9 June 2022

BEST VALUE INTERVENTION – SLOUGH BOROUGH COUNCIL

On 1 December 2021, the Secretary of State imposed Directions under Section 15 of the Local Government Act 1999 on Slough Borough Council (SBC). Two Commissioners were appointed on 1 December and, following Commissioners' advice, a further Assistant Commissioner was appointed on 11 January 2022 who subsequently became the statutory Head of Paid Service (Chief Executive) of SBC.

Commissioners were directed to report to you at six monthly intervals or such other periods as might be agreed. As this is the first formal report of Commissioners since the Directions were imposed, it is important to set out the context and outline the challenges facing SBC on its improvement and recovery journey.

SBC is geographically the third smallest unitary authority in England with a population of c.149,000 in an area of some 12.5 square miles. The profile of the residents makes it the youngest in terms of average age (33) of any large town or city and is one of the most ethnically diverse places in the UK. Located about 25 miles west of central London, it has excellent and improving transport links, locally, nationally, and internationally, together with best quality data connectivity. This has resulted in an £8bn economy with about 7,500 businesses generating significant National Non-Domestic Rates (NNDR) receipts of which, in common with other authorities, only 50% remains in the borough.

However, the interaction between SBC and its business community is not of the highest quality whilst the presence of so many UK HQ of international companies and other businesses has not brought prosperity to all its residents. Deprivation is high across much of the area, with associated poor-quality housing. The social tension that this engenders can be evidenced by noting that the police report that domestic violence is higher in Slough than any other part of the Thames Valley Police area. Partly as a result of these characteristics, SBC has a small council tax base.

Even in the best of times, managing such a small unitary authority would be very challenging requiring the highest quality political and officer leadership and a degree of luck, hoping nothing much would go wrong. Regrettably, this has not been the case over recent years. The former Chief Executive spent some £2.8m on consultants, inexperienced in local government, devising a new officer structure which was launched in the middle of lockdown. It was approved on the basis that it would save c.£4m pa but in the event initial savings in the region of £2.5m are thought to have been achieved before unbudgeted redundancy and other related costs of £3.5m. Irrespective of the external circumstances, it was totally unfit for purpose and resulted in the speedy destruction of officer capacity and competence with many remaining individuals now in posts they had no experience in and whole teams being made redundant which were essential to delivery of statutory services. Many of those posts are now having to be recreated and the savings therefore almost completely eroded. Today, there is only one permanent employee on the Corporate Leadership Team and many posts throughout the organisation are covered by temporary or agency staff operating in an incoherent structure whilst the basics of local government are having to be rebuilt. The Chief

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Executive was dismissed from the Council's service by Commissioners using Direction powers on 9 March 2022 for gross negligence and reckless behaviour.

Following SBC's initial request to DLUHC for a capitalisation direction of £15.2m in 2021/22 to enable them to balance their books, corporate governance and finance reviews were commissioned in 2021 resulting in the Directions regime being imposed.

A lawful budget with an appropriate Section 25 report from the S.151 Officer was approved on 10 March 2022, but only after you approved a 'minded to' letter agreeing to capitalisation directions for the period 2018/19 to 2022/23. The capitalisation directions themselves, will only be issued as each prior year's accounts are finalised, closed, and provided with an audit certificate. The work to do this is well underway but has disclosed major issues in the accounts going back to 2015/16. The level of support required is unprecedented and will require at least £670m of capitalisation support over the next few years, together with asset disposals of some £600m to be achieved over the next three years and revenue savings of some £20m pa on a net budget of only £108m.

Commissioners have spent some time trying to understand how this Local Authority came to be in this position and assess the scale of the problem. Since 2015/16, SBC has had an overly ambitious capital programme for which it borrowed excessively. Borrowing increased from £170m in 2017 to £760m in June 2021 and now stands at £680m. All this borrowing has to be paid for using Minimum Revenue Provision rules. In 2020/21, a sum of £34m should have been included in the budget but only £40,000 was provided. In addition, SBC was wrongly charging revenue costs to capital; had not made appropriate provisions for items such as bad debts or insurance; had run down its reserves; and had misused capital receipts.

Some of this was down to a lack of competence by a range of officers and some by more deliberate action. What is surprising is that no Councillor seemed to notice. The finance portfolio from late 2017 until just before the S.114 notice in July 2021 was held by two councillors, neither of whom was there long enough to get a proper oversight of the Council's financial position. This portfolio was then held by the Leader along with many other roles from June 2021 and at the time of the S.114. Audit and Scrutiny failed to work effectively, even after the external auditor failed to certify the 2018/19 accounts. Allied to this was a poor leadership culture which made it difficult to speak truth to power at both officer and member level. Remnants of this still exist today. At one level, responsibility is accepted but at another, it is too easy to blame and look back rather than face up to the issues of the present and future.

As a consequence, on arrival in SBC, Commissioners required the Leader to establish a separate Cabinet portfolio to provide a focus on financial issues and the terms of reference of the Audit Committee to be amended to follow CIPFA guidance. With effect from the start of this municipal year, the Audit Committee is now chaired by an opposition councillor.

In December 2021, SBC had agreed and started to implement a finance recovery plan, which picked up on other recommendations from the various reviews that had been reported. This was led by the interim S.151 Officer. However, there was no sense that the organisation as a whole understood the implications of these reviews, or the Directions, for the Council. This was in part due to the absence of the Chief Executive, who went on sick leave following her suspension, and the damage done to the Council by the reorganisation. However, Directors

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had offered the political leadership a position where they would share the officer leadership role, and this was accepted. As a consequence, other than the financial recovery plan, nothing was happening. The whole organisation was in stasis and appeared to be just waiting for Commissioners to arrive and set out how to recover whilst trying to carry on some semblance of business as usual. This has resulted in significant time being lost and a lack of direction. No thought was initially given to how the required functional assessment was to be undertaken and members understanding that this applied to them also was not evident at the outset. A paper was tabled at the Improvement and Recovery Board at the deadline for submission after the first three months of the Directions, but this had not been subject to any approval process within SBC and was not in a form that made it capable of being considered. Commissioners concluded that it would be best for this to be incorporated into the work to produce the required first submission of the Improvement and Recovery Plan and a Corporate Plan.

This passivity and lack of top-level leadership were the key drivers in Commissioners requesting the appointment of the Assistant Commissioner to also take the role of Head of Paid Service following the former Chief Executive's dismissal. In addition, the lack of experience and knowledge throughout the organisation has required Commissioners to take a more hands-on role than would be normal. It is essential that SBC is able to acquire sufficient expertise speedily to ensure the significant changes required are evaluated, agreed, and implemented within required timescales. SBC finds it very hard to change their working practices to make this happen quickly, although this is further challenged by the lack of staff in place. In short, a vicious circle.

<u>The Improvement and Recovery Plan</u>

SBC's Corporate Plan, incorporating the Improvement and Recovery Plan was reported to and agreed by Full Council on 19 May 2022. It is a high-level document which Commissioners consider meets the requirements of the Directions. Each element of this document now needs to be underpinned by a much more detailed action plan, with every element timetabled with milestones, and key performance and success measures identified. In some instances, this will need a plan to produce a plan as the base information is not yet in place to ascertain a way forward. This needs to be in place in the next three months. To do this requires a set of senior staff able to lead this work and to attract such individuals requires a coherent narrative of improvement and goals. This is not yet in place and, until this is addressed, the next part of the process is at significant risk. A specific recommendation is made later in this report to start to address this.

Further, recruitment and retention of staff at all levels are major challenges to progress. What services are being delivered are extremely fragile and dependent on agency or temporary staff. This is particularly true in children's services.

Children's social work has been subject to DfE intervention and Directions for some eight years and has now reached a rating of 'Requires Improvement'. This intervention only covers a part of the total children's service and is operated through a relatively new wholly owned SBC Company. As yet, the contract is not operating in line with the explicit provisions and the same issues relating to conflicts of interest with other SBC company structures apply here

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also. Over the past 18 months, SBC has employed four statutory Directors of Children's Services (DCS). It is not possible to formulate or deliver any plan in such circumstances. A key element of the immediate future is to identify and employ a DCS with the skills and attributes to deliver in these challenging circumstances and be willing to commit to a three-year term of office. Strong relationships are being built with the DfE Commissioner to ensure a seamless approach to the total service is delivered. However, the financial pressures that stem from the additional costs of operating through this structure are not possible to contain without impact on service levels as the next section makes clear.

The Financial Position

The current year's budget was only lawfully set by allowing SBC to capitalise revenue expenditure of some £84m, in part to rectify past balance sheet errors and in part to allow services to continue to be operated at some level to comply with statutory requirements. At present SBC is therefore spending some 78% above its funding ability so significant changes are required to bring this back into balance. The budget strategy promoted a goal of some £20m per annum to be taken out of the base budget each year. However, in general, services are not being funded in an excessive way so each proposal will require a significant reduction in provision. Irrespective of the external environment, which will provide additional pressure due to energy costs, inflation and increasing social care demand, Commissioners do not believe this is achievable and a goal of £10m per annum is more realistic. SBC does not yet recognise that, even to achieve this level of delivery, the circumstances require key decisions to be significantly front loaded and service changes started early to gain the full year effect. Waiting until after the all-out elections in May 2023 is not feasible and increases the deficit further.

The impact of all of this is that current forecasts demonstrate that SBC will need continued financial support for at least six to eight years into the future. Even to do this on current forecasts will require significant council tax increases above the current cap level in each of the next three years. Depending on the assumptions made about levels of support and external circumstances, this will be in the range of 12%-20%.

The capitalisation agreed thus far is being underpinned by asset sales. The goal is to deliver £600m of such disposals over the next three years. This will involve disposal of land presently earmarked to provide housing for industrial and warehousing purposes as this delivers significantly greater land values. Slough is very fortunate to be located on top of key infrastructure making data processing centres a sought-after development but even this cannot be assured unless guarantees of power supplies are immediately available. It will also result in SBC not owning the majority of its operational assets as other assets such as schools, parks and highways clearly cannot be sold. A programme of housing stock transfer will also need to be put in place.

Even so, Commissioners are not confident that the necessary receipts can be generated in time and that the quantum required over the extended period to finance continued Government support is by no means certain.

What can be stated with confidence, even at this first reporting stage, is that Commissioners know that a path to financial and service stability cannot be charted within the current three-year duration of the Directions and that a much longer period will be required. Even then,

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radical solutions will need to be found and implemented to ensure there is a sufficient critical mass to ensure that those services that are run are not fragile and can be sustained.

At this point, it is not certain that SBC, by itself, can generate and implement the initiatives required.

The most urgent need in the next period is to recruit and retain staff. Commissioners consider that it is essential that they are equipped with reserve powers if SBC cannot streamline their processes and rules quickly enough and propose that the Direction powers on recruitment of senior staff be extended to cover all staff in the top three tiers.

Your officials have been provided with the detailed exemplifications that underpin the headlines of this this report. Commissioners would note that, whilst more work can be done, the urgency and scale of the problem does not change and even stability at the current level is not capable of being delivered without decisions and action at local and national level.

Yours sincerely,

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