Appendix M - Statement on The Robustness of Estimates and Reserves (the "Section 25" statement)

1. Scope

1.1. Under Section 25 of the Local Government Act 2003 there is a requirement for the Council's Chief Financial Officer (Section 151 Officer) to report to Council on:

- the robustness of the estimates made for the purposes of the calculations of the budget; and
- the adequacy of the proposed level of financial reserves.

1.2. Section 26 of the same Act places an onus on the Chief Finance Officer to ensure the Council has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget.

1.3. This report has been prepared by the CFO (The Executive Director of Corporate Services) to fulfil this duty and gives the required advice relating to the 2021/22 financial year and Medium Term Financial Strategy. It includes consideration of the budget proposals as a whole and the financial risks facing the Council. It identifies the Council's approach to budget risk management.

1.4. The Council, in considering the Budget and Medium Term Financial Strategy, is required to take into account the advice set out below.

2. Policy Context

2.1. This budget is set during a period of considerable uncertainty in the short and medium term, due to the Covid-19 pandemic, Brexit and also future funding levels for councils. The ongoing situation regarding Covid-19 has meant the government have only provided certainty over funding for a one-year period (2021/22). The government's Fair Funding Review has been delayed for a second time and is now expected to be implemented from April 2022 at the earliest. As Slough has benefitted from Business Rates growth over the last few years, the business rates reset is likely to have a negative impact on funding as this growth will be moved into the baseline. CIPFA's resilience index highlights this as high risk for Slough BC compared to other councils.

2.2. Like many councils, Slough faces considerable financial challenges, particularly increasing numbers and costs of supporting vulnerable people and children in care. However, the Council's level of reserves are very low which means that it has less time and potentially fewer options than others to bring its budget into balance.

2.3. The Council has made a substantial commitment to the regeneration of Slough town centre and to the development of the local economy. To fund this important investment, borrowing has substantially increased, with the Capital Financing Requirement for the General Fund estimated to be £585m at 31.03.21 increasing to £732m by 31.03.24 which is impacting on the revenue budget. CIPFA's resilience index highlights that the level of interest payable as a proportion of net revenue is a high risk for Slough BC compared to other Councils.

2.4. The Council have also been impacted by two large one-off costs that it will have to fund in 2021/22. A backdated Business Rates refund of £5.3m and an element of the Slough Children's Trust Company deficit, with the Councils share estimated to be £2.4m, although this depends on a contribution from the DfE of £3m that has still to be confirmed.

2.5. It has also been negatively impacted by an increase in claimants for Council Tax Reduction Support, individuals who have lost their jobs due to Covid. This has meant a reduction in the Council Tax base for 2021/22 compared with 2020/21 of 5% when the Council had assumed 2.5% growth in its previous MTFS from new housing. The difference between the two costing an estimated ongoing reduction in income of approximately £4.6m pa with no reduction in costs. The impact of this more than negates the 4.99% increase in Council Tax proposed for 2021/22.

2.6. Slough's low Council Tax base impacts its ability to increase income compared with other Councils. With government grants reducing this has an impact on its resilience compared with other Councils. As an example Wokingham Council, the least deprived Council in the country, has a tax base 80% larger than Slough's although its population is just 10% larger. This means, a 1% increase in Council Tax in Wokingham will increase income by £1.2m, whereas for Slough a 1% increase will generate an additional £0.6m. Wokingham's proposed Council Tax at Band D is also higher at £1,620 per annum compared with Slough's proposed £1,490 per annum for 2021/22. Wokingham's estimated income from Council Tax in 2021/22 is £119m, Slough's £61m.

2.7. Because of these pressures the Council would have been unable to set a robust budget for 2021/22 without reducing reserves to below a minimum level. It, therefore, like other Councils, approached MHCLG for permission to capitalise elements of its revenue expenditure in 2021/22 until it can reduce expenditure or increase income to a sustainable level in the Medium-Term.

2.8. Although MHCLG have been positive in discussions and other Councils have been granted the funds they have requested it is unlikely the directive will have been approved before the dispatch of papers although an update will be given at the Cabinet and the Full Council Budget meeting. This report has been prepared on the basis that the Council will be granted a directive of £12.2m that it will fund from increased Capital Receipts or reductions in the Capital programme.

2.9. The granting of the directive will have certain conditions that have been explained in this MTFS report. I am confident the authority has sufficient 'surplus assets' capable of being disposed of over the next five years to fund this capitalisation direction without any material impact on the Council's future borrowing requirements.

2.10. Given the scale of the financial challenge over the next two years it is essential that the council takes advantage of the flexibility to increase its council tax by a total of 4.99% (including the ASC precept). Reducing Council Tax by 1% would result in loss of £0.6m in income in 2021/22 and reduce the base level for future years.

3. Robustness of the estimates in the MTFS

3.1. 2020/21 has been very challenging to deliver the savings committed to in February 2020 due to the impact of Covid-19. Although one-off grant support for Covid-19 has been provided by government to partially address the impact of non-delivery or slippage of savings in year; officers have been required to reassess savings options going forward in the midst of the pandemic without an end date in sight.

3.2. Budget forecasts are based on the current information available, but it is important that the Council is aware of the significant risks it faces in terms of central funding and business rates in the medium term.

3.3. The Council's approach to the deliverability of savings for both 2021/22 and future years is still evolving. A level of contingency has been built into the budget to cover this. In particular it must be noted the Adult Social Care (ASC) Transformation savings have been calculated by independent experts, based on national benchmarking and known best practice. Detailed business cases will need to be drawn up, agreed, and implemented quickly if this level of savings is to be achieved. However the budget does contain a £2m ASC contingency which could be released if these proposed savings were not immediately forthcoming.

3.4. It should also be noted the Council is in the midst of a fundamental restructure programme affecting all its staff. The restructure, although needed, obviously has an impact on the availability of staff to implement savings proposals. It is expected the restructure will be implemented from 1 April 2021 and a transition plan is currently being developed to ensure there is continuity of service provision. The future budget also assumes staff savings of £3.5m arising from the restructure and a further £1.5m reduction in Agency Staffing. These savings will need to be closely monitored going forward and ultimately delivered.

3.5. The budget process has identified significant budget pressures for 2021/22 of £17.766m plus additional Covid pressures of £6.025m. The process reflects a thorough review of Council expenditure that takes into account:

a) Non-delivery and slippage of savings due to Covid-19
b) Structural deficits – right-sizing service budgets
c) Demographic growth for both Adults and Children's services

3.6. Whilst a thorough review of budgets has been made to identify all pressures, the ongoing situation with Covid-19 means there is uncertainty in the short-term. Therefore a contingency of £6.025m has been set aside to fund pressures arising directly from Covid-19 and it is expected that these pressures will be contained within further government grants.

3.7. The Council has identified a significant savings programme of £15.576m for 2021/22 with a further £7.997m of savings for the following two years. These have been fully assessed and business cases produced. The full amount of the Covid-19 grant from government, £6.025m has been set aside for potential costs of Covid-19 and as a contingency for non-delivery of savings in 2021/22. In addition contingency provision has been provide of £0.375m in 2021/22, £1.666m in 2022/23 and £2.451m in 2023/24.

3.8. Savings will need to be further reviewed during 2021/22 and additional ones identified to close the budget gap. The level of contingency will also be reviewed at this time.

3.9. Following central government's announcement in November 2020 concerning a public sector pay freeze, there has been no allowance made for a general pay award in 2021/22, although a provision has been included of £0.200m for staff on the lowest pay. The MTFS allows for a 2% pay award in 2022/23 and 2023/24.

3.9 The Council has a substantial capital programme; and as noted in the Treasury Management Strategy the authority is currently holding £349.5m in short term loans paying an average interest rate of 0.48%. If this were replaced by a 25 year Equal Instalment of Principal (EIP) loan from the PWLB on the same date this loan would charge interest at 1.35%. Although replacing short term funding with a loan term loan would reduce interest rate risk this would amount to an extra cost to the Council of approximately £3m over the next year.

3.10. Longer term the Council will need to consider a move away from short term financing to more predictable and sustainable arrangements. A fundamental review of the Capital Programme will be undertaken during 2021/22.

3.11. Despite the uncertainty, Slough BC's record of delivering within budget without recourse to reserves is good and the pressures and level of contingency built into the revenue budget mean that the estimates provided are seen to be robust.

4. Capitalisation Direction

4.1. Whilst deciding whether the particular financial circumstances facing the Council in 2021/22 were sufficiently 'exceptional' to allow a Capitalisation Direction to be granted, MHCLG undertook an independent review of the Council's budget and concluded (emphasis added):

> *The Council has limited resources in terms of revenue reserves to balance the 21/22 revenue budget.* ***Without the two unexpected items in terms of business rates and the children's trust the budget would have been balanced.*** *For 22/23 Savings plans need to be developed like many other Councils and in the timescales available these are unlikely to produce a balanced budget without the assistance of a capitalisation directive.*
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> *The Council is still in development stage with regard to developing a long-term plan to address the emerging budget gap over the next three to four years to address the underlying drivers of risk and securing longer term financial stability. It is now aware of*

the issues including the need for a robust capital strategy, longer term planning with regard to Treasury management and the need for an asset usage and disposal policy but these proposals are in their infancy and need further work to deliver long term sufficiency.

The issues that have caused the request are not solely Covid related and are due to two external factors which have meant that the Council is not able to fund these in 21/22. This is combined with the increase in debt in recent years and the change to funding MRP direct from revenue rather than from capital receipts. The generalised sector wide support package does provide sufficient support for Covid costs

5. High Needs Block (Dedicated Schools Grant) Deficit

5.1 As noted in the main report, 13.2 the DSG has a forecast deficit at the end of 2020/21 of £16.960m, which is a £4.632m increase since 31st March 2020 due to the overspend on the High Needs Block. Slough has developed a detailed management plan for the deficit, as required by the Department for Education [DfE], which was presented to Schools' Forum in January 2021.

5.2 DfE guidance states that *"…DSG is a ring-fenced specific grant separate from the general funding of local authorities, and that any deficit an authority may have on its DSG account is expected to be carried forward to the next year's schools budget and does not require to be covered by the authority's general reserves."* Therefore I have not taken the size of this deficit into account for the purposes of this S25 report. Nevertheless, the detailed management plan for reducing the deficit will need to be closely monitored going forward.

6. Adequacy of Reserves and Balances

6.1. Members are well aware the Council's reserves are one of the lowest in the Country as a proportion of its net revenue budget compared with other Unitary Councils. This meant they were not adequate to cover the one-off issues referred to above and the impact of Covid-19 on the 2021/22 budget without seeking a capitalisation directive from MHCLG. Although the 2021/22 budget balances there is no planned increase in reserves via the general fund over the period of the MTFS. It can be seen, however, that the reserves will increase as 'profits' are realised from various schemes under SBC's joint venture with Morgan Sindall, Slough Urban Renewal (SUR). It is important that the level of these expected 'profits' are continually monitored, given the potential benefit to Slough BC's future financial resilience, and it is proposed that this monitoring will be undertaken by the Council's Commercial Committee going forward.

6.2. The Capitalisation Directive provides the Council with time to identify further savings to mitigate the underlying pressures within the budget.

6.3. In previous years, the Council has not been reliant on the use of reserves to set a balanced budget and this will have to be the case moving forward.

6.4. The level of savings required to balance the 2022/23 budget is currently £13.025m and Slough BC does not have sufficient reserves available to fund this amount. I welcome, however, recent discussions with the political and officer leadership of the Council, and acknowledge that all parties recognise the size and significance of the funding issue and are committed to develop savings plans to close this gap before the end of the 2021/22 year. Regular monitoring of the Council's approach to closing the gap will be included as part of future Lead Members' and Directors meetings.

7. The Finance Team

7.1. S114 of the 1988 Local Government Act is often referred to in the context of being unable to set a balanced budget. It also places a responsibility on the Council to provide its chief finance officer with such staff, accommodation and other resources as are in his opinion sufficient to allow his duties under this section to be performed.

7.2. The financial issues faced by the Council over the past 12 months has highlighted weaknesses across the finance team in the Council; financial reporting, controls and financial oversight need to be improved. Senior interim staff have been brought in to provide short-term resilience to the team and it has become apparent that without these additional resources the Council would have struggled to produce a robust MTFS, Capital Strategy and Treasury Management Strategy in line with the statutory timetable.

7.3. As such the Council will be undertaking an in-depth Financial Reporting and Governance review during 2021/22 to ensure future staff resources are adequate and processes are improved.

8. Conclusion of S151 Officer

8.1. The S151 Officer considers:

a) the estimates in 2021/22 to be robust subject to the risks set out in the main report; and

b) the level of reserves are currently barely adequate to cover unforeseen demands and will need to be increased going forward.

8.2. The MTFS is not currently sustainable and further action is urgently required to develop additional savings plans to reduce spending in 2022/23 and 2023/24.

8.3. Cabinet and the Corporate Management Team are committed to this work and realise that this remains an ongoing challenge for the Council that cannot wait until the next 2022/23 budget setting process but needs to start immediately.

8.4. The S151 Officer will closely monitor and report the delivery of the savings and the viability of further transformation plans to Cabinet as part of budget monitoring.

8.5. New items in the capital programme will be subject to further business cases, S151 Officer sign-off and Cabinet approval before proceeding.

8.6. To be clear, and to avoid any ambiguity, in the opinion of the S151 Officer the Council does not need to issue a S114 notice i.e. in the event that the Council does not have sufficient resources to fund its statutory duties, as it still holds a minimum level of reserves and its estimates are robust.

8.7. The Council is, like many authorities, in an extremely challenging financial position and is reliant on identifying significant savings and the results of the government's review of local authority funding, anticipated in 2021/22, in order to have a sustainable MTFS in the future.