This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Grant Thornton

Slough Borough Council
Value for Money Planning Memorandum

Year ending:

- **31 March 2020**
- **31 March 2021**

July 2022

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Background and context

In July 2019 we began the process of completing our audit of the Council's 2018/19 financial statements and our review of the value for money arrangements in early 2020. Unfortunately this process did not complete as planned due to a number of significant matters arising from the audit of the financial statements and still remains outstanding. Since the 2018/19 Statement of Accounts was initially prepared, errors identified by both the Council's external auditors and the new Finance team have required a substantial re-write of these accounts.

Completion of the financial statements was delayed initially due to Council having difficulties in producing quality information to support the financial statements and a range of internal control deficiencies. However, as further exploration was undertaken it became evident that there were failings over a number of years to ensure there was effective and robust financial management in place. As a result the following actions have been taken:

Date	Action
9 May 2021	Four statutory recommendations issued by Grant Thornton
22 July 2021	Section 114 notice presented to the Full Council by the Council's Section 151 Officer
2 July 2021	Two statutory recommendations issued by Grant Thornton
25 October 2021	Two independent reviews published: • Financial review • Governance review
1 December 2021	Commissioners appointed

The Council now faces significant financial challenges to achieve financial sustainability and requires effective corporate governance to ensure action is taken to achieve the necessary change.

Combined planning memorandum

As a result of the delay in the 2018/19 financial statements and the series of actions that have followed, we have not yet been able to issue our final Value for Money conclusion in relation to the 2018-19 year. Our audit findings report presented to the Council's audit committee on 18 May 2021 proposed an adverse conclusion on our value for money work. Whilst some further work is required to bring this to its final conclusion following the issue of further outcomes from external reviews, our overall proposed conclusion for 2018-19 will remain unchanged.

We have provided a planning memorandum which combines the two financial years 2019/20 and 2020/21. Although the value for money arrangements differ for these two years, we plan to complete our review over the same period enabling us to minimise disruption to officers and deliver the work in a more efficient manner. Although it should be noted that final reports cannot be issued without completion of the financial statements audit.

Value for Money arrangements for 2019/20

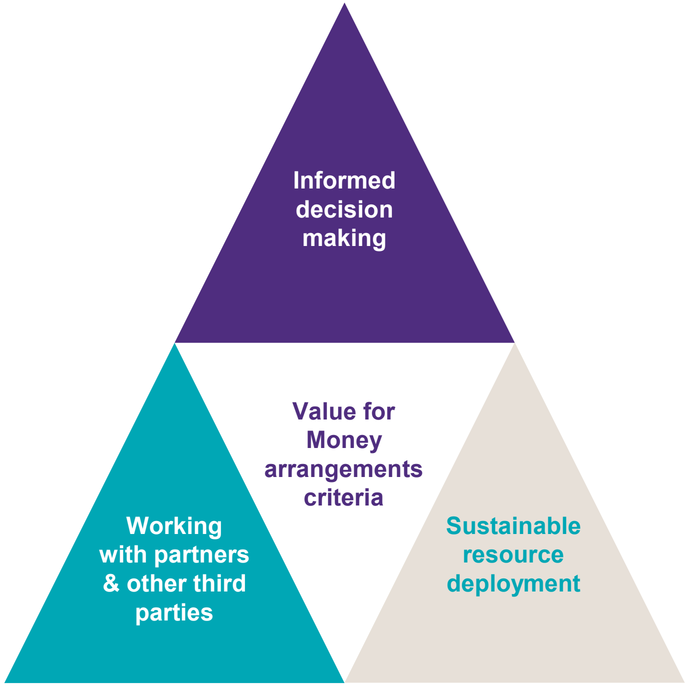
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Significant VfM risks

Sustainable resources

The Council should have financial plans that accurately budget and forecast its financial position over the short and medium term. During 2019/20 the Council agreed its Medium Term Financial Strategy and savings plans for 2020/21 onwards. However, during 2021 following both external and internal evaluation the Council became aware of the significant financial challenge it faced and the Chief Financial Officer issued a Section 114 Statement.

As a result the MTFS and proposed savings agreed during 2019/20 are not fit for purpose and as such there is no benefit in looking at these documents. Therefore we will review:

- Section 114 notice issued by the Chief Finance Officer
- the statutory recommendations issued by Grant Thornton in May 2021 and July 2021
- the level of reserves available to the Council following the issue of the revised 2018/19 financial statements and the financial statements for 2019/20 and 2020/21
- the impact of the pandemic on financial sustainability in 2019/20.

As part of the 2020/21 and 2021/22 VfM work we will consider the financial plans and measures required from 2020/2021 onwards.

Informed decision making

The audit of the 2018/19 financial statements has been hampered by a lack of appropriately skilled and qualified finance staff and a range of internal control deficiencies. In addition we and the Council have identified a range of in year and prior year adjustments which have had an impact on the reported financial position of the Council.

As part of our audit of the 2019/20 financial statements we will consider:

- the changes and improvement in internal control arrangements compared to those identified previously and the Council's governance procedures and progress in addressing the previously identified recommendations
- the quality of the working papers provided for the 2019/20 financial statements.

As part of the 2020/21 and 2021/22 VfM work we will consider the action taken to address the recommendations raised in response to the Statutory Recommendations.

Working with partners and other third parties

Throughout 2019/20 children's social care services have been delivered by Slough Children's Services Trust Limited (SCST). The Children's Trust was established by the Secretary of State in October 2015, following two Ofsted judgements of 'inadequate' since 2011.

However, the financial position of SCST has deteriorated and in August 2019 projected a deficit of £3.7m for 2019/20. This increased further in 2020/21 to £5.4m and was funded jointly by the Council and the Department for Education to avoid liquidation.

Throughout 2018/19 the Council did not have adequate arrangements in place to monitor the extent of the SCST's financial position. Although regular contact had been maintained with SCST management, neither Cabinet or the Education and Children's Scrutiny Committee were formally updated of the financial position.

We will review the internal control and governance arrangements in place to manage SCST in 2019/20. This will include:

- reporting and managing performance and action taken to address underperformance
- the reporting of the deteriorating financial position of SCST throughout 2019/20
- review of the possible options for SCST considered during 2019/20, including discussions with the Department of Education. This will include any decisions that were made in year to cease operating the Trust and to establish a council owned local authority company limited by guarantee.

Any decisions made in 2020/21 will be considered as part of our VfM review of arrangements, see page nine.

Value for Money arrangements for 2020/21

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of VfM.

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out opposite:

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Comparison of the value for money arrangements, 2019/20 to 2020/21

2019/20 criteria		2020/21 criteria
Informed decision making	→	Governance
Sustainable resource deployment	→	Financial sustainability
Working with partners and other third parties	→	Improving economy, efficiency and effectiveness

The criteria for 2019/20 cross over with those identified in 2020/21.

2020/21 - Risks of significant VFM weaknesses

As part of our reporting we will provide commentary on each of the three criteria:

- Governance
- Financial sustainability
- Improving economy, efficiency and effectiveness

In addition as part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are set below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out on page ten.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money. The risks we have identified as part of our initial planning are considered opposite and on the next page.

Additional risks may be identified as we complete the detailed work to provide commentary on each of the criteria listed on page 6. If additional risks are identified we will inform those members charged with governance as soon as we become aware.

Financial sustainability

The Council faces significant financial challenges and issued a Section 114 notice in July 2021. The Council projected that in-year spending on services would be significantly higher than the planned budget. In addition the level of general reserves held by the Council would be significantly below the 5% minimum level of General Fund working balances recommended by CIPFA, at £1.46m.

Financial balance cannot be achieved without support from the Department for Levelling Up, Housing and Communities. A capitalisation directive has been agreed in principle to the value of £307m. This would be utilised over five years from 2018/19 to 2022/23. Further savings will also be required of £20m per annum from 2018/19 up to and including 2027/28.

We will review the:

- financial outturn position reported as at 31 March 2021, including the level of reserves
- financial and savings plans developed to achieve financial balance
- level of external borrowing and how the Council plans to manage the reduction in external borrowing
- progress made to review and prioritise its capital programme
- arrangements and action taken to achieve financial sustainability, including its asset disposal plan.

We will consider a range of documentation prepared to address the financial situation and discuss progress with the Council's financial staff and Commissioners.

Governance

The risk of significant weakness is that the Council does not have adequate governance arrangements in place to recognise and to be able to address the serious financial challenge what the Council faces. The Council needs to effectively manage the risk whilst addressing failings in its internal governance arrangements.

We will review the :

- changes made to strengthen the governance arrangements, including progress and further action required to address the statutory recommendations raised by Grant Thornton and the recommendations raised in the governance reviews undertaken on behalf of the Department for Levelling Up, Housing and Communities
- the risk management arrangements and changes made after the issue of the Section 114 notice
- decision made by the Council to set up a wholly owned company to deliver its children's services and the governance arrangements introduced to effectively manage this statutory service
- How the Council has reviewed its own arrangements to ensure it is compliant with regulatory requirements such as the CIPFA Financial Management Code and the Prudential Code.

As part of our audit of the 2020/21 financial statements we will consider:

- the changes and improvements in internal control arrangements compared to those identified in 2019/20
- the quality of the financial statement and working papers provided for the 2019/20 financial statements.

Improving economy, efficiency and effectiveness

There is a risk that the Council that the Council is not using its information on costs and performance to improve the way it manages and delivers its services. The governance review undertaken on behalf of the Department of Levelling Up, Housing and Communities in October 2021 concluded that he Council had been failing its best value duty for continuous improvement, as set out in section 3 of the Local Government Act 1999.

We will review how the Council evaluates and uses the information it receives to assess performance and improve poor performance. In order to assess arrangements we will:

- review the corporate performance management arrangements for all services and consider in further detail the arrangements for the Council's
    - Children's Services, including its improvement plans
    - active companies
    - Our Futures Transformation Programme.

Potential types of recommendations

A range of different recommendations could be made following the completion of our work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements