

**Committee and Date**

**Performance Management
Scrutiny Committee**

18 January 2022

Item

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Public

Financial strategy and budget monitoring task and finish group – interim report**Responsible officer**

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1.0 Synopsis

- 1.1 This report provides the Performance Management Scrutiny Committee with an update on the work of its financial strategy task and finish group to date. It details the findings of the group's recent thematic focus on challenges facing children's social care and the strategy to build on the good service that Shropshire Council provides. It also outlines the findings of the group's opportunity to contribute to the 2022-2023 budget setting process.

2.0 Executive summary

- 2.1 The Financial Strategy and Budget Monitoring task and finish group was initiated by the Performance Management Scrutiny Committee to carry out scrutiny of budget setting for the 2022-2023 financial year, the medium term-financial strategy and capital strategy, and to monitor performance against the budget and strategy.
- 2.2 The group has so far focussed on financial strategy for children's services, identifying possible priorities for more in-depth scrutiny for the People Overview Committee.
- 2.3 The group has also been able to conduct some scrutiny of the 2022-23 budget within a compressed consultation period. This report and appendices provide a further opportunity for the committee to carry out this work.

3.0 Recommendations

- 3.1 Members are recommended to:
- note the report

- carry out any additional scrutiny of the 2022-2023 budget and financial strategy 2022/3 – 2025/6 and
- recommend topics of focus for the Performance Management Scrutiny Committee and thematic scrutiny committees, in particular the People Overview Committee.

REPORT

4.0 Risk Assessment and Opportunities Appraisal

- 4.1 Scrutiny of the council's budget and its medium-term financial strategy provides the opportunity for elected members to hold the executive to account and to ensure that its decisions are in the best interests of people in Shropshire. They provide a lay perspective that reflects the impact of budget decisions on local communities.
- 4.2 A failure to engage in budget scrutiny risks undermining public trust in the council's financial strategy and budget setting process.
- 4.3 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.

5.0 Financial implications

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

6.0 Climate change appraisal

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

7.0 Background

- 7.1 Legislation provides the framework for the scrutiny of a local authority's budget setting and financial strategy.
- **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.

7.2 To support this, in January 2021 the Performance Management Scrutiny Committee agreed to establish a discrete financial strategy task and finish group to focus on budget setting and financial strategy over several meeting in an informal environment. The task and finish group agreed the following terms of reference:

- 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 to the Performance Management Scrutiny Committee on its work.
- To escalate any areas of concern it may have regarding the financial strategy to the Performance Management Scrutiny Committee, for formal scrutiny in public.

7.3 The group agreed at its first meeting that to carry out its work into the council's medium-term financial strategy, it would break down its work into three discrete areas, adult social care, children's services, and property management and income generation within the place directorate. The group would then weave its scrutiny of budget setting into this thematic work.

7.4 To date the group has only been able to scrutinise one of these planned areas of work, looking in depth at children's services. It plans to continue this work in February when it will look at adult social care.

7.5 The group was also hindered in its scrutiny of the council's proposed 2022-2023 budget by the December 2020 parliamentary by election for the North Shropshire constituency, which sits within the Shropshire Council local authority area. Officers correctly determined that publishing details of the council's proposed budget savings would be unlawful in the pre-election period for the by election. Fortunately, the group was able to meet immediately after the by election, providing limited input into the budget-setting process before the proposals were

presented to elected members more widely. In addition the group were involved in earlier discussion of budget setting at its meeting in September 2021, and will continue to be involved in budget setting and monitoring throughout 2022.

8. Medium-term financial strategy: children's services

- 8.1 In September 2021 the group discussed the ongoing pressures on children's services arising from increased demand for its services. The group noted the significant increase in the number of children becoming looked after by local authority, rising from 504 in March 2021 to 571 in September 2022.
- 8.2 At this meeting the group received benchmarking data that provided a comparison of spending on children's services compared to both local authorities in the West Midlands and statistically comparable local authorities such as Wiltshire and Devon. Shropshire Council spends less per head on children's services than any other local authority in the West Midlands and has done so since at least the 2014-2015 financial year. In the latest year for which there is data available, the 2019-2020 financial year, Shropshire Council spent £719 per head of population aged 0-17, compared to a mean spend of £952 and a spend of £1,464 in Stoke on Trent. This suggested that there was limited, if any, capacity to cut costs further, although the group noted the high cost of agency social workers discussed in paragraph 8.6 below. Instead, to avoid increased costs through increased demand on high-cost services such as residential care, Shropshire Council would have to look to new ways of working.
- 8.5 The group discussed key strands of the council's work to bring down immediate costs and to redesign services that produced better outcomes at a lower cost.
- 8.6 ***Social worker recruitment***
The group noted an almost £1 million expenditure on agency social workers, asking why Shropshire Council spent so much on agency staff. It heard that there was a national shortage of social workers. This shortage was a chronic issue, with the demand for qualified social workers rising despite the number of newly qualified workers remaining static nationally. As a result of this shortage, many social workers were instead choosing to work for staff agencies, affording them greater flexibility and often better pay. This had in part created a chicken-and-egg situation, with increasing shortages of qualified staff creating a growing market for agency staff.

The council has recognised that as a rural area with a low-wage economy, it is unable to compete with urban local authorities to recruit social workers. Although the council conducted a round-the-year recruitment campaign, it tended to attract social workers in their first year of practice, meaning that they both required ongoing additional support and could only take on limited caseloads.

The council had therefore embarked on a programme of training and developing its own workforce through apprenticeships. This was a long-term project that would take years before it produced a consistent supply of trained workers. In 2020 the council had recruited eight people to its apprenticeship programme, with a further six recruited in 2021.

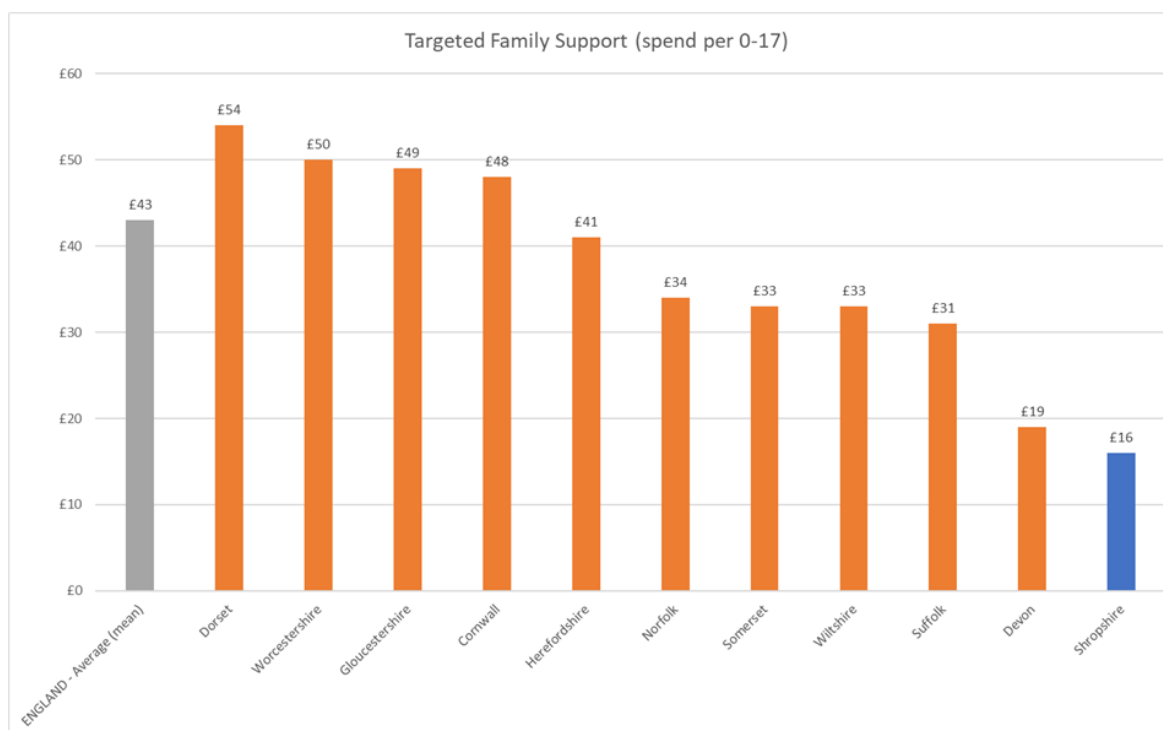
The group supported this approach. It recognised that longer-term investment in staff not only had the potential to reduce agency costs, but to also create a committed workforce with strong local knowledge.

The group therefore recommended that the People Overview Committee continue its ongoing scrutiny of the recruitment and development of social workers.

8.7 Investment in early help

The group heard from officers that reductions in funding for early help for troubled families had resulted in cases of neglect and other disfunction worsening to the point where more resource intensive support was required. This could be seen in increasing numbers of children becoming looked after, as well as an increase in the number of children being excluded from mainstream education. The reduction in funding was across the public sector, with cuts in funding for police community work and educational support in schools.

Benchmarking with other local authorities shows that in the 2018-2019 financial year, expenditure on early help in Shropshire was significantly lower than the England average spend of £43 per child aged 0-17 compared to a spend of £16 in Shropshire. This spend was half of that in similar local authorities, as can be seen in the chart below.



The group heard that spending had been allocated in the medium-term financial strategy to fund early help, with investment of just over £500,000 in the next financial year (2022-23) and £400,000 for the following year to create a preventative demand management model. The expectation in the strategy is that the increased investment would result in lower costs after 2024-2025

8.8 Stepping Stones

Perhaps the most significant invest to save project within Children's Services was the Stepping Stones project. This project used restorative family therapy to keep children at risk of family breakdown out of residential care and in the family home. The project also sought to work with children to allow them to move from more intensive residential care into more mainstream residential care, or from residential care back into the family home.

The council has budgeted just over £2 million from invest to save funding to Stepping Stones, of which almost £500,000 had been spent in the year to date as at 31 December 2021. The project so far has resulted in 20 children avoiding residential care and 6 children stepping down from more intensive support or leaving residential care altogether, reducing care costs by £1.68 million in the year to date. The project has an overall savings target of £6.4 million.

The group noted that the project had a target of reducing the number of children needing high-cost residential care from 60 to 20. The group agreed that this would be a significant challenge for the local authority, with the resultant financial

risk to the council of investing in Stepping Stones project while also paying for greater numbers of residential care than planned for.

8.9 Local authority residential care

A 2018 report from the People Overview Committee had highlighted the high and fast-rising cost of private residential care. As Shropshire Council had few children's residential home placements, it was almost entirely reliant on the private sector market for residential care. This was a significant cost to the local authority, with packages of care costing up to £400,000 per year being increasingly commonplace. Following the People Overview Committee's report, the council embarked on an invest-to-save to increase its residential care capacity.

The increase in the number of children becoming looked after was a national issue, although the rise in Shropshire since the pandemic had been higher than in other local authorities. In addition, the children the council looked after had increasingly complex issues, resulting in a greater reliance on specialist residential care. This was again a national issue, which had resulted in increased demand for specialist residential care, which in turn had resulted in years of rising costs. It was now commonplace for residential care for the most complex children to cost £8,000 per week.

To date the local authority has set up two new two-bedroom children's homes for some of the council's most complex looked-after children. Although these homes cost the local authority £805 per child per week, they still provide an annual cost saving to the council of £44,000 per child in addition to being able to keep children within the local area.

The council is also currently building a further 4-bedroom children's home for children aged 16 and older, to provide supported but increasingly independent living for children as they transition into adulthood. If successful, this should have the additional benefit of reducing adult social care costs in future years.

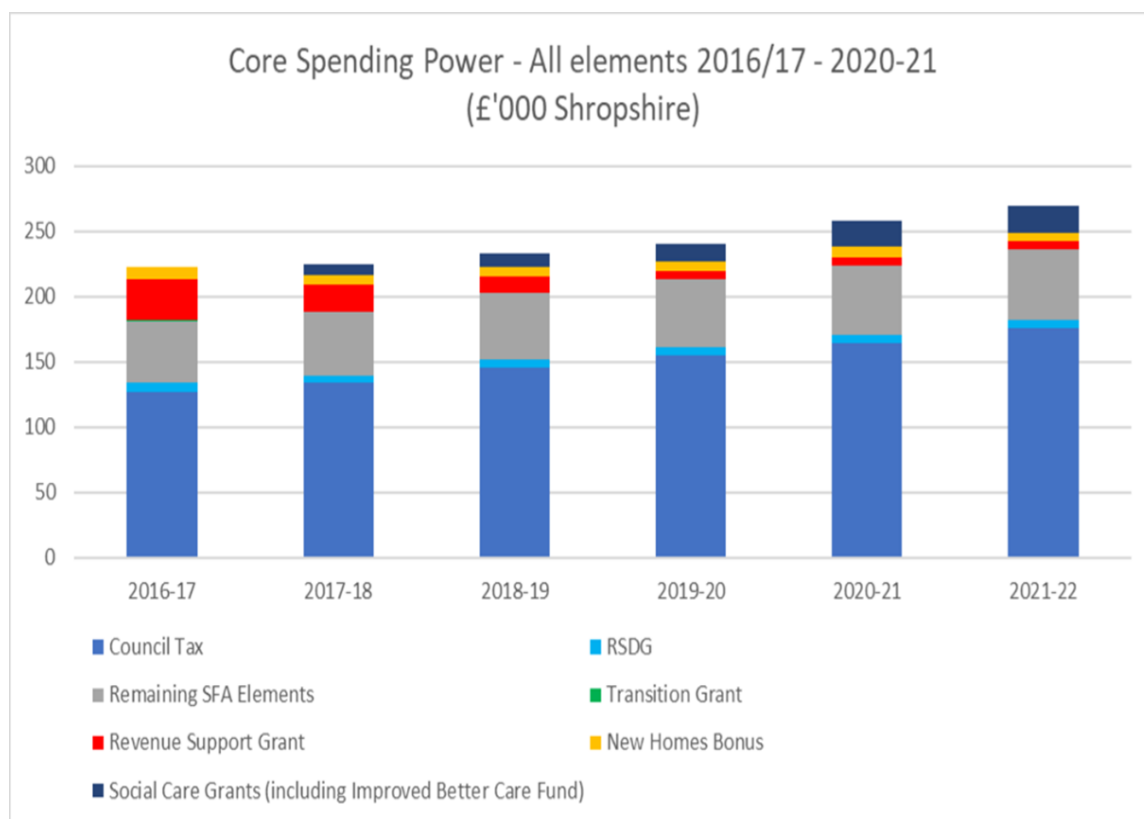
9. 2022-2023 budget setting

- 9.1 As part of Shropshire Council's budget setting process, the draft budget is usually presented to either the Performance Management Scrutiny Committee or its Financial Strategy Task and Finish Group for scrutiny before it is presented to Council, usually in the January before the beginning of the next financial year. Although the council had worked on developing scenarios and options for budget savings to financial year 2026-2027, it was unable to determine the extent to which the council would need to find savings because of the delay in the financial settlement from Government. Unfortunately, this delay dovetailed with the unexpected byelection in North Shropshire on 16 December 2021, which created a pre-election period from early November that prevented any sort of public discussion of the budget.

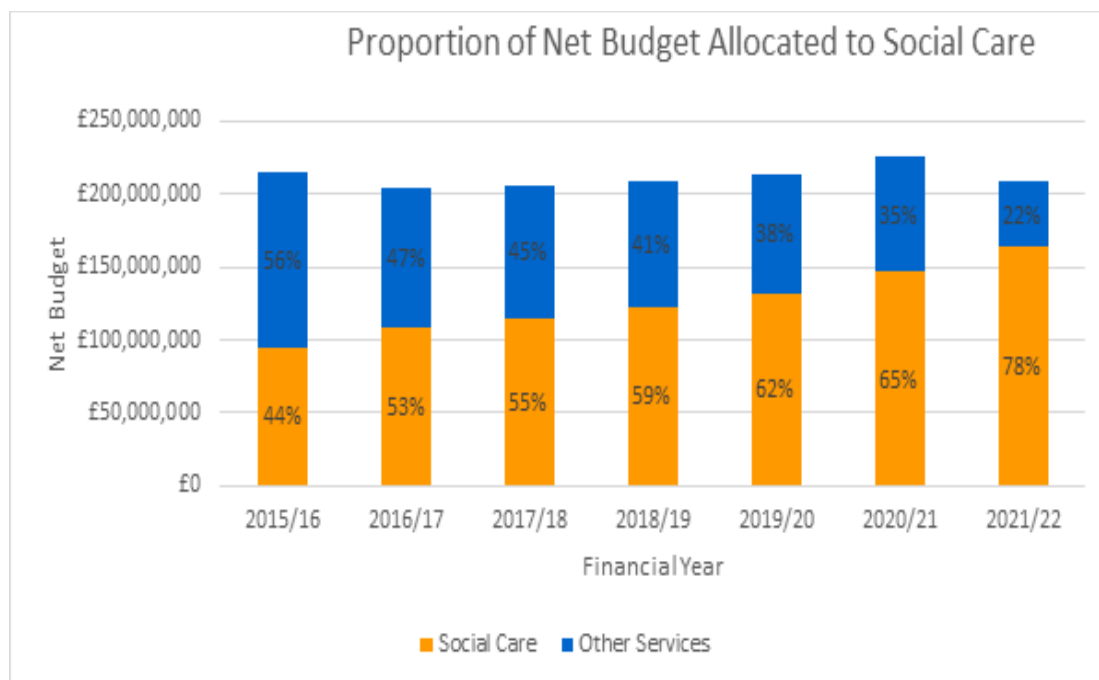
- 9.2 To be able to carry out some form of budget scrutiny in these circumstances, the group convened at short notice on 20 December 2021 to work through proposed savings with the council's director of finance and its executive director of resources.
- 9.3 The group heard that the settlement from Government only covered a single financial year, rather than the expected three-year settlement. This provided additional uncertainty to future funding and required a more cautious assessment of future funding. Officers provided background and context regarding the financial situation in which Shropshire Council was setting its budget.
- 9.4 Shropshire Council has the following principal sources of income:
- **Council Tax.** This is an ongoing revenue stream.
 - **Business Rates.** Under the business rates retention scheme 49% of the rates collected in Shropshire remains with the authority, 1% go to police and fire services and remainder to central government. This too is an ongoing revenue stream.
 - **Business Rates Top up.** Under the current formula-based system, central government has assessed that the 49% of business rates retained is insufficient to meet need. Shropshire therefore receives a funding top up.
 - **Collection Fund.** Any under or over collection on the expected Council Tax and Business Rates income. Any surplus, or deficit on the Collection Fund, as a result of income from council tax and business rates being more or less than originally estimated, are shared between first tier local authorities such as Shropshire Council and, in the case of business rates, with central government. This is a one-off source of income or expenditure.
 - **Government Revenue Support Grant.** Historically this grant made up a large part of a local authority's income profile, but it has reduced year on year and in Shropshire we expect it to have been removed altogether by 2024-2025. As a result, the authority is increasingly reliant on raising income locally.
 - **Government Specific/Core Grants.** The council receive ringfenced grants for very specific purposes which are typically one off or at least short term in nature. These core grants are one of the main ways in which we close the funding gap. The core grants for 2021-2022 are:
 - Improved Better Care Fund
 - New Homes Bonus
 - Rural Services Delivery Grant
 - Social Care Support Grant.The future of these core grants is very uncertain
 - **Sales, Fees and Charges Income.** The authority is able to charge for some of the services that it delivers. Some charges are statutory, some

discretionary and the ability to make a profit is limited to specific circumstances.

- 9.5 The table below shows the change in proportion of council funding from the above sources of income, apart from sales, fees and charges income since the 2016-2017 financial year. The changes in local government funding sources mean that between 2016-2017 and 2021-2022, the proportion of core spending power from locally-generated funding, such as council tax, rose from 54% to 65%



- 9.6 In the 2021-2022 financial year Shropshire Council had a net budget of £208.647 million. Of this, 78% of spending was on social care. The budget allocated to social care has risen significantly since 2015-2016, despite the net budget reducing slightly over this time. As a result, as can be seen from the graph below, the proportion of budget allocated to social care has increased since 2016-2017 from 44% to 78% of the council's net budget. This proportion is estimated to increase further to almost 80% in the 2022-2023 financial year.



- 9.7 The rapid and ongoing increase in social care expenditure, combined with a broadly static net income, has resulted in a forecast deficit of over £60 million per year over the next four financial years, as seen in Table 1 below. Although some of this deficit may be reduced by the continuation of one-off grants such as Improved Better Care Fund, this could not be assumed.

	2022/23 £	2023/24 £	2024/25 £	2025/26 £	2026/27 £
Resources (incl savings plans)	579,393,158	546,289,089	559,897,043	572,422,491	585,661,349
Expenditure (incl savings plans)	628,839,195	606,476,776	622,251,679	632,796,721	640,273,703
Gap in year	49,446,036	60,187,687	62,354,635	60,374,230	54,612,354
One off Grants & Reserves:					
Improved Better Care Funding	11,862,890	0	0	0	0
Rural Services Delivery grant	6,940,755	0	0	0	0
Social Care Funding	12,619,381	0	0	0	0
Services Grant - One Off	3,521,312	0	0	0	0
Lower Tier Services Grant - One Off	389,608	0	0	0	0
Market Sustainability and Fair Cost Fund - One Off	940,831	0	0	0	0
Use of Reserves:					
Review of Earmarked Reserves	6,128,506	0	0	0	0
Financial Strategy Reserve	7,042,754	0	0	0	0
TOTAL ONE OFF FUNDING	49,446,036	0	0	0	0
Remaining Gap/(Surplus) to be Funded	0	60,187,687	62,354,635	60,374,230	54,612,354

Table 1: Revenue Budget Funding Gap at December 2021.

- 9.8 This combination of static net income, rising social care costs and short-term funding had created two challenges for Shropshire Council with regard to its funding. In the short-term the council is required by law to set a balanced budget

for 2022-2023. In the longer-term it needs a robust plan to balance the budget for the following four years after that.

9.9 The budget setting process began in July 2021, and included consultation with budget holders, service heads, assistant directors, executive directors and Cabinet members.

9.10 Following the provisional government financial settlement, the council made the following assumptions in the 2022-2023 budget:

- An increase in Council Tax of 1.99%
- An Adult Social Care Precept of 2%
- A staff pay award of 2%
- A general inflation rate in the council's general expenditure of 3.8%, and 5.5% in the waste management contract with Veolia.
- One-year Improved Better Care Funding, Rural Services Delivery grant, Social Care Funding, Services Grant, Lower Tier Services Grant and Market Sustainability and Fair Cost grants in 2022-2023, with no grant in future years and
- The potential for new and unforeseen pressures from 2021/22 were not included in the budget forecast.

9.11 New and unforeseen pressures so far include:

- A rise in inflation from 3.8% to 5.1% (6.5% for Veolia) (£525,000)
- Additional adult social care pressures (£3.5 million) and
- Undeliverable savings from 2018-2019 onwards.

9.12 To provide a balanced budget for 2022-23 through to 2026-27 Shropshire Council has identified new savings of £21.445 million, both through cost savings and increased income generation. Of these savings, £4.771 million must be realised by the end of the 2022-2023 financial year. This is in addition to savings totalling £4.5 million approved in previous years which have yet to materialise.

9.13 The group questioned various aspects of the proposed savings. A member of the group questioned why we had proposed to scrap the subscription to CIPFA benchmarking, which they believed could help to identify where costs were higher than in other local authorities. Officers reassured the group that they were able to access the required benchmarking data from other sources at no cost.

9.14 The group focussed its discussion on some of the larger cost savings identified in the budget strategy. Members questioned the £6.414 million cost saving allocated to the Stepping Stones project, which the members had first discussed at their earlier focus on children's service (see section 8 above). Although the savings

appeared ambitious, the project was based on long-established practice in other local authorities and had already achieved cost savings of £1.68 million. These savings far exceeded budgeted savings, which were not due to begin to be realised until the period 2023-2024 to 2026-2027.

- 9.15 The group questioned the proposal to review the service and charges for green waste, with a view to generating £3 million of income through charging for green waste collection. The group asked officers to ensure that any review of charges included a carbon evaluation of the impact of the charges, for example the risk of increased levels of burning green waste or increased motor transport journeys to household recycling centres. Officers informed the group that the Government had proposed including a provision for universal free green waste collection in its Environment Bill, which would result in a new burdens grant to the local authority to cover the cost of collections. However, until the proposal was included in legislation it could not be assumed that the grant would appear.
- 9.16 Group members discussed the feasibility of delegating powers and responsibilities for parks and open spaces to town and parish councils. Although there was no proposal for this in the budget, it could provide an opportunity for savings in future years.
- 9.17 The group discussed the extent to which Shropshire Council commissions highways and groundworks service requests from Kier, and questioned whether using Kier for smaller, local jobs was the best use of local resources. Members suggested that the local authority explore the potential to commission groundworks services from town and parish councils, and whether this could lower job costs.

10. Capital Strategy

- 10.1 The group also received details on the proposed 2022-2023 capital strategy. The council has a current, fully-financed capital programme of £294.607 million, of which £173.270 has been allocated to the Place Directorate and £65.140 to the Housing Revenue Account.
- 10.2 The 2022-2023 capital strategy includes additional £271.426 million of projects for financial year 2022-2023 to 2026-2027, with the table below showing the split between service area.

Service Area	Total £m
Communities, Place and Tourism	25.152
Children and Education	11.700

Adult Social Care, Public Health and Assets	1.500
Resources	3.200
Economic Growth, Regeneration and Planning	96.500
Physical Infrastructure, Highways and Built Housing	133.374
Total	271.426

10.3 Funding for the above proposed new capital programme was as follows

Targeted Funding	£m
External Grants	17.575
Section 106 and CIL Developer Contributions	20.965
Borrowing	84.82
Capital Receipts (Disposals)	30.447
Other Funding Options	117.619
Total	271.426

The revenue impact of borrowing to deliver these projects will require the Council to budget for an additional revenue increase of £4.607m by 2027/28.

The borrowing required to fund the additional capital programme assumed a 25-year payback on all schemes and 2.5% interest charge on borrowing.

- 10.4 Although they were not included in the financial strategy or capital strategy, members discussed proposals to invest £120 million on roads in Shropshire over the next four years. The members asked for more information about these proposals, and how they would be funded.

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 Members

All

Appendices

- Medium Term Financial Strategy 2022/23 to 2026/27
- Capital Strategy 2021/22 to 2026/27