To: Lee Rowley MP, Parliamentary-Under Secretary of State for Local Government and Building Safety

Via email.

22 December 2022

Dear Minister,

Best Value Intervention – Slough Borough Council

Second Report

1. Commissioners wrote to your predecessor, Kemi Badenoch MP, on 9 June 2022, setting out our first formal report, six months after Directions were imposed on Slough Borough Council (SBC) on 1 December 2021. This letter details our second formal report reflecting the position after 12 months.

2. Commissioners highlighted in our first report that, SBC as a whole, did not understand the implications of the Directions and the changes that were required for the whole organisation, both political and officer, to recover from the position they had led the Council into. Despite some outstanding efforts from hardworking and committed individuals, SBC has yet to make progress in promoting and embedding the cultural change required for compliance and success. Most recent officer appointees, together with some of the existing permanent staff, want to make a difference but there is not yet a critical mass committed to improvement. There is a real sense that many in leadership roles do not see leading and modelling corporate improvement as their overriding responsibility but only as something that they have to do to be allowed to do business as it was usually done. In some instances, the approach has been more negative than this and this is commented on later in this report.

3. In our first report, Commissioners highlighted that the outline Improvement and Recovery Plan needed to be supplemented, within the following three months, by a much more detailed set of documents covering every aspect of the Direction requirements. Each of these needed to be approved by Commissioners as part of the first stage of compliance. In the majority of Direction areas, officer work was undertaken to fulfil this requirement, but no apparent thought was given to the approval and reporting processes required until recent weeks. Only the finance recovery plan has been regularly reported to Cabinet. In some areas, notably procurement, IT, use of data, DSG revenue budget and financial regularity there has been significant progress which is to be commended. However, some of this progress was unreported until the year end.

4. The way in which the Commissioners' first report and the Minister's response was handled when it was received by SBC, encapsulates attitudes and approaches. It would reasonably be expected that these documents would be reported with some detailed consideration. Overview and Scrutiny would have had a role in reviewing

Max Caller CBE
Lead Commissioner
Slough Borough Council

Margaret Lee FCPFA
Finance Commissioner
Slough Borough Council

Gavin Jones
Commissioner
Slough Borough Council

Observatory House
25 Windsor Road, Slough,
Berkshire SL1 2EL
Email: commissioners@slough.gov.uk

the detail and could have been asked to establish why Commissioners had been granted additional powers and what should be considered to allow SBC to take back these powers. No such reference to Overview and Scrutiny, or indeed, any other forum, took place. SBC has not undertaken any investigation or prepared any action plan to address the concerns which led to the additional Direction being imposed. Only now are the reports to the Improvement and Recovery Board put on the agenda for Cabinet and Scrutiny and SBC advises that it intends to commence regular reporting on the progress of recovery.

5. Effective scrutiny is crucial to enable any council to fulfil its best value duty. SBC commissioned the Centre for Governance and Scrutiny to undertake a review and their draft report was received within the first six months. However, officers tasked with taking this forward did not report it to a member forum nor involve the Chair and Deputy Chair of the Committee until very recently. The plan now being reported is a good plan, but it could have been better if elected members were involved in its development rather than being presented with a document as a fait accompli. To fulfil the goals of the proposals will require a significant shift in the involvement of every councillor who participates and will require their wholehearted commitment which will be hard to achieve from here.

Financial Position

6. When SBC's budget was set in March 2022, the net reserves position at 31 March 2023 was originally estimated to be c.£307m in deficit, and DLUHC indicated a 'minded to' approval for this sum to be subject to a capitalisation direction (CD) of which £84.055m related to 2022/23.

7. SBC therefore approved the General Fund revenue budget for 2022/23 of £191m based on delivery of in-year savings totalling £19.958m and utilisation for revenue purposes of the 2022/23 element of the capitalisation direction mentioned above.

8. Shortly after the budget was set, Slough Children First announced that they were unable to deliver their agreed savings of £5.44m, which had been approved by their Board. This and other savings which have proved to be undeliverable in the year have resulted in a forecast overspend against the services budgets of £7.322m (forecast as at period six). This has been balanced through an improvement in the collection fund position, the application of settlement monies received, and lower than expected revenue borrowing costs together with other SBC savings. This has also meant there is now a reduction in the expected use of capitalisation in 2022/23 to £58.8m.

9. The borrowing costs referred to above have reduced because of the asset disposal programme which has moved at pace, following Commissioner intervention. The original target for capital receipts set in the budget was £25m and the programme for disposal looked to only start marketing sites in the latter part of the year. To date, the programme has generated £172.5m in capital receipts, and £205m is anticipated by the end of the current year. The current programme suggests that

£115m is expected to be delivered next year followed by a further £135m over the following three years. If achieved, the delivery of this programme will have a profound impact on the financial recovery programme. Overall, council general fund debt has fallen from c.£760m (GRF & HRA) in 2021, to £503m now. On the basis above, it is forecast to fall to £225m by 2027/28. This means the burden of debt costs falling on the revenue budget is likely to halve from a high of 16% in 2021/22 to c.8% by 2028/29 – in cash terms, a saving of c.£16m.

10. Clearly, as with all estimates, this is subject to change and will be kept under review during the year.

11. The 2023/24 budget includes a savings requirement of £20m as set out in the MTFS, and an additional £2.4m as a cushion against the pressures of the current economic climate.

12. To date, some £22m has been identified with further work underway to identify the remaining £400k. Delivery plans are being compiled and assessed for delivery risk to ensure the savings can be delivered.

13. Whilst this is positive, there are significant challenges ahead:

- The economic outlook is gloomy – the country is likely to go into recession or be very close to it and to experience significant inflationary pressure for some time. There are signs that this is having an impact on demand for services, in particular within the care sector. This is exacerbated by some difficulties nationally in recruitment within the public sector, and these problems are increased locally by the reputational hit that the Council has taken in the light of its much-publicised financial concerns.

- A recent review of the children’s services business plan undertaken by Mutual Ventures at the request of DfE has suggested that there is an annual shortfall in the budget in the order of £5m - £7m. Although this is based on significant increases in demand going forward, given the demography of Slough, this is probably not unreasonable.

- There is no doubt that significant capital receipts have been achieved in the current year – largely due to one site, which is commented on later in this letter. The outlook is far less rosy – the remaining assets to be disposed of are likely to be less attractive to the market and as a result more susceptible to reducing prices. The economic outlook at national level is further cause for concern in terms of asset values.

14. In looking at the financial situation over the medium term, the capitalisation model is built on a set of assumptions which might change following analysis of the recently announced settlement figures:

- Scenario A - council tax set at the referendum cap levels as announced by the Chancellor of the Exchequer in the Autumn Statement.

Max Caller CBE
Lead Commissioner
Slough Borough Council

Margaret Lee FCPFA
Finance Commissioner
Slough Borough Council

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Commissioner
Slough Borough Council

Observatory House
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Berkshire SL1 2EL
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- Scenario B - council tax set at 9.99% for 2023/24 and 2024/25, requiring the Secretary of State approval.

15. The summary position of these is as follows:

SCENARIO A	TOTAL £'000	Pre-23/24 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000
Net Deficit (CD total)	**380,189**	262,113	37,775	26,547	20,758	18,463	11,796	2,737		
Annual Saving need	**(113,035)**		(22,400)	(14,000)	(14,000)	(14,000)	(14,000)	(14,000)	(12,548)	(8,087)

SCENARIO B	TOTAL £'000	Pre-23/24 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000
Net Deficit (CD total)	**355,452**	262,113	34,575	20,647	15,658	14,163	8,296			
Annual Saving need	**(104,135)**		(22,400)	(12,900)	(12,900)	(12,900)	(12,900)	(12,937)	(9,411)	(7,787)

16. Scenario A presents a total CD requirement of £380m up to 2028/29 combined with annual savings of £14m on an annual budget base of circa £107m, over five years before it slowly reduces. SBC has an approved budget of c.£168m but this includes the capitalisation direction. The true base is the lower figure.

17. Scenario B reflects the increased resources available through a council tax increase of 9.99% for 2023/24 and 2024/25 which would require the Secretary of State's approval. This model shows £25m less CD requirement and it being required for one year less (up to 2027/28) and a slightly reduced savings target of £12.9m for five years before it then slowly reduces. If SBC decided to seek approval for a council tax increase without a referendum, Commissioners would provide advice at that time.

18. The savings requirement in either model is ambitious – particularly when it is included over a number of consecutive years. It is unlikely that children's services will be able to contribute significantly to this given the challenges in this area. Indeed, the Mutual Ventures report suggests that it is unlikely to deliver savings, even if it delivers the proposed new model of care, for some seven years. Given this, the £13m - £14m target is likely to be needed to be delivered against the other services budgets. An on-going savings target against this reduced level is challenging.

19. This means the Authority is very susceptible to any further shocks to the system, either nationally or locally.

20. The finance team at SBC, almost entirely well-seasoned interim appointments, have done an excellent job in not only setting out a clear finance strategy for the medium term, but also putting in place the finance improvement programme covering, financial procedures and processes, internal audit, procurement, and IT, as well as the correction and updating of multi-year accounts in difficult circumstances. Over the next few months, the top tiers will leave SBC and it will be necessary to ensure that there is no loss of knowledge and capacity. It is pleasing to record that recent interviews have identified an excellent candidate to be appointed as a permanent S.151 postholder, who can then help appoint two deputy posts.

External Audit of Earlier Years

21. Following a significant piece of work by the current interim finance team, papers were submitted to Grant Thornton, SBC's external auditors, for the 2018/19 financial year. This is the first year that they have held the audit appointment, the previous auditors, BDO, having lost their appointment through the PSAA process. During the BDO years, they had reported on the difficulty of obtaining good documentation but had provided an unqualified opinion.

22. Commissioners had hoped to be able to report on the first Grant Thornton audit in this letter but understand that the issues identified have delayed completion and an opinion is not expected until January which is expected to result in further critical recommendations, and which will have an impact on subsequent years' opinions. Commissioners have been informally told that there are significant issues with the 2018/19 audit due to an absence of records from that year. This same issue is likely to impact the 2019/20 and 2020/21 accounts too. Commissioners have identified some significant concerns about some procurement and asset acquisition practices in the past and the decision making around this which is being drawn to the auditors' attention. A further set of formal recommendations could be the outcome which will require detailed action plans to implement in the coming year and further damage SBC's credibility and reputation.

23. It is therefore likely that Commissioners will want to report to you again in March 2023 to take account of these issues.

24. The current local authority audit regime means that where an audit is delayed, as is the case for SBC 2018/19, any failures or concerns which occur after this date do not come to the attention of the auditors until much later. Given the audit is an important part of the assurance framework, this weakness in the regime is a serious issue. Commissioners therefore urge Ministers to take urgent action to implement the recommendations contained in the Redmond review.

Akzo Nobel

25. By far the biggest contributor to the capital receipts achieved in the current financial year, referred to above, is the disposal of the former Akzo Nobel site. Commissioners have insisted that the background to every original purchase is set out in all disposal reports. This is because it better ensures that there is proper investigation of any potential encumbrances to the sale, and they are dealt with by officers at the outset rather than being discovered during the sale process which could risk delay or termination.

26. SBC acquired this site in 2021 with an expressed plan to develop the site for a mix of commercial and residential development. The Cabinet report in January 2021, which approved the purchase, detailed prospective economic benefits in the public paper but the financial implications were only reported in the confidential part of the agenda. Examination of these papers provides no support for the information

Max Caller CBE
Lead Commissioner
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Margaret Lee FCPFA
Finance Commissioner
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Commissioner
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Observatory House
25 Windsor Road, Slough,
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contained to be exempt and the project was not properly costed. The only costs identified were the acquisition costs, £38m, costs of remediating the site to address contamination issues, £1.3m, together with a vague estimate of over £200m to develop the site.

27. There was no detailed estimate of the total project costs in the confidential papers. Elsewhere in another confidential annex, development costs were reported as £217m. Thus, SBC was intending to commit over £250m to this project. There was no assessment of risk so that for example, the purchase price was predicated on securing Homes England funding, which, if not available would have resulted in increased costs of £2.4m as Stamp Duty Land Tax would be payable. This has now been paid as part of the disposal process.

28. Most importantly, there was no detailed assessment of how the project would be funded. Instead, the confidential report stated that the project would be funded through a combination of existing HRA capital budgets and the funding agreed for Strategic Acquisitions in the General Fund. It was stated that this would be reflected in the Treasury Management Strategy 2021/22 and the Capital Strategy 2021-2025 which were due to be reported to Cabinet one month later in February 2021.

29. In the event, neither of these reports included the Akzo Nobel purchase nor how the development was to be funded. In other words, SBC agreed to purchase a site and potentially embark on a project which would have committed the Council to a further £250m expenditure without any proper report about how it would be paid for. Had SBC committed to this project, borrowing would have risen to over £1bn and there would be no way back to financial stability. Five months later, the newly appointed S.151 officer issued a S.114 notice starting the process which resulted in intervention.

30. What this acquisition highlights is the failure of the three Statutory Officers, Head of Paid Service, S.151 Officer and Monitoring officer, then in post to fulfil the roles that legislation envisages they should play and the Cabinet Member responsible for Finance not taking political responsibility for the overall funding of a project that was bound to have a major impact on the budget they were presenting to Council soon after.

31. The scale of this failure is such that it brings into question the way in which local government as a whole ensures it appoints suitable individuals to fulfil these vital roles legislated for the protection of the integrity of each authority. This goes far beyond any existing professional qualification and in Commissioners' view needs to be reviewed at the highest level which is why the example is detailed in this letter.

32. It is entirely fortuitous that the site is located over key fibre optic cables and prospective purchasers having already secured access to the necessary power

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supplies generated the values that has led to the budget improvement reported earlier. The acquisition of this site and others will no doubt be subject to specific mention by the external auditors when they come to review the relevant years but in SBC's case, that will be some years after the event. The starting point must be to appoint responsible officers who fulfil their obligations.

Slough Children First

33. Commissioners continue to work in close cooperation with the DfE's Commissioner, Paul Moffat. To make the necessary improvements, a permanent Director of Children's Services is essential, and Commissioners have ensured that our use of the recruitment Direction is informed by advice from Mr Moffat.

34. The potential financial investment suggested by the company is extremely difficult to accommodate within the budget envelope referred to earlier. Given the failure to deliver on its business plan savings on the current year, SCF will need to demonstrate that its programme and financial management ensures that all funds are used to best effect. The changing cast of interim leaders makes this difficult. Part of the improvement will come about by ensuring this company, together with all the other companies operated by SBC and not closed following the review envisaged by the Direction, reports to a member committee where SBC's Directors can be held to account and each company is subject to challenge on its performance. The need for this forum has been known for some time. It is disappointing that SBC finds it hard to move at pace to establish one.

Overall

35. Progress has been very slow and only in the last couple of months has SBC started to recognise what needs to be done in total. The December Improvement and Recovery Board was the first time that a comprehensive set of action plans linked to every Direction apart from recruitment was presented and considered. This demonstrated where individual elements of the response to the intervention were being worked on and showed it was possible for individuals to make some progress. Those involved in those areas deserve commendation for their efforts. However, it also demonstrated that each of these initiatives do not yet take place as part of a contribution to an overall vision of where SBC is going and how it will operate in the future. This is particularly disappointing as Full Council agreed a report prepared by Commissioner Jones acting as their Head of Paid Service which provided the necessary framework to be developed. As a consequence, SBC is many months behind where it should be by now. SBC needs to recognise that driving through the required culture change which ensures openness, transparency, honesty, and effective delivery is the starting point for recovery and that this thread needs to run through every element of every action plan. Too often it is possible to point to events that demonstrate that this is not so. It will take a considerable change in both attitude and performance to demonstrate that embedded progress is being made. Too many individuals in leadership roles do not accept that this means that individually and collectively, they need to behave, act, and encourage the organisation to face up to the required changes and that

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that this needs to be done at a much faster pace than heretofore. In addition, senior leadership at both political and officer level needs to focus much more on performance management to ensure they can see the improvements coming through and to challenge the well-worn excuses for failure.

36. What the analysis above demonstrates, in numerical terms, is that SBC will require continued financial support until at least 2028, far beyond the current envisaged end of the Direction regime. More importantly, SBC has not yet commenced any evaluation of the options required to show how it can function and at what level given the resources it will have available and the savings it has to make over the next five years. There is no longer term planning yet being contemplated, only a promise that this would commence in March next year. The numbers indicate that SBC will need to be some 15-20% smaller than current budgets provide, even after the improvement generated by asset sales. One major asset sale, significant though it was in reducing the overall indebtedness, is not sufficient in itself to give confidence for the future.

37. At this stage, it is impossible for Commissioners to conclude that SBC will be a viable unitary authority at the end of the current or a potentially extended Direction period. Commissioners and Ministers will need to consider alternative scenarios. In the meantime, Commissioners will keep progress under close review and will not hesitate to utilise any or all of the powers that the Directions provide, as necessary to ensure progress and improved governance.

38. As always, we are happy to answer any questions or clarifications that you and your officials would require.

Yours sincerely,

Max Caller CBE
Lead Commissioner

Margaret Lee

Margaret Lee
Finance Commissioner

Gavin Jones
Commissioner