UK: Labour-run Slough council declares bankruptcy after failed commercial deals

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11 July 2021

Labour Party-run Slough borough council has become the third English local authority, after Northamptonshire and Croydon, to declare itself bankrupt.

It has issued a Section 114 notice under the 1988 Local Government Finance Act, required if councils do not have sufficient financial resources to function, and announced an immediate "pausing [of] non-essential spending."

The notice followed discovery of a projected £96 million deficit in the council's budget, and revelations that its reserves had fallen from £7.5 million to £500,000. If not addressed, the budget deficit could rise to an estimated £150 million by 2024.

The problems come from poor financial management and accounting errors related to the council's reliance on commercial investment. The uncovering of problems built up over the last period suggest the council could already have been technically insolvent in 2019.

Steven Mair, Slough's chief financial officer, warned that the council risked not being able to set a legal budget for 2022/23 without additional savings and additional government support in the form of an increased capitalisation directive What this means are cuts, privatisation and sell-offs. Labour's policy is to support this.

The council has announced that it will impose "rigorous spend control measures." These have not yet been detailed, but will result in job losses, further cuts to services and the sale of some of the council's £200 million assets like buildings and land. The community care web site noted, "The council will review its services along with internal structures, vacancies, assets and land. It will not make any new commitments to spend money, including in social care, and has suspended non-essential spending pending a council meeting on 22 July to determine specific budget controls."

The cuts will follow a council tax increase of 4.99 percent already imposed this year as a part of the annual budget.

The "severe weaknesses" and "poor practice" identified in an internal review have seen borrowing quadruple from £180 million in 2016/17 to £760 million. The 2018/19 audit has still not been signed off, and the review suggested local income tax and collection rates have been inaccurate for several years. The report noted that, following the departure of many staff recently, the financial team is currently comprised entirely of temporary staff.

The impact on the most vulnerable of government policies and councils' politically bankrupt and socially disastrous responses can be seen in the case of Slough's children's services. These were turned over to the Slough Children's Services Trust in 2015, following an "inadequate" assessment from the government's Office for Standards in Education, Children's Services and Skills (Ofsted). Ofsted assessments have been a weapon in driving the privatisation of schools and services.

The Trust was in continued financial difficulties, issuing warnings of insolvency as it went into the last 18 months of its contract. In April this year, the Trust was taken under council ownership, although it remains operationally independent. Absorbing the Trust's debt was one of the two main factors in wiping out the council's reserves.

The Trust, now called Slough Children First, has said it is "too early" to know the full impact of the Section 114 notice on services.

The coronavirus pandemic has had a devastating effect on the borough's finances, with a collapse in income from council tax and business rates, and many residents applying for a council tax support payments. This only exacerbated an existing crisis. Slough now relies for 96 percent of its income from local taxation. All local councils have seen their budgets cut to the bone over a decade of austerity, which has seen central government funding slashed.

The Conservative government aims to eliminate central grant funding to councils, offloading the cost of services onto impoverished residents via Council Tax. Councils will be able to retain an increased share of business rates, up from 50 to 75 percent, but this would not make up what has been cut, even without taking account of the collapse of business rate income because of Covid.

In December 2020, Slough requested the agreement of the Ministry of Housing, Communities and Local Government to spend £15 million of capital loans on funding day-to-day costs. The Section 114 report admits that the emergence of further financial issues since March means this is now not enough to fill the gaps.

The projected £96 million deficit, equivalent to 72 percent of its budget, was already contingent on receipt of an £15.2 million government loan. This loan, however, is dependent on the council convincing an external review it has a credible financial sustainability plan.

This is not a unique crisis. Slough is one of eight councils facing such an external review. In March, the National Audit Office warned that 25 councils were on the edge of bankruptcy.

Councils of all political colourations responded to the austerity cuts by making murky commercial deals. Labour-run councils did nothing to oppose cuts, becoming instead the most enthusiastic in establishing the closest ties with big business. Over the last decade, Labour councils have developed intimate relations with property developers, with some directly benefitting from the rich pickings on offer.

Commercially incompetent Labour councils have taken extensive loans to finance such deals and maintain services in order to avoid a struggle against Tory cuts. Residents have been saddled with the costs of servicing the loans to ensure the profits of the private partners.

Since 2016, Slough has borrowed £580 million. The finance reports point to the cost of servicing these loans as further pressure on the council's budget.

Mair pointed to these kind of deals as contributing to the council's crisis. He wrote that the financial problems, which "have not arisen in the past few months," related to "financial decision-making, leadership and management, processes, quality assurance and review." Much of the "significant financial risk" was generated by weak management and oversight of commercial companies owned or part-owned by the council, many of which are not in Slough.

The council has purchased almost £100 million worth of assets. In the last few years, it bought an Odeon Cinema in Basingstoke, a Halfords motoring and cycling products store, the site of a Wickes retail store in Wolverhampton and a Waitrose supermarket in Gosport. In a joint venture with Marriott, the council owns two hotels in Slough town centre. A major investment, the North West Quadrant development, has been made by Slough council in partnership with the private sector on a former university site. It involves a £600 million plan to develop shops, offices and more than 1,000 new homes in the town centre.

The rest of the hole in Slough's general reserves related directly to just such a deal. They were drained of £7 million to correct an accounting error made two years ago. This had drastically overestimated income from Slough Urban Renewal, a joint venture between the council and Muse Developments, part of the commercial construction company Morgan Sindall Group plc.

Muse is heavily involved in these joint venture partnerships with councils across the country. It has partnerships with two of the eight authorities now facing external review—Slough and the Wirral.

The council's own assessment of the project that "Slough is enjoying an epic period of rejuvenation and renewal" reads as a sick joke.

Conservative government Communities Secretary Robert Jenrick said the council's "financial position and clear mismanagement is deeply concerning and completely unacceptable." Slough council's opposition Tory group leader, Wayne Strutton, also moved to exploit the crisis, demanding that "those responsible [be] held accountable," and accusing the Labour authority of "years of financial negligence and over-ambition."

In Liverpool in March the government utilised a financial crisis to impose unelected commissioners to oversee services.

The search for a fast buck practised by the Slough Labourites takes place to lesser or greater degrees in every Labour-run authority. This was further consolidated under the nominally "left" leadership of Jeremy Corbyn and John McDonnell, who on taking office in 2017 instructed Labour councils not to fight Tory budget cuts but to set "legal budgets." Slough has seen a cut of £100 million in central funding since 2010, with cuts faithfully imposed by the Labourites.