Slough Borough Council

REPORT TO:	**Cabinet**
DATE:	27 February 2023
SUBJECT:	**Section 25 Report**
CHIEF OFFICER:	Steven Mair
CONTACT OFFICER:	Mike Thomas
WARD(S):	All
PORTFOLIO:	Cabinet Member for Financial Oversight and Council Assets - Cllr Anderson
KEY DECISION:	**YES**
EXEMPT:	**NO**
DECISION SUBJECT TO CALL IN:	**YES**
APPENDICES:	**None.**

1 SUMMARY AND RECOMMENDATIONS

1.1 This report advises the Council of the Executive Director Finance and Commercial's (s.151) report on the robustness of the estimates made for the purposes of the budget calculations and the adequacy of the proposed financial reserves.

1.2 This report is made under section 25 of the Local Government Act 2003, which the Council is required to have regard to when making decisions in accordance with s.31A of the Local Government Finance Act 1992 on agreeing the budget for the financial year 2023/24.

2 RECOMMENDATIONS

Cabinet is recommended to:

1. Recommend to Council that it has regard to this report when making decisions about the calculation of council tax requirement.

Reason:

This recommendation enables the Executive Director of Finance and Commercial (s.151 officer) to meet his statutory responsibilities.

Commissioner Review

This is an important report – it provides the full context within which the entire suite of budget papers must be considered. The commissioners are content with this report,

3 INTRODUCTION

3.1 On the basis of the risks and issues raised in this report, in my opinion as Executive Director Finance and Commercial (s.151), the budget should be submitted to Council for approval on the basis that:

a) the proposed level of Council reserves and contingencies are adequate to support the budget for 2023/24 having regard to an assessment of current financial and other risks set out extensively in this report and assuming these risks do not increase beyond those that can be contained by the Council. It should also be noted that matters will continue to be identified and will change throughout the coming financial year and beyond.

b) the Council has an agreed, robust, extensively reported and to date very successful financial strategy that is beginning to allow the Council to move towards longer term financial sustainability. However, this strategy will take a further five financial years to conclude and to embed at all levels to the standards and work required.

c) the estimates are robust for the calculation of the budget within the confines of the many risks noted throughout this report. Particular attention is drawn to the following specific conditions and risks:

(i) the recommended level of general balances for 2023/24 is £21m, although this is the bare minimum as a percentage of Net Revenue Expenditure

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

(iii) agreement of the Capitalisation Direction for 2023/24 and future years as proposed to DLUHC in February 2023 at estimated figures of £267m to 31/3/23 and £32m for 2023/24 (this is a significant reduction from last year's s.25 report which was £307m to 31/3/23 and £78m for 2023/24)

(iv) agreement by DLUHC that they will agree to issue Capitalisation Directions or provide other support to equal the actual figures for the outstanding and current year as the accounts for the years are closed.

(v) looking forward beyond this coming year agreement by DLUHC will be needed to issue Capitalisation Directions or provide other support to equal the estimated figures for future years as the budgets are prepared for these future years.

(vi) likewise agreement by DLUHC that they will agree to issue Capitalisation Directions or provide other support or agreed mechanisms to supplement the level of revenue budget savings that the Council can achieve and as will be reviewed in future years. Further that they will agree to finance/support on a recurrent basis any recurrent gap that would arise if the £12.9m annual level of savings from 2024/25 was not achieved in a sustainable manner.

(vii) the level of Council general reserves, outside of the support from DLUHC relating to specific risks and specific initiatives, is £21.5m, of which £20m comes from the Capitalisation Direction, consisting of the General Fund (GF) balance at March 2022. These reserves will be established and built up over time once a more stable finance base has been created. The MTFS also expects at least £1m per annum to be put into reserves from revenue balances to add further to this.

(viii) as at the end of March 2022, the estimated earmarked reserves held by the Council totalled £29m. The majority of these funds were accumulated during 2020/21 and 2021/22 as part of the Government's covid response measures to be used for specific purposes such as helping local business and managing the outbreak of covid and must be repaid to DLUHC. In addition, school balances amount to £10.3m and cannot be used for general purposes.

	£m
Repayable to Government	17.0
School balances excluding DSG	10.3
Other	1.8
Total	**29.1**

(ix) as the Council has only one set of audited accounts since 2018/19 and will not have a complete set i.e. to 2021/22 until September 2023 at the earliest, the financial position is subject to considerable potential change which may impact on the robustness of the budget

(x) the Council embeds the good practice now being designed but notes that this will take up to 5 years to do so and thus as with the accounts the various estimates will be subject to change

(xi) the Council has a major dependency on asset sales and revenue budget savings which will significantly impact on the budget for 2023/24 and the future years, which will again affect the level of robustness of the budget

(xii) the Council continues to operate the Expenditure Control Process throughout 2023/24

(xiii) the Council continues to develop its budget monitoring processes and ensures that the delivery of the planned budget savings are achieved

(xiv) the Council continues to develop longer term financial planning as evidenced by the work reported in the revenue budget report for 2023/24 and the Medium-Term Financial Strategy

(xv) the Council continues to drive the financial strategy forward, or revise it as required.

3.2 In coming to a view on the robustness of the estimates there are a wide range of factors to take into account, including:

- the Slough Council context
- local risks impacting Slough's budget setting for 2023/24
- risks affecting the sector
- inherent risks

- Slough Council's financial management including the availability of support from the Department of Levelling Up, Communities and Housing (DLUHC)

4 SLOUGH COUNCIL CONTEXT

4.1 In December 2020 the Council requested Exceptional Financial Support from the Ministry of Housing, Communities and Local Government (MHCLG) (now known as the Department for Levelling Up, Housing & Communities (DLUHC)) in respect of the financial year 2021/22 to help it balance its budget. MHCLG agreed in-principle to provide support and commissioned CIPFA to undertake an independent and detailed financial assurance review of Slough Borough Council (the Council). Since the original capitalisation request for 2021/22 of up to £15.2m, the Council has identified further very substantial liabilities for previous years, which the Council is unable to meet from its reserves. These past liabilities also impact substantially on the financial position for the Council in the current financial year and beyond

4.2 The Executive Director of Finance and Commercial, as statutory Chief Finance Officer under s.151 issued a report under s114 of the Local Government Finance Act 1988 in July 2021, outlining the then estimated total potential liabilities across the Council of some £174m up to 2024/25, which had not been accounted for hitherto. It was advised that this could increase significantly.

4.3 As also recognised by CIPFA in its report in October 2021, there was a high likelihood that this figure could grow. This has proven to be the case. At its potential maximum the estimate reached £782m, an unprecedented level of support for a Capitalisation Direction, through to 2047/48 in order to place the Council on a sustainable financial footing for the future, of which £307m was required to deal with historic issues and £78m for 2023/24 to enable the Council to deliver a legal budget for 2023/24. Since last year, officers have been able to close the 2018/19 statement of accounts and prepare the accounts for 2019/20 and 2020/21, which has allowed the extent of support required via the Capitalisation Direction to be revised. The submission to DLUHC has been reduced from an overall figure of £782m down to £357m which will return the Council to a sustainable financial position by 2028/29.

4.4 On 1 December 2021, the Secretary of State for Levelling Up, Housing and Communities made a statutory Direction requiring the Council to take prescribed actions and that certain functions be exercised from this date by appointed Commissioners, acting jointly or severally. The functions to be exercised by the Commissioners included the requirement at section 151 of the Local Government Act 1972 to arrange for the proper administration of the Authority's financial affairs, and all functions associated with the strategic financial management of the Authority, to include:

- providing advice and challenge to the Authority on the preparation and implementation of a detailed plan to close its short and long-term budget gap in response to the section 114 notice;
- providing advice and challenge to the Authority in the setting of annual budgets and a robust medium term financial strategy (MTFS) for the Authority, limiting future borrowing and capital spending;
- scrutiny of all in-year amendments to annual budgets;

- the power to amend budgets where Commissioners consider that those budgets constitute a risk to the Authority's ability to fulfil its best value duty; and
- providing advice and challenge to the Authority on the preparation of an outline asset disposal plan.

4.5 In the medium to longer-term the Council cannot become a financially self-sustaining council without considerable Government support. The availability of significant future support is a key assumption underpinning the 2023/24 budget and will be for several years.

4.6 The Council's financial position has been the subject of regular briefings to members and DLUHC since 2021/22. The seriousness of the financial situation and how the Council found itself in this position remain of significant concern. This has been acknowledged and a financial recovery plan agreed and reported since September 2021. Whilst the current request of Government is unprecedented it has to be noted that the audits of the 2018/19 (including 20 prior period adjustments and 9 in-year adjustments), 2019/20, 2020/21 and 2021/22 are yet to be completed, and it is very likely that more amendments may be uncovered during the continuing closure of the accounts process. Consequently, it will not be possible to secure a fully compliant, secure and stable position until all years' accounts have been drafted and the audits concluded. Issues will continue to be identified that will affect the financial position particularly during 2023/24.

4.7 The 2023/24 budget needs to be seen in this context and on the back of the actions taken by various bodies in response to the identification of these serious financial failings, which have included:

- the identification of an extensive range of issues by the finance team since 2021/22
- the issue of statutory and non-statutory recommendations from the external auditor in May 2021
- a significant number of recommendations from internal audit including a Head of Internal Audit annual opinion in August 2021 which concluded that the system for internal controls, governance and risk management was inadequate
- reports from both Department for Levelling Up, Housing and Communities (DLUHC) and the Chartered Institute of Public Finance and Accountancy (CIPFA), both of which identified significant weaknesses in financial management processes, governance and internal control
- as referred to above, a statutory direction by the Secretary of State including the appointment of Commissioners to remain in force until 30 November 2024, unless amended.
- the conclusion of the audit resulting in the external auditors issuing a disclaimer of opinion on the 2018/19 accounts. A disclaimer opinion is only issued when the possible effects of undetected misstatements due to the lack of audit evidence (a scope limitation) could be both material and pervasive to the financial statements. The negative opinion, or lack thereof, is predominantly due to inadequate processes and controls over journals posted by the old finance team in addition to inadequate record keeping and audit trails, lack of good working papers and appropriate reconciliations, mapping issues within the

financial statements ultimately resulting in a significant number of material misstatements identified in the 2018/19 accounts and material prior period misstatements relating to the 2017/18 accounts and before by the new finance team.

4.8 The Council's very serious financial challenges have arisen over a period of several years and represent the combined impact of a wide range of issues. Examples to note are as follows:

- inadequate minimum revenue provision - the single biggest amount within the capitalisation direction is due to the incorrect accounting for Minimum Revenue Provision for many years. The amount undercharged from 2008/09 to 2021/22 was £57m, with a further £18m needed for 2022/23
- inadequate provisions estimated at £25m (of which £11m is for bad debts) in a range of areas including bad debts such as adults social care, sundry debts and insurance
- incorrect capitalisation of revenue costs totalling £49m, the majority of this is for the period to 2021/22 which includes £24m of costs incorrectly capitalised relating to transformation funding, £4m for incorrectly recognised overage costs and £21m for incorrectly capitalised costs of property and IT staff to projects
- non-receipt of expected dividends from Company investments and potential liabilities in respect of winding up some of these companies totalling c£10m
- inadequate budget estimation and failure to deliver planned cost savings

4.9 As a result at the time of the s114 notice the Council effectively had no unallocated general reserves and a very significant general fund deficit

4.10 The Council had for several years suffered greatly from a lack of:

- understanding of and transparency about its true financial position
- corporate (at all levels) and financial ownership, drive and leadership of the problem as it understood it
- professional financial standards at all levels
- tight financial management by budget holders
- skilled project management
- development and leadership of the Council's finances and finance team
- financial drive, control, positive attitude, ownership at all levels and roles
- evidenced based decisions set within a context of value for money

4.11 All of which led to:

- no (complete and accurate) accounts for at least 5 years
- no proper management of its budgets
- poor financial systems
- effectively no general reserves

- the need for an exceptional level of capitalisation direction that exceeded any in the Country at the time from what is a very small Council
- a very large DSG deficit with no plans to tackle it
- very poor governance of all of its companies
- many extremely adverse internal and external reviews with very little response from the Council up to May 2021

4.12 At the same time as identifying the financial issues facing it the Council also began work on its financial strategy to recover from this situation. The financial strategy agreed and actioned by the Council was to:

- address the identified problem, this began in July 2021
- start selling assets to reduce borrowings and thus reduce MRP/interest costs and finance the CD – agreed September 2021
- reduce net revenue expenditure, both general fund and the dedicated schools grant – ongoing since July 2021
- produce and have audited annual accounts – work to prepare, correct and submit the outstanding years of accounts has been going on by the new Finance Team since 2021
- operate proper and rigorous budgeting and build up reserves – from July 2021
- design and implement a permanent structure for the Council's finance service – now complete and currently being recruited to
- all to an appropriate standard and in an appropriate manner and with an understanding that this will take up to five years

4.13 The Council's strategy is starting to come to fruition although there is a great deal of work still to do and risks to be managed before stability can be achieved. The position throughout this paper is of course at a point in time and will undoubtedly change. The key developments have been:

- achieving asset sales of over £173m to date during this financial year with a planned total of over £200m for the whole year and already planning for £200m plus in 2023/24. This is greatly in excess of that assumed in the budget and is reducing debt, the level of minimum revenue provision and reducing the total capitalisation direction
- an overall reduction in the Capitalisation Direction from £782m to £357m
- projecting a budget which for 2023/24 is currently showing a reduction of £47m in the Capitalisation Direction compared to the original expectation of £79m.
- planning for savings of £22.4m in 2023/24
- agreeing with the DfE, subject to formal approval, a DSG recovery plan that achieves an in year balanced position by 2025/26 from what was a previously forecast £7m annual increase in the overspend and should see the Council's historic deficit of £27m financed by the DfE
- producing annual accounts, 2018/19 and 2019/20 produced to date, 2018/19 audit completed, 2020/21 and 2021/22 in progress

- starting to build up reserves as indicated in the Capitalisation Direction
- designing and having approved a new structure for the finance service which is currently being advertised, interviewed and appointed to.

4.14 These problems are now being addressed but designing, implementing and embedding new processes together with the required changes to organisational financial management culture and process will take an estimated 5 years to achieve. More detailed assessments of the improvement timeframe will only become possible as the situation in Slough develops locally and will inevitably vary. Realistically the financial strategy will need to outline the actions required over the next decade in order to set the Council on a firmer and more sustainable financial footing.

5. LOCAL RISKS IMPACTING SLOUGH'S BUDGET SETTING FOR 2023/24

5.1 In addition to the general risks affecting the sector as a whole, which are set out in section 5 onwards, there are a number of specific local risks that need addressing in order to develop a sustainable financial plan, as follows:

- commitment from the Department of Levelling Up, Housing and Communities to the approval of a Capitalisation Direction of £299m to 31 March 2024 necessary for setting a legally balanced budget for 2023/24. The approval of future Capitalisation Directions is also fundamental to allow the Council to set legal budgets in 2024/25 and beyond. Without these Directions the Council cannot set a legally balanced budget
- identification and delivery of circa £400m of capital receipts by 31 March 2024 from the Asset Disposal programme. This needs to be undertaken with the support of expert advice in order to obtain best value for the Council. The Council engaged Avison Young as its external advisors in 2022 and work continues at pace with the Asset Disposal programme
- the Council's Dedicated Schools Grant deficit had grown and was essentially out of control. The deficit had grown from £4.9m in 2015/16 to £20.6m at 31 March 2021, and could potentially have grown to £43m by 2024/25 if no further action had been taken. This has now been addressed, the Council having reduced the annual in year deficits from £7m to nil and the DfE considered and agreed to finance the historic deficit of £27m. However, this is dependent on the Council ensuring that the significantly reduced level of expenditure is maintained from 1 April 2023
- the Council's company, Slough Children First Ltd, set up in response to a DfE direction to deliver its statutory children's services remains in an extremely challenging financial position and will need to manage its budget very robustly to meet its statutory responsibilities and remain a going concern. A revised business plan is being considered on the same Cabinet agenda and the Council has raised significant concerns about the ability of the company to deliver its planned improvements, deliver savings and balance its budget. It is forecast to overspend the budget approved by the Council in 2022/23 by over £5m.
- the Council prior to 2022/23 and the Children's Company do not have a track record of delivering savings. In order to achieve the financial recovery plan targets, very significant annual revenue savings will be required, subject to support from DLUHC and DfE

- the Council's 2018/19 accounts (including 20 prior period adjustments) have been prepared and audited. The 2019/20, 2020/21 and 2021/22 accounts have been or are being prepared/finalised but have yet to be audited and signed off by the Council's External Auditor. It is expected that the audit for each of these years' accounts will be completed by September 2023 thus allowing greater certainty on which to base the future financial plan. However, any issues arising from these audits will potentially impact the budget and MTFS.
- the current finance team is heavily dependent on interim support, particularly at the senior level, which is unsustainable in the medium-term. Whilst a re-structure of the department and a major recruitment exercise has been undertaken this will not begin to have a sustained impact until well into 2023/24
- the financial issues faced by the Council over the past 21 months have highlighted weaknesses due to the operational standards of the previous finance team across all aspects of the Council's finances
- and likewise budget and financial management across the Council including financial reporting, controls and financial oversight. These areas are being improved through the implementation of the finance recovery action plan but this will take time to fully implement and embed

5.2 There are a number of areas of risk that remain subject to volatility.

- **Capital Receipts** - In certain areas, such as capital receipts the planned receipts estimated to the Council can be volatile depending on both the prevailing local economic conditions and timing and this has an adverse impact on the financing of the Capital Programme. However, the Council has procured experts and have highly experienced internal resources to assist it to generate the necessary receipts, and as noted above is delivering this work well in excess of the budgeted assumptions
- **Fees and charges** The Council is currently budgeting to collect an additional circa £1.0m (2023/24) in fees and charges including fees in respect of planning fees, car parking charges, waste disposal, burials and cremations, licensing, street works etc. These will be closely monitored and are sensitive to local economic conditions. Variances are reported through the General Fund revenue budget monitoring reports to Cabinet.
- **Demand Led Budgets** - Adults and Children's Social Care budgets are demand led. The impact of high-profile national cases can lead to a significant increase in safeguarding concerns and the subsequent referrals and demand for placements within Children's Services. Demand for Adult Social Care is increasing with an ageing population living longer and with more complex needs. Whilst future years' estimates have been made based on cost and volume assessments there is a risk that these assessments may be exceeded particularly in respect of Slough Children's Services. There is also the risk of provider failure as prevailing market conditions may deteriorate. The Council, however, has invested significantly in social care in recent years including additional social workers to assist in managing these risks given the considerable demand and price pressures.
- **Council Tax Collection** - There is a risk that future local economic conditions will deteriorate and that the current projected levels of council tax collection will

fall leading to a deficit on the Collection Fund. This risk has increased since 2013/14 with the localisation of council tax benefits and welfare reform. The risk has been exacerbated by the Covid-19 pandemic. The Council has budgeted on the basis of collecting 98.3% of 2023/24 Council Tax. The total business rate base has been set at £38.7m for 2023/24. The performance against these collection rates will be monitored on a monthly basis and the Council has a good track record of managing this risk

- **Inflation** has been applied to various budgets, specifically to pay, energy and some contract budgets. Whilst Government announced a pay increase of 2 per cent for public sector workers this is separate from the negotiation in respect of Local Government. Some inflation assumptions are necessarily based on estimates at a point in time (e.g. energy costs). These markets are currently very volatile and remain largely driven by international factors that are difficult to predict with any certainty. The risk assessment puts a figure to the potential for a higher level of inflation that would not seem to be unreasonable to include in the budget as it may materialise

- **Borrowing** – The Treasury Management Strategy approved in March 2022 set out plans for reducing the Council's borrowing levels by generating capital receipts via the Asset Disposal Strategy. As reported elsewhere the Strategy has significantly exceeded target capital receipts and is on track to generate at least £210m of capital receipts by 31 March 2023 and forecast generate a further £200m in 2023/24. As a result total temporary borrowing is on track to be reduced by £203m from £336m at 31 March 2022 to £133m by 31 March 2023 and fully repaid by September 2023. In addition, long-term borrowing from the PWLB continues to be repaid as loans mature and the Council is now on track to reduce overall borrowing to a sustainable level of £335m by March 2025.

- **Investments –** The Treasury Management Policy identifies the security of capital as the main priority; with liquidity and yield as lesser priorities. To maintain security the Council adopts robust credit criteria and applies this to all investment counterparties. Currently surplus cash from the Asset Disposal strategy has been invested temporarily with the Debt Management Office (DMO) to match the maturity of temporary borrowing. This will generate £1m of interest at an average rate of 3.1% in 2022/23. While the Asset Disposal Strategy is underway it is expected that cash generated will be invested temporarily either with the DMO or money market funds, thus ensuring security and liquidity of funds while continuing to generate a yield.

- **Other investments**. The Council has two forms of other investment, namely loans to subsidiary companies and shareholding in those investments. Loans outstanding to companies at 31 March 2023 total £69m. All of the loans advanced present risk of non-payment to the Council, which potentially will impact on the General Fund in the event of the need to impair the loans. The Council's shareholdings in subsidiary companies are held for service provision rather than financial gain, nonetheless the Council is exposed to risk of financial loss as the companies are all generating losses. The Council also is a partner in Slough Urban Renewal (SUR). In line with the Council's financial recovery plan, it is divesting itself from SUR, which also brings financial risk in the form of the Council's share of the running costs as schemes are wound up.

5.3 The Council has been in continual discussion with DLUHC about a significant package of support through a Capitalisation Direction and other matters which may allow the Council to develop a sustainable medium term financial strategy. Even with additional support, improving the Council's underlying financial position will take several years to rectify. The support has yet to be confirmed but may come with additional conditions.

6 RISKS AFFECTING THE SECTOR

Short Term nature of the Local Government Finance Settlement and Fair Funding Review

6.1 The forthcoming year, 2023/24, will be the fourth year where local authorities will only receive a single-year finance settlement. The October 2021 Spending Review was the first multi-year Spending Review since the end of 2019 with single year Spending Rounds in October 2019 and 2020. Despite the October 2021 Spending Review projecting public sector resources to 2024/25, local authorities have continued to only receive a single settlement for 2023/24. The Council's funding beyond 2023/24 will be determined by the outcome of the Review of Relative Needs and Resources (previously the Fair Funding Review) and the reforms to the Business Rates Retention System under the Levelling Up agenda. At this time there is no indication of future funding levels, and the Council is only able to financially plan with difficulty beyond 2023/24.

Legislative Changes/Burdens

6.2 There have been a number of major legislative changes/burdens that in some cases go back some time but given Slough's particularly fragile financial state continue to potentially impact on Council funding in future years. These include:

- **Better Care Fund and Discharge Fund** - The Government has continued its commitment to an alignment of funding for health and social care which is to be shared between the NHS and local authorities with social care responsibilities. The Spending Review 2021 confirmed that the BCF grant will continue in 2023 to 2024 and be maintained nationally at its current level (£2.140bn), meaning £4.0m is again allocated to Slough. An additional £600 million will be distributed in 2023-24 and £1 billion in 2024-25 through the Better Care Fund to get people out of hospital on time into care settings, in the form of a new Discharge Fund. The funding will be split 50:50 between DLUHC and DHSC, meaning DLUHC will distribute £300 million in 2023-24 and £500 million in 2024-25. Of the £300m, Slough will receive £0.559m.
- **Fair Cost of Care** - In the recent Autumn Statement from the Chancellor, the fair cost of care pressure on councils has been pushed out from the original planned date of implementation in October 2023 by another two years, effectively into the next parliament. This would pose a significant risk to the Council's finances and while modelling to date has been hard to verify, the impact would be in the multi-million pounds. Given the lack of affordability of this to the Council, and the fact that the issue has been pushed out another two years, the latest modelling of the MTFS excludes provision for such a potential pressure.

7 INHERENT RISKS

7.1 As a Unitary authority the Council provides the broadest possible range of services and has an inherently higher level of risk than many other authorities simply due to the complexity and nature of the services it provides. Additionally, the Council has taken policy decisions to establish several alternate delivery models including wholly owned companies and PFI arrangements which whilst potentially having advantages also have the potential to increase the Council's risk profile. These are currently being addressed as set out in the revenue budget report.

7.2 Other inherent risks include the:

- significant staffing shortages within the Finance department and the potential difficulties in recruiting sufficient qualified staff given the Council's financial position and reputation
- risk of grant clawback including Government funding and housing benefit subsidy
- Council's risk as an employer which has and will require the Council to budget for the cost of severance packages incurred in the delivery of the required budget savings, service transformation and restructuring. The Government has indicated that it may introduce an exit cap regulation which would make workforce restructuring more difficult. There are further risks from other employee related claims
- full effects of any economic measures with the potential for higher demands on services e.g. social care for both Children's Services and Adults Services and falling income levels
- risk of major litigation, both currently and in the future
- risk of claims arising from the Council's ownership of land and property and potentially historic service failings
- need to retain a general contingency to provide for any unforeseen circumstances, which may arise
- magnitude of the savings that the Council has to deliver in 2023/24, all of which must be delivered in full or alternatives found within the services. This is of a scale the Council has not delivered previously and will require a very significant focus throughout the year on delivery plans, budget monitoring and expenditure and income control that goes beyond what the Council has previously achieved

8 FINANCIAL MANAGEMENT

8.1 The extensive issues concerning the financial management of the Council across the many elements of this report have been well analysed, documented and reported to the Council and elsewhere within the corporate body.

8.2 There are many aspects to this and much remains to be done. Fundamentally, putting the other related issues to one side, at the budget level the robustness of the estimates depends on:

- the quality of the budget setting process,

- detailed, rigorous and quality assured back up to the savings proposals,
- review of all existing estimates and the evidence to support them
- ownership of estimates by all concerned, and
- a shared acknowledgement across the whole Council (both officers and Members) of the imperative of living within the approved estimates or finding equal value alternative options.

8.3 The Council has begun the process of designing what is needed e.g. functional capacity and capability assessments, business cases, and action plans. However, embedding these fully across the Council will take another two years. Zero Based Budgeting is a proven technique for delivering savings, but will require a great deal of data cleansing and analysis to provide a fit for purpose base to work from. Attitudes of all departments in working to agreed budgets will similarly take time to embed culturally.

8.4 The 2023/24 budgets will contain inherent but in the longer term reducing financial management risks. Mitigations to minimise this position have operated as far as possible since 2021/22 and will develop further.

Preparation for 2023/24

8.5 The Council has taken a much improved approach to developing its Medium-Term Financial strategy (MTFS) given the challenging circumstances in which it finds itself.

8.6 All aspects of the Council's budget, efficiency savings, additional income, service reductions and pressures have been subject to review, with Executive Directors, Assistant Directors and Group Managers being required to review the plans they put forward to confirm delivery of the proposals. This work will continue in future years to ensure that a high standard of budgeting is developed over the coming year. Budget proposals have subsequently been reviewed by:

- the Finance Business Partnering Team
- the Executive Director of Strategy and Improvement and the PMO manager
- Executive Directors (Corporate Leadership Team)
- Lead Councillors
- The Council's scrutiny committees

8.7 The Council's HRA and Capital Programme is undergoing a similar review process alongside a review of all the Council's companies.

8.8 The assumptions on which the budget is based are contained within the main budget report presented elsewhere on the agenda, however, key assumptions include:

- for the future agreement of the Capitalisation Direction for 2024/25 and future years as proposed to DLUHC in January 2023 at £299m to 31/3/24 and £23m for 2024/25
- likewise agreement by DLUHC that they will agree to issue Capitalisation Directions or provide other support to equal the actual figures for the

outstanding, current and forthcoming years as the accounts for the years are closed

- agreement by DLUHC that they will agree to issue Capitalisation Directions or provide other support to equal the estimated figures for future years as the budgets are prepared for these future years
- agreement by DLUHC that they will agree to issue Capitalisation Directions or provide other support or agreed mechanisms to supplement the level of revenue budget savings that the Council can achieve as discussed and as will be reviewed.
- Council Tax increase – at 9.99% for 2023/24 and 4.99% per annum thereafter
- finance settlement – the figures are as per the Government's Final Settlement announcement
- pay assumptions – this has been provided for at a level similar to that seen in 2022/23, estimated to be 4.8% on average with £2.8m provided for in total.
- inflation – OBR forecasts in January 2023 projected that inflation is to come down significantly in 2023 and 2024, such that the average rate for CPI across 2023/24 is 5.5%. We currently have provision for 4.8% general inflation on contracts provided for, together with further specific monies against known areas of potential pressure. This amounts to £6.9m in general inflation and £2m specific provision within the contingency discussed later in this report. Inflationary pressures will need to managed in negotiations where possible, with other costs not bound by contractual terms needing to be contained within existing budget envelopes.
- reserves and provisions – that the reserves and provisions identified as needed as the accounts are closed and budgets prepared will be added into future years capitalisation direction and supported by DLUHC
- asset sales and capital receipts of up to £200m in 2023/24 are planned which will finance the capitalisation direction and reduce borrowing
- the Council has scaled back its Capital Programme to a minimum in the light of its financial situation. Over the next five years it will carry out projects totalling £165m (£102m General Fund and £63m Housing Revenue Account). The entire capital programme will be funded from capital grants, capital receipts and the major repairs reserve (HRA only), which means that there will be no recourse for any additional external borrowing. This is in line with the aim to be a Council which lives within its means.
- The Council's temporary borrowing is projected to reduce to £133m by 31 March 2023 and be fully repaid by September 2023 from asset sales, and to return to a sustainable level of £335m by March 2025. The associated capital financing costs together with the revenue implications of the specific schemes are provided for within the Capitalisation Direction and relevant revenue accounts.

8.9 It should also be noted that to deliver the Council's policy priorities and a balanced budget in each year of its MTFS 2024/25 to 2028/29 very significant savings in the order of £12.9m will be required per annum in addition to further capitalisation directions.

8.10 The continued need to deliver a high level of savings poses an inherent risk to the delivery of a balanced budget position as over time they become more complex and difficult to deliver. Consequently, it is important there is an absolute continued focus on savings delivery to ensure they are identified and delivered as planned.

8.11 To provide some resilience to the 2023/24 budget and future position, a contingency has been included in the Capitalisation Direction for 2023/24 and beyond to allow for and to mitigate any potential shortfall or slippage in the delivery of higher risk savings. For 2023/24 this equates to a £3m provision against non-delivery and £3m against slippage in delivery of savings. This is considered to be a prudent approach considering the increasing difficulty experienced in identifying and delivering further savings in the budget, but it is incumbent on senior management, executives and elected members to ensure that savings are delivered in full and on time in order to assist the Council's long-term position.

8.12 In addition to the above, the Council has a contingency figure of £6m to mitigate anticipated ongoing pressures arising from the need to create a bad debt provision, address liquidity requirements of the Slough Children First company, rent reductions arising from the asset disposal strategy, temporary accommodation, additional adult social care inflation/demographic pressures and a number of other minor items. The Council also has circa £15m in one-off contingency to address non-recurring issues such as the delayed delivering in savings, delivery of the local plan, redundancy and one-off implementation costs resulting from the savings proposals, temporary interim staffing to support the transition in the customer contact centre and finance team, and to cover the cost of the CCTV service being extended until 1 January 2024.

8.12 The longer-term position will need continual review given the magnitude of the position the Council finds itself in, the uncertainties associated with that and the inability at this stage to advise on the long-term going concern of the Council.

8.13 In order to allow the Council to set a budget for 2023/24 and to continue to plan for 2024/25 and beyond the following mitigations will be needed during 2023/24:

- all budgets approved by Council for 2023/24 are cash limited, including all Companies, and all Departments and Companies will have to manage within those sums
- a level of contingency as funded from the capitalisation direction will be held centrally against unforeseen events and risks and will be used to increase the Council's reserves as at 31/3/24 if not required
- no sums can be released from those contingencies except in extreme circumstances and only then with the approval of Cabinet following a report by the Executive Director of Finance and Commercial and appropriate Executive Director
- all expenditure of whatever type and funded by whatever means will be subject to approval by an expenditure control panel,
- any expenditure incurred outside of this process will be reported to Cabinet as part of the budget monitoring process
- a review will be undertaken of all estimates as part of the ongoing work of the finance department, along with the continued work on the accounts

- continuous budget meetings will be held with Executive Directors to review issues, savings, mitigations, and delivery of efficiencies.
- thematic reviews of budgets covering types of expenditure, income, and contracts in order to assess the potential for savings.

Adequacy of Reserves and Balances

8.14 The prudent level of reserves a Council should maintain is a matter of judgement. The consequence of not having adequate reserves can be significant. In normal circumstances the Council would be setting its budget and identifying reserves and provisions in a systematic manner. However, in the current circumstance the setting of the level of general fund and earmarked reserves is much less secure due to the extreme circumstance in which the Council finds itself. As at 31 March 2023 the Council had a general fund balance of £21.5m, of which £20m comes from the capitalisation direction. The medium-term financial strategy also expects at least £1m per annum to be put in reserves from revenue balances. This is the bare minimum position and will be subject to on-going review and risk assessment.

8.15 As opportunity arises, the financial situation improves and the Council becomes more capable of managing its finances then the Council will look to create a range of general and specific earmarked reserves in order to manage future risks. These reserves will be determined having regard to a risk-based assessment.

8.16 In setting the budget for 2022/23, estimates were made at the time of the required level of reserves and provisions, and this was included in the submission to DLUHC as part of the capitalisation directive. Provisions relate to known events, which have occurred and that have given rise to a liability for the Council, where the exact amount or timing of the payment is not clear. As a result of the forensic investigation of the accounts during 2021, amounts have been requested from Government as part of the capitalisation directive to ensure adequate provisions are in place for items such as bad debts, insurance claims and other known liabilities. Others may well be identified and further needed as part of this process.

8.17 In addition to known liabilities, the budget also has regard to various risk issues where at the time of setting the budget there is no contractual liability but there is a possibility that payment may be required at some point in the future; in these cases earmarked reserves are normally created. These reserves are established to cover specific risk issues as highlighted in the Council's risk registers. For 2023/24 one earmarked reserve has been set to allow the Council to consider in the future what it may need to finance/mitigate.

8.18 In reviewing the adequacy of reserves, the Executive Director of Finance and Commercial recommends the level of the General Fund Balance to be £21m in 2023/24 having regard to the risks set out in this report and the request for financial support being discussed with Government. The Executive Director of Finance and Commercial is of the view that the level of reserves is adequate solely for 2023/24, having regard to the risks identified and the level of contingency in the budget. The revised Medium Term Financial Strategy will in the future identify in greater detail the plans for replenishing reserves.

8.19 CIPFA (Chartered Institute of Public and Finance and Accountancy) in its review of financial resilience within councils have stated that there should be no imposed limit on the level or nature of balances required be held by an individual Council. However, in light of recent high-profile failures and funding concerns being raised by authorities they launched a financial resilience index which uses a basket of 15 indicators to measure individual authorities' financial resilience compared to their comparator group. Key indicators include:

- the level of reserves held as a percentage of net revenue expenditure
- the average change in reserves over the last three years
- the reserve "burn rate"
- the cost of adult social care as a percentage of net revenue expenditure
- the average cost of children's social care as a percentage of net revenue expenditure
- OFSTED rating
- the auditors value for money conclusion

8.20 It is anticipated that the requirement to formally report on these indicators will be incorporated into a new Financial Management Code and the Council will identify and consider these as it develops its MTFS.

9 CONCLUSION

9.1 Slough's budget deficit:

a) has moved from an initially submitted one year request of £15.2m to a potential worst case of £782m to a 10 year £357m problem, potentially rising well beyond this if £12.9m of additional, recurrent annual savings are not delivered from 2024/25

b) has changed continuously and will continue to do so as work has been undertaken

c) will continue to change throughout the next 12 months while the accounts up to 31/3/23 are prepared and audited and the budget for 2024/25 worked up in detail

d) is of a magnitude which had not previously been seen before across the UK 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) is successfully being reduced as the financial strategy starts to come to fruition

9.2 In these circumstances it is impossible to give an assurance that is normally required within a S25 report. However what can be said is that:

a) the Council has a well-developed, rigorous and extensively reported financial strategy that is starting to come to fruition – particularly successfully in asset sales, borrowing reduction, revenue budget management, DSG budget management, preparation of accounts and restructuring of the finance service

b) has an increased awareness of financial management's importance, requirements and the necessity of preparing and living within budget, taking appropriate financial decisions and operating sound governance

c) is better equipped to meet its budgetary challenges given the focus it has applied to this work since May 2021 and will continue to do so in future years

d) has kept DLUHC fully involved in all aspects of its financial situation and will continue to do so in the future

e) given the above, the contingency built into the budget estimates, the assumption that DLUHC will support the Council in full as it continues its work on the accounts, estimates and financial processes and that managers will manage within their allocated budgets it should be able to manage within these estimates for 2023/24.

In providing this statement, the Executive Director of Finance and Commercial will maintain an on-going and robust review of all risks, including those associated with the delivery of budget savings decisions and report throughout the financial year.

Steven Mair
Executive Director of Finance and Commercial (Chief Finance Officer)
Date 27 February 2023

10. Implications of the Recommendations

10.1 Financial implications

10.1.1 The recommendation has a direct financial impact on the setting of the Council's budget for 2023/24 and the Medium-Term Financial Strategy.

10.2 Legal implications

10.2.1 Section 25 of the Local Government Act 2003 requires the chief finance officer to report on two matters as follows:
(a) the robustness of the estimates made for the purposes of the calculations, and
(b) the adequacy of the proposed financial reserves.

10.2.2 Full Council is obligated to have regard to this report when making decisions about the calculation of council tax as a billing authority in accordance with s.31A of the Local Government Finance Act 1992.

10.3 Risk management implications

Summary of risks.

Category	Risk/Opportunity	Controls	Residual Risk Score (1 (Low) to 10 (high)	Additional Controls
Financial	The Council is fully appraised of the Executive Director of Finance and Commercial's views on the robustness of the budget setting process.	Inclusion of all Executive Directors in detailed planning and agreement of the budget.	6	Budget monitoring process and regular reporting on achievement of budget and savings.
Financial	The Council is fully appraised of the Executive Director of Finance and Commercial's views on the adequacy of reserves.	Risk assessment of the level of reserves and the building of contingency into the base budget to protect future volatility.	8	Regular assessment and review of new and existing areas of volatility or uncertainty.

10.4 Environmental implications

10.4.1 No specific environmental implications arise from this decision.

10.5 Equality implications

10.5.1 The budget is subject to an equality impact assessment which is reflected in this report.

10.6 Procurement implications

10.6.1 There are no procurement implications of this report

10.7 Workforce implications

10.7.1 There are no workforce implications of this report

10.8 Property implications

10.8.1 This report has no direct implication on properties.

11. Background Papers

None.