



# OVERVIEW AND SCRUTINY FINANCIAL OVERVIEW 7 DECEMBER 2022

## 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 – effectively £nil
- 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 17<sup>th</sup>, 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 20<sup>th</sup> 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 than 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.