Department for Levelling Up, Housing & Communities

Local Government Finance Review – Slough Borough Council

October 2021

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1. Executive Summary

Slough Borough Council requested Exceptional Financial Support from the Department for Levelling Up, Housing & Communities (herein DLUHC) in respect of the financial year 2021-22 to help it balance its budget by raising capital borrowing to support some of its revenue expenditure. Accordingly, DLUHC 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, the Council has identified further 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.

Drawing on our experience of over 200 financial management reviews and our policy work setting financial standards for local government, the current financial challenge facing the Council is acute. The S151 officer issued a statutory S114 notice in July of this year, which set out total potential liabilities across the Council of some £174m up to 2024-25. At this stage, and as recognised by the S151 Officer, this figure could still grow due to further risks faced by the Council which are set out within this report.

The Council cannot become a financially self-sustaining council without considerable Government support that allows it to increase its borrowing to fund these liabilities in the short-term to medium-term, pending the sale of substantial council assets in the region of £200m. The S151 officer considers that the Council may need to achieve asset sales of twice this amount (£400m) if it also wants to reduce the level of its external borrowing and reduce significantly the scale of its ongoing budget gap.

The Council's record in delivering substantial savings is a mixed one and many of the savings identified in the last two years' budgets have proved to be unrealistic. The Council has also not made some of the tough financial decisions that other Councils have taken to balance their budget. This means that there is considerable uncertainty around the Council's ability to deliver the savings it needs to deliver both in the short term and the medium term.

At this stage, we cannot provide assurance that the Council will be able to balance its budget in the medium to long term. This does not reflect any lack of commitment from the Council but instead the size and scale of the financial challenge relative to the Council budget. In particular this recognises:

(i) The scale of the current and potential liabilities faced by the Council relative to its revenue budget.
(ii) The potential for the scale of liabilities to increase even further as further investigative work is undertaken particularly around council-owned companies.
(iii) The unprecedented level of savings that the Council would need to make over the period of its Medium-Term Financial Plan
(iv) The Council will find it difficult to deliver substantial savings from statutory services which account for some 2/3 of the Council's budget.
(v) The Council does not have a good track record in delivering savings.
(vi) Future financial viability and savings depend on a major disposal of council assets of up to £400m which may take considerable time if the council is to achieve best value.

We were impressed by the considerable amount of work that has been carried out to date by the recently appointed S151 Officer and his team to identify the scale of the financial challenge and the measured approach that is being taken to assess what needs to be done to both restore sound financial management and potentially to balance the Council budget over the period of the Medium-Term Financial Strategy up to 2024-25. Despite being interims, their continued engagement over the next two years is crucial if the Council is to make progress in stabilising its financial position and building resilience.

Our conclusion is that the Council will require immediate Government support in the form of a capitalisation direction of some £112m. Of this sum, £52.8m is required to cover estimated past liabilities up to the end of March 2021 and a further £58.9m is needed to cover potential liabilities for the current financial year 2021-22.

In addition, the Council will need further support of some £33.2m if it is to set a balanced and legal budget for 2022-23 in line with its Medium-Term Financial Plan. It then needs a further £29.3m in the following two years, making a total of some £174m, to set a balanced budget over the period of the Council's Medium-Term Financial Strategy. The need to account appropriately for the minimum revenue provision amounts to some £62m of the total projected £174m liability. At this stage all of these figures are indicative and could be influenced by a range of economic and demographic factors as well as Government decisions as part of any Spending Review. DLUHC have been clear that any further support for 2022-23 and beyond would need to be considered following a relevant spending review.

In view of the scale of the capitalisation direction required and the fragility of the Council's finances, we consider that there is a need for ongoing oversight of financial plans to ensure that the Council is making the progress that it needs to make in starting to rebalance its budget. We have set out below a list of key milestones we believe need to be hit by the Council. Each milestone would represent a gateway review for independent evaluation; and failure to pass each of these gateways would serve as an indication that the Council would not be able to balance its budgets in the medium to long term. In such circumstances, other more fundamental or structural changes around the future of the Council would need to be considered. The key milestones for reviewing progress are as follows: -

Date	**Key Milestone**
October 2021	Delivery of Plan for approach to closing the budget by S.151 Officer for approval by Council Initial Disposals Strategy
December 2021	Update of MTFS for 2022-26 Updated assessment of past liabilities Identification of first tranche of short-term savings for 22-23
February 2022	Approval of Council budget and revised MTFS and development of more detailed savings plans over the remaining period of the MTFS.
May 2022	Detailed Delivery Plan for Savings over period of MTFS
May 2023	Financial procedures and processes are confirmed as robust

We fully support the actions that the current S151 Officer is taking to address the financial challenge and restore sound financial management. We consider that the following issues need to be addressed as part of that work and to manage the level of potential capitalisation that the Council will require.

Recommendations on strengthening financial sustainability

A. On future sustainability: Establish a detailed plan to close the short and long-term budget gap

The Council has already produced a plan to improve financial management, but it now needs to set out clearly how it is going to rebalance its budget in the medium term in response to the S114 notice.

We recognise that work has already started to engage with Members on the approach that the Council will take. We also recognise that the scale of the problem means that a measured approach needs to be taken and the problem will take considerable time to resolve, if in fact it can be resolved.

The S.151 Officer needs to set out clearly how the Council will develop a plan to rebalance its budget and ensure that this has the support and commitment of both the Council's management team and all Councillors.

We recommend that: -

- The S151 Officer presents the plan for the steps needed to rebalance the budget to Council in October 2021 and seek Council approval for the Plan.
- The Council produces an outline plan to close its identified budget gap for 2022-23 (before taking account of additional Section 114 liabilities) by November 2021.
- The Council produces a longer-term outline plan for closing the MTFS budget gap by December 2021 with a view to formal approval of the budget and MTFS by February 2022.
- The Council produces detailed delivery plans for savings required over the MTFS by May 2022.

B. On future sustainability: Establish a high-level risk register

It is recognised that the S151 Officer is reviewing the Council's arrangements for the management of risk.

At this stage it is important the Cabinet and Senior Officers have a high level of awareness of the key financial and strategic risks that the organisation faces. This is essential if the organisation is to ensure that it effectively manages such risks and will help to inform future financial plans.

We recommend that: -

The Council reviews the existing risk register to identify the high-level risks facing the organisation and allocate a senior risk owner for each risk.

C. On commercial activities and borrowing: Set limits on future borrowing and capital spending

The Council already has one of the highest levels of borrowing, compared to other similar councils. In the short-term Council borrowing could rise to nearly £1bn, although it is appreciated that plans for asset disposals will significantly reduce this figure.

In the meantime, strict limits need to be placed on Council borrowing over and above any borrowing required to support the capitalisation direction. In turn this will impact on the size and scale of the capital programme.

In the first instance it would be appropriate for the Council to agree tight limits on further borrowing and ensure that any further capital investment is restricted to essential schemes required to repair, maintain, or replace existing assets.

We recommend that: -

- The Council sets very tight limits for future borrowing to enable it to better manage the subsequent revenue costs associated with repaying such debts.
- The Council restricts investment in its capital programme to essential schemes as identified above.

D. **On commercial activities and borrowing:** Gain increased assurance concerning the potential scale of past and future liabilities

The Council does not have robust arrangements for preparing accounts and it will take considerable time to put these arrangements in place.

We recognise the detailed plans that the S151 Officer is preparing for closure of the accounts and the reasonableness of this approach. The closedown plan focusses on key risk areas, including companies. We understand that it will be a considerable time before the Finance team can prepare reliable financial statements for 2019-20 and beyond.

Nevertheless, it is important that this does not prevent the Council gaining greater assurance over the potential scale of liabilities that it faces before it sets the budget for 2022-23.

We recommend that: -

The Council further reviews the risk-based approach to identifying liabilities to enable it to improve its assurance around the size and scale of current and future liabilities before it sets the budget for 2022-23.

E. **On assets:** Develop an outline asset disposal plan to provide the funds required for the capitalisation directive

We recognise that work is already underway to prepare an asset disposal plan for the Council.

The Council needs to consider the level of skill and expertise required to dispose of significant assets and obtain best value.

The disposal plan needs to consider the significant risks as it considers the disposal of a large part of its estate and the level of expertise it will require to value its assets and secure appropriate legal advice on any issues that may impede the disposal of assets or the achievement of best value.

The potential sums involved are substantial as are the risks if the Council does not approach the disposals in a structured way.

We recommend that: -

The Council formulates and agrees at an early stage its approach to asset disposals, including the issues identified in Section 6, and how it will secure the necessary expertise that it needs to achieve best value.

Recommendations on strengthening financial governance and oversight

F. Raise Member awareness of the scale of the financial challenge and its implications

Few councils have faced a financial challenge as severe as the one that Slough Council faces.

We recognise the initial steps that the S151 Officer has taken to provide effective briefings to Members on the scale of the financial challenge. Nevertheless, there is still a danger that this can be viewed as only a technical financial issue that will be resolved by the finance professionals.

The impact that this financial challenge will have on the way the Council operates and the services that it can deliver needs to be set out explicitly to Members along with the tough decisions that they will need to make.

Members will be faced with many difficult and challenging decisions over the next months and years and it is vital that they understand the Council's financial position when they consider these tough decisions.

Equally the oversight role provided by the Audit Committee is complex and essential for an organisation facing the challenges that Slough faces. It is important that members of the Audit Committee understand their role clearly and that this is part of the induction process for new Audit Committee members.

We recommend that: -

- Mandatory briefings are provided to all Members on the Council's financial challenge.
- Specific further training is provided to members of the Audit Committee to raise further awareness of their governance role and that this training is repeated as part of the induction process for all new members when they join.

G. Address immediate financial governance risks

It will take time to improve overall financial governance, but the Council needs to focus on immediate risks to ensure that its scheme of delegation operates effectively and that decisions are made at an appropriate level.

To some extent this risk is addressed currently by the Expenditure Control Panels, established as part of the Section 114 notice process. These are, however, only a short-term measure. The Council needs to ensure that the Financial Management System reflects the delegations within the restructured organisation. It also needs to ensure that all staff including interim and agency staff are aware of their responsibility for financial management. In the medium term this will be assisted by a review of financial regulations.

We recommend that: -

- The Council strengthens key controls within its financial management system as set out above.
- The Council reviews financial regulations in the medium term
- The Council sets out clearly the financial responsibilities of all new staff, interim and agency staff when they commence work with the Council.

H. Prepare an Annual Governance Statement for 2020-21

The Council has not prepared an Annual Governance Statement for 2020-21 which means that it has not set out an up-to-date view of its governance and the actions needed to improve it.

The existing Annual Governance Statement for 2019-20 does not contain any action plan and the final assessment is now outdated and unrealistic given the challenges that the Council now faces.

We recommend that: -

An updated Annual Governance Statement and Action Plan should be prepared for consideration by the Audit and Governance Committee by December 2021.

I. Undertake an independent review of the procurement function

The procurement function plays an integral role in delivering sound financial governance. There is an urgent need to gain independent assurance that this function is operating effectively and, where necessary, to identify improvement that needs to be made.

The procurement function has not been subject to a detailed internal audit review in recent years and so little assurance can be gained that the function is operating effectively. We consider that the best way to do this is to commission an independent review of the procurement function, including commissioning and contract management, given that the Council's internal auditors are currently contracted to deliver part of this service.

We recommend that: -

The Council commission a separate independent review of the procurement function, rather than including this within the annual internal audit plan.

J. Review the provision of internal audit

It is essential that the Council can rely on the quality of the work carried out by internal audit so that it can gain effective assurance from that work concerning both the steps to improve the financial governance of the organisation and the operation of key financial controls.

We recommend that: -

The Council commissions an independent review of the internal audit arrangements to ensure that they are effective and provide sufficient coverage to give it the assurance that it needs during this period of financial challenge.

K. Enhance financial capacity

The Section 24 recommendation issued by the External Auditor highlights the need to improve financial capacity.

We are concerned that the plans within the ‘Our Futures’ reorganisation do not enable an adequate finance function, particularly around expertise on technical and financial strategy, which is at the core of an effective finance team.

The finance team faces the dual challenge of not only rebalancing the Council budget but also restoring sound and effective financial management across the organisation. We share the concern of the External Auditors on the capacity of the finance team to deliver on both of these dual challenges.

The S151 officer’s immediate plans to restore sound financial management are reasonable. They set out the key issues that need to be addressed in response to the Section 24 notice and key financial risks. This plan is being delivered by a small number of mainly interim staff, who face the same deadline of multiple significant tasks. We therefore consider that there is a high risk in terms of delivery of this plan without additional finance capacity.

We recommend that: -

- The S151 officer reviews the level of resource required to deliver the plan for restoring sound financial management
- The organisation makes further provision to enhance the capacity within the finance team including exploring other delivery avenues, such as the use of shared services.
- The Council commissions an independent review to demonstrate that financial procedures and processes are robust by May 2023.

L. Stabilise the finance leadership team

We recognise the significant contribution that many finance staff are making to address the financial challenge facing the Council. It is crucial for the Council to retain the current S151 officer and his team if the Council is to stabilise and strengthen the finances.

Nevertheless, there is a substantial risk that as the S151 Officer is on an interim contract and that he is largely supported by a group of experienced interim staff, they could leave the organisation with little notice. There is an equal concern that this would also lead to a substantial loss of corporate memory and hinder plans to address the financial challenge.

We recognise that the S151 officer intends to set out a new finance structure in October. Given the scale of the risks involved, we believe that more immediate action is needed to address this issue.

We recommend that: -

- The S151 officer immediately commences the appointment process for a permanent Deputy S151 Officer.
- The Council seek to re-negotiate the contractual terms for the S151 officer and his team to extend the notice period they are required to give prior to departure.

2. Purpose of this report

On 24 June 2021, DLUHC commissioned CIPFA to undertake an independent and detailed financial assurance review of Slough Borough Council. The aims of the review are:

- To provide an assessment of the Council's financial management and management of risk, deliverability of savings plans, and efficiency in delivering services.
- To provide assurance that, in response to the £15.2m of Exceptional Financial Support provided in principle for 2020-21, the Council is taking appropriate steps to improve its financial sustainability.
- To provide support to Slough Borough Council in the form of recommendations and performance requirements to ensure they achieve this objective.

This report sets out the findings of the review undertaken by CIPFA.

- Part 3 outlines why a capital directive was requested.
- Parts 4 and 5 review the finances of the Council and its approach to financial management.
- Part 6 examines the Council's assets and potential disposal opportunities
- Part 7 provides a potential roadmap for managing the issues stemming from the capitalisation direction.

2.1 Methods used

Data collection was undertaken by CIPFA with support from Peopletoo between 5 July and 6 August 2021. Data collection involved the following methods:

- **Semi-structured interviews.** On-line interviews were conducted with the participants as set out in Appendix 1.
- **Document review.** The Council provided documents and working papers on key financial and non-financial issues – see Appendix 1.
- **Benchmarking.** A comparison of Slough Borough Council and other statistical neighbour Councils
- **Observation** of the Council and Audit and Corporate Governance Committee.

Analysis involved a triangulation of data from the different sources, and a sensitivity analysis and comparative analysis of the Council's finances. Key information was discussed with the S151 officer on 2 August 2021 to confirm the basis of the analysis.

2.2 Scope of the review

This report is based on the fieldwork completed within the five-week timeframe for the review. It was not a comprehensive audit of the Council's finances. As a consequence, the conclusions do not constitute an opinion on the status of the Council's financial accounts.

The report focuses on what is required to address the financial challenges facing the Council. It does not seek to provide an in-depth assessment of how the Council reached its current financial position or attribute responsibility for the actions that led the Council to having to seek Exceptional Financial Support.

3. Background

3.1 The structure of the Council and how it operates

Slough Borough Council is a unitary authority that was established in 1998 as part of the reorganisation of Berkshire County Council to create 6 unitary authorities across Berkshire.

The Council serves a population of 149,471. The Council is to the West of London and is bordered by the Royal Borough of Windsor and Maidenhead to the South and Buckinghamshire County Council to the North. Slough is undergoing considerable regeneration and the arrival of Crossrail is expected to drive further improvement in the local economy. The area still faces considerable deprivation.

The Council has adopted a Cabinet structure for governance. There are a total of 42 councillors and the political make-up of the Council, following the 2021 local borough elections, is shown in the table below.

	Councillors
Labour	34
Conservative	7
Independent	1
Total Councillors	**42**

The Council is managed by a Chief Executive, supported by an Executive Management Team of 5 Executive Directors. It has some 1,500 employees and has recently undergone a major restructure to transform the way the Council works and to adopt a digital first strategy.

In response to a direction from the Secretary of State for Education, the Council established Slough Children's Services Trust in October 2015 to deliver its children's services. In April 2021, the Trust was replaced by a company limited by guarantee by the Council, Slough Children First.

In March 2021, the Council set a Band D Council Tax of £1,490.30, representing an increase of 4.99% in line with Government limits. This included an additional 3% increase for social care. The tax-base is 40,828.7, which means that a 1% increase in the band D charge will generate some £600,000.

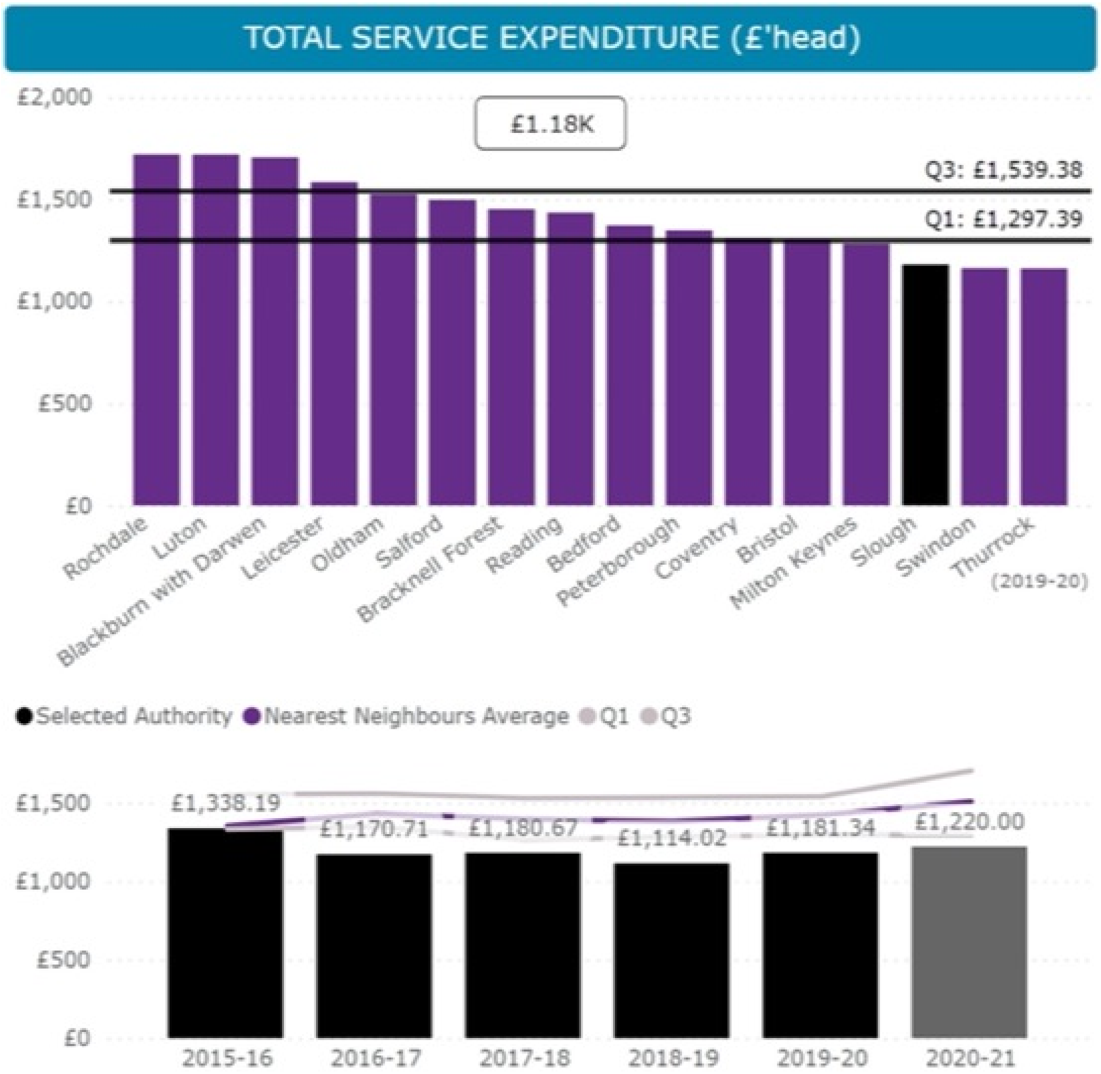
3.2 Key Statistical Landscape

Slough delivers services to a relatively young population, with the proportion of residents under 45 higher than the regional average, except for adults between 20-24. The Borough has the lowest proportion of residents over 65 of any South-East unitary council. Projections show that the proportion of residents over 65 is likely to grow more quickly than in other South-East councils, while the growth in the population under 14 is expected to be slower.

Levels of deprivation across Slough are mixed with the highest deprivation in the North-West of the borough and most notable levels of deprivation in terms of housing and access to services. Overall qualifications within the borough are relatively low, while unemployment across the borough is well above both the regional and national average.

Overall Council spending is low compared to similar unitary authorities as shown in figure 1.

Figure 1: A comparison of total service expenditure per head in 2019-20



Source: CIPFA analysis of RO data (Slough accounts not closed for this period)

Although the Council's spending is low by comparison to other unitary councils, they have the third highest borrowing per capita of all unitaries. This highlights the key problem which is that they have had an over-ambitious capital programme.

3.3 Past performance

The Council has been aware, since 2018, that it needed to strengthen its financial resilience. In February 2018, the former S.151 Officer specified that the minimum level of reserve for the Council should be £7m – equivalent to 5 per cent of the net budget plus £2m to allow for current funding volatility. By February 2019, the General Fund balance of £8.1m was considered by the former s.151 Officer to be the *'absolute minimum on the basis that the budget balances in 2019-20'*.

In March 2018, the Council outlined in its Five-Year Plan that the reduction in national funding and its increased reliance on Business Rates and Council Tax meant that it would seek to strengthen its financial resilience by focusing its strategy on attracting new businesses and ensuring a strong supply of housing. The medium-term strategy was based on looking for opportunities and innovative solutions to protect frontline services and to enhance the borough's infrastructure.

Capital Investment

The Council has pursued an ambitious investment programme. This has included significant expenditure in the following areas:

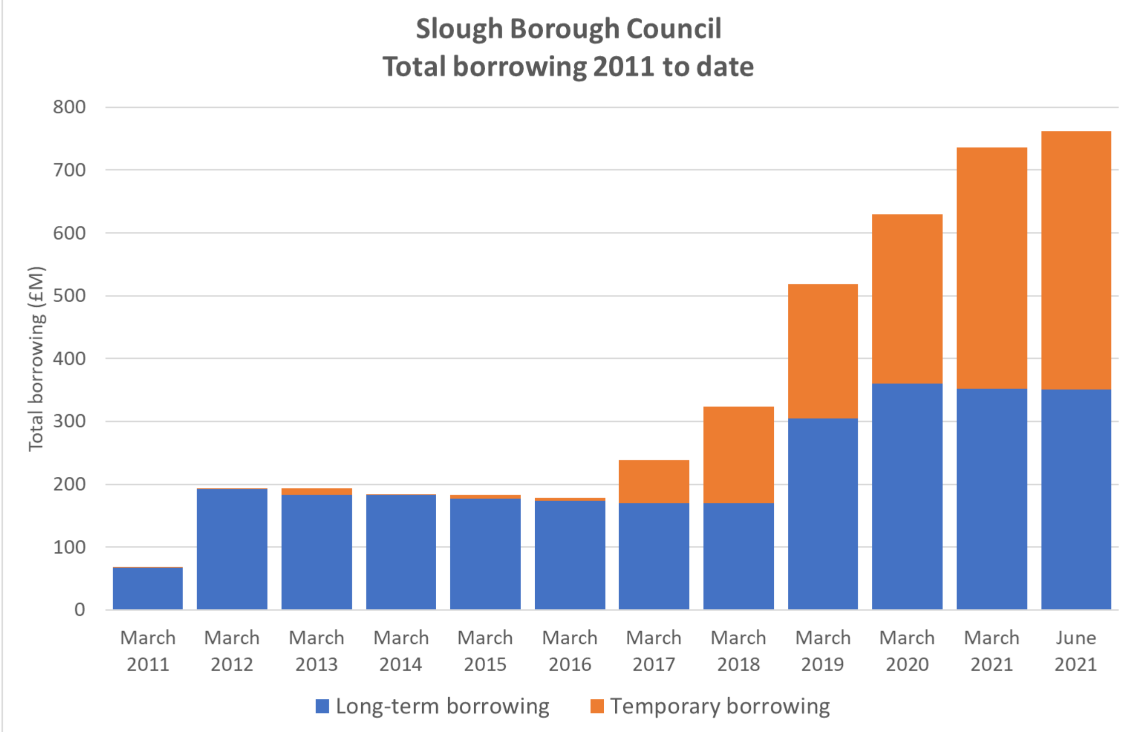
- **Leisure services and parks.** The investment of some £59m has included three leisure centres and an ice arena.
- **Council infrastructure**. This has included a new headquarters building at a cost of £54m.
- **Regeneration**. This has included £42m to develop a new hotel, as well as the purchase of land for future regeneration (North West Quadrant) and an investment of some £51m to purchase homes across the borough for affordable housing through James Elliman Homes.
- **Commercial investment**. To purchase properties that generate commercial income to help the Council balance its budget.

The Council made some 15 "strategic acquisitions" of commercial property between December 2015 and October 2020. The investments include some £30m for the purchase of commercial properties outside of the borough, including superstores in Gosport and Wolverhampton and a cinema in Basingstoke. A further £66m was spent on the purchase of commercial properties within the borough. The investments have generated a return of some £5.9m per annum in commercial rent income, although this is before the cost of financing and any property management costs are included.

Council Borrowing

The investments made by the Council resulted in its borrowing increasing from £180m in 2016-17 to £760m in 2020-21- see figure 2.

Figure 2: Borrowing at Slough Council, 2011 to 2021



Source: Slough Borough Council

The Treasury Management strategies, capital strategies and accompanying reports prepared as part of the Council's annual budget exercise for 2020-21 provide little if any clear explanation of the substantial financial risks faced by the Council from its increased level of borrowing. In particular, it did not set out clearly the cost of both servicing the borrowing and the MRP provision required to provide for debt repayment.

On the advice of its Treasury Management advisors, with effect from April 2016 the Council revised its MRP policy to adopt the annuity-based approach. Such an approach is in line with existing guidance on MRP and it enabled the Council to reduce its annual repayments for the next few years. However, the MTFS for 2021-22, dated December 2020, refers to the Capital Strategy approved in February 2020 assuming that the MRP would be funded from new capital receipts.

Consequently, whilst the Minimum Revenue Provision for repaying the £580m increase in debt amounts to some £15m - £20m, the charge within the 2021-22 budget amounted to just £40,000. Such an approach is not sustainable and does not comply with existing guidance. Furthermore, we could find no evidence of this change in approach being raised in the Capital Strategy.

Past Liabilities

The need to correct the material errors in the 2018-19 accounts related to MRP are in the region of £17m. The S151 officer has also identified other outstanding liabilities in the previous years' financial statements up to the end of March 2021 that will also need to be addressed:

- **GRE5**: – there is a potential liability for works required to address serious building safety risks and litigation costs at Nova House. Some of these costs may be recoverable from the leaseholders although the scale and timing of cost recoverability has not yet been determined.

- **Capitalisation in error** – the Council had charged £6.9m costs relating to managing its property portfolio and supporting a new computer system to capital rather than treating them as revenue costs within its revenue budget. They have therefore used borrowing to fund these costs that do not result in any associated asset.
- **A projected overspend** of £3.2m on the 2020-21 outturn, although this could change when the final accounts for 2020-21 are prepared.

Together with the correction to MRP of £17m in 2018-19, and similar MRP corrections for 2019-20 and 2020-21 of £20.6m, the total unresolved liabilities up to 31 March 2021 amount to £52.8m.

At the time of our review, the Council's financial accounts for 2018-19 had not been completed and signed off by Grant Thornton, the Council's external auditors and the Council has yet to prepare financial accounts for 2019-20 and 2020-21. The auditors identified substantial weaknesses in the arrangements for preparing accounts and the financial information contained within them. This has resulted in Grant Thornton issuing four S.24 statutory recommendations concerning the Council's arrangements for financial reporting and the management of its reserves. This was followed by two further S.24 statutory recommendations in July 2021, due to inadequate arrangements in financial management and the capacity of the Council to manage its finances.

The S151 officer has instigated a number of reviews to investigate outstanding issues on the 2018-19 accounts and the Council's financial records. Until there is confidence in the financial valuation of assets, the position on debtors and creditors, and the status of suspense accounts it is not yet known whether there are any other potentially significant liabilities that will need to be recognised. The external auditor is still considering their opinion on the 2018-19 accounts.

In the circumstances, on 2nd July 2021, the S151 officer issued a section 114 notice for Slough Borough Council on the basis that it could not meet its immediate liabilities. The S151 officer clearly explained to Members the financial challenge facing the Council and that the scale of the past liabilities will not be known until past financial statements are finalised.

At the time of our review, outstanding past liabilities clearly exceed the usable reserves available to Slough Council. Indeed, as the S151 officer stated in his section 114 notice, if the utilisation of capital receipts to offset MRP was known at the time, the Council would have had difficulty in setting a legal balanced budget in 2019-20, 2020-21 and 2021-22.

Slough has been in dialogue with DLUHC since December 2020 to seek exceptional financial support. DLUHC had approved a capitalisation directive of up to £15.2m in 2021-22, subject to an independent review. This was, however, to meet challenges identified at the time, in balancing the 2021-22 budget rather than in response to past liabilities.

Conclusion

The total value of past liabilities identified to date is £52.8m. The following factors could impact on the scale of these liabilities: -

(i) The closure of accounts for 2018-19 could enable the liability for MRP to be charged forward rather than being recovered immediately

(ii) Further work is still required to assess the exact extent of MRP liabilities for 2019-20 and 2020-21 as they have currently been assessed based on estimated asset lives rather than actual asset lives
(iii) Further work is underway to assess the extent of liabilities across council owned companies
(iv) The accounts for 2019-20 and 2020-21 have not been closed.

On balance, it is expected that most of these factors could increase the above liability rather than reduce it. Any decision to charge forward the liability for MRP would need to be agreed by the External Auditor before they close the 2018-19 accounts and would then widen the budget gap further in future years.

Slough Borough Council faces a considerable financial challenge, relative to the size of its budget to remedy these past liabilities. On taking up post in April 2021, the S151 officer and his team have shown demonstrable tenacity in reviewing past practices and quantifying the corrections required. This remains work in progress, however, and it is not possible to estimate past liabilities with confidence at this stage. It is in these circumstances that we examined the financial position of the Council for 2021-22 and beyond.

4. The Financial Position

4.1 Introduction

Following Cabinet approval, on 15 December 2020 the Chief Executive wrote to DLUHC to formally request exceptional financial support. The request was for a capitalisation directive from the Government of £30m for 2021-22 and 2022-23. This amount was estimated to be sufficient to manage the anticipated budget gap in each of these two years and to deliver a transformational savings programme to enable a sustainable budget from 2023-23 onwards. The Council attributed the budget gap to: an obligation to clear existing deficits incurred by its Children's Trust to enable the establishment of Slough Children First Ltd; a substantive business rates rebate arising from a successful appeal to the VOA Tribunal; and, the non-delivery of savings and delays in anticipated growth of the council tax base due to Covid. The application for exceptional financial support was before any of the past liabilities, outlined in the previous section, had come to light.

The 2021-22 budget was balanced on the basis of utilising £12.2m of the capitalisation directive approved in principle by DLUHC for the year[1]. Members were also asked to note the use of £5.106m of capital receipts to fund the MRP in 2021-22 and £3.144m in 2022-23, although there is no commentary on the appropriateness of this action. This section examines the financial budget for 2021-22, and the medium-term financial plans of the Council.

4.2 Financial Budget for 2021-22

In March 2021, the Council set a balanced budget for 2021-22 of £133.574m, based on the conditional approval from DLUHC for the Council to fund £12.2m of revenue expenditure from capital. The report by the former s.151 Officer does make clear in the budget papers that the implications of the capital directive have been factored in to the Capital Strategy and the proposed Capital Programme for 2021-22 to 2023-24.

The budget for 2021-22 included additional pressures of £12.593m. These pressures included £4.929m of unachieved savings from previous years of which £2.730m related to under-delivery of savings from the council-wide 'Our Futures' transformation programme. Some £6.1m of the growth is in adults' and children's services where the demand for statutory social work interventions in Slough continues to rise. Although lower than statistical neighbours, Slough's child in care population has increased per 10,000. This is attributable to children staying in care for longer periods of time and an increasing complexity and volume of cases. Demographic pressures are also anticipated to lead to increased costs of adult care, although trends are more difficult to estimate as the pandemic has impacted significantly on the way that services have been delivered over the past year.

Subsequent investigation by the S151 officer has identified further liabilities of some £27.7m in 2021-22, in addition to the original £15.2m capitalisation request[1]. These comprise:

[1] DLUHC approved, in principle, a capitalisation direction up to £15.2m, of which £3m was a backstop only relating to ongoing discussions with DfE and HMRC over a VAT rebate in relation to the Children's Trust. This £3m element was not needed.

- The £14.4m in-year cost for correcting the inappropriate, planned utilisation of capital receipts to offset the impact of MRP, overstating asset lives and omitting MRP on capital spending prior to 2016
- Capitalised expenditure that should have been charged to revenue of £2.45m
- Further liabilities in remedying the health and safety risks at Nova House of £2m
- The cost of the forecast deficit for 2021-22 of £6.9m
- The £1.1m cost of a pay award in 2021-22, which was not provided for within the 2021-22 estimates.
- The part year cost of converting short-term borrowing to long-term borrowing to reduce the Council's exposure to the risk of interest rate rises (£0.9m)

In addition, The Council is also seeking extra provisions of £16m to:

- Help rebuild general reserves to cover unforeseen spending pressures (£10m)
- Further provision for additional liabilities not yet identified (£2.5m)
- Increase insurance provision in line with potential liabilities within the insurance fund (£1m)
- Increase in general provisions for bad debts (£2.5m)

In total the projected liabilities for 2021-22 amount to some £58.9m as summarised in the table below: -

Current Year Pressures 21/22	**£'000**	**£'000**
MRP	14,382	
GRE5	2,000	
Capitalisation In Error	2,450	
Total Past Liabilities		**18,832**
Core Budget Deficit	8,600	
Replenish Reserves	3,600	
Slough Childrens Trust Deficit	3,000	
Original Capitalisation Request		**15,200**
Provisional 21/22 P2 Forecast	6,907	
Pay Award 21/22	1,065	
Move to longer term borrowing	875	
Further Liabilities 21/22		**8,847**
Reserves & Provisions		**16,000**
Total Potential Liabiliites 21/22		**58,879**

There are a number of factors that could yet add to the above cost pressures facing the Council in 2021-22: -

- MRP calculations are based on estimated asset lives – the figures are to be recalculated based on actual asset lives once the information is available.
- The above calculations assumes that MRP will not be charged forward over the remaining life of the asset.

- Interest rate risks – if interest rates rise then the cost of moving to longer term rates will be higher. The projection assume that long term rates can be fixed at 1.5% which may prove to be unrealistic.
- Additional spending pressures, particularly relating to Covid and the emergence from the pandemic may impact on demand in Children's and Adult Social Care. Conversely Council income may continue to be suppressed for longer than anticipated as the economy takes time to recover.
- Companies risk – work is ongoing to assess the level of liabilities and risks within Council owned companies. This may identify further liabilities particularly around GRE5.
- Redundancy costs – no additional provision is made for redundancies in 2021-22, although this may be more relevant for future years as the Council redesigns its structure within a much smaller financial envelope.

The budget approved by the Council in March 2021 relied on total savings of £15.6m to balance. Many of the savings included within the budget were optimistic without any clear business case setting out how they would be delivered. We found no evidence of a suitable risk assessment being carried out on the planned savings, and a contingency of only £375,000 (2.5%) was set aside for potential non-delivery. This was unrealistic given that 40% of the previous year's savings had not been delivered.

Subsequent work has indicated that £4.3m of the original savings are at risk along with a similar amount of additional budget pressures that have not been included within the original budget. This means that the net level of savings for 2021-22 is projected at £8.3m and the out-turn position is projecting an over-spend of £6.907m.

The funding required to meet budgeted expenditure is dependent on raising £60.9m through Council tax, and the remainder through business rates, grants and the Exceptional Financial Support from DLUHC. The Council tax is based on a 1.99 per cent increase (plus 3 per cent for the Adult Social Care Precept), a small growth in the tax base, and a collection rate of 97.5 per cent. Business rates and other grants amount to £63.3m.

Conclusion

In conclusion, the scale of the financial challenge facing the Council in 2021-22 cannot yet be quantified with accuracy, but it is acute. The potential liabilities facing the Council in 2021-22 are likely to be nearly £59m, and when added to the past liabilities of £52.8m give an estimated immediate need for exceptional financial support of £111.8m, equivalent to 90 per cent of the funding the Council expects to receive in 2021-22.

4.3 Financial resilience in the medium term

The medium-term financial strategy and associated forecasts of expenditure and income for the years 2022-23 and 2023-24 were approved by Council on 8 March 2021. This section of the review examines the adequacy of the Council's medium-term plans and what is required to strengthen its financial resilience. The table below shows the headline figures from the Medium-Term Financial Plan.

£'000	2022-23	2023-24
Base budget	£133,574	£134,952
Pressures	£6,311	£13,265
Savings	(£4,933)	(£3,064)
Total Budget Requirement	**£134,952**	**£145,153**
Projected funding	(£121,926)	(£125,893)
(surplus)/Deficit	**£13,025**	**£19,260**

When the MTFS was approved by the Council in March 2021, the anticipated cost pressures were expected to be significantly less in 2022-23 than 2021-22, largely due to the anticipated respite from Covid and the one-off pressures faced in 2021-22, such as clearing the deficit of the former Children's Trust.

Subsequent analysis by the S151 officer in July 2021, however, has identified further pressures in 2022-23 and 2023-24. Taking into account the planned utilisation of the £12.2m capitalisation directive in 2021-22, the recurring gap identified in 2021-22 and the additional pressures, the projected increase in the base budget is significant.

The table below shows the current projected deficit for 2022-23. It takes into account further pressures on the 2022-23 budget of some £30m, plus the deficit of £17.6m already within the current Medium Term Financial Plan. These are, offset by net projected savings of £14.7m, to leave a projected deficit for 2022-23 of £33.3m.

	£'000	£'000	£'000
2022-23 Funding Gap within current MTFP			**17,958**
• Current year forecast deficit in addition to capitalisation	6,907		
• Pay awards for 2021-22 – assumed not in MTFS	1,065		
• Full year cost of temporary loans	2,675		
• Capitalisation in error	1,950		
• GRE 5 costs	1,700		
• Provision for further risks	2,500		
Additional funding gap		16,797	
Total MRP for 2022-23		13,173	
Total Funding Gap 2022-23, including MRP			**29,970**
• Projected savings	-11,533		
• Further savings target to reduce budget gap	-6,425		
Total savings to identify in 2022-23 to meet MTFS gap		-17,958	
• Increase provision for non-delivery of savings		3,256	
Net savings			-14,702
Total Projected Additional Funding Gap in 2022-23			**33,226**

The table overleaf shows the projected position for the whole of the MTFS as set out within the Section 114 notice.

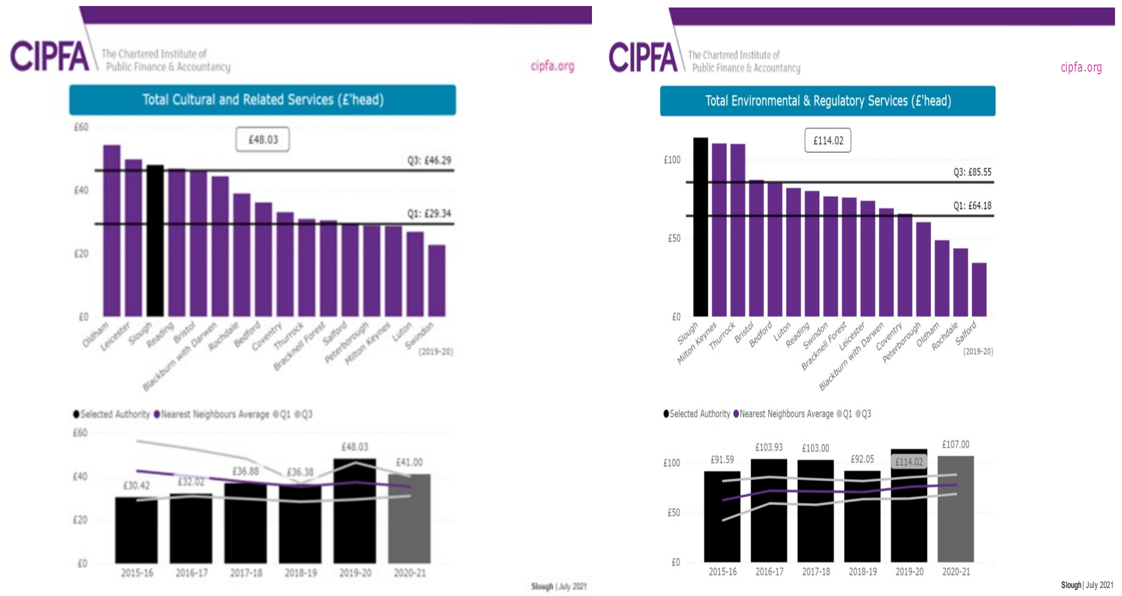
Medium Term Funding Gap	22/23	23/24	24/25
	£'000	£'000	£'000
Total Projected Funding Gap	47,928	41,149	20,443
Saving s Identified in MTFP	- 11,533	- 3,064	
Savings to be identified	- 6,425	- 19,043	- 10,221
Provisions for Non Delivery of Savings	3,256		
Net Funding Gap	**33,226**	**19,043**	**10,221**

The above tables shows that the Council anticipates that it will need a further £62.5m to balance its MTFS between 2022-23 and 2024-25. This is after taking into account the need to deliver some £50.286m in additional savings during this period. So far, the Council has identified savings of some £14.597m to close its MTFS in these three years.

Our analysis confirmed that Slough Borough Council is already one of the lowest spending councils compared to other most similar councils. Adult services are already implementing efficiencies to mitigate its cost pressures, and now that children's services are run by Slough Children First Ltd, limited leverage will make it more difficult to secure many savings from this area.

The one key area where savings might be feasible is for cultural and related services and environmental and regulatory services where Slough spends significantly above most similar councils – see figure 3. These services fall within the Place Directorate for Slough, but total budgeted expenditure in 2021-22 is only £20m, equivalent to 16 per cent of total budgeted spend.

Figure 3: A comparison of spend per capita on cultural and related services, and on environmental and regulatory services



Source: CIPFA

The Council is exploring a second transformational change programme with a view to transitioning to an enabling authority that only provides the statutory minimum required for each directorate. These plans are still at a very early stage of development, however, and whilst the aspiration to transform in response to the budget pressures is encouraging, we are not in a position to affirm that such plans have a realistic chance of success. Indeed, interviewees highlighted a series of difficulties with the implementation of the previous transformational programme and its failure to deliver any significant, sustainable efficiency savings – see section 5.

Overall, we confirmed that the S151 officer's estimation of budget gaps arising from the anticipated cost pressures and planned savings results is reasonable. On the basis of a budget gap of £33.2m for 2022-23, a further £19m for 2023-24 and another £10.2m for 2024-25, this amounts to a gap of £62.4m

4.4 Capital Programme

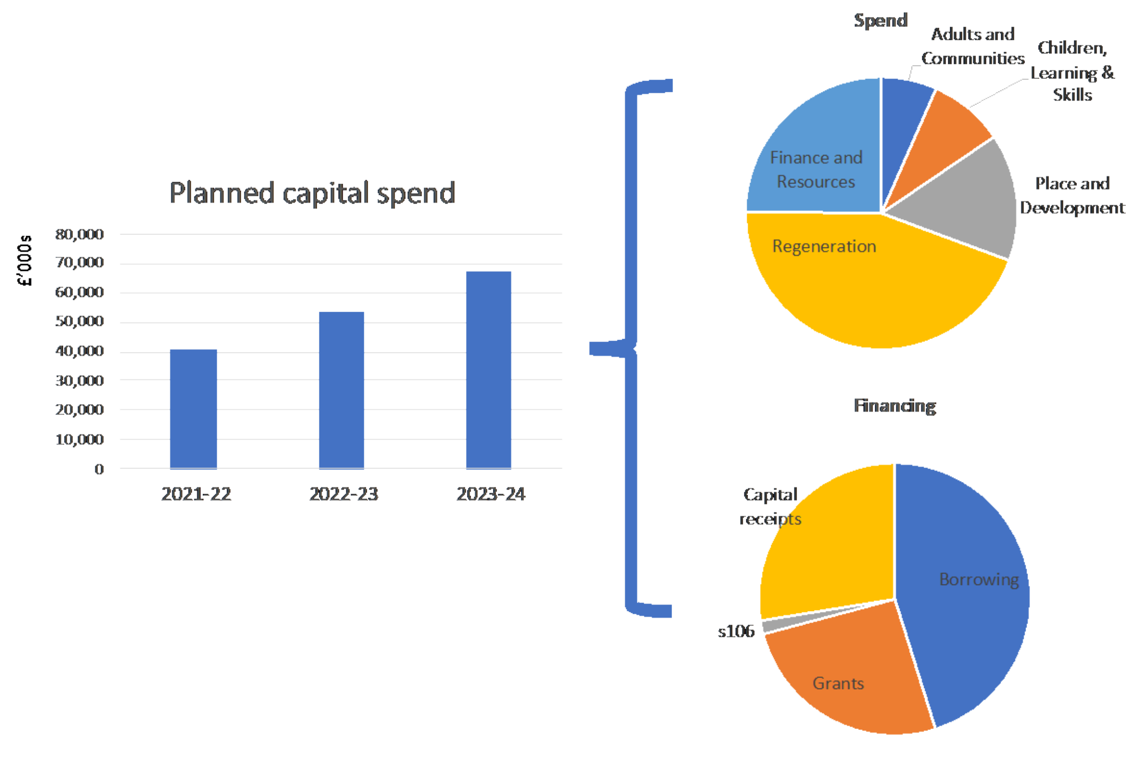
Finally, we reviewed the future capital programme (excluding HRA) and associated borrowing to examine its potential impact on the revenue budget.

Figure 4 shows that the Council planned to spend £147.6m on its capital programme (excluding HRA) between 2021-22 and 2023-24. Regeneration represents 44 per cent of the total and of the £36.6m (25 per cent) for Finance and Resources, £12.2m represents the original capitalisation directive request. Some 45 per cent of the programme would be funded by additional borrowing.

The figures are likely, however, to be an underestimate of the scale of the programme and thus the level of borrowing required. Investigative work is underway by the s.151 Officer and team to confirm figures. Whilst early analysis shows that some capital expenditure on IT should have been charged to the revenue account, there was a considerable addition of around £50.8m spend to the 2020-21 capital programme subsequent to approval of the figures by the Council. This was due to slippage in 2019-20. This is likely to impact on subsequent years.

Furthermore, the investigative work identified some schemes in 2020-21 that were not fully approved by the Council. The schemes include the £4.2m cost of redeveloping the Herschel car park and the £12.6m capital programme shortfall on the development of a hotel. It is possible, therefore, that there might be other areas of planned capital expenditure in 2021-22 to 2023-24 that were not identified in the MTFS approved by the Council.

Figure 4: Capital programme for 2021-22 to 2023-24 showing areas of spend and how it will be financed



Source: Slough Capital Programme, March 2021

The additional borrowing will significantly increase the Minimum Revenue Provision required each year. As a consequence, in order to mitigate the impact on the revenue budget for future years, the S151 officer initially asked each Directorate to halve their plans for the capital programme. In our view, this is the absolute minimum required and the S151 officer has requested further reductions. Not only does the increase in MRP need to be kept to a minimum, but the planned utilisation of £40.6m capital receipts will be needed to support the revised capital directive requirements.

4.5 Conclusions

On current estimates the Council faces additional liabilities and budget pressures in 2022-23 and beyond, which are in the region of £62.4m. This estimate is subject to further review and many of the factors identified previously will impact on the size and scale of the future gap and the level of further support that the Council will need. In addition to these factors the gap could further increase due to:

(i) The need to meet substantial redundancy costs associated with a further reorganisation of the Council to fit within a much smaller budget envelope.

(ii) The cost of meeting the substantial MRP charges and interest costs associated with the initial borrowing to cover the substantial capitalisation direction. The extent of this pressure will depend on the timing and extent of future asset disposals.

(iii) The delivery of future savings plans – any delays in delivery or under-delivery of savings plans will impact adversely on the size and scale of the budget gap that the Council faces.

(iv) The underlying projected deficit of some £28m by 2024-25 within Dedicated Schools Grant, which assumes that some £14m of mitigating savings will be made by up to 2024-25

Further asset disposals that could reduce the current MRP charge could help to reduce the scale of the budget gap in future or at least offset any additional liabilities.

The scale of the challenge facing the Council is acute. The S151 officer and his team have investigated a range of issues in some depth within a short space of time to estimate the budget gaps. Understandably, therefore, the estimates can only be work in progress at this point in time. Our review confirmed the rigour of the work done to date. Taking together the past liabilities to be remedied of £52.8m, the estimated gap in 2021-22 of £59m and the anticipated gap until 2024-25 of £62.4m, the overall capitalisation required amounts to over £174m, although these are early estimates and could change over time. As it stands, the capitalisation required is equivalent to 140 per cent of the funding the Council expects to receive in 2021-22.

The S151 Officer has built a level of prudence into this cumulative gap, but the state of financial systems and records in the Council means that there are also uncertainties. In our view, therefore, this is a reasonable estimate of the capitalisation required.

As a consequence, the Council is not financially resilient and there is little prospect that the Council can achieve financial resilience in the short or medium term. The S114 notice indicates that the Council does not have sufficient resources to cover its current year spending let alone the substantial liabilities that are outstanding from previous years. In order to maintain the Council's financial viability from 2022-23, the Council is likely to require considerable additional support from Government not just in 2022-23 but for many years to come.

If this support is provided in the form of a capitalisation direction, the Council will need to dispose of assets in the region of £200m to cover the cost of the capitalisation direction and prevent this becoming an additional pressure on its revenue budget. We examine the feasibility of this option in section 6.

5. The Council's approach to financial management

5.1 Adequacy of existing financial management practices

Annual Governance Statement

The latest Annual Governance Statement for Slough Borough Council was drafted in 2019-20 and considered by the Audit and Governance Committee on 3rd August 2020. It concluded that:

> *The Council operates by seeking all appropriate professional advice and seeks to have regard to all appropriate guidance and to act in a prudent way and is satisfied that appropriate governance arrangements are in place; however, it is committed to at least maintaining and, wherever possible, improving these arrangements, in particular, by addressing issues identified by Internal and external Audit as requiring improvement*

The statement provided an update on actions to improve governance identified in the previous statement for 2018-19 but did not provide an updated action plan for the annual governance statement for 2019-20, although it highlights some key recommendations from the LGA Governance Peer Review as follows: -

- The importance of Audit and Governance Committee is not fully understood.
- There needs to be a refreshed comprehensive Member training and development programme
- Scrutiny is not enabled and supported to address the key issues facing the authority

The Council has not prepared an Annual Governance Statement for 2020-21. This to some extent reflects the fact that the Council is not able to close its accounts in 2020-21. Nevertheless, this means that there is no clear statement from the Council on its current Governance arrangements nor is there an action plan setting out how it seeks to remedy any deficiencies in Governance. It is therefore important that an Annual Governance Statement is produced for 2020-21.

Audit Opinions

Recent External audit reports highlight the weaknesses in financial management across the Council:

(i) The External Auditors have issued two S24 Statutory Recommendation reports containing a total of six recommendations concerning:

- inadequate financial arrangements and the management of its reserves; and
- inadequate arrangements and capacity at the Council to prepare reliable financial statements and working papers and concerns regarding the Council's financial sustainability and levels of reserves.

(ii) The internal Auditor issued their opinion on the internal controls within the Council on 7th July 2021 which stated that the organisation does not have an adequate framework of risk management, governance, or internal control.

Internal Audit work carried out during 2020-21 identified substantial weakness in financial governance including:

- The authorisation process for loans of some £10m

- The level of reporting and Member oversight of the Treasury Management Function.
- The lack of any formal whistleblowing arrangements to enable officers to raise concerns
- Some 52 recommendations relating to Council subsidiary companies
- Failures to restrict access to core council systems for staff who had left the organisation
- A lack of focus on debt recovery creating the risk of delays or failure to recover outstanding debt.
- A failure to reconcile data between the council's asset management system and its financial system.

Internal Audit have also expressed concern regarding the lack of progress made in the implementation of audit recommendations. Interviewees confirmed that recommendations were not 'owned' and remedied by the executive team.

We have some concerns about the breadth and coverage of internal audit plans. For example, it does not appear that there has been a detailed review of the procurement function in recent years. This function plays an important role in helping the organisation deliver sound financial governance by ensuring that there are appropriate arrangements for letting contracts and achieving value for money. This function is delivered in part by RSM Tenon, the Council's internal auditors pending the introduction of more permanent arrangements following the Our Future Review. On this basis we think it would be appropriate to commission a review of procurement, independent of RSM Tenon to provide the S.151 officer with assurance concerning the operation of the procurement function.

The current Internal Audit opinion is consistent with the opinion of the external auditors, but previous internal audit opinions have not signalled any deterioration in financial management arrangements. The table below shows the two previous internal audit opinions. This is pertinent given that the S24 recommendations stem from the work that the external auditor is carrying out on the 2018-19 accounts.

2019-20 (positive)	The Council has an adequate and effective framework for risk management, governance, and internal control. However, our work has identified further enhancements to the framework of risk management, governance, and internal control to ensure that it remains adequate and effective
2018-19 (positive)	The Council has an adequate and effective framework for risk management, governance, and internal control. However, our work has identified further enhancements to the framework of risk management, governance, and internal control to ensure that it remains adequate and effective

Furthermore, Council borrowing increased from £180m to £760m over the last five years and there is little evidence that this followed any concerted, strategic or commercial plan of investment. There is little evidence to suggest that the Council ever clearly understood the entirety of the investment that it was making or the financial implications of that investment on overall council finances and the associated financial and organisational risks.

Risk Management

Whilst the Council does maintain a risk register and updates the Audit and Governance Committee regularly on significant changes, we found no evidence that there was any effective challenge to these assessments.

It is essential that the organisation both at Executive and Member level has a clear understanding of the risks that it faces at a time of unprecedented financial challenge. This is even more important given the additional risk posed by the recent transformation of Council structures.

Conclusion

The S151 officer has produced a detailed and considered action plan which aims to achieve sound financial management across the Council. This was included in response to the Section 24 recommendation and the Section 114 report. These plans have not yet been incorporated by the executive team into a clear annual governance statement for 2020-21. Indeed, the plans for sound financial management do not appear to be matched by complementary plans to stemming from an assessment of current council governance arrangements.

5.2 The impact of previous transformational change

The Council has recently completed a significant reorganisation to raise the quality and effectiveness of its services. Entitled 'Our Futures', the programme, sought to make the following changes:

- Transforming the Council's website and how it interacts with customers
- Reducing the transactional workload with greater use of automation
- Establishing a data and insight function to enable the Council to better target effort on where it can have the most impact
- Increased focus on prevention and maximising the impact for those most in need
- Developing locality service offers across Slough to bring public and community services together for diverse communities
- Promoting entrepreneurship and business investment
- Providing more integrated corporate services to support staff to do their jobs.

The focus was on service improvement rather than efficiency savings and it involved a generalisation of job descriptions to enable staff to work across areas. Whilst the aims of the reorganisation to encourage more collaborative working were laudable and governance arrangements were in place by April 2019, interviewees highlighted difficulties with implementation, a lack of communication and consequent uncertainties amongst staff. The Chief Executive attributed the concerns raised by interviewees to the identification, in Spring 2021, of the financial challenges facing the Council.

Consequently, the Council is now in a position where the Council has some 300 vacancies and some 300 agency/interim staff. At one point, 65% of the social workers employed by Slough Children First were agency staff. There are also 10 vacancies out of a total of 34 in the senior structure, although we understand that there are now interims in place for four of these posts. Executive Directors and particularly Assistant Directors are managing areas that are outside of their expertise.

Despite the substantial investment in the transformation programme of some £4.5m and the governance arrangements put in place to oversee the framework of workstreams, the transition to the new structure has ultimately created considerable organisational risk and presented more challenges than expected, in part due to the challenges of Covid and the tighter financial constraints upon the council. In particular this has meant that the technological change required to make the reorganisation effective has been delayed.

As with any transformation this presents a substantial organisational risk. This risk is increased even further given that many staff who are new in post will be asked to develop significant plans to refocus and reduce council services within much tighter financial constraints.

5.3 The capacity of the Council to deliver the transformational changes needed to ensure financial resilience

Progress is dependent on two factors:

- There needs to be a detailed action plan with clear milestones that is agreed by Members and Executive Directors so that it can be tracked
- The Finance team requires the expertise and resources needed to support the Executive Directives in implementation.

Developing a Clear Action Plan

Considerable work is being carried out by the S151 officer to develop a plan. The plan agreed by the Council in response to the S114 notice is not yet a plan to close the budget gap. Given the size and scale of the challenge it is unrealistic to expect such a detailed plan to have been completed at this stage and progress is dependent on identifying realistic additional savings that can be achieved for 2021-22 and for 2022-23.

We have identified five critical milestone dates to measure progress:

- **October 2021**. It is important that by this date there is an outline of what is required to build a realistic delivery plan. This should include:
  - A realistic timescale for the investigation of other potential financial risks, such as the governance of companies, debtors, creditors and suspense accounts to show how they will be resourced and when the results will be available for consideration by Executive Directors.
  - Clear delivery plans from each Executive Director to meet the agreed savings targets required for 2021-22.
  - A timeline for the review of assets held by the Council, setting out how they will be valued and any commitments/obligations identified by May 2022.
  - An outline transformational plan, with allocated responsibilities, for how the changes required to meet the savings plans in 2022-23 and beyond will be developed.
  - Explicit approval of the outline plan and 2021-22 savings by the Executive Directors and Council.

- **December 2021.** By this date the Council should have:
  - An updated estimate of the budget gap based on the finalised investigation of financial risks.
  - An updated the MTFS for the period 2022-26, taking account of past liabilities, and the first tranche of savings required for 2022-23.

- **February 2022.** By this date there should be:
  - An approved Council budget for 2022-23 and a revised MTFS with detailed savings plans from each Executive Director.

- **May 2022**
    - The delivery of the savings specified for 2021-22.
    - A detailed delivery plan, approve by the Council, for the whole of the period of the MTFS to enable a balanced budget to be ultimately achieved.

- **May 2023**
    - Financial procedures and processes are confirmed as robust

It is essential that all the Executive team and the Council are wholly committed to the steps required. Interviewees expressed their commitment to us to deliver the changes required. The Chief Executive and Executive Directors stated their focus to remedy matters. The Leader also appears to have a clear understanding of the extent of tough choices that will need to be taken to start to address the scale of the budget gap. It is less certain how aware the wider Council are about the difficult and tough choices that lie ahead.

It was evident from our interviews, however, that this commitment has not always been present amongst Members and officers. Furthermore, there will be considerable challenges when the realities of the savings required begin to become apparent.

For this reason, it is imperative that there is external validation of whether these milestones are fully met. If there are delays or other difficulties, DLUHC will need to be aware so that further interventions can be instigated.

Building the expertise and capacity of the Finance team

Interviewees explained that the capacity of the Finance team was eroded in previous years, partly due to perceived uncertainties around posts during the 'Our Futures' transformation and partly because the Council has struggled to offer the salaries that London Boroughs can provide.

As a consequence, there is minimal capacity or experience amongst the employees within the Finance team. Not only is the S151 Officer on an interim contract, but he is supported by a small group of other experienced interims. We were impressed with the quality and expertise of this small group. But they are on short-term contracts and will not remain for the long-term.

It is crucial, therefore, that the Council mitigates the risk of these interims leaving at short notice, and that it builds longer-term knowledge and expertise. As such, the actions required include:

- Renegotiating contract terms with the existing Finance interims to increase notice periods
- Recruiting senior Finance professionals to the team in order to build longer-term resilience.

Both of these tasks would need to be finalised by the May 2022 deadline specified above.

5.4 Conclusions

Previous financial management in the Council has been very weak, and addressing this is dependent on the commitment and expertise of the S151 officer and his team of interims. There is a commitment from all those interviewed to support this team in delivering changes required, but there is no strong evidence from past behaviours to demonstrate that this will succeed.

It will be important, therefore, that there are clear milestones on what needs to be delivered by when and that these are reviewed and evaluated by an independent external organisation. Failure to meet deadlines will necessitate further interventions in order to protect the fiduciary interests of everyone in Slough.

6. Council assets and other commercial interests

6.1 Review of the council's current asset position

The Council has a range of assets including development sites, commercial property and, land and property portfolio. Some of these assets are owned by subsidiary companies such as James Elliman Homes and a small proportion of the Council's sites are opted to SUR, a local asset backed vehicle, which was formed as a 50:50 LLP with Morgan Sindall, under the terms of a partnership agreement. An options review is underway to consider how the Council can achieve best value from these sites.

Asset	Value £m	Comments
Council dwellings	551	6,000 homes
Land and buildings	347	Includes operational offices and Service locations
Vehicles plant & equipment	67	
Infrastructure	118	Mainly highways infrastructure assets
Community assets	10	Parks and open spaces mainly
Surplus assets	25	
Assets under construction	48	
Investment property	215	Land sites for development
Total	**1,381**	

These figures have been taken from the trial balance at 31 March 2021 and have not been subject to any external review of the Council's current valuations.

James Elliman Homes

The Council owns a number of residential properties through James Elliman Homes (JEH) with loans having been made to this company of £51m. We understand the company is operating at a loss of some £1.5 pa due to acquisition costs of new properties, although this is not considered to be an inherent loss that will continue year on year.

Housing Development Sites

There are several housing development sites including land at a former Akzo Nobel, Wexham site with outline permission for 1,000 homes. The Ashbourne site has outline permission for 192 homes and land adjacent to Langley College.

Asset Disposal Plan

An asset disposal plan has been established and is being tracked with delegated authority given to the Executive Director of Place for disposals up to £1m. Assets that were deemed to be strategic, operational or income producing were excluded from consideration. The total value of assets on this plan is £24.635m. Given the financial challenges the Council faces, the potential receipts are not sufficient, and all Slough Borough Council assets should be evaluated for disposal.

Potential Asset Disposals

We have given a view that more assets should be considered for disposal, their priority, ease of disposal, likely capital receipts, and timescale. We would recommend that professional independent valuations are undertaken, and market advice given on disposal strategy and marketing options.

Our rationale for including assets for disposal is their ability to realise capital receipts within a 5-year timeframe, their attractiveness in the market, and ease of disposal. Detailed analysis will be required to test the market, evaluate options, to ascertain any hindrances to disposal (for example issues with title or planning) and carry out professional valuations.

Investment Property

CIPFA reviewed a sample of the £215m of Investment Property; where lease breaks are imminent they should be targeted for disposal. James Elliman Homes (JEH) has potential to sell to a Registered Provider.

General Fund Assets

General Fund assets should be considered for disposal. Although some, for example libraries and community centres, will have significant local and political issues to be considered and would be lower priorities for review, others such as the main council offices should be identified. Council offices can be used more efficiently with more agile ways of working thereby reducing the need for future office space.

We have included for this to happen at Observatory House which is 110,000 sq ft and assumed 30% of these offices could be let out to third party organisations bringing in rental income. Sale of this site could also be considered.

Savings in facilities management and energy costs have been included resulting from the reduction in use of corporate offices and the opportunities to consolidate contracts such as printing, photocopying, stationary, and post.

In relation to the Council's track record of disposals, the Council's focus over the last few years has been on acquisitions either for income, housing or for strategic regeneration reasons and significant disposals have not occurred.

Nova House

A significant liability rests with the Council in respect to the freehold ownership of Nova House, a tower block of 68 apartments, where fire safety works are required which are expected to cost £18m. This will be a challenging asset to market with such a liability and further work should be carried out to understand the options and feasibility for disposal.

Commercial Income

In the commercial investment portfolio, we have analysed the income that is at risk over the next 3 years and this equates to potentially £2.2m or 37% of the current £6m annual income due to break clauses or lease expiries occurring in the next 3 years.

Conclusion

There is the potential for the Council to dispose of considerable assets to meet the cost of the capitalisation direction and potentially to help to reduce further the scale of external borrowing and MRP charges.

Asset sales may take some considerable time and more work is needed to gain more accurate valuation of council assets and determine the level of expertise required to achieve best value. At this stage potential next steps are as follows: -

- Assess viability of James Elliman Homes and look at options to sell residential assets

- Develop disposal plan for residential development sites
- Commission independent valuations and market advice on disposal strategy and marketing options including detailed analysis on options for each asset and to ascertain any hindrances to disposal (for example issues with title or planning)
- Review utilisation of Council offices and ways they can be used more efficiently through agile working to save cost on facilities management and energy, and to increase rental income
- Align electronic property management system with other systems to improve reporting and control of property assets
- Develop a process for carrying out asset challenges within the council to better use property assets and encourage co-location of service departments

7. Roadmap for improvement

The table overleaf sets out a detailed roadmap for improvement with some suggested timelines. These are outline timelines and are likely to place considerable pressure on resources within the Council.

We recognise the considerable amount of work that the Council's S151 officer has undertaken and the level of commitment that he and his staff are showing to address the financial challenge that the Council faces.

The roadmap is intended to assist the work that is currently being undertaken and highlight the key areas where we think that further emphasis needs to be given.

	Road Map	September	October	November	December	January	February	March	Other
	Strengthening Financial Sustainability								
A	**<u>On future sustainability:</u> Establish a detailed plan to close the short and long-term budget gap**								
	The Section 151 Officer present a plan to rebalance the budget to Council in October 2021								
	The Council produces an outline plan to close its identified budget gap for 2022/23								
	The Council produces a longer-term outline plan for closing the MTFS budget gap								
	The Council produces detailed delivery plans for the savings required over the MTFS								May-22
B	**<u>On future sustainability:</u> Establish a high-level risk register**								
	The Council reviews the existing risk register								
C	**<u>On commercial activities and borrowing:</u> Set limits on future borrowing and capital spending**								
	The Council sets tight limits for future borrowing.								
	The Council restricts investment in its capital programme to essential schemes								
D	**<u>On commercial activities and borrowing</u>: Gain increased assurance concerning the potential scale of past and future liabilities**								
	The Section 151 Officer further reviews the risk-based approach to identifying liabilities								
E	**<u>On Assets:</u> Develop an outline disposal plan**								
	The Council considers at an early stage its approach to asset disposals								
	Strengthening Financial Governance and Oversight								
F	**Raise member awareness of the scale of the financial challenge and its implication**								
	Mandatory briefings are provided to all members on the financial challenge.								
G	**Address immediate financial governance risks**								
	The Council restores key controls within its Financial Management System								
	The Council reviews financial regulations in the medium term								
	The Council sets out clearly the financial responsibilities of all new staff								
H	**Prepare an Annual Governance Statement for 2020/21**								
	An Updated Annual Governance Statement and Action Plan should be prepared for 2020/21								
I	**Undertake an independent review of the procurement Function**								
	The Council to commission a separate independent review of the procurement function								
J	**Review the provision of Internal Audit**								
	The Council commissions an independent review of the internal audit arrangements								
K	**Enhance financial capacity**								
	The S151 Officer reviews the level of resource required to deliver his plan								
	The organisation makes further provision to enhance the capacity within the finance team								
	The Council commissions an independent review to demonstrate financial procedures and processes are robust								May-23
L	**Stabilise the finance leadership team**								
	The S151 officer appoints a permanent Deputy Section 151 Officer.								
	The Council seeks to renegotiate the contractual terms of the interims to extend their notice period								

Appendix 1 – Summary of recommendations

Strengthening Financial Sustainability

A **On future sustainability:** Establish a detailed plan to close its short and long-term budget gap

The S151 Officer present their plan for the for the steps that they need to take to rebalance the budget to Council in October and seek Council approval for the Plan.

The Council produces an outline plan to close its identified budget gap for 2022-23 (before taking account of additional Section 114 liabilities) by November 2021.

The Council produces a longer-term outline plan for closing the MTFS budget gap by December 2021.

The Council produces detailed delivery plans for savings required over the MTFS by May 2022.

B **On future sustainability:** Establish a high-level risk register

The Council reviews the existing risk register to identify the high- level risks facing the organisation and assigns a senior risk owner to each risk

C **On Commercial activities and borrowing:** Set limits on future borrowing and capital spending

The Council sets very tight limits for future borrowing to enable it to better manage the subsequent revenue cost of repaying such debts.

The Council restricts investment in its capital programme to essential schemes as identified above.

D **On commercial activities and borrowing:** Gain increased assurance concerning the potential scale of past and future liabilities.

The Council further reviews the risk-based approach to identifying liabilities to enable it to improve its assurance around the size and scale of current and future liabilities before it sets the budget for 2022-23.

E **On Assets:** Develop an outline disposal plan

The Council considers at an early stage its approach to asset disposals and how it will secure the necessary expertise that it needs to achieve best value.

Strengthening Financial Governance and Oversight

F **Raise Member awareness of the scale of the financial challenge and its implication**

Mandatory briefings are provided to all Members on the Council's financial challenge.

Specific further training is provided to members of the Audit Committee to raise further awareness of their governance role and that this training is repeated as part of the induction process for all new members when they join.

G Address immediate Financial Governance risks

The Council restores key controls within its Financial Management System as set out above.

The Council reviews financial regulations in the medium term

The Council sets out clearly the financial responsibilities of all new staff, interim and agency staff when they commence work with the Council.

H Prepare an Annual Governance Statement for 2020-21

An Updated Annual Governance Statement and Action Plan should be prepared for consideration by the Audit and Governance Committee by December 2021.

I Undertake an independent review of the Procurement Function

The Council commission a separate independent review of the procurement function, rather than including this within the annual internal audit plan.

J Review the provision of Internal Audit

The Council commissions an independent review of the internal audit arrangements to ensure that they are effective and provide sufficient coverage to give it the assurance that it needs during this period of financial challenge.

K Enhance Financial Capacity

The S.151 Officer reviews the level of resource required to deliver his plan for restoring sound financial management

The organisation makes further provision to enhance the capacity within the finance team including exploring other delivery avenues e.g. shared services

The Council commissions an independent review to demonstrate that financial procedures and processes are robust by May 2023.

L Stabilise the Finance Leadership Team

The S.151 officer immediately commences the appointment process for a permanent Deputy S151 Officer.

The Council seeks to negotiate the contract terms for the S151 officer and his team to extend the current notice period.

Appendix 2- Detailed improvement roadmap

	Road Map	September	October	November	December	January	February	March	Other
	Strengthening Financial Sustainability								
A	**<u>On future sustainability:</u> Establish a detailed plan to close the short and long-term budget gap**								
	The Section 151 Officer present a plan to rebalance the budget to Council in October 2021		■						
	The Council produces an outline plan to close its identified budget gap for 2022/23			■					
	The Council produces a longer-term outline plan for closing the MTFS budget gap				■				
	The Council produces detailed delivery plans for the savings required over the MTFS				■				May-22
B	**<u>On future sustainability:</u> Establish a high-level risk register**								
	The Council reviews the existing risk register				■				
C	**<u>On commercial activities and borrowing:</u> Set limits on future borrowing and capital spending**								
	The Council sets tight limits for future borrowing.			■					
	The Council restricts investment in its capital programme to essential schemes						■		
D	**<u>On commercial activities and borrowing:</u> Gain increased assurance concerning the potential scale of past and future liabilities**								
	The Section 151 Officer further reviews the risk-based approach to identifying liabilities		■						
E	**<u>On Assets:</u> Develop an outline disposal plan**								
	The Council considers at an early stage its approach to asset disposals			■					
	Strengthening Financial Governance and Oversight								
F	**Raise member awareness of the scale of the financial challenge and its implication**								
	Mandatory briefings are provided to all members on the financial challenge.		■						
	The Council provides specific training to members of the Audit and Corporate Governance Committee		■						
G	**Address immediate financial governance risks**								
	The Council restores key controls within its Financial Management System			■					
	The Council reviews financial regulations in the medium term							■	
	The Council sets out clearly the financial responsibilities of all new staff		■						
H	**Prepare an Annual Governance Statement for 2020/21**								
	An Updated Annual Governance Statement and Action Plan should be prepared for 2020/21				■				
I	**Undertake an independent review of the procurement Function**								
	The Council to commission a separate independent review of the procurement function				■				
J	**Review the provision of Internal Audit**								
	The Council commissions an independent review of the internal audit arrangements				■				
K	**Enhance financial capacity**								
	The S151 Officer reviews the level of resource required to deliver his plan		■						
	The organisation makes further provision to enhance the capacity within the finance team		■						
	The Council commissions an independent review to demonstrate financial procedures and processes are robust								May-23
L	**Stabilise the finance leadership team**								
	The S151 officer appoints a permanent Deputy Section 151 Officer.							■	
	The Council seeks to renegotiate the contractual terms of the interims to extend their notice period							■	

Appendix 3 – List of those interviewed

Ade Adewumi, Finance Department (Interim)

Carmel Booth, Finance Department (Interim)

Archa Campbell, Finance Department (Interim)

Joe Carter, Executive Director

Paul Dosset, Grant Thornton

Fin Garvey, Group Manager Place Delivery

Stephen Gibson, Executive Director

Dan Harris, RSM Tenon

Karen Ind, Finance Department (Interim)

Michael Jarrett, Executive Director

Amir Kapesi, RSM Tenon

Kamal Lallian, Group Manager, Place Delivery

Steven Mair, S151 officer

Surgit Nagra, Assistant Director

Jason Newman Group Manager, Asset Manager

Hugh Peart, Monitoring Officer

Peter Robinson, Finance Department (Interim)

Councillor Waqas Sabah, Chair of Audit and Governance Committee

Alan Sinclair, Executive Director

Councillor Wayne Strutton

James Swindlehurst, Leader of the Council

Richard West, Executive Director

Neil Wilcox, former S151 Officer

Sarah Wilson, Head of Legal Services

Peter Worth, Finance Department (interim)

Josie Wragg, Chief Executive

Appendix 4 – List of documents

Initial information request

A. Key Finance documents:
   1. Initial bid for Capitalisation, and any supporting papers
   2. The Revenue Budget Report 2021-22
   3. The Capital Programme 2021-22
   4. The Section 25 Statement for 2021-22
   5. Reserves Strategy
   6. Budget Strategy
   7. Capital Strategy
   8. Treasury Management Strategy
   9. Prudential indicators for 2020-21 and for 2021-22
   10. Out-turn Report 2018-19, 2019-20 and 2020-21
   11. Capital Out-turn Report 2018-19, 2019-20 and 2020-21
   12. Savings planned and delivered by Directorate for 2018-19, 2019-20 and 2020-21
   13. Financial statements for the Council and any companies owned/part-owned by the Council for 2018-19, 2019-20 and 2020-21
   14. Latest monitoring reports for 2021-22
   15. The Medium-Term Financial Plan
   16. Relevant reports to the Audit Committee
   17. Pension Fund report for 2018-19, 2019-20 and 2020-21
   18. Financial Regulations
   19. Finance Team Structure Chart - showing staff in post, interims and vacancies
   20. Business Plan for Finance

B. Other key documents:
   1. Council organisational chart – showing key staff in post, interims and vacancies
   2. Corporate Plan for 2018-19, 2019-20, 2020-21 and current
   3. Council Risk Register (showing position at end of 2018-19, 2019-20, 2020-21 and current)
   4. Annual Governance Statement for 2018-19, 2019-20, and 2020-21
   5. Report of External Auditors to Audit Committee
   6. Annual Report of Internal Auditors
   7. Log of IA recommendations and actions
   8. Asset register, including any assessment of assets that may be surplus
   9. Book value of assets, including valuation strategy
   10. MRP calculations
   11. Schedule of asset rental/income streams and how they contribute to budgets.

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