2,643)	6,612	**3,969**	0	**3,969**
Below the Line Funding	2,000	0	0	13,694	(6,739)	**8,955**	0	**8,955**
Total	**3,947**	**2,788**	**1,443**	**11,908**	**(127)**	**19,959**	**(19,959)**	**0**

3.8.5 Due to the significant financial deficit facing the Council which is compounded by the continued uncertainty on future funding, in place of a traditional MTFS, the Council's projected deficit from the capitalisation direction which includes a targeted level of savings will serve as a MTFS during 2022/23.

3.8.6 The capitalisation direction is discussed in more detail below and specifically its impact on the Council's budget and funding.

Financial Deficit & Capitalisation Direction

3.8.7 The Capitalisation Direction is broken down into three elements:

- Up to 2021/22 financial deficit
- 2022/23 budget deficit
- post 2022/23 projected deficit to balanced budget

3.8.8 The estimated base case for the financial deficit that the Council is seeking a capitalisation direction from DLUHC is estimated at £478.7m:

Capitalisation Direction Breakdown	**Up to 2021/22 £'000**	**2022/23 £'000**	**Projected Post-2022/23 £'000**	**Total £'000**
Estimated Financial Deficit	223,064	84,055	171,571	**478,690**
Total CD	**223,064**	**84,055**	**171,571**	**478,690**

3.8.9 The estimated deficit for the period up to 31 March 2022 of £223.1m includes historic errors and prior period accounting adjustments which without financial support from DLUHC would result in the Council having a negative level of balances and reserves.

Up to-2021/22 financial deficit

3.8.10 The financial deficit of £223.1m for the period to 31 March 2022 is broken down as follows:

Breakdown of Capitalisation Direction	Pre-2019/20 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Forecast Outturn Position	0	2,950	6,942	1,000	**10,892**
Minimum Revenue Provision (MRP)	32,871	5,348	13,586	18,226	**70,031**
Companies & Subsidies	0	500	300	17,500	**18,300**
Original Capitalisation Direction	0	0	0	12,200	**12,200**
Incorrect capitalisation of staff costs	28,838	9,360	5,104	2,086	**45,388**
Increase Reserve Levels	0	0	0	20,000	**20,000**
Additional Growth for new years of MTFS	0	0	0	1,065	**1,065**
Emerging Pressures, Contingencies, and Provisions	0	22,000	0	23,188	**45,188**
Total	**61,709**	**40,158**	**25,932**	**95,265**	**223,064**

3.8.11 The majority of the financial deficit up to 31 March 2022 can be attributed to:

- 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

2022/23 Budget Deficit

3.8.12 Separate from the inflationary and demand pressures on services discussed in above which are funded from proposed savings, the Council has identified £84.1m of pressures for 2022/23 following the issue of the s114 notice. These pressures which result in a deficit against the 2022/23 budget have been presented to DLUHC as part of the capitalisation direction:

Breakdown of Capitalisation Direction	2022/23 £'000
Budget Pressures Brought-Forward	1,000
Minimum Revenue Provision (MRP)	28,985
Companies & Subsidies	2,300
Original Capitalisation Direction	3,000
Incorrect capitalisation of staff costs	2,450
Increase Reserve Levels	1,000
Fund Redundancy Costs for 2 years	7,500
Additional Growth for new years of MTFS	1,065
Emerging Pressures, Contingencies, and Provisions	31,755

Sub-total Financial Deficit	**79,055**
Additional Capitalisation of Existing Expenditure	5,000
Total Capitalisation Request for 2022/23	**84,055**

3.8.13 The majority of this estimated budget deficit for 2022/23 is attributed to:

- emerging pressures, contingencies and provision of £31.8m and this includes:

    a. £9.1m in resilience for corporate functions
    b. £7.5m to fund invest to save, transformation and project costs e.g. ICT as a means to generate ongoing efficiencies and improve service delivery
    c. £6.5m to address historic budget pressures e.g. unachievable savings, under-stated pressures etc
    d. £4.1m to correct treasury and capital financing costs or interest payable and interest receivable between the GF and HRA.
    e. £2.3m to be held as a contingency against savings offered in 2022/23 in case of delays or issues with deliverability
    f. £1.1m to address budgetary issues with insurance for the Council
    g. £1m to fund the cost of Government appointed Commissioners in response to the s114 notice and independent reviews.

- costs totalling £29.0m for Minimum Revenue Provision as a result of past decisions on borrowing and to finance the capitalisation request to DLUHC

- an estimated amount of £7.5m for redundancy costs in 2022/23 and further £2.3m of pressures originating from Council owned companies such as impairments on loans and commitments to fire health and safety costs.

2022/23 Budget Deficit and Capitalisation Direction

3.8.14 In proposing the 2022/23 revenue budget for the Council it is important to make a distinction between the funds available from Council Tax, Business Rates and Government grants i.e. the “base budget” and the final budget requirement which incorporates all the costs the Council needs to meet. The difference between the base budget and the budget requirement forms the deficit which has to be funded by the capitalisation direction.

3.8.15 The Council’s base budget for 2022/23 is £107.6m and reflects changes for:

- growth for pressures and inflation which are funded by proposed savings
- virements to adjust for one-off grants for Covid and other agreed movements between directorates
- realigning specific grants to services from “below-the-line”
- other changes such as previous MTFS assumptions from March 2021 and final funding changes

3.8.16 The Council’s budget requirement for 2022/23 is £191.7m compared to available funds of £107.6m therefore resulting in a budget deficit of £84.1m which will need to be funded by the capitalisation direction.

2022/23 Budget Build	2021/22 Base Budget £'000	Virements £'000	Growth for Pressures and Inflation £'000	Other Changes £'000	Savings Proposed £'000	Re-Mapped Grants £'000	2022/23 Base Budget £'000	Deficit £'000	Capitalisation Direction £'000	2022/23 Proposed Budget £'000
Service Directorates	123,390	(2,799)	6,178	857	(19,959)	(19,254)	88,413	17,953	0	106,366
Corporate Budgets	12,415	2,799	0	3,969			19,183	66,102	0	85,286
Net Expenditure Budget	135,805	0	6,178	4,826	(19,959)	(19,254	107,596	84,055	0	191,651
GF Funding	(135,805)	0	2,000	6,955	0	19,254	(107,596)	0	(84,055)	(191,651)
Net GF Position	0	0	8,178	11,781	(19,959)	0	0	84,055	(84,055)	0

Key Components of 2022/23 Budget

3.8.17 It should be noted that to deliver the Council's policy priorities and a balanced budget which is currently projected to be achieved by 2028/29, very significant savings to the Council's net base budget will be required year on year amounting to £20m each year.

3.8.18 This annual reduction will be challenging to deliver and to put this into context, the Council's net revenue base budget is c£107m and of this debt charges will total c£32m or c30% 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 c35% of the net budget is committed before any savings can be made.

3.8.19 The key components of the 2022/23 proposed budget by Directorate are:

- Growth for Pressures and Inflation:

	Demand growth 2022/23 £'000	Contract Inflation 2022/23 £'000	Pay Inflation 2022/23 £'000	Total £'000
Resources	0	233	348	**581**
Place & Community	1,152	338	472	**1,962**
People (Adults)	795	2,000	201	**2,996**
People (Children)	0	0	162	**162**
Slough Children's First	0	217	260	**477**
Other Funding	2,000	0	0	**2,000**
Total	**3,947**	**2,788**	**1,443**	**8,178**

- Other changes which include adjustments for assumptions in the March 2021 MTFS such as reversal of Covid spend funded by a one-off grant in 2021/22, reversal of budgeted contribution to reserves in 2021/22 and final adjustments for funding changes:

Directorate	March 2021 MTFS Adjustments £'000	Other Changes	
		Final Funding Changes £'000	Total £'000
Place & Community	857	0	857
Corporate Budgets:			
Treasury Management	3,075	0	3,075
Other Corporate Budgets	0	0	0
Pension Deficit	750	0	750
Covid Contingency	(6,025)	0	(6,025)
Corporate Contingency	941	7,274	8,215
Contribution to Reserves	(2,046)	0	(2,046)
Parish Precepts	0	0	0
Other Funding	0	6,955	6,955
Total	**(2,448)**	**14,229**	**11,781**

- Savings proposed by Directorate:

Directorate	Savings Proposed £'000
Resources	(2,824)
Place & Community	(7,453)
People (Adults)	(5,900)
People (Children)	(1,109)
Slough Children's First	(2,673)
Total	**(19,959)**

3.8.20 Appendices A1 to A3 presents the proposed budgets and changes for 2022/23 in more detail.

Equalities Impact Assessments

3.8.21 It is important to note that the budget is the financial expression of the strategic plan and our operational intent, and where known, the equality impact of change is disclosed. There are also a number of individual decisions that will arise over the period of the 2022/23 budget and these will continue to be the subject of specific and more detailed equality impact assessments in line with the Council's Equality Impact Assessment (EIA) guidance. Political decisions will only be taken once effective and meaningful engagement has taken place on a need-by-need basis. In making any decisions we must have regard to the Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010.

3.8.22 Part of the equalities governance is to ensure that equality impact assessments are undertaken when considering new and/or revised policies to inform and underpin good decision-making processes. This also helps us pay due regard to our equality obligations.

3.8.23 Attached to this report as Appendix G is a set of Equalities Impact Assessments that discusses the most significant equality pressures for each service area, informed by an equality analysis. This includes a review of proposed budget changes for 2022/23 e.g. proposed savings and what positive or negative impacts, if any there are from approving these on groups in the Slough.

Post 2022/23 Projected deficit to balanced budget

3.8.24 The financial deficit is projected to extend beyond 2022/23 and requires additional support through further Capitalisation Directions of existing expenditure to assist the Council to reach a stable position with a balanced budget.

3.8.25 This projection assumes that that the Council will be able to deliver year on year savings of £20m per year and that the ongoing support described above will be agreed by DLUHC.

3.8.26 Based on current estimates and known information, the Council's deficit in 2023/24 after assumed funding from Council Tax, targeted savings and additional capitalisation of existing costs would be £66.2m reducing to £0m by 2028/29. Over the period to 2047/48 this would be a total cost of £171.6m:

Breakdown of Capitalisation Directive	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 to 2047/48 £'000	Total £'000
Additional Growth for new years of MTFS	3,000	11,100	11,100	11,100	11,100	11,100	11,100	199,800	**269,400**
Companies & Subsidies	(1,800)	0	(500)	0	0	0	0	0	**(2,300)**
Emerging Pressures, Contingencies, and Provisions	(585)	300	3,000	9,000	(1,000)	4,000	4,000	72,000	**90,715**
Fund Redundancy Costs for 2 years	0	(7,500)	0	0	0	0	0	0	**(7,500)**
Minimum Revenue Provision (MRP)	2,022	(1,414)	(5,498)	(8,843)	(9,507)	703	364	(2,210)	**(24,383)**
Opening MTFS Gap - March 2021	9,298	0	0	0	0	0	0	0	**9,298**
Original Capitalisation Direction	(3,000)	0	0	0	0	0	0	0	**(3,000)**
Roll forward of budget pressures	79,055	66,190	46,876	33,178	22,635	1,428	1,264	0	**250,626**
Council Tax statutory increase (assume 2.99% per year)	(1,800)	(1,800)	(1,800)	(1,800)	(1,800)	(1,800)	(1,800)	(32,400)	**(45,000)**
Annual Savings Requirement	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(14,167)	(14,928)	(237,190)	**(366,285)**
Net Estimated Deficit	**66,190**	**46,876**	**33,178**	**22,635**	**1,428**	**1,264**	**0**	**0**	**171,571**

Reserves and Balances

3.8.27 Local authorities hold balances such as the General Fund and Housing Revenue Account balance as well as earmarked reserves for different reasons but typically as a means to:

a. **Cover unforeseen spending pressures** – for example a major flood or other incident could have a big, uninsurable, impact on Council services. This would place undue pressure on the budget.

b. **Manage general risk and uncertainty** – councils operate in very uncertain times, where there can be significant changes to in year funding. This means that councils need to hold reserves to protect themselves against big funding shifts and buy them time to bring their budget into balance.

c. **Meeting known risks and future commitments** – often these are known as earmarked reserves. These are reserves held for a specific purpose, for example an insurance reserve,

d. **Holding monies on behalf of other bodies** – the schools revenue balances are an example of this.

3.8.28 As at 31 March 2019, the Council's estimated General Fund balance is £550k so is effectively nil. As the work on completing the statutory Statement of Accounts for 2018/19, 2019/20 and 2020/21 continues, historic accounting errors are being identified and addressed through the Capitalisation Direction which would otherwise be incurred against the Council's General Fund (or Housing Revenue Account balances) and earmarked reserves.

3.8.29 Based on current information, as at the 31 December 2021, the Council has a small level of earmarked reserves of £14.4m. The majority of these funds were accumulated during 2020/21 and 2021/22 as part of the governments covid response measures to be used for specific purposes such as helping local business and managing the outbreak of covid and cannot be used to fund the Council's General Fund services:

Earmarked GF Reserve:	£'000
Better Care Fund	1,284
Grants for closed businesses	5,296
Business Support Grant	4,267
Outbreak Management Fund	1,385
Other	2,208
Total	**14,441**

3.8.30 The net balance of £2.1m under "other reserves" above includes a £3.7m deficit on school's balances as well as balances for local endowment funds, other grants e.g. ringfenced public health grant and specific purposes agreed in prior years.

3.8.31 As a means to build resilience for the Council, amounts have been included in the Capitalisation Direction 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.

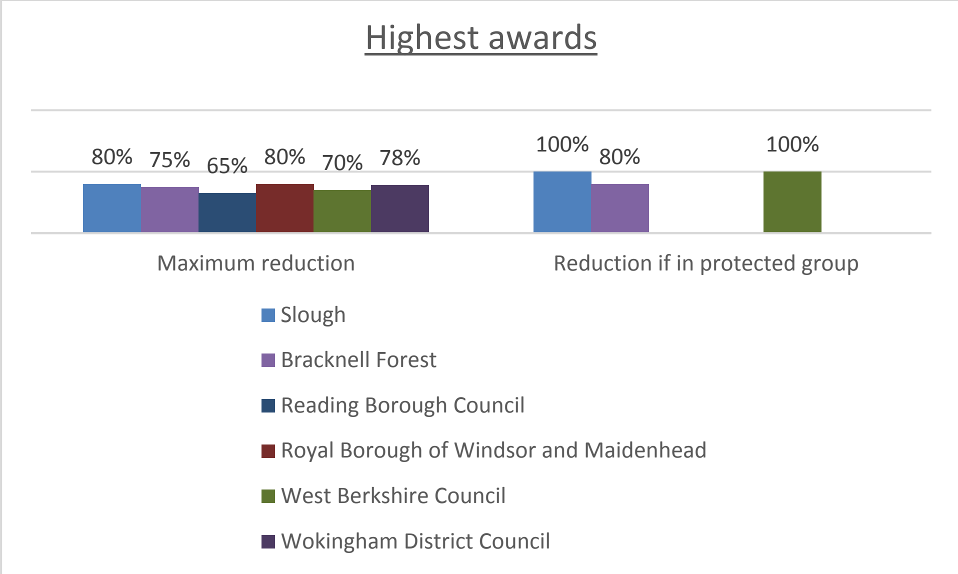
3.9 Council Tax

Council Tax Support Scheme (CTSS)

3.9.1 The Council Tax Support Scheme (CTSS) was amended for 2020/21 and was not varied or revised for 2021/22. The CTSS scheme for 2022/23 will be uprated in line with the advice from Department of Work and Pensions (DWP) and Ministry of Housing Communities and Local Government (MHCLG).

3.9.2 The scheme for 2022/23 is presented separately for Cabinet's consideration.

3.9.3 Slough and Royal Borough of Windsor and Maidenhead (RBWM) offer the highest reduction in Council Tax at 80% for those on the lowest income. Additionally, in Slough, protected groups can receive as much as 100% depending on their income. RBWM do not have protected groups.



3.9.4 Slough has a capital limit of £16,000, excluding the value of the home which if exceeded means a claim cannot be made. This is the same as in Bracknell and RBWM that are higher than the other neighbouring councils.

3.9.5 Of all the Berkshire authorities only RBWM still offers 2nd Adult Rebate. Slough has the lowest Band restriction at Band C but does not apply this for its protected claimants.

2022/23 Council Tax

2022/23 Council Tax Base (No. of Band D Equivalent Dwellings)

3.9.6 The calculation of the Council Tax base is a key variable to setting the basic amount of Council Tax for the Council, parishes and major preceptors. The 2022/23 Council Tax Base was approved at Cabinet on 17th January 2022. This was calculated as 42,286.4(Band D equivalents) and is summarised as follows:

No of Chargeable Properties	2021/22 54,280.0	2022/23 54,918.0	Movement 638.0
Net Discounts and Premiums	(3,604.5)	(3,473.9)	**130.6**
Movement due Council Tax Support (CTS) Scheme	(6,830.5)	(5,926.8)	**903.7**
Adjustments:			
Estimated movement in CTS Claims	(147.6)	(124.5)	**23.1**
Sub-Total	**43,697.4**	**45,392.9**	**1,695.5**
Relevant Amounts	**41,577.7**	**43,061.4**	**1,483.7**
Collection Rate at 98%	(748.4)	(775.0)	**(26.6)**
Council Tax Base (Band D Equivalents)	**40,829.3**	**42,286.4**	**1,457.1**

3.9.7 Within the borough, there are three parish councils who set a precept for their respective areas that are billed alongside Council Tax for Slough and the major Preceptors, Police and Fire. The precept is based on the approved tax-base for that specific area, the breakdown of which is:

Band D Equivalent Dwellings	2021/22	2022/23
Parish of Britwell	810.4	836.4
Parish of Colnbrook with Poyle	1,830.3	1,811.3
Parish of Wexham	1,348.3	1,393.9
Remainder of Slough	36,839.7	38,244.6
Total Approved Tax-Base	**40,828.7**	42,286.2

3.9.8 The Council is required to calculate its Council Tax requirement for 2021/22 in accordance with the Local Government Finance Act 1992. These calculations are set out in Appendix B

Council Tax Insight

3.9.9 The Council has a responsibility to set a level of Council Tax that ensure that it has adequate resources to meet its statutory obligations and priorities. When Council Tax is increased, this preserves an authority's ability to generate funding locally for services and provides some measure of resilience against funding reductions from Central Government.

3.9.10 The budget and MTFS approved by Full Council in March 2021 included the assumption of a 4.99% increase in Council Tax for 2021/22 and 2.99% thereafter to support front line services:

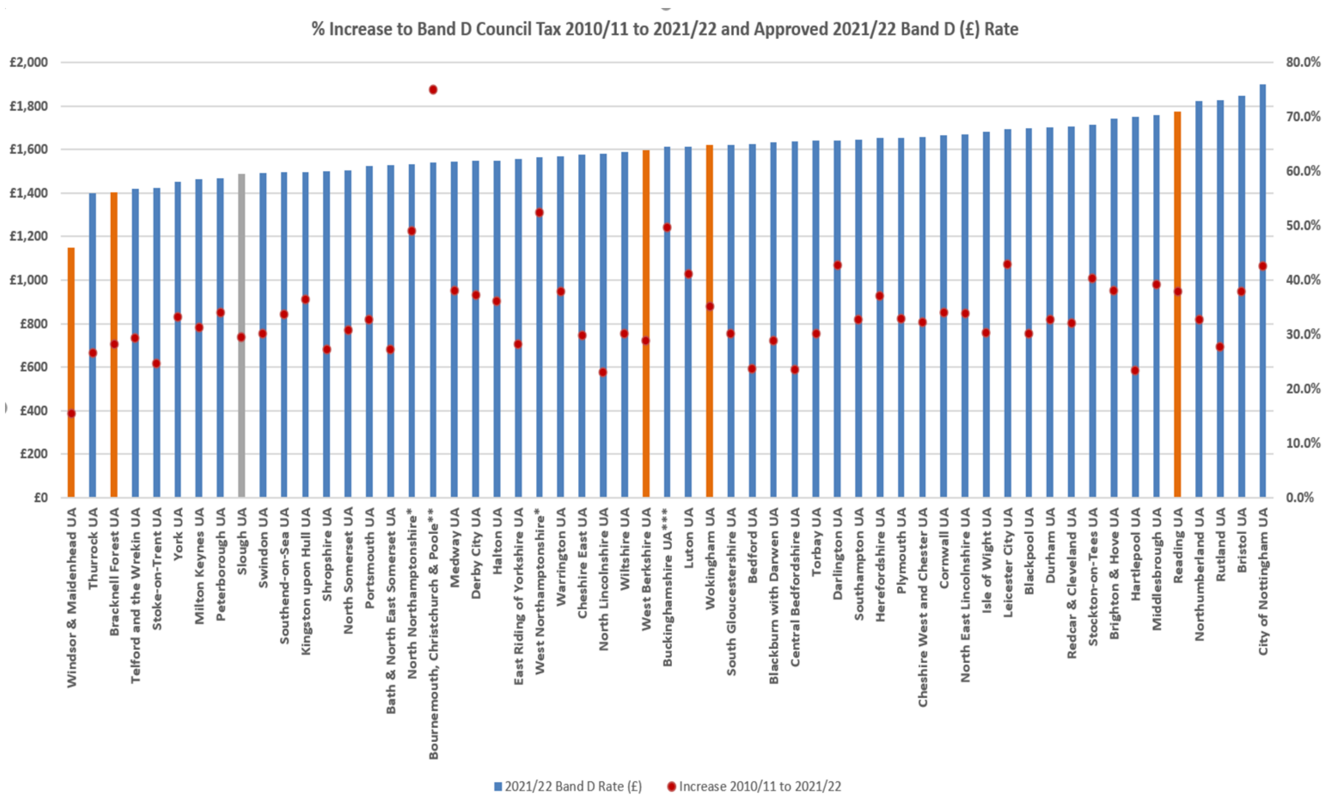
March 2021 Assumptions	2021/22	2022/23	2023/24
Band D general increase	1.99%	1.99%	1.99%
Adult Social Care Precept	3.00%	1.00%	1.00%
Total increase	**4.99%**	**2.99%**	**2.99%**

3.9.11 The SR2021 proposed that for 2022/23 local authorities would be able to increase the general element of Council by 1.99% without a local referendum. In addition, local authorities with social care responsibilities would be able to increase Council Tax by a further 1.00% for the Adult Social Care Precept to fund social care expenditure without a referendum. In 2021/22, this precept was set at 3.00%.

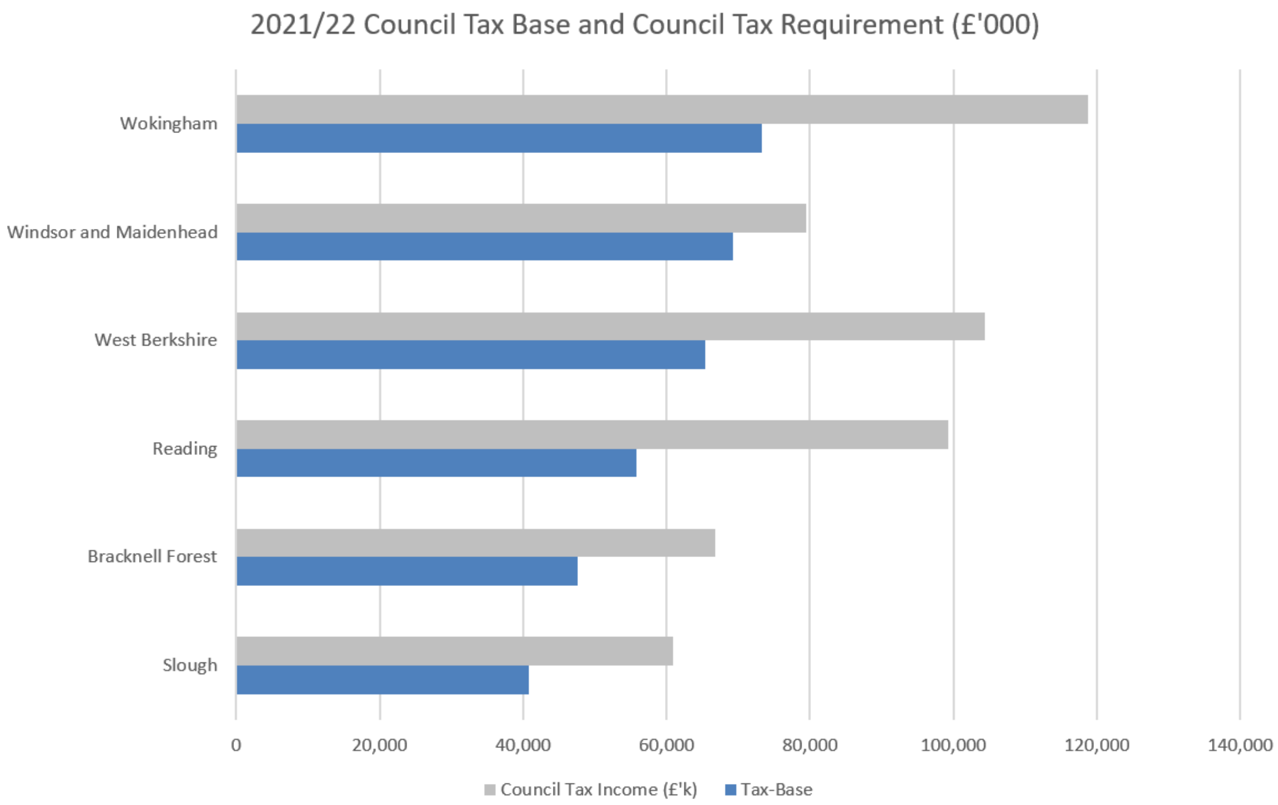
3.9.12 It is recognised that increases to Council Tax contribute to pressures on some household's finances. However, increasing Council Tax is necessary to optimise the funding and provision of services in the Borough. For 2021/22, out of 57

Unitary Authorities analysed, the Council had the 9th lowest rate of Band D and within Berkshire, was the 3rd lowest.

3.9.13 Between 2010/11 to 2021/22, the Council increased Council Tax by 29.4% which was the 16th lowest amongst 57 Unitary Authorities analysed and 3rd lowest in Berkshire:



3.9.14 Based on approved positions for 2021/22, the Council has the lowest tax-base for Council Tax (i.e. number of residential dwellings) in Berkshire with a difference of c7k dwellings between Slough the next smallest, Bracknell Forest. This low tax-base means that the Council has least ability to generate funding through Council Tax compared to its neighbouring boroughs in Berkshire, despite having a Band D rate that is higher than Bracknell Forest and materially larger than Windsor & Maidenhead:



3.9.15 To support the Council's improvement plan, the Council needs to maximise funding to support front-line services and mitigate pressures. Therefore, the Council must:

- consider all opportunities for increasing Council Tax annually
- continue to promote growth to its tax-base including bringing empty homes back into use, reviewing discounts awarded e.g. Single Person Discount
- prioritise collections to maintain a prudent collection rate.

2022/23 Council Tax Precepts

3.9.16 The Council acts as an "agent" and is also required to bill residents in the borough for a precept on behalf of the Office of the Police and Crime Commissioner (OPCC) for Thames Valley and Royal Berkshire Fire & Rescue.

3.9.17 The Council does not have any control or influence on the amount of precept set by these authorities, nor does it benefit from this financially. For 2022/23, these precepts are:

Precepting Authority	OPCC Thames Valley	Royal Berkshire Fire & Rescue
Approved 2021/22 Band D (£) Precept	231.28	68.95
Change	10.00	5.00
Proposed 2022/23 Band D (£) Precept	241.28	73.95

2022/23 Band D Council Tax and Requirement

3.9.18 For 2022/23, DLUHC confirmed that local authorities would be permitted to increase Council Tax by 1.99% without a local referendum and for those authorities with social care responsibilities a further 1.00%.

3.9.19 The Council proposes to increase its element of Council Tax in 2022/23 by a total of 2.99%, of which 1.99% is for the general element of Council Tax and 1.00% for the Social Care Precept to derive a Band D rate of £1,534.86. The breakdown is as follows:

Slough Borough Council	Band D (£)
Approved 2021/22 (£)	1,490.30
1.99% General Increase	29.66
1.00% Adult Social Care Precept	14.90
Proposed 2022/23 (£)	**1,534.86**

3.9.20 The table below summarises the proposed 2022/23 Council Tax Requirement to be billed to residents in Slough and how it is derived:

Budget	2022/23 Proposed (£'000)
Net Service Budget	107,596
Estimated Financial Deficit	84,055
Budget Requirement	**191,651**
Sources of Funding:	
Net Retained Business Rates	(37,326)
Revenue Support Grant	(6,451)
Business Rates (Surplus)/Deficit	8,451
Council Tax Deficit	(300)
Other Non-Specific Grants	(6,868)
Capitalisation Direction	(84,055)
Council Tax Requirement: Slough Borough Council	**65,102**
Precept: Office of the Police and Crime Commissioner Thames Valley	10,203
Precept: Royal Berkshire Fire & Rescue	3,127
Total Council Tax Requirement to be Billed	**78,432**
Funded by:	
Slough Borough Council Band D (£)	1,534.86
Office of the Police and Crime Commissioner Thames Valley Band D (£)	241.28
Royal Berkshire Fire & Rescue Band D (£)	73.95
Total Band D (£)	**1,850.09**
Council Tax Base (No. of Band D Equivalent Dwellings)	42,286.2
Sub-Total: Billable Council Tax (£'000)	**78,233**
Local Parish Precept Income (£'000)	199
Total Billable Council Tax including Parish Precepts (£'000)	**78,432**

3.9.21 If the proposed increase in the Council Tax for 2022/23 of 2.99% for the Council is approved, along with the major preceptors in Berkshire, the total amount payable by Slough's residents will be:

		Major Preceptors			
Council Tax Dwelling Band	Ratio	Slough Borough Council	OPCC Thames Valley	Royal Berkshire Fire & Rescue	Total Amount Payable
A	6/9	1,023.24	160.85	49.30	**1,233.39**
B	7/9	1,193.78	187.66	57.52	**1,438.96**
C	8/9	1,364.32	214.47	65.73	**1,644.52**
D	**9/9**	**1,534.86**	**241.28**	**73.95**	**1,850.09**
E	11/9	1,875.94	294.90	90.38	**2,261.22**
F	13/9	2,217.02	348.52	106.82	**2,672.36**
G	15/9	2,558.10	402.13	123.25	**3,083.48**
H	18/9	3,069.72	482.56	147.90	**3,700.18**

*Note: Some residents will pay an additional precept as approved by their local parish council.

3.10 Business Rates

3.10.1 The next largest funding stream relates to Business Rates. The gross rates for 2022/23 have been estimated as £103.723m. This is distributed as follows:

	Central Government £'000	Slough Borough Council £'000	Berkshire Fire Authority £'000	Total £'000
Gross Share of Rates	**51,862**	**50,824**	**1,037**	**103,723**
% Share	50.00%	49.00%	1.00%	**100.00%**

3.10.2 In theory, as the business rates income is derived from local businesses, the Council has a valid claim to retain all of its 49% allocation. However, Business Rates are redistributed across the country based on assumed need and a top-up and tariff system equalises business rate income across the country.

3.10.3 The Council's share of gross rates (£50.824m) reduced for the tariff and other adjustments to reach a final budgeted amount of Business Rates of £28.75m, as follows:

2022/23 Business Rates Funding:	**£'000**
Gross Business Rates	**103,723**
Slough's share (49%) of total NNDR Income	**50,824**
S31 Grant to compensate reliefs and indexation	8,393
Tariff	(19,694)
Levy	(2,197)
Sub-Total	**37,326**
Total Deficit on Business Rates Recognised in 2022/23	(12,931)
Drawdown of s31 for 2020/21 and 2021/22 Expanded Reliefs	4,480
Net Budgeted Funding from Business Rates	**28,875**

3.10.4 Businesses were given some protection by Government, in 2020/21, via grants, Business Rate reliefs and the furlough scheme. Unfortunately, the pandemic has resulted in continued hardships for local businesses, and some are not sustainable. This and the application of expanded reliefs for retail, hospitality and leisure businesses has resulted in reduced Business Rates income against what was expected to be billed for 2021/22, leading to an estimated deficit that under accounting rules must be recognised in 2022/23.

3.10.5 In addition, there has been a historic under-provision for the level of appeals against Business Rates bills in the borough. This manifested in a bottom-line impact against the GF in previous years. Following advice from LG Futures, the position above (the estimated deficit to be recognised in 2022/23) includes the effect of an increase to the provision for appeals.

3.10.6 In general, Business rates income can be subject to significant volatility; one or two empty properties or a higher than provided level of appeals or bad debt can have a substantial impact on the level of business rates collected.

3.11 Flexible Use of Capital Receipts Strategy

3.11.1 With effect from 1 April 2016, the Secretary of State under section 15(1) (a) of the Local Government Act 2003, allowed local authorities to use capital receipts to fund revenue expenditure on projects which generate ongoing savings or reduce demand for services. The Local Government Finance Settlement 2021/22 extended this directive for a further three years to 2024/25.

3.11.2 The Council has used this directive to use capital receipts to fund transformation change costs to deliver ongoing savings. Full details of the Transformation Fund are set out in Appendix C which outlines the proposed spend on a scheme-by-scheme basis.

3.11.3 Following the statutory recommendation by Grant Thornton, additional resources will be invested in resourcing the Finance Team to ensure the team has sufficient skilled resources to improve in-year financial management and the production of year-end accounts. £900k has been allowed for 2021/22 and £1.6m in 2022/23 financed through the flexible use of capital receipts. In the longer term, a new permanent structure is being designed and costed to provide the right financial support for the council and the aim is to implement it by the start of 2022/23. Given the current challenges recruiting staff, it is anticipated it will take some time to fully resource a permanent team.

3.11.4 The table below summarises the use of the Transformation Fund for 2021/22. The variance of £1.9m relates to a contractual commitment for services that was not previously included in the 2021/22 transformation budget. The proposed Capital Programme on this evening's agenda takes into account these figures:

	Budget £'000	Forecast £'000	Variance £'000
Our Futures	3,234	2,935	(299)
Financial Excellence	2,070	2,070	0
Integrating Public Services and Transforming Service Delivery	147	2,072	1,925
Contingency	500	0	(500)
Total	**5,951**	**7,077**	**1,126**

Source: 2021/22 Month 9 Budget Monitor Report

3.11.5 It is anticipated there will be minimal use of this facility in 2022/23 but where it is used, will follow the policy from 2021/22.

3.12 Housing Revenue Account

3.12.1 The annual changes in rents and service charges reflects the need to increase income in order to meet the increase in utility and service costs, and to provide sufficient financial resources to reinvest in the programmes of improvement for social housing to ensure that the needs of local residents are met; the increases follow government guidance and are based upon the September 2021inflation rate.

3.12.2 These increases are built into the HRA 30 Year Business plan and are intended to ensure that the Housing service, annual housing repairs and maintenance programme, and the long-term capital investment programmes, provide decent homes to meet local needs over the life of the Business Plan.

3.12.3 The increases to the Housing Rents and Service Charges that take effect from Monday 4th April were agreed by Cabinet on the 17January 2022.

3.12.4 The proposed Housing Revenue Account budgets for the next three years are set out in the table below:

Housing Revenue Account Budget Summary	Current Budget 2021/22 £'000		Proposed Budget 2022/23 £'000	Estimated Budget 2023/24 £'000	Estimated Budget 2024/25 £'000
Operating Expenditure	31,336		31,563	32,094	33,323
Income	(36,633)		(38,818)	(39,871)	(42,825)
Net Cost of Service before interest payable on HRA Debts	**(5,298)**		**(7,255)**	**(7,777)**	**(9,502)**
Interest Payable on HRA Debts	4,603		4,593	4,726	4,931
Interest Receivable on HRA Balances	(25)		(15)	(12)	(11)
Net HRA (Surplus) / Deficit	**(720)**		**(2,678)**	**(3,063)**	**(4,582)**
HRA Balance:					
Brought Forward	**(17,473)**		**(8,193)**	**(8,871)**	**(9,934)**
Net HRA (Surplus) / Deficit	(720)		(2,678)	(3,063)	(4,582)
Repayment of HRA Debt	10,000		0	0	0
Transfer from Reserve	0		2000	2000	4000
Carried Forward	**(8,193)**		**(8,871)**	**(9,934)**	**(10,515)**

3.12.5 The HRA Business Plan and a more detailed breakdown of the budget for 2022/23 and projected budget for 2023/24 to 2024/25 to set out in Appendix D.

3.13 Capital Programme and Treasury Management Strategy

Capital Programme

3.13.1 A separate report is presented to Cabinet for recommendation to Full Council to approve which sets out the capital strategy to underpin the Council's revised Capital Programme.

3.13.2 The revised Capital Programme has been prepared in the light of the s114 Notice, the CIPFA Financial Review and the appointment of commissioners.

3.13.3 The Council's financial position requires that total borrowing to be reduced and revised strategy reflects this to minimise the extent to which schemes require additional new borrowing.

3.13.4 In addition to the proposed capital budgets and revenue implications, the report sets out:

- the Council's asset base
- delivery strategies
- governance
- capital funding and
- risk management

3.13.5 The revised capital programme sets out total spend for the General Fund and Housing Revenue Account of £204m with the following sources of financing:

	General Fund £m	HRA £m	Total £m
Spend	**98**	**106**	**204**
Funded by:			
Capital grants	(63)	0	(63)
Capital receipts	0	(9)	(9)
Developer contributions	(2)	0	(2)
Major Repairs Reserve	0	(68)	(68)
Direct funding from revenue	0	(8)	(8)
Capitalisation Direction	(20)	0	(20)
Total external funding	**(85)**	**(85)**	**(170)**
Total borrowing requirement	**13**	**21**	**34**

Treasury Management Strategy

3.13.6 The Council approved the Treasury Management Strategy (TMS) (and capital programme for 2021/22 to 2023/24) on 8 March 2021 as part of the budget setting process or 2021/22. In light of the financial position that has developed since March 2021, the TMS has been revised for 2021/22 to reflect the changes in the capital programme.

3.13.7 The outturn on treasury for 2020/21 and revised TMS is presented to Cabinet for recommendation to Full Council to approve in a separate report.

3.14 Dedicated Schools Grant

3.14.1 The Dedicated Schools Grant provides funding for schools and is split into four blocks. Allocations for 2022/23 were published on 16th December 2021. Details of the 2022/23 DSG allocation are included in Appendix C and are summarised in the table below:

Dedication Schools Grant Breakdown	2022/23 Allocation £'000
Schools Block	155,285
Central Schools Services Block	743
High Needs Block	30,610
Early Years Block	14,461
Total	**201,099**

3.14.2 The DSG has a forecast deficit at the end of 2021/22 of £25.5m, which is a £4.9m increase since 31st March 2021 due to the overspend on the High Needs Block.

3.14.3 As a result of holding a deficit DSG position, the Council was required to prepare a management plan, which was shared presented to Schools Forum in January 2021. The management plan was subsequently revised and shared with the DfE in July 2021, the revised management plan highlighted that the deficit could potentially grow to c£43m by 2024/25 if no mitigating actions were taken.

3.14.4 In response to the growing pressure on the Dedicated Schools Grant as a result of increasing demand on the High Needs Block, the Department of Education (DfE) undertook a consultation seeking to clarify the accounting arrangements. The government response was published on 30 January 2020 which set out a number of regulatory changes.

3.14.5 The Local Authorities (Capital Finance and Accounting) (England) Regulations were amended to require any deficit on a local authority's DSG account to be carried forward to be funded from future DSG income unless permission is sought from the secretary of state for education to fund the deficit from general resources. The change in regulation only applies to financial years beginning on 1st April 2020, 1st April 2021, and 1st April 2022. It is not yet clear whether this arrangement will continue in subsequent financial years.

3.14.6 The Council has been invited to take part in the 'safety valve' intervention programme with the DfE with the aim of agreeing a package of reform to our high needs system that will bring the DSG deficit under control. Officers are currently in the process of updating the existing management plan and package of proposals in readiness for the review with the DfE which is expected to commence in April/May 2022.

3.14.7 If the proposals are agreed to by the Secretary of State, they will form the basis of a published agreement. The agreement will require the Council to implement reforms to the agreed timetable, alongside maintaining an agreed savings profile. It will also set out additional funding which the department will release to support the reduction of the cumulative deficit.

3.14.8 A separate report is to be presented to Cabinet with a more detailed update on the DSG's deficit and management plan. The gross deficit by 2024/25 is estimated to be £43m but with the successful adoption of the management plan is projected to reduce to £32m.

Actions

3.14.9 A governance structure is being implemented to ensure there is oversight of the delivery of the DSG Action Plan:

- DSG Finance Group – meets weekly and is chaired by the Section 151 Finance Officer and provides assurance that actions to deliver the DSG plan is on track and provides financial reports to track impact.

- SEND Transformation Board – meets monthly and is jointly chaired by Section 114 Officer and the Executive Director People Children. Membership also includes chair of school forum, Frimley Clinical Commissioning Group, Slough Children Trust Ltd, parent voice and Adult Social Care. This Board provides challenge and oversight of the DSG Management Plan and links to improving SEND outcomes.

3.15 <u>Assurance</u>

Chief Financial Officer's Section 25 Robustness Report

3.15.1 The Section 151 Officer's report accompanies this report and is included at Appendix H. In the current circumstances facing the Council discussed throughout this report and in more detail within separate report, it is not possible to give the assurance in the manner that is normally required within a s25 report.

3.15.2 The Council's budget deficit has moved from an initial submitted one year amount of c£15m to an amount to cover 10 years totalling c£473.7m. This deficit has increased following work to establish the full extent of the situation and is expected to change further as the statutory Statement of Accounts for 2018/19 to 2021/22 are prepared and audited.

3.15.3 The challenges facing the Council are of a scale that has not been seen in any other local authority to date. The range of issues are wide ranging and will take several years to fully remedy.

3.15.4 Since the issue of the s114 report in July 2021, in conjunction with work to propose the 2022/23 budget in this report, the Council has:

a. begun to utilise improved processes

b. 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. liaised with DLUHC to fully involved them in all aspects of its financial situation and will do so in the future

d. with the above and the contingency built into the budget estimates, should be able to manage within these estimates for 2022/23.

3.15.5 The Director of Finance will continue to build on the improvements since the issue of the s114 report and will maintain an on-going and robust review of all risks, including those associated with the delivery of budget savings decisions and report regularly to the finance committee, Cabinet, Council throughout the financial year.

3.15.6 Within the Capitalisation Direction to DLUHC, the Director of Finance has included £20m to rebuild General Fund reserve levels which by 31 March 2021 had depleted to effectively nil and is of the view that this is adequate for this coming financial year, having regard to the risks identified. The revised Medium Term Financial Strategy will identify in greater detail the plans for replenishing reserves in the future.

Internal Audit Update

3.15.7 The Council's response to agreed internal audit actions will lead to the strengthening of internal controls and the control environment. In turn this will contribute to the achievement of the organisation's objectives and assist the Council in managing its risks. In recent years there has been a lack of pro-active management of internal audit recommendations resulting in outstanding actions going back several years. This is now being addressed by:

a. re-establishment of the officer risk and audit board which monitors outstanding actions, through representative across directorates
b. frequent reporting to executive directors
c. pro-active management and closure of recommendations, ensuring that evidence is received of actions closed, that is quality assured by a senior officer.

3.15.8 To date for the year 2021/22, eight internal audit reports have been finalised this financial year. Seven internal audit reports have been received in draft (as at January-February 2022) and are being considered by management.

3.15.9 Officers are working with Internal Audit to ensure that reports are finalised within two weeks of issuing the draft report. The process for monitoring and evidencing closure of recommendations has been strengthened by prioritising the closure of actions that are due or overdue, and receiving appropriate documentation as evidence of an action being completed.

3.15.10 The overall position as at 15th February 2022 is as follows on internal audit:

Totals	Total	High	Medium	Low
Not Due	76	18	35	23
Overdue	85	3	43	39
Complete*	237	28	99	110
Total	**390**	**47**	**172**	**171**

*includes actions that are no longer relevant or closed as duplicates

3.15.11 The Officer Risk and Audit Board monitors outstanding internal audit actions and has representation across directorates who take responsibility for ensuring actions are implemented and closed in a timely way.

Risk Management

3.15.12 Risk Management is a critical part of good governance and the effective delivery of Council services. It provides a consistent and comprehensive framework for identifying, comparing and managing issues which, although different in nature, all have a significant impact on the organisation and may prevent or affect achievement of agreed priorities.

3.15.13 Risk Management is also a core component of:

- the Annual Governance Review which must be undertaken by all local authorities in order to comply with the requirements of the Accounts and Audit Regulations 2015:

- statutory requirements included in the Local Government Acts 1992, 2000 and other legislation for local authorities to maintain adequate processes for internal control.

3.15.14 The Council's previous approach to risk management was to take a "bottom up" approach to identification of risks for the corporate register by escalating risks on directorate registers up to the corporate register. This resulted in a register that did not take into account strategic level risks the Council is facing, for example in light of recent challenges in relation to finance and Covid.

3.15.15 This existing "bottom up" approach is now supplemented by a "top down" approach i.e. identification of new and emerging risks by Senior Officers and Audit and Corporate Governance Committee.

3.15.16 New risks are identified using a revised template. This template is based on best practice and includes guidance on identifying and assessing risks. Membership of the Council's Officer Risk and Audit Board has been reviewed and refreshed. A schedule of monthly meetings has been established so that the Board can review the contents of the Council's risk register before it is issued to senior officers and elected members.

3.15.17 The refreshed register is updated on a monthly basis by the Officer Risk and Audit Board and reported to the Council's senior leadership team each month. This register will be sent to Council's Audit and Corporate Governance Committee for review, on a quarterly basis to enable the Committee to consider the effectiveness of the Council's risk management arrangements, to review the Council's risk profile and to ensure that actions are being taken on risk related issues, including partnerships with other organisations.

3.15.18 The Risk Register includes strategic level risks associated with:

a. delivery of the Adults Social Care Transformation programme
b. Covid pandemic
c. temporary accommodation
d. disposal of assets
e. financial sustainability
f. accounting
g. financial processes
h. health and safety

i. elections and electoral registration
j. recovery and renewal
k. business continuity
l. workforce recruitment and retention
m. SEND local area inspection
n. cyber security
o. information governance and general data protection legislation
p. Council-owned companies

3.15.19 The risk associated with financial sustainability focusses on the risk of failure to improve the Council's financial and contract management and reporting will leave it in breach of its statutory responsibilities and acting illegally.

3.15.20 There are a number of controls which have been put in place to mitigate the risk including:

a. the Council has a recently appointed new S151 officer.
b. additional specialist resources have been brought in to understand the nature and scale of the problems, which initially culminated in the issuing of a s114 Report on 2nd July and has since led to the identification of many other issues.
c. the Council has agreed to invest significant additional resource into the finance service as recommended by the external auditors and agreed by Council
d. finance action plan reported to full Council for each meeting starting September
e. finance and commercial service business plan being developed to ensure future sustainability of the service.

3.15.21 However, there are a number of actions required to further mitigate the risk including:

a. Targeting the completion of draft accounts from 2016/17 to 2021/22 by the winter of 2022 on a sequential basis
b. completing the initial verification of savings for 2021/22 and 2022/23 by January 2022 and continuously beyond
c. companies review, continuous work through to March 2023 and beyond
d. finance staffing structure designed and worked through into the new year
e. Agresso project plan for December 2021
f. continuous programme of designing and embedding good financial practise
g. MTFS for May 2022
h. identification of long-term financial savings by May 2022
i. Member and officer training programmes

3.16 Other Updates

Royal County of Berkshire Pension Fund

3.16.1 There is an emerging risk related to the Royal County of Berkshire Pension Fund (RCBPF) that could have additional cost implications for the Council's future budget.

3.16.2 Under Section 13 of the Public Service Pensions Act (2013), DLUHC is required to report on the health of the LGPS every 3-years and on 16 December 2021 a report on the RCBPF as at 31 March 2019 was published.

3.16.3 The RCBPF is lowest funded scheme in the LGPS, with a funding level of 78% in actuarial terms. This situation has gradually developed over the past ten-years and is largely due to:

- increasing diversification, reducing volatility, hedging overseas currency, reducing mortality risk and subsequently reducing overall risk to the Fund which at the time (2007) was 100% funded.

- the low-volatility approach involved reducing exposure to global equities, however, this resulted in missed opportunities in benefiting from the growth in global equity markets over the past twelve years. The Fund maintained investments of less than 40% in global equities compared to c50% in many other LGPS funds.

- the Fund also maintained low employer contributions over the past ten years, and compared to other under-funded LGPS schemes, the RCBPF still receives comparatively lower employer contributions.

Royal County of Berkshire Pension Fund – Issue

3.16.4 A Head of Fund was appointed on 1 September 2021, a post that had been vacant since early 2018. Having a lead officer in place will allow a proactive approach to managing and regularly reviewing the Investment Strategy and Strategic Asset Allocation (SAA) and will maintained a consistent relationship between the Pension Committee, Pension Board and other third parties (investment advisors, Employers, Actuaries etc.)

3.16.5 The “Strategic Asset Allocation” (SAA) was updated and approved on 20 September 2021, for implementation post October 2021. Conversations on increasing the employer primary and deficit recovery contributions have commenced. The Head of Fund is working with Local Pensions Partnership Investments Ltd (LPPI) to ensure employers and the Fund benefit from the time-value of money when prepaying employer contributions – ensuring all cash is efficiently deployed and not withheld due to “receipt in advance” accruals-based accounting.

3.16.6 The Fund is now in the challenging position of having a higher “target” to meet in its investment portfolio of around 6.8%, this is as a result of its existing under-performing funding level i.e. Discount rate / funding level = actuarial target, or (5.3% / 78% = 6.8%). This means an increased level of risk is required to ensure that the Fund has an opportunity to meet its required rate of return target of 6.8% and improve the funding level, however, the Fund maintains a high level of diversification and is seeking to increase risk adjusted returns not “naked-risk”. This is managed through regular review and the recent approval of an updated risk-register in line with the CIPFA 2018 code on managing risks in the LGPS.

Companies update

3.16.7 A report providing an update on the Council’s companies was presented to Audit and Corporate Governance Committee on 1 March 2022, this report is summarised below.

3.16.8 The Council has acquired or established various companies over several years. The Council currently has ten companies that are wholly owned, partly owned, or are considered to undertake activities related to the Council. Four of these (GRE5, JEH, SUR and DISH) are operational and six are dormant and have never traded. The companies are considered in detail in the Internal Audit Companies Update Report. The following sections provide a brief summary on the four trading companies.

3.16.9 In the last 12 months a series of internal investigations, internal audit reports and external reviews have highlighted a range of issues across the Council's companies in relation to governance, oversight, reporting, financial planning, operations and decision making. In addition, the Council's financial challenges have necessitated a deeper review into the companies' commercial and financial arrangements to ensure that they remain aligned to the Council's strategic objectives and can support the Council in meeting its wider financial objectives.

3.16.10 Several changes have been made to strengthen the Council's arrangements with its companies, and in some instances further work will be required throughout 2022/23 to investigate further issues, establish actions, and agree a clear way forward. In 2021/22, activities have been prioritised on the highest risk areas/companies which are GRE5, and SUR followed by JEH and DISH. Budgets for 2022/23 onwards have been informed by the outcome of work to date and reflect plans to stop or significantly reduce the scale of activities across of the Council's companies. Future activities also build upon recent improvements and actions which have impacted upon the operation, governance and oversight of the four trading companies.

SUR

3.16.11 SUR, a JV between the Council and Muse, has been the Council's most successful company to date (in terms of dividend income) and has provided the Council with a source of income following the completion of schemes and housing sales. Dividends of £2.6m and £2.4m have been received on the Ledgers Road and Wexham Green schemes respectively.

3.16.12 The Old Library Site (Residential) Scheme, also known as the Novus apartment development, is the only current SUR Site Development. The 64 Novus apartments have been fully built-out, with a value of £17m but have not yet been fully sold. 18 apartments have been sold/reserved at a value of £4.4m. Based upon current projections, the scheme may operate at a loss overall (currently projected at £0.8m). This is due to a change in market conditions and costs have remained in line with budget. This scheme has been funded by a Council loan facility which stands at £7m and loan notes from both partners (£3m each). Given the projected loss, there is a risk that a proportion of the Council's loan notes may not be recoverable.

3.16.13 Looking ahead to 2022/23 onwards, the Council's relationship with SUR is expected to change significantly and will see the Council adopt a different role in relation to its key sites. The proposed changes are likely to result in the Council not having any equity investment in key sites in the future and it is therefore unlikely to share in any future dividend payments. This will enable the Council to benefit from the receipt of disposal proceeds for key sites that are opted to SUR (at best consideration) at the earliest opportunity and will reduce the Council's future capital commitments and financial risk over the coming years. The Council's capital programme previously included investment of £33m over the next five years into SUR which has been removed from the current programme.

3.16.14 As a result of the proposed changes to the Council's relationship with SUR, the ongoing costs and resource requirements for the SUR Partnership can be significantly reduced. Ongoing costs are currently estimated to be approx. £0.2m per annum, of which the Council's share is 50%. Costs will be kept under review in 2022/23 and will be influenced by the negotiations on the sites and changes to the Partnership. SUR running costs will be required to be met by both JV partners until such time that the Partnership is wound up (they were previously met by both partners out of distributable profits from the schemes). No further costs are expected in 2022/23 onwards. Additional exit costs associated with winding up the company will be considered next financial year. Interest income will still be payable by the SUR although the OLS appraisal and loans will be reviewed further by the Council. The capitalisation directive includes annual operating costs for the next three years which are unbudgeted and an impairment in relation to OLS loan notes.

GRE5

3.16.15 Nova House is a block of 68 apartments in the town centre which failed flammability tests following the Grenfell fire and further survey work revealed significant defects with the compartmentation within the building. GRE5 Ltd owns the freehold lease of Nova House and, in 2018, the Council decided to acquire the shares of the company for £1 due to concerns about the capacity of GRE5 to undertake the substantial remediation works required and concerns about the safety of residents.

3.16.16 Total remediation costs are now estimated to be in the region of £19.6m (originally estimated to be less than £10m when the Council acquired GRE5), although this continues to remain under review. Technical surveys remain ongoing as materials are removed from the building.

3.16.17 During 2021/22, the Council and GRE5 successfully agreed grant funding of £9.3m from Homes England for eligible development costs. GRE5 is currently engaged in legal proceedings with the building's warranty provider which is expected to conclude before the end of 2022/23, with mediation proceedings expected in May 22. As per the Grant Funding Agreement (GFA), Homes England may clawback a proportion of its grant should GRE5 be successful in its legal claim against the warranty provider. The clawback mechanism has not yet been agreed with Homes England and will be set out in a Deed of Variation/side letter to the GFA. This may result in the full grant being clawed back (£9.3m), although it is anticipated that the clawback mechanism will reflect the Council's costs in pursuing the claim. The total value of the Particulars of Claim (POC) is greater than the GFA (amounts note disclosed in this paper) but less than the projected total costs. There is therefore a potential funding shortfall which may require leaseholder recovery.

3.16.18 Should the legal claim be unsuccessful, the maximum financial exposure to GRE5, and therefore the Council as 100% shareholder, is up to £10.3m (£19.6m costs less £9.3m Homes England grant. In July 2021, the Council approved a loan facility to GRE5 of up to £10m to meet its short-term cash flow requirements. The peak loan facility requirement will be dependent upon the agreed GFA drawdown schedule and any impact on the accrual of interest on the Council loan facility (interest payment have not yet been incorporated into the total project costs and have not yet been included in the POC) . The outcome of the legal case and timing of any associated financial payments will also impact upon the peak facility requirement.

3.16.19 This is a very high risk project – there is a risk that the scheme becomes unviable given continued technical challenges, costs may continue to increase, the Council's loan main be irrecoverable (impairment), the insurance claim may be unsuccessful, leaseholders may not be liable for all unfunded costs (tribunal has already ruled in favour of the freeholder in relation to waking watch costs). The capitalisation directive includes a loan impairment in relation to the Council's loan and a minor adjustment to recharge capital costs to revenue.

James Elliman Homes (JEH)

3.16.20 JEH was incorporated in 2017 with the primary objective of supporting the Council in its aim to improve affordable housing supply and provide good quality affordable temporary accommodation for key workers as well as homeless families and individuals.

3.16.21 The decision to establish JEH was underpinned by a business plan which assumed that JEH would acquire properties over a five-year period and that properties would be rented at a mix of market rents (60% of properties) and Local Housing Allowance ("LHA") rent (40% of properties). On this basis, the business plan was financially viable. The current (and recent) proportion of properties rented at a discounted rent level is higher than the 40% envisaged in the business plan, which has had an impact on the financial viability of the company. JEH has operated at a loss (after interest) since it was established.

3.16.22 As the change in rental mix was due to JEH being used to support the Council in discharging its homelessness duty, the Council has provided "top up" payments to JEH to bridge the gap in rental income. Payments of £145k and £350k were made in 2019/20 and 2020/21 respectively. These payments have now stopped as they were masking the financial position of JEH. JEH has operated at a loss each year and is forecast to operate at a loss of £1.16m in FY 22/23, if there is no change to the property portfolio or rental mix. This is not a financially sustainable position for JEH, or the Council.

3.16.23 Since it was established, JEH has adopted an aggressive property acquisition strategy which has been full funded by debt provided by the Council. All property acquisitions were stopped at the start of FY 21/22 and the Council has agreed that it will not provide JEH with any further loan finance. The properties owned by JEH are currently valued at just over £51.4m against which the Council has provided funds of £51.7m. There is no loan repayment strategy.

3.16.24 Local Partnerships (LP) have undertaken a JEH Options Review which has considered the original and ongoing rationale for JEH, its performance against strategic objectives, an assessment of the housing stock, market analysis, evidence of market failure and implications for future service delivery. LP are due to report back at the start of March and it is anticipated that this review will recommend the full/partial disposal of properties to enable JEH to repay its debt to the Council. This will have a significant impact on the future role of JEH and services provided by JEH/the Council. Future decisions, will of course, consider the wider impact on JEH and the Council. The capitalisation directive includes £0.3m per annum for annual operating losses although this will be dependent upon the agreed long-term strategy for JEH.

Development Initiative Slough Housing Company (DISH)

3.16.25 Development Initiative Slough Housing Company Limited ("DISH") was incorporated in 1988 and was created to increase the supply of affordable housing in the Borough to residents who might not otherwise be able to access it.

3.16.26 DISH has a lease with the Council over 54 properties off Long Readings Lane and the properties are let at affordable rents on an assured shorthold tenancy basis. The original lease ran until 2019 and this was extended to 2027. In accordance with the lease, the properties are managed and maintained by the Council on the same basis as the Council's housing stock. The lease payable by DISH to the Council is set at a level to result in £nil profit in the company. This lease arrangement is considered to be lower risk compared to the Council's other companies as it has been in place for 30+ years, no significant concerns have been raised, low churn on properties, low financial risk and costs.

3.16.27 The lease requires that the Council offers the provision of these services to the Council and that the Council can, but is not obliged to, provide them at reasonable cost. Services continue to be provided by the Council in line with the details as set out in the lease.

3.16.28 Local Partnerships undertook a light touch review of the Council's housing companies in summer 2021 to help the Council in establishing its priorities for the year ahead. It recommended that further detailed review would be required to consider the Council's longer-term strategy for each entity, including JEH and DISH. A review of the options for DISH is planned to take place in early2022/23, which will consider whether a standalone company is still required, whether the properties can be brought into the HRA or an alternative course of action is required. Changes have been introduced in relation to DISH to replicate performance reporting, general management and risk management approaches at JEH. There are no adjustments in the capitalisation directive.

4 <u>Implications of the Recommendation</u>

1.1. <u>Financial implications</u>

1.1.1. The financial implications are discussed throughout this report.

1.2. <u>Legal implications</u>

1.2.1. Section 31A of the Local Government Finance Act 1992 requires billing authorities to calculate their Council Tax requirements in accordance with the prescribed requirements of that section. The function of setting the Council Tax is the responsibility of Full Council. This requires consideration of the Council's estimated revenue expenditure for the year in order to perform its functions, allowances for contingencies in accordance with proper practices, financial reserves and amounts required to be transferred from general fund to collection fund. The Council is required to make estimates of gross revenue expenditure and anticipated income, leading to a calculation of a budget requirement and the setting of an overall budget to ensure proper discharge of the Council's statutory duties and to lead to a balanced budget.

1.2.2. Local authorities owe a fiduciary duty to Council taxpayers, which means it must consider the prudent use of resources, including control of expenditure, financial prudence in the short and long term, the need to strike a fair balance between the interests of Council tax payers and ratepayers and the community's interest in adequate and efficient services and the need to act in good faith in relation to compliance with statutory duties and exercising statutory powers.

1.2.3. Section 25 of the Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. It is essential, as a matter of prudence that the financial position continues to be closely monitored.

1.2.4. Full Council is responsible for setting the overall budget framework. However, some of the proposed savings will be subject to further analysis and decision making and as such the savings are an estimate. Individual service decisions will be subject to officer or Cabinet approval, taking account of the statutory framework, any requirement to consult and consideration of overarching duties, such as the public sector equality duty. A contingency has been set aside to deal with a risk that when Cabinet considers these proposals it does not agree that the savings can be met within the specific statutory framework. In an extreme case, Cabinet may have to refer the budget to Full Council to re-consider the overall budget framework.

1.2.5. The Local Government Act 2003 and associated regulations set out rules in relation to use of capital reserves. S.15 requires local authorities to have regard to relevant statutory guidance. The statutory guidance on flexible use of capital receipts confirms that local authorities cannot borrow to finance service delivery, however they can use capital receipts from sale of assets to finance the revenue costs of reforming services. The guidance states that qualifying expenditure is expenditure on a project that is designed to generate ongoing revenue savings in the delivery of public services or transform service delivery in a way that reduces costs or demand for services in future years. The Council is recommended to adopt the Flexible Use of Capital Receipts Strategy from 2021/22 with no changes.

1.2.6. 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.

1.2.7. Cabinet and full Council should have regard to the advice and comments of the Commissioners contained in this report.

1.2.8. The Council undertook a high level budget consultation in relation to the 2022/23 budget and the comments are summarised in this report. In addition, the Council's scrutiny panels and overview and scrutiny committee have scrutinised the proposals and feedback from these meetings is summarised in this report. Cabinet and full Council should take account of all relevant information, including the consultation feedback, scrutiny feedback, s.25 report, equalities impact assessment and other implications. Cabinet and full Council should take account of this information when making a decision. In addition, some savings proposals have been subject to a separate cabinet decision when further information was considered and some proposals are due to be considered by Cabinet in the future. Full details of implications will be provided to Cabinet at that point. Due to the fact that some savings proposals are in their infancy and due to be considered by Cabinet and officers in the future, a contingency has been set in case some proposals are not capable of delivery. However, the contingency is relatively small and the Council needs to consider its longer term financial strategy and make significant savings decisions in order to become a more financially sustainable authority in the future.

1.2.9. The Council has submitted a capitalisation direction to DLUHC to allow it to treat as capital expenditure certain types of revenue expenditure. The Secretary of State only permits the Council to capitalise expenditure when it is incurred, minimum revenue provision must be charged and the Council must comply with the conditions set out by DLUHC. It should be noted this the capitalisation direction is not a grant. The Council needs to fund the revenue expenditure from disposing of assets and utilising the sale proceeds of such assets.

1.3. <u>Risk management implications</u>

Category	**Risks/Opportunities**	**Controls**	**Residual Risk Score (1 (Low) to 10 (high)**	**Additional Controls**
Financial	Given the level of financial uncertainty and current service pressures, there is clearly a risk that the current budget may prove difficult to deliver	This risk has been mitigated by trying to ensure that budget estimates are realistic and reflect current activity, along with known demographic and economic pressures. Including: The ability to contain demographic demand pressures; The speed of recovery and buoyancy of the general and local economy from COVID 19;	6	Budget monitoring process and regular reporting on achievement of budget and savings

Category	Risks/Opportunities	Controls	Residual Risk Score (1 (Low) to 10 (high)	Additional Controls
		Adverse interest rate movements; Increased inflationary pressures; Impact of Brexit on the Economy Future local government financing settlements from central government and potential impacts from changes to the Fair Funding Review; The capacity of Officers to deliver the savings and income projections in line with assumptions whilst still managing the impact of the pandemic.		
Financial	A key risk for the Council is that its finances are not sustainable in the long-term and it does not have sufficient reserves to enable it to effectively manage the financial risk that it faces in the medium term	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.
Financial	The Council's 2018/19 accounts are still being reviewed and the 2019/20 and 2020/21 accounts have are still being prepared which may mean there could be some movement in the assumed baseline level of reserves.	High risk areas have been reviewed and the financial implications have been built into the capitalisation direction. Risk assessment of the level of reserves and the building of contingency into the base budget to protect future volatility. Regular assessment and review of new and existing areas of volatility or uncertainty.	6	Regular assessment and review of new and existing areas of volatility or uncertainty.

1.4. Environmental implications

1.4.1. Not Applicable

4. Background Papers

- Revenue Budget Report to Full Council – March 2021
- Capital Strategy to Full Council – March 2021
- Treasury Management Strategy to Full Council – March 2021

- Q3 Revenue Monitoring Report to Cabinet - March 2022
- Council Tax Bases 2022/23 to Cabinet - January 2022
- 2022/23 Housing Rents and Service Charges to Cabinet - January 2022