OVERVIEW AND SCRUTINY FINANCIAL OVERVIEW 1 DECEMBER 2022

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PURPOSE

- The focus of the Scrutiny role at this stage is to consider and comment on the specific budget proposals at the meeting
- However it is important that the overall financial context is clearly understood, particularly for Slough
- These slides thus set out the major financial issues facing the Council to provide this context and to inform the work of Scrutiny

FINANCIAL POSITION/ISSUES

- The Council issued a s114 in July 2021

- The problem at that stage was estimated as £174m

- Faced with this problem the Council has actioned an agreed financial strategy:

  - identify problem, this began in July 2021
  - sell assets to reduce borrowings and thus reduce MRP/interest costs and finance the CD – agreed September 2021
  - reduce net revenue expenditure – ongoing since July 2021
  - produce and have audited high quality accounts – ongoing since July 2021
  - restructure the finance team to provide a sustainable service going forward – started May 2022, ongoing
  - all to an appropriate standard and in an appropriate manner and with an understanding that this will take up to 5 years

which is now starting to come to fruition, although there remains a very challenging set of circumstances to deal with

FINANCIAL POSITION/ISSUES

- The Council sought support from DLUHC and a minded to **capitalisation direction (CD)** was agreed, at £307m to 31/3/23

- The problem has grown from the original estimate of £174m (as it was advised it would) to potentially £782m and based on current assumptions and the outcome of the ongoing work now stands at c£369m

- The main cause of the CD requirement is the level of **borrowing** as the Council borrowed £760m and effectively made no budgetary provision for principal repayments - £40k in 2020/21, should have been c£15m

- Linked to this, half of this was borrowed short term from other Councils, at the time these rates were cheaper and the Councils were willing to lend to Slough

FINANCIAL POSITION/ISSUES

- All of the borrowing has to be financed, the short term loans immediately so, this creates a **cash flow** as well as budgetary issue

- All of the Councils who lent to Slough now want their loans repaid, none will currently lend to Slough again and £266m has to be repaid through to and by Sept 2023

- The solution to this is to sell assets to generate cash which has been the Council’s strategy since September 2021

- A great deal of work is ongoing on **asset sales**, with plans if they come to fruition to generate c£200m in this financial year and £60m in 2023/24, which is currently being revised, with the intention of accelerating and increasing this sum

FINANCIAL POSITION/ISSUES

- In addition to the borrowing a **range of other issues** have been identified including:

  - a lack of general reserves – under £2m at March 2019
  - a lack of provisions
  - incorrect accounting for revenue expenditure
  - incorrect budgetary provisions
  - non delivery of budget savings
  - under providing for MRP
  - lack of management of companies
  - Etc

FINANCIAL POSITION/ISSUES

- The Council has no **accounts** since 2017/18
- The original 2018/19 accounts have been extensively revised and resubmitted and are currently undergoing audit
- The 2019/20 accounts have been prepared and submitted to external audit
- There have been major challenges with the 2018/19 accounts, and will be for 2019/20 and 2020/21, due to a lack of accounting records
- As a result, the Council is likely to receive a very adverse audit report for 2018/19
- The Council has recently **restructured its finance service** and recruitment is underway as is development of internal staff

FINANCIAL POSITION/ISSUES

- As well as the sale of assets and the use of capital receipts to address the CD and cash flow issues the Council also has to generate **revenue savings**, currently estimated at:

  - £20m 2022/23
  - £22.4m 2023/24
  - £14m from 2024/25 to 2028/29

  to help it meet the impact of the increased MRP charges, interest rate increases, inflationary pressures and demand, the impact of energy changes etc

- It is these savings for 2023/24 that Scrutiny and Council need to address in the coming financial year

AUTUMN STATEMENT (1)

- On November 17th, the Chancellor made a number of announcements about the Government's plans with regard to changes in taxation and public spending. The key points arising which affect local authorities were as follows:
  - The referendum limit for council tax rises to 3% from April 2023, and authorities with social care responsibilities will be able to increase the adult social care precept by 2%. Slough will therefore be able to increase council tax by 4.99% in each of the next 2 years
  - £1bn promised for adult social care in 2023/24, £0.6bn issued through the BCF (50/50 with Health) and £0.4bn through ringfenced grants
  - ASC charging reforms have been delayed by 2 years
  - The social rent cap has been set at 7% (would have been 11%) – relevant to the HRA

AUTUMN STATEMENT (2)

- Business Rates revaluations to go ahead from April 2023 with a new transitional relief scheme
- The Business Rates multiplier will be frozen in 2023/24, for which LA’s will be compensated, with new burdens funding for administrative and IT costs
- £2.3bn extra for schools in 2023/24 and 2024/25
- £1.7bn made available for round 2 of the Levelling Up Fund
- The additional funding given to LA’s for the temporary NI increase will cease in April 2023

- Clarity in terms of exactly how much the grants received by SBC will amount to will become clearer in the Local Government Funding Settlement announcement, around 20th December

INFLATION

- Inflation has recently risen to 11.1% for CPI, 14.4% for RPI. The rate for 2023/24 is projected to fall again to an average 7.4%

- Many of the council’s contracts have inflation provisions written into them, some at RPI, although we are looking to rebase future new contracts against CPI

- Energy costs have risen more significantly that this over the past 12 months. We have fixed our rates for 2022/23 to guard against further rises and are keeping 2023/24 under review as market prices have been falling again more recently.

- Staff pay rises are negotiated nationally and for 2022/23 were set at a flat £1,925, not a % increase. We have assumed the same again for 2023/24

- We have made central provision for inflation to account for potential increases, but it is important that we are robust in negotiations to keep the impact in check.

INTEREST RATES

- The projection of interest rates has real significance for SBC given the level of debt
- Short term borrowing from other LA's of £266m at low rates will expire over the next 10 months.
- Any new borrowing would need to be taken from PWLB whose rates are now higher
- Asset sales are key to ensuring we can bring down borrowing and hence minimise the impact of inflation on the council's budget
- There are projections of significant asset sales anticipated over 2022/23 and 2023/24. It is critical to the recovery of the council's finances that these are achieved.
- On the basis that this is achievable, the projected interest rates, while rising, is not expected to take the council over budget on interest costs.