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26 September 2024

Dear Will

Slough Borough Council – Financial Sustainability and Governance

Grant Thornton UK LLP was initially appointed as your external auditors for the five-year period commencing 2018-19 and has since been reappointed by PSAA for a further five-year period from 2023-24.

As the appointed auditor, our responsibilities include to give an opinion on the financial statements and assess the arrangements for Value for Money (VFM) - securing economy, efficiency and effectiveness in the Council's use of resources.

We also have additional powers and duties under the Local Audit and Accountability Act 2014. These include powers to issue a public interest report, make statutory recommendations and to apply to the Court for a declaration that an item of account is contrary to law. This letter is an informal communication ahead of a more formal consideration of the use of these powers and reflects a number of significant matters arising from our 2023-24 Financial Statements and VFM audits.

Our 2023-24 VFM work has concluded and we have shared our draft Auditors Annual Report with the Council and currently await the Council's response to our action plan. Our work highlights many significant challenges that the Council is facing, not least its risks of financial sustainability and effective governance in the short and medium-term. In raising these concerns, I want to acknowledge the open and transparent approach that both you and Annabel Scholes (S151 Officer) have shown in recent discussions of the Council's challenges and we recognise that many of the matters identified in this update reflect many longstanding historical issues that emerged prior to both of your appointments as statutory officers at the Council.

Background

We have reported extensively to Audit and Corporate Governance Committee members surrounding the difficulties experienced in our 2018-19 financial statements audit with the Council. For a detailed report on these issues, please see our October 2023 report to the Audit and Corporate Governance Committee.

We completed our 2018-19 Value for Money report, against the previous NAO Code of Audit Practice, and presented these findings to Members in May 2021 which proposed an 'adverse' VfM conclusion. Our final opinion confirmed our initial proposal and this was reported to Members in February 2023.

In May 2021, we issued four statutory recommendations to the Council in the following areas:

1. Finance capacity and skills
2. Preparation of financial statements

3. Levels of useable reserves
4. Financial governance, monitoring and controls relating to Group entities

In July 2021, after the Council issued its Section 114 notice, we issued two more statutory recommendations: asking the Council to (1) address the Section 114 notice and (2) develop a comprehensive project plan for improvement in governance arrangements.

In February 2023, as a result of an objection received from a local elector in relation to the Council's accounts for 2018-19, we raised two statutory recommendations in relation to (1) the information provided to Members to support decision-making and (2) the role of informal Lead Members and Directors groups for decision-making.

In July 2022, we presented a planning memorandum to the Audit and Corporate Governance Committee which indicated our intention to prepare a combined VfM report for 2019-20 and 2020-21. In April 2020, the Code of Audit Practice was revised to greater expand the auditor's obligations in relation to Value for Money. Our report for 2019-20 and 2020-21 therefore incorporated the two separate NAO Codes and made conclusions and recommendations accordingly. We provided the draft report to the Council for their review in March 2023 but were not able to sufficiently finalise this report until May 2024, due to delays in receiving management responses and significant turnover within the Council's senior leadership team, which caused a significant delay to the presentation of this report to Committee members. In that VfM report, we raised five new significant weaknesses and key recommendations. We raised one key recommendation in financial sustainability, three key recommendations in governance and one in improving economy, efficiency and effectiveness.

The Council is aware that it faces significant challenges to its financial sustainability. On 7 March 2022 the Minister of State for Equalities and Levelling Up Communities wrote to the leader of Slough Borough Council, to communicate the government's proposed response to the council's request for Exceptional Financial Support to cover the financial years 2018-19 to 2022-23.

This support sought to provide financial capacity to enable the Council to address historic problems including the need to transform services and address the current underlying deficit.

On 1 March 2023 the Minister for Local Government wrote to the leader of Slough Borough Council, to communicate the government's proposed response to the Council's request for Exceptional Financial Support for 2023-24. The Secretary of State minded to approve a further capitalisation direction of a total £31.575m for 2023-24.

In January 2024, the Council requested further exceptional financial support for the 2024-25 financial year. In February 2024, the Secretary of State responded that they were minded to approve a capitalisation direction of £23.078m contingent on the Council providing assurance that it was getting a grip of its underlying financial position and taking the necessary steps to restore financial sustainability.

The Council's medium term financial plan heavily relies on the effective delivery of the Asset Disposal Programme and associated Capitalisation Directions and we do not currently have sufficient assurance that the Council's financial plan is predicated on appropriate, reasonable and robust assumptions. This situation, together with ongoing spending pressures, capacity challenges and governance weaknesses significantly increases the level of risk the Council faces. Further detail on this is set out below.

Our responsibilities

As part of our VFM responsibilities we are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money, recommendations are made setting out the actions that should be taken by the Council. The Code expects where auditors identify significant weaknesses in arrangements as part of their work, they raise them promptly with those charged with governance.

We have concluded our Value for Money work for 2023-24, where the findings reflect many significant concerns. This report also highlights that many of our previous recommendations set out earlier in this letter, both statutory and key, have not been addressed by the Council. This, coupled with some continued challenges around financial sustainability, quality and completeness of financial records and adequacy of financial governance arrangements, are summarised below. This is not an exhaustive list, but seeks to highlight some of the key areas:

Initial Findings

i The Council published a draft outturn for 2023-24 in July 2024 that service expenditure was projected to exceed the budget by £15.5 million, of which £11.7m is an underlying overspend and these pressures will continue in 2024-25. The Council forecasts that £21.2m of savings will be delivered for 2023-24 against a target of £22.4m which is positive to note. This is, however, overshadowed by the significant forecast overspend.

ii The Council approved the 2024/25 budget on 7 March 2024. The budget included a 7.99% increase to Council Tax and 0.51% increase to the Adult Social Care precept. The budget included savings of £12.206m to be delivered in 2024/25 and an estimated deficit of £23.1m for 2024/25 to be funded by capitalisation. The Council has a savings target for 2024-25 of £27.23m. The Council has an earmarked reserve which can be used to support the revenue budget known as the Budget Smoothing Reserve. 2024-25 opened with the Budget Smoothing Reserve at £10.7m but £6m of this is already committed, bringing the forecast end-year balance of this reserve to £4.7m.

The forecast overspend for 2024-25 as at July 2024 is £15.8m prior to any mitigating actions. This has knock-on impacts for the savings requirement for 2024/25 and the medium term.

2024-25 budget monitoring has shown the Council is unlikely to deliver £2.213m of its planned £27.23m savings but is implementing mitigation measures to counteract this. New pressures have also been identified relating to inflation and interest. The net impact of these items is an additional £4.196m of cost pressures.

The Council presented an updated medium term financial plan in February 2024 but this was refreshed again in July 2024 following the additional pressures reported in the 2023-24 outturn report. The Council is forecasting budget gaps for the next five years of £15m in 2024-25 rising to £31.9m by 2028-29. The Council has highlighted that this will require changes to its target operating model to manage. At the time of writing, the plan for the target operating model is still in development. The Council are forecasting a financial deficit of £348.045m split as follows:

Up to 2023-24:	£298.647m
2024-25:	£23.078m
Future years:	£26.320m

(Source: July 2024 Medium Term Financial Plan)

iii External financial reporting and the timely audit of the financial statements is integral to ensuring the Council is accountable for its stewardship of public funds. The Council's 2018-19 financial statements are expected to be signed shortly containing a disclaimer of opinion due to inadequate arrangements to prepare working papers and difficulties in obtaining sufficient documentation, as well as significant deficiencies and risk of management override in its processing of journals. The 2019-20 and 2020-21 financial statements remain unaudited. Whilst these accounts have been published on the Council's website, the Council is awaiting final conclusions from DCLG as to whether further amendments are approved to the Council's National Non Domestic Rates return for these period, which in turn, may affect the amount's reported in the Council's collection fund within the published financial statements.

Capacity and lack of stability in senior finance officers combined with continued working papers and accounting records issues mean that at the time of drafting this letter, the 2021-22, 2022-23 and 2023-24 financial statements have not been produced, published and presented for audit. Latest indications are the draft accounts for 2021-22 and 2022-23 will not be available until early November, and the 2023-24 draft accounts are estimated to be prepared by late December 2024. The inability of the Council to produce complete, accurate and timely financial statements and provide timely response to audit documentation requests continues to highlight concerns over capacity, skills and governance arrangements at the Council, it continues to highlight concerns over the completeness and accuracy of underlying financial records and working papers and undermines the ability of decision makers to have confidence that decisions are being taken based on a true financial position.

The Council commissioned EY to support a Balance Sheet Review which aims to provide assurance on the Council's balance sheet. The outcome of this review was reported to the July 2024 Audit and Corporate Governance Committee. The report noted that the results of the Balance Sheet Review at that point in time had resulted in a total net reduction to the Council's general fund useable reserves of £6.8m in 2022-23 and £30.2m across 2019-20 to 2022-23. This has been incorporated into the 2023-24 provisional outturn (excluding £0.3m of additional MRP charges).

iv We identified in our 2018-19 audit that the Council has not produced a full and accurate bank reconciliation and recent work by EY in its balance sheet review indicates that this lack of timely and complete reconciliation has continues to cause difficulties for the Council. This fundamentally undermines the integrity of both external and internal financial reporting and the financial information on which decisions are made. Ongoing work to reconcile differences has the potential to further detrimentally impact on the Council's financial position. We understand that there is continued concerns in this area, and the Council has commissioned PWC to provide additional capacity undertake further work to understand the extent of the issues present and support the Council in restoring assurance and confidence on the Council's cash position.

v As part of our work on the financial statements, we are required to consider management's assessment of its Going Concern position. The Council commissioned external support through EY to prepare a cash flow forecast for the next 12 months. A draft of this was provided by the Council to us on 16 August 2024. These baseline forecasts showed that the Council was projected to fall below its £10m minimum cash requirement by the end of August 2024, will require a further £30m of debt funding to maintain adequate liquidity to the end of September 2024 and that an estimated £65-70m of debt refinancing will be needed in the period up to August 2025 to preserve its liquidity.

vi The Council's financial and liquidity position has been further exacerbated by some ongoing challenges in the delivery of the Council's Asset Disposal Programme. Officers have identified over recent weeks that the original Asset Disposal Programme did not take appropriate account for the impact of impairments on the forecast capital receipts from the disposal of assets. The associated impairments, that are now being incorporated into the models, are showing that the Council is likely to receive less in capital receipts than it forecast, with its potential exposure in the region of £43m. Any further deterioration in the Council's financial position, lack of savings delivery, or delays or issues with capital disposals will further exacerbate this financing need in the short to medium term.

vii In May 2021, we issued a statutory recommendation that the Council should review and implement effective financial governance and monitoring arrangements for its Council-owned companies. This was based upon our findings of the 2018/19 audit of the financial statements. From December 2021, the Council has been under formal direction from DLUHC. Under the Directions, the Council was required to review its companies within 6 months and consider the case for continuing with each subsidiary company. For those it agreed to continue, the Council should ensure the appointed directors are appropriately skilled in either technical or company governance matters to make sure the Board functions effectively under an explicit shareholder agreement and that there is a nominated shareholder representative.

From recent discussions with finance officers, it has been highlighted that there continues to be ongoing concerns around the lack of oversight and governance of James Elliman Homes Ltd (JEH), a wholly owned subsidiary of the Council which continues to operate without a functioning company board. We have been made aware that Companies House has recently issued a notice highlighting a risk that JEH would be struck off due to its failure to file audited accounts for 2022-23. A Council report presented to the September 2024 Cabinet highlights:

"To avoid JEH being struck off, the Executive Director of Regeneration, Housing and Environment as the Council's shareholder representative, having consulted with statutory governance officers, taken legal advice and consulted with key cabinet members, issued a letter of support and special resolutions to enable the company to continue to operate for the next 12 months, at the same time issuing directions to the board to improve governance. Even with this action, JEH's auditors have made a statement of material uncertainty in relation to the going concern basis for accounting."

A number of proposed actions were considered by Cabinet in September to improve governance and financial sustainability of the Company going forward. The balance sheet as at 31 March 2023 has cumulative retained losses of £6.9m although equity in the company at the balance sheet date is £1.6m when accounting for the revaluation reserve. For the company to be sustainable in the future and provide a return on investment for the Council, a robust business plan is required that can be evidenced to provide assurance to the Council that the company has financial sustainability and recover cumulative retained losses.

viii The Council is now in a position where it is dependent on additional financing in order to provide the resources and time required to i) dispose of capital assets to underpin the Council's financial position in the short to medium term ii) continue to deliver budgeted savings iii) implement a transformation strategy which successfully reduces costs and brings the Council's service expenditure back within budget iv) secure the capacity it needs to ensure the Council is effectively managed, particularly in respect of finance and other core functions.

These findings set out an extremely challenging situation, recognising that the Council is still currently in its discovery phase with a number of these areas and there remains a risk that this position may deteriorate further as further finance improvement workstreams are completed.

Next Steps

As concluded in our 2023-24 VFM work, the concerns raised above has resulted in us reporting many significant weaknesses in arrangements. We also seek the Council's support to conclude the 2018-19 financial statements as a priority, to bring this audit work to closure.

We recognise that the Council is aware of its situation and understands the scale of the financial risks that it faces. We also acknowledge that action is being taken across all the areas set out above and that external support is being utilised as part of this process.

The Council should continue to act with urgency to implement a credible recovery plan, recognising that sufficient capacity within its finance function is an essential requirement which needs immediate attention. The Council's Statutory Officers should also continue to give careful consideration to the duties the law places on them.

We request that this letter is shared with all members at the earliest opportunity. This letter, and management's response, should also be considered at the next available Audit and Governance Committee.

Yours sincerely

Julie Masci

Julie Masci, Engagement Lead
For Grant Thornton UK LLP

cc Annabel Scholes – Section 151 Officer