Council Budgets – 2022/23 and Beyond

Overview and Scrutiny 8/3/22

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Slough Borough Council

Agenda

1. Section 25 Report
2. Revenue Budget
3. Capital Budget
4. Treasury Management
5. Dedicated Schools Grant
6. Council Tax Support Scheme

1. Section 25 Report - Legislation

Section 25 of the Local Government Act 2003 requires the Council's Chief Financial Officer (Director of Finance) to report to Council on:

a) the robustness of the estimates made for the purposes of the calculations of the budget; and
b) the adequacy of the proposed level of financial reserves

Council in considering its Budget should have regard to this advice.

In coming to a view on the robustness of the estimates there are a wide range of factors to take into account. The Council has considered:

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

A detailed assessment of each of these areas is contained within the S25 Report

1. Section 25 Report - Budget headlines

Slough's budget deficit:

a) has **moved from an initially submitted one year request of £15.2m to a 10 year £479m problem**, potentially rising well beyond this depending on the achievement of recurrent additional annual £20m savings

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

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

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

e) shows a 2022/23 budget requirement that is some 78% greater than its sources of funding

f) it must be acknowledged and understood that Slough's position is very precarious

1. Section 25 - Report Recommendations

That Cabinet and Full Council note that in the opinion of the Director of Finance:

a) **the level of Council reserves is adequate to support the Budget for 2022/23 having regard to an assessment of current financial and other risks, and further note that:**

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

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

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

b) **the estimates are robust for the calculation of the budget within the confines of the risks noted in the section 25 report**.

2. Revenue Budget

- The Council faces a financial deficit of £223m up to the end of the current financial year
- In 2022/23 the Council has a budget requirement of £191.7m in 2022/23 and funding sources totalling £107.6m
- **This represents a budget deficit of £84.1m, 78%. This is unprecedented in Local Government**
- The deficit of £84.1m will be funded through a capitalisation direction from government, borrowing for this element of revenue spending that will be repaid over the next 20 years
- The capitalisation direction includes provision to build the General Fund balance to £20m and provides for some earmarked reserves to enable risks to be managed
- **It should also be noted that the budget assumes that:**
  - **the budget deficit will be funded by the capitalisation direction**
  - **is subject to the achievement of all of the savings in the budget report**
  - **Is also subject to asset sales of upto £600m**

2. Revenue Budget - Savings

- Savings of £20m will be required to balance the budget for 2022/23, these are listed by directorate in the table below

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)**

2. Revenue Budget - Growth

- The budget for 2022/23 also factors in growth for pressures and inflation, this is listed by directorate in the table below

	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	2,000	0	0	2,000
Total	**3,947**	**2,788**	**1,443**	**8,178**

2. Revenue Budget - Pressures

The Council is facing unprecedented financial challenges across the whole spectrum of its budgets potentially totalling an estimated £479m up to 2028/29

Capitalisation Direction Breakdown	Pre 2022/23 £m	2022/23 £m	Projected Post-2022/23 £m	Total £m
Estimated Financial Deficit	223	84	172	479

This assumes the Council finds annual additional savings of £20m per annum of a recurrent nature every year through to 2027/28. If this doesn't materialise the above figure will increase

The majority of the deficit can financially be attributed to:

- inadequate Minimum Revenue Provision (MRP) - the single biggest amount within the capitalisation direction is due to the incorrect accounting for MRP for many years - £70m up to 2021/22, further £29m required for 2022/23
- inadequate level of provisions - £25m (£11m for bad debts)
- incorrect capitalisation of revenue costs - £48m
- Council owned companies - potential liabilities - winding up some of these companies - circa £20m
- inadequate budget estimation and failure to deliver planned cost savings

2. Revenue Budget - Pressures

Related issues are:

- no (complete and accurate) accounts for 5 years
- no proper management of its budgets
- poor financial systems
- effectively no general reserves
- the need for a capitalisation direction that exceeds any in the country from what is a very small Council
- a very large DSG deficit
- very poor governance of all of its companies
- many extremely adverse external reviews

2. Revenue Budget - Pressures

The majority of the overall issue can be attributed to 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
- skilled project management
- development and leadership of the Council's finances and finance team
- financial drive, ambition, positive attitude, ownership

The Council has very severe financial and related challenges which have to be fully addressed

2. Council Tax

- Council tax provides 34% of the Council’s overall funding
- Council tax rise of 2.99% - a 1.99% general increase and a 1% Adult Social Care precept
- Increase of £0.86 per week for a Band D property

Band D Council Tax	**2021/22 (£)**	**2022/23 (£)**	**Change (%)**	**Increase per week (£)**
Slough Borough Council	1,322.15	1,351.81	1.99%	0.57
Adult Social Care Precept	168.15	183.05	1.00%	0.29
Sub-total Slough	**1,490.30**	**1,534.86**	**2.99%**	**0.86**
PCC for Thames Valley	231.28	241.28	4.32%	0.19
Royal Berkshire Fire Authority	68.95	73.95	7.25%	0.10
Annual Council Tax	**1,790.53**	**1,850.09**	**3.33%**	**1.15**

2. Council Tax

Band D Council Tax	2021/22 (£)	2022/23 (£)	Increase (%)
Reading	1,776.60	1,829.72	2.99%
Buckinghamshire	1,607.43	1,670.99	3.95%
Wokingham	1,620.14	1,668.58	2.99%
West Berkshire	1,596.41	1,660.26	4.00%
Slough	**1,490.30**	**1,534.86**	**2.99%**
Bracknell Forest	1,403.19	1,466.19	4.49%
Windsor & Maidenhead	1,131.17	1,164.99	2.99%

3. Capital Programme – Previous Years

- The capital programme set out in the Capital Strategy forms a key part of the Council's budget setting process.
- Previous year's capital programmes contained a number of issues, including:
  - **involving several major projects in any one year** and were heavily dependent on borrowing
  - insufficient capacity to deliver the capital programme, resulting in slippage of 40% in delivering the programme
  - heavy dependency on borrowing to fund capital expenditure resulting in overall borrowing rising four-fold from £170m at 31 March 2016 to £760m at 30 June 2021
  - incorrect treatment of £12.2m capitalisation direction approved in March 2021
  - misstated projections and casting issues
- The then approved programme envisaged spending £309m over three years 2021/22 to 2023/24 of which £119m was to be funded from borrowing and a further £49m from institutional funding. Both incur capital financing charges. **This would have resulted in total Council borrowing exceeding £900m.**

3. Capital Programme – 2021/22 to 2026/27

- The current Capital Programme has been prepared in light of the s.114 Notice issued in July 2021, the CIPFA Financial Review and the appointment of commissioners, and is designed to be one of the many workstreams to bring the Council's financial position onto a more sustainable footing.

- The Council's financial position requires total borrowing to be reduced, therefore the strategy is to minimise the extent to which schemes require additional new borrowing.

- The capital programme has been reviewed to:

  - reduce capital expenditure to focus on contractual commitments and health and safety requirements in line with the s.114 Notice – this has **reduced the total capital programme by £73m to £236m**; **it should be noted that the previous programme covered three years whereas the new programme covers five years and therefore if compared on a like for like basis, the reduction would equate to £141m**

  - **reduce the need to borrow by £76m** from £119m to £43m; again as the new programme spans a longer period, **if compared on a like the reduction would equate to £90m**

  - remove projects which would have required additional borrowing and to re-profile projected spend and extend the capital programme from three years to a five year forward look in line with best practice.

4. Treasury Management

- All local authorities are required by law to approve a treasury management strategy (TMS), investment strategy and minimum revenue policy before the year to which they apply as part of the budget setting process. The TMS combines these. There were a number of issues with the previous TMS:

  - capital expenditure forecast did not link back to the capital strategy meaning that the Prudential Indicators to limit borrowing and assess affordability of borrowing were misstated. If corrected the Council's borrowing would have exceeded the capital financing requirement, which is not unlawful but would have indicated that the Council was borrowing to support the revenue budget

  - No performance measures had been set or reported in previous years

  - Measured against standard benchmarks for investment property, the Council's investment property portfolio (valued at £139m) is yielding a negative rate of return of -0.6% and is fully leveraged **contrary to the Prudential Code**

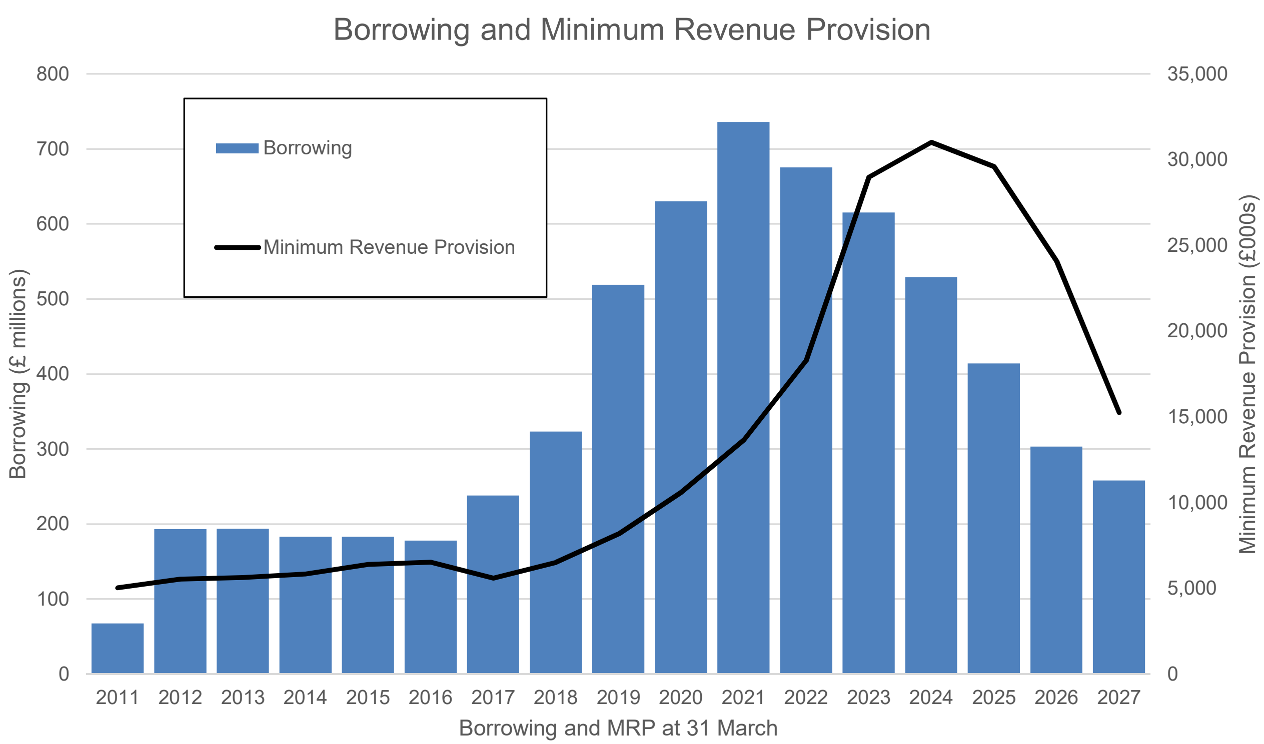
  - The Council's borrowing of £760m at 31/6/21 was the **third highest per head of population of all unitary Councils**

  - Annual interest & debt charges total £25m, 24% of net budget in 21/22 and **rises to 32% in 22/23**. Not affordable or sustainable

  - MRP policy did not comply with statutory guidance, and had not been applied in practice

- The above issues have been addressed in the TMS for 2022/23 to ensure that the Council is compliant with statutory guidance and brings borrowing back to a sustainable and affordable level over the next five years.

4. Treasury Management – past, present and future



5. Dedicated Schools Grant

DSG deficit has been growing for a number of years, refreshed DSG management plan estimated that the deficit would grow to £43m by 24/25 without any mitigations:

DSG – Forecast (£m)	19/20 (Actual)	20/21 (Actual)	21/22 (Forecast	22/23 (Forecast)	23/24 (Forecast)	24/25 (Forecast)
In-year deficit	5.9	7.2	7.2	6.0	5.1	4.5
Cumulative deficit	**13.4**	**20.6**	**27.8**	**33.8**	**38.9**	**43.4**

DSG currently excluded from general reserves due to a statutory override, could end 31/3/23. Deficit would then impact on general fund reserves. ***Increasing the Council's overall problem to over £0.5bn***

Work on identifying actions/savings to reduce the deficit commenced in May 2021:

- **Data cleanse** – to ensure that we have a reliable list of placements that can be reconciled against invoices through the year
- **Demand projections** – obtain reasonable estimates for movement in demand
- **Reconciliation of Agresso and Capita** – identify duplicate or invalid payments
- **SEND Panel process** – increased scrutiny to ensure placements provide appropriate level of support
- **Review of bandings** – to ensure banding levels are set at appropriate increments ensuring graduated response to need

5. Dedicated Schools Grant

These workstreams have resulted in the estimated deficit for 2021/22 going down to £4.9m, a reduction of £2.3m compared to last year. Majority of the deficit is due to pressures on the High Needs Block and can be summarised as follows:

Area of spend	Amount (£m)
Mainstream schools or academies placements	0.6
Maintained special schools or special academies placements	0.4
Non-maintained special schools or independent (NMSS or independent) placements	1.4
Hospital schools or alternative provision (AP) placements	-0.5
Post 16 and further education (FE) placements	3.0
Total	**4.9**

It is clear that existing workstreams are having an impact on managing the overspend, further work required to eventually bring the in-year position into balance and avoid adding to the unprecedented pressures that the Council is already facing.

The Council has been invited to take part in the 'safety valve' intervention programme with the DfE which is expected to commence in April/May 2022. Officers are currently updating the management plan in readiness for the programme.

6. Council Tax Support Scheme

- The Council must have a Council Tax Support scheme in place each year, legislation states that the scheme must be ratified by members no later than the 11 March preceding the start of the scheme.
- The Council Tax Support Scheme (CTSS) was amended for 2020/21 and was not revised for 2021/22.
- Current scheme allows the Council to uprate by the appropriate level of inflation measured by the Consumer Price Index (CPI) at 1st October preceding the effective financial year **or** by a percentage representing the increase in personal allowance within the applicable amounts for the Housing Benefit for the relevant financial year, **whichever is the lowest.**
- The CPI was 4.2% but the personal allowance uprating has been announced as 3.1% so the recommendation is that the latter is applied.
- If the council does not uprate the income bands there will be less CTS paid out which could potentially benefit the Council financially.
- However, any reductions in amount of CTS paid would mean an additional charge to financially vulnerable residents at a time when the cost of living is rising sharply, these additional sums are likely to be difficult to collect and the costs of collection and the amount of bad debt provision required is therefore unlikely to give the council any financial gain.