



Committee and Date

**Performance Management
Scrutiny Committee**

20 January 2021

Item

Public

Financial strategy and budget monitoring task and finish group

Responsible Officer

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1.0 Summary

1.1 This report provides a proposal for a task and finish group to scrutinise the council's financial strategy and budget setting. This group would complement the Performance Management Scrutiny Committee's regular scrutiny of the council's in-year performance against budget.

2.0 Recommendations

2.1 This report makes the following recommendations

- That the Performance Management Scrutiny Committee approves the proposal and draft terms of reference for a financial strategy and budget monitoring task and finish group.
- That the Performance Management Scrutiny Committee makes any amends to the proposal and draft terms of reference
- That the Performance Management Scrutiny Committee requests that the task and finish group reports back after each meeting to the next scheduled meeting of the Performance Management Scrutiny Committee.

3.0 Risk Assessment and Opportunities Appraisal

3.1 Scrutiny of the draft budget is an essential part of the council's governance structure. Separate from audit processes, it provides for a democratically accountable body to scrutinise budget setting against council priorities in a public forum.

3.2 A failure to engage in budget scrutiny risks undermining public trust in the council's transparency.

3.3 A failure to properly support budget scrutiny risks committee and group members making weak or inappropriate recommendations. This too could undermine public confidence in the council's capacity for good governance.

4.0 Financial implications

4.1 Financial scrutiny is an integral and necessary part of the council's overview and scrutiny function. This work would form part of the function's regular work. There is therefore no additional cost to Shropshire Council in carrying out this work.

5.0 Climate change appraisal

5.1 There is not direct impact on the council's objectives to mitigate climate change. However, it is a fundamental part of financial scrutiny that considers the impact of the council's financial strategy and budget setting on its ability to meet climate change objectives.

6.0 Report

6.1 Scrutiny is a critical part of the overall governance framework. Effective financial scrutiny can help the council assure themselves that their budget is robust and sustainable, and that it properly considers the needs of residents.

Scrutiny can also provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure buy-in – or at least understanding – of the tough choices that Shropshire Council regularly has to make.

6.2 The Chartered Institute of Public Finance and Accountability's (CIPFA) *financial scrutiny practice guide* suggests the following four purposes of financial scrutiny.

- **Reviewing how resources are allocated, monitoring how they are used, and examining their impact.** This is about following through from budget development and planning to the delivery of a budget, and oversight over that budget in-year. It links to the way that scrutiny selects and prioritises its work.
- **Reviewing the integration between financial and service planning.** What is the level of integration between corporate and service planning and performance and financial management?
- **Testing out and making explicit whether the council is directing its resources effectively** to meet its priorities and demonstrating whether it is achieving value for money, equity and social value.
- **Providing, through scrutiny in a public forum, challenge to the executive's management of the council's finances, and a different perspective on challenges.** This is about scrutiny having a clearly defined role and bringing something unique to the table in how it goes about its work.

6.3 These four purposes suggest a dual role for scrutiny. Firstly, it has a strategic role that looks at how the council aligns its corporate objectives with its financial

strategy. It also has a tactical role, ensuring not only that the council meets its budget planning, but that its spending also achieves its purposes effectively. Both roles require an ongoing commitment to financial scrutiny throughout the year.

- 6.4 Shropshire Council conducts its financial scrutiny through its Performance Management Scrutiny Committee. This committee meets only six times a year, meaning that rigorous scrutiny of financial strategy and budget setting as outlined in the work programme in **appendix 1** would result in the committee having little time for other matters. This report therefore recommends that this work is carried out in a discrete task and finish group of no more than seven elected members. In order to maintain public accountability and transparency of governance, after each meeting the task and finish should table a brief report on its work to the next meeting of the Performance Management Scrutiny Committee. In addition, regular quarterly monitoring of financial outturns would still take place at meetings of the Performance Management Scrutiny Committee.
- 6.5 In addition to this work, the Performance Management Scrutiny Committee should also continue its regular budget monitoring as part of its remit to review Council performance.
- 6.6 A proposed term of reference and work programme is attached at **appendix 1**. These terms and programme of work are based on CIPFA's *financial scrutiny practice guide* and include questions posed by CIPFA to guide member scrutiny.
- 6.7 Although the Performance Management Scrutiny Committee is invited to agree to the creation of a financial strategy and budget setting task and finish group, the terms of reference and work programme should be decided by the task and finish group and be referred back to the Performance Management Scrutiny Committee for final approval.

List of background papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Chartered Institute of Public Finance and Accountability: *financial scrutiny practice guide*

Local Government Association: *A councillor's workbook on scrutiny of finance*

Centre for Public Scrutiny: *Treasure your assets*

Cabinet Member (Portfolio Holder)

Portfolio Holder for Finance and Corporate Support

Local Member

All

Appendices

Financial strategy and budget monitoring task and finish group draft terms of reference

Financial strategy and budget monitoring task and finish group proposed work programme

Appendix 1: Financial strategy and budget monitoring task and finish group draft terms of reference

Introduction

The Local Government Act 2000 states that it is the responsibility of the Full Council, on the recommendation of the executive, to approve the budget and related council tax demand. The Act makes it clear that the role of scrutiny in the financial process is to hold the executive to account and to ensure that its decisions are in the best interests of the community. Some scrutiny of budget setting and other financial planning processes is therefore essential.

The Local Government Act 2003 provides the central legislation surrounding a council's financial planning and budgeting arrangements. Sections 28 and 29 of the Act require members to be involved in budget monitoring throughout the year. Although it is not specified whether this is primarily an executive or scrutiny function, scrutiny provides the ideal vehicle for such involvement.

Terms of reference

The purpose of the proposed task and finish group will therefore be to:

- Track, scrutinise and contribute to the ongoing development of the medium term financial strategy and budget setting process as outlined in the committee's work programme, in particular:
 - How the financial strategy aligns with and supports corporate strategy priorities.
 - The risks in the council's strategic approach, and how the council mitigates those risks.
 - The particular risk that strategy may have on the ability to deliver a balanced budget.
 - The impact of budget setting on future service delivery.
- To report back after each group meeting to the Performance Management Scrutiny Committee on its work.
- To escalate any areas of concern it may have regarding financial strategy to the Performance Management Scrutiny Committee for formal, scrutiny in public.

Information required

- Financial strategy 2020/2021 – 2025/2026
- Current and developing service plans
- Financial planning from partner authorities, where available or needed.
- Ad-hoc financial information as requested during the group's work
- Learning, benchmarking and good practice from other local authorities
- Shropshire Council's Strategic risk register

Timescale

The committee will meet monthly after the elections in May 2021, from June 2021 until January 2022.

Appendix 2: Financial strategy and budget monitoring task and finish group proposed work programme

<p>May 2021</p>	<p>Review and reflection on the 2020/2021 budget cycle</p> <ul style="list-style-type: none"> • What did the medium-term financial strategy (MTFS) say that this year’s budget needs to achieve – How did the Covid-19 pandemic affect those aims? • To what extent was the draft budget refined over the course the previous year? • On what basis were these refinements made? <p>End of 2020/2021 performance</p> <ul style="list-style-type: none"> • How did performance match with expectations; how do expectations match with what we understand about local people’s needs? • How has our overall performance aligned with that of our partners, ie Shropshire Clinical Commissioning Group, West Mercia Police? How have partners’ performance influenced our own performance? • How does overall performance at the end of the year match up with what we have spent? • How, if at all, have we been able to mitigate the risks that we anticipated at the beginning of the year? <p>2020/2021 – 2025/2026 MTFS</p> <ul style="list-style-type: none"> • What is our overall outlook and how is it expressed in the MTFS? • What are our priorities? • What are our principal challenges and risks? • How are we mitigating those risks: who does what?
<p>June 2021</p>	<p>2022/2023 budget headlines</p> <ul style="list-style-type: none"> • How are the principal headlines in the budget influenced by what we know, and what we can assume about next year – as expressed in our overall priorities and in the MTFS? • What will our priorities be next year? Do we know enough about demand and user needs across all the areas for which we hold responsibility to have confidence here? • To what extent have we involved our partners in formulating this headline information? • What are the principal corporate risks that we face in delivering a balanced budget? • What are the principal corporate risks that we face in providing the services that local people need

	and expect?
July 2021	<p><i>NB – formal scrutiny of quarterly financial monitoring to happen at Performance Management Scrutiny Committee</i></p> <p>End of quarter 1: reflection against plans in 2021/2022 budget</p> <ul style="list-style-type: none"> • Did expenditure meet (or help to meet) the performance objectives set by members? Is it possible to make assessments on this to support a view of whether the service(s) in question were value for money? • Have new risks emerged which might affect deliverability of plans in the next quarter? • Are officers aware of the reasons for any under or overspends; how is cabinet overseeing this, where have issues been escalated to the s151 officer and what action is being taken? • What impact do under/overspends have on the achievement of the council's plans and policies? • Has this impact been taken into account for next year's budget and future budget?
September 2021	<p>Building the 2022/2023 budget</p> <ul style="list-style-type: none"> • Who holds responsible for developing and testing different elements of the budget? • Where does accountability lie for quality assurance and accuracy? • How are we testing assumptions – what is our level of optimism with the budget overall, and we will we continue to evaluate this as the process develops? • How will concerns be escalated as they emerge? Have any concerns emerged yet, and how are they being dealt with? <p>Testing service plans</p> <ul style="list-style-type: none"> • Do the proposed spending plans fit with the council's overall aims, objectives and priorities? • Is it clear how outcomes/outputs will be measured? • What opportunities might there be to make this service/our management of this issue more sustainable through alternative means of funding/income generation? • What targets have been established, and how will they be monitored (and amended, where necessary)? • How do plans link with expected service demand?

<p>October 2021</p>	<p><i>NB – formal scrutiny of quarterly financial monitoring to happen at Performance Management Scrutiny Committee</i></p> <p>End of quarter 2: reflection against plans in 2021/2022 budget</p> <ul style="list-style-type: none"> • Did expenditure meet (or help to meet) the performance objectives set by members? Is it possible to make assessments on this to support a view of whether the service(s) in question were value for money? • Have new risks emerged which might affect deliverability of plans in the next quarter? • Are officers aware of the reasons for any under or overspends; how is cabinet overseeing this, where have issues been escalated to the s151 officer and what action is being taken? • What impact do under/overspends have on the achievement of the council’s plans and policies? • Has this impact been taken into account for next year’s budget and future budget?
<p>November 2021</p>	<p>Budget refinement</p> <ul style="list-style-type: none"> • How will the budget reflect investments that are aimed at achieving longer-term savings? • What consideration has been given to maximising income and wider revenue opportunities? • How is the workforce planned and managed to ensure that market considerations are taken into account when determining pay scales? • What is the anticipated impact of current and planned efficiency /savings targets on the budget and how is the council planning ahead to deal with the cumulative effects of efficiency targets? • What is the anticipated impact of budget pressures on: <ul style="list-style-type: none"> ○ services ○ performance ○ clients/service users ○ partnerships and joint working ○ staffing levels ○ job evaluation? • How are borrowing and trading opportunities taken into account in our plans? • How does the budget engage with the need to stabilise and increase our income sustainably?

	<ul style="list-style-type: none"> • How can the council have the assurance that the draft budget continues to conform with the principles and expectations of the MTFS? • How will the MTFS alongside this draft budget be used to make detailed decisions on resource allocation? • What are the overall interfaces between the draft budget as it currently stands and our wider treasury management strategy? <p>Savings and growth proposals</p> <ul style="list-style-type: none"> • What are the general principles that underpin when, and how, proposals for savings and for growth will be made? • Were the proposals being made as part of the budget envisaged as the budget began to be formulate; are they reflected in the MTFS and in the council’s broader strategy documents? If not, why not? • Do we expect that these proposals may change as further research is done; are they immutable now? • How can we have confidence in our assessment about the impact that savings and growth will have on local people? <p>Definition of outcomes</p> <ul style="list-style-type: none"> • To what extent do the outcomes we have set for this expenditure reflect the needs of local people? • How have local people been involved in this assessment? • How will we evaluate a) whether these were in fact the right outcomes and b) whether these outcomes were met? • Do we have confidence that we will be measuring the right things in the right way in assessing whether outcomes have been delivered? • To what extent are outcomes contingent on the activity of our partners?
December 2021	<p>Implications of Government settlement</p> <ul style="list-style-type: none"> • Is there a variance between our expectation of the settlement and the final figure agreed? • What does the level of the settlement mean for our expectations around the setting of council tax (and any associated precepts, if applicable)?

	<ul style="list-style-type: none"> • How does the notification of the settlement impact on the level of risk, and our expectations of being able to deliver a balanced budget? • Does the settlement, and the mix of other funding sources, provoke us to shift our assumptions about what our priorities will be in the coming year? • Does the settlement provoke us to rethink the MTFS?
<p>January 2021</p>	<p><i>NB – formal scrutiny of quarterly financial monitoring to happen at Performance Management Scrutiny Committee</i></p> <p>End of quarter 3: reflection against plans in 2021/2022 budget</p> <p>Formal budget scrutiny – final report of the task and finish group to Performance Management Scrutiny Committee (where formal budget scrutiny will take place)</p>