Corporate Overview and Scrutiny Committee

Medium Term Financial Strategy 2023 - 2028

Report of the Medium-Term Financial Strategy Working Group

CIPFA Financial scrutiny practice guide (2020)

Scrutiny is a critical part of the overall governance framework. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can 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 councils are now making.

Chairman's Foreword

Coming out of the challenges of the Pandemic years, few of us would have predicted the challenges of 2022 including the invasion of Ukraine driving fuel prices up and inflation rates rising. It has been particularly challenging and uncertain time for local government in relation to financial planning and strategy. The Working Group has been cognisant of these circumstances and has attempted to consider these factors, be constructive and understanding in its investigations.

Membership of the Group includes the four Overview and Scrutiny Committee chairpersons and the minority group lead member. The breadth and depth of knowledge in the membership has provided for a widespread knowledge of key topics and has helped avoid duplication in areas of investigation.

MTFS last year focussed on Adult Social Care, Children's System Transformation and Highway Maintenance Liabilities, also digital innovation which was key to delivery and cost cutting effects on the three areas identified. They remain high risk and are being monitored. This year our priorities are to better understand and investigate our Capital Assets and Reserves, and to shine a spotlight on SEND Transport.

As in previous years, the MTFS group invited representatives of other local authorities and lead officers to assist with our evidence gathering online which has allowed the input of those from within our organisation and from distant locations, this has again been a useful contribution to some of our thoughts and recommendations.

The Group is grateful to all the officials who administered the process, particularly Zach Simister, Deb Breedon and Rachel Spain. In addition, I thank elected members for their enthusiasm, support, and insightful enquiries.

County Councillor Colin Greatorex

MTFS Working Group Chairman

Membership

County Councillor C Greatorex (Chairperson)
County Councillor B Peters
County Councillor C Atkins
County Councillor J Pert
County Councillor G Heath
County Councillor S Thompson
County Councillor J Oates

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Executive Summary - Scrutiny of the MTFS and Budget Monitoring

The Medium-Term Financial Strategy MTFS, is a five year projection of expenditure plans and the resources available to fund those plans. It provides a longer view of managing the finances. It is agreed in advance of setting the budget for the coming year (unless there are major changes to the figures which require urgent consideration).

The MTFS is the cornerstone of the Council’s overall strategy to set a Good and Balanced Budget and the planning framework for major decisions on future services, pay and jobs. Confidence in the model must be assured not assumed. The approach to identifying assumptions and making reasonable (not optimistic or pessimistic) assumptions for the next five years is important. The MTFS is a living model which is updated regularly for new circumstances and assumptions.

Each year, the Corporate Overview and Scrutiny Committee establishes a MTFS Working Group to look at the figures and planned spend for the next five years to inform the annual budget setting process. Corporate Overview and Scrutiny Committee also monitors the current budget by quarter years to shine a spotlight on issues and check that Cabinet has identified pressures and adjusted the finances accordingly.

This report presents our methodology, findings, conclusions, and recommendations.

Context

1. Staffordshire County Council, in common with many local authorities and other publicly funded bodies, faces a significant financial challenge affected by the increasing energy costs, higher than planned inflation, increased demand for services and retention and recruitment of workforce. There are particular challenges in relation to social care reform for adults and children's transformation, and inflationary pressures on transport, highways, schools, inflation affects on pay, contracted agreements and prices paid for non-contractual purchases.

2. We are mindful of the Council's vision and the pledge: 'to deliver value for money for residents and businesses and live within our means.' There remains to be uncertainty around the MTFS – the level of funding, inflation and interest rates and the increasing demand on social care. The largest proportion of the revenue budget continues to be allocated to the care sector. The aim must continue to be to live within our means and set reasonable expectations in line with the current year.

3. It is important to take a residents' view when considering the MTFS and preparing the report and recommendations to Cabinet. Increasing inflationary pressures and increasing demand in some services this year mean that expenditure plans would exceed resources. Resources can be allocated through one-off funding from reserves to ensure services are maintained for residents and that the figures will balance.

Method of Investigation

4. To scope this work, we received an overview of the current MTFS position and the changes since February 2022 highlighting inflation and other pressures on the short- and medium-term plan. The group considered the risks to setting a balanced budget, referring to CIPFA financial indicators and comparators, the approach to address the risks and the use of general balances and reserves in the context of financial stability.

5. Last year, this group agreed to focus on the budgetary areas where we could exert influence. We believe the 'steady ship' approach precludes the council from embarking on alternative, radical or ambitious strategies: how should we use our capital budget to greater effect. We made recommendations relating to four key areas:

    - Adult Social Care
    - Children's System Transformation
    - Highway Maintenance Liabilities
    - Delivery (capacity) – Digital innovation

We reviewed progress against these recommendations. We note that the areas continue to be a challenge and continue to be monitored.

6. This year, to gain an in depth understanding of how the MTFS ensures the Council's financial stability and makes best use of its resources, at a time when inflation is rising and interest rates going up, the Working Group agreed to focus on **Capital Programme and Assets**, **Reserves** and to scrutinise one area of inflationary concern, **SEND Transport**.

7. We researched and considered evidence to understand process, considered best practice from other Local Authorities and interviewed Cabinet Members and Directors.

8. We held a research session for each area of focus to better understand process and good practice, explore the current position and prepare relevant lines of enquiry in advance of an interview meeting with Executive Members and Directors.

9. We held a recap session to further investigate our initial findings and gather points of clarification. A summary of key matters raised from evidence gathering was provided along with data from the financial resilience index and bench marking.

10. At our final session we invited the Cabinet Member for Resources to outline the draft MTFS and share our findings.

11. On 19 December 2022, the Provisional Settlement was announced on by Secretary of State, a summary is included in the report.

Budget Interviews: Schedule of evidence gathering

Focus	**Interviewee/s / items discussed**
Current MTFS position 1 August 2022	Scoping the current MTFS position
Capital Programme and Assets 6 September 2022	Presentation by officers on the current position of Capital Programme and Assets.
Interview 13 September 2022	Interview with the Leader and Assistant Director for Corporate and Assets
Reserves 11 October 2022	Presentation by officers on the current position of Reserves.
Interview 18 October 2022	Interview with the Cabinet Member for Finance and Resources and the County Treasurer.
SEND Transport 25 October 2022	Presentation by Finance officers on the current position of SEND Transport
Interview 1 November 2022	The Cabinet Member for Education and SEND Assistant Director for Education Strategy & Improvement Head of Access to Learning, Inclusion and Improvement Assistant Director for Connectivity and Sustainability

	Strategic Finance Business Partner
Recap of findings 15 November 2022	Recap of findings including interviews with the Assistant Director for Corporate and Assets and Team Senior Solicitor. We also discussed our research of good practice for SEND Transport in two other Local Authorities, Nottinghamshire and Norfolk and compared their approach and performance to Staffordshire.
MTFS Report 2023-28 13 December 2022	Cabinet Member for Finance and Resources and County Treasurer presentation of the MTFS Cabinet Report due to go to Cabinet on 14 December 2022.

Evidence gathering

General

12. The budget for 2022-23 was set at the meeting of Full Council on 10th February 2022. At that time balances of £54.5m were required. The 2021/22 Final Outturn report had resulted in a small underspend of £3.984m which was allocated to a reserve for inflationary pressures.

13. Since setting the budget in 2022, the rate of inflation has risen sharply, the cost of living has impacted on residents and businesses in Staffordshire and Council services have been impacted.

14. The Integrated Performance report for Q1 (Budget Monitoring) identified the need to allocate a further £5m funding for inflation in the current year and highlighted significant other pressures in care services and transport, which are risks to setting a balanced budget for 2023-24.

15. At this time there is no clear indication of when inflation will return to a government target level, however the forecast and risk assessment will be refreshed and reported to Cabinet as part of the MTFS process.

Area of Focus 1 - Capital Programme and Assets

16. We received a presentation relating to Buildings Capital Programme and Assets providing detail of the Capital programme at Quarter 1 (totalling £133,123 million) and the reporting mechanisms to Cabinet.

17. We learned
    - Schools are the majority of the County Council's assets at 56%.
    - Assets declared surplus or being actively marketed account for 1% of the total number of assets.
    - The PFI scheme assets are included in these totals as the assets will become owned by SCC at the end of the contract.
    - Total net value of fixed assets at 31 March 2022 is £1,825.7m.

- The difference between revenue and capital budgeting under accounting rules: Revenue spending covers day-to-day costs such as wages. Capital expenditure relates to investments in assets such as buildings and transport infrastructure.

Area 1 - Lines of Enquiry

18. **We considered the maintenance responsibility once Staffordshire County Council (SCC) school property had passed to Academy Trusts.**

    There was no net change in costs to SCC as a result of transferring property to Academies as Academies are financially independent from SCC. During transferral the County Council was the freehold owner of the property, however the academy would be responsible for all of the upkeep of the property. Funding streams were available for Academies to apply for improvements; however, the County Council would not normally be involved in this process. There were 460 schools in Staffordshire; 125 were maintained schools. The impact of cost-of-living crisis on schools was of concern, however, for Academies it would be the Regional Schools Commissioner as the responsible body.

19. **We considered the process around Section 106 funding from developers to ensure it was invoiced and received.**

    We received a presentation highlighting the process for the Section 106 monitoring. Section 106 agreements are legal documents which could not be changed by either party once signed. The total amount of money owed depended on the number of houses on each site and the trigger points set out in each agreement. The District or Borough Council monitors progress on sites to see when trigger points are met and requests S106 payment. Even when received the money is not necessarily spent immediately but if not spent in time the developers may claim the money back. S106 money is largely utilised on highways and education.

20. **We considered property disposal and capital receipts.**

    The Council follows processes when identifying a property for disposal and seeking best value when a property is to be sold. Properties are under constant review; Property Sub Committee oversees the corporate property strategy and the asset management plan. Officers seek to maximise the value of an asset, the money is usually added to the central fund, rather than be spent in the location specific area. Some properties are occupied and can only be sold when they are empty, there are some delays to properties due to unforeseen complications. Some properties have been sold for an undervalue transaction for community-based use rather than to seek best value, but this is agreed on a case-by-case basis by the Property Sub-Committee.

21. **We considered if the Capital programme and disposals should be sped up due to the higher interest rates and opportunities to raise money.**

The Council disposes of surplus property as quickly as possible. The value of some properties does increase over time however the Council does not deliberately hold land to wait for to increase its value.

22. **We considered if factoring land use changes overtime and if the District and Borough Councils worked with the County to maximise the benefit of these properties.**

The District and Borough Councils have neighbourhood plans and can allocate County Council owned land to green space. When a capital asset is sold the money generated is spent County-wide not necessarily invested in the community where the asset was. The Capital Programme was agreed by Cabinet annually. The majority of capital projects were in areas of educational or highways.

23. **We considered how surplus assets for sale were prioritised**.

The property team meet monthly to discuss all the surplus assets and RAG rate them based on the time plan to sell the property and to consider the range of issues which would make selling properties more complex. Assurance was given that the property team progressed disposal of the red rated properties as well to move them closer to possible sale.

24. **We considered Section 106 agreements and how to ensure money was paid and received on time.**

Section 106 agreements are complex documents to write, there are two full time dedicated monitoring officers employed to prepare S106 agreements, set trigger points, log in a database and to monitor agreements and payments. There was a clawback agreement if the money was not spent in a specific timescale. We were assured that there is a cost benefit analysis carried out. Project trigger points and completion vary, some projects could take up to 15 years before all of the money is receivable. The County Council is reliant on other sources of information, much comes from the Districts and Boroughs which monitor the planning conditions or the developers themselves. Developers have 28 days to make a payment from when the Council issues an invoice, if the 28-day deadline is not met, it is passed to debt recovery. It is rare to go to Court as a result of non-payment. It was considered there was not a need to receive the S106 money ‘up front’.

Area of Focus 2 - Reserves

25. We received a presentation to better understand the function and application of general balances, reserves and treasury management.

26. We learned

- General balances are held for use in high/medium risk emergencies to balance the budget, are not for a specific purpose and require a resolution to full Council.
- Earmarked Reserves held by services for a specific project can be cross cutting i.e.IT, can include unspent revenue grants which do not have to be repaid and SCC holds some reserves on behalf of other bodies e.g. The LEP, Midlands Engine or schools.
- Annual review of Balances and Reserves included as part of the MTFS.
- Current assessment requires balances of £54.5m. Additional £5m agreed as part of 2022/23 budget.
- When comparing with other Authorities, CIPFA Financial Resilience index, we have a relatively high ratio of reserves to net revenue budget, however data is a few years old and does not reflect current risks and pressure being faced.
- We have a low risk level, however we have a high social care ratio (i.e., large proportion of the budget is spent on social care).
- The Budget is 85% funded from Council tax and 15% from RSG and business rates.
- Interest payable ratio is high – due to PFI schemes in place.
- Total reserves increased in 202/21 due to Covid grants close to end of the financial year. Reserves held on behalf of others total £56.4m.
- A value for money report goes to Audit and Standards Committee.

Area 2 - Lines of enquiry

27. **We considered access to Earmarked Reserves.**

It was confirmed that Earmarked Reserves are allocated for a specific purpose, and it would not be prudent to use these reserves for other purposes, unless that purpose was no longer required.

28. **We considered if the level of reserves was appropriate for the risks currently being faced.**

The Council has to set a balanced budget and it was clarified that the level of reserves is risk assessed at the start of each year. The current level of reserves was slightly lower than the reserves deemed necessary in the current year, but the level of reserves would be reviewed again in April 2023. We are mindful of current levels of inflation, but it was anticipated that these should plateau in 2023. Increases in interest rates were an added pressure but interest rate increases were also a benefit; some cash reserves had been used rather than borrowing to avoid interest when the Council had needed to raise capital.

29. **We considered the level of reserves appropriate for the scale of future spending plans and if it ensures financial sustainability for**

the foreseeable future.

The Cabinet Member for Finance and Resources' role was to ensure that the Council was robust and financially well run and he provided assurance that the level of reserves was appropriate. Reserves were there for contingency rather than to fund future spending plans. There was need for robust revenue budgets, there may be occasion when some reserves may be used for internal borrowing, but the purpose of reserves was to not underwrite overspending.

30. **We considered investing reserves to generate an income and questioned if the cash reserves may be too generous.**

Reserves are maintained as part of the cashflow in the organisation, to use as required, the Council needed to have some levels of cash (working capital) and was in a good position to use surplus cash flow instead of borrowing. It was noted that the Council is prudent, and the treasury strategy was more cautious than pre-pandemic, so cash balances had increased. The Council was exploring more longer-term deposit arrangements in order to get a better return and ratings agencies were re-evaluating longer term investment options. However, the Council would need sufficiently liquid access to the money if required.

31. **We considered how investments are mapped and how often they were adjusted.**

Link, a Capita based institution formerly known as Sector, advises the Council on economic factors and where the Council could safely invest, as reported to Cabinet in the biannual treasury management report. The Councils' cash balances are considered daily, and short-term investments are spread over a range of investments rather than seeking to invest in 'best yield'. Use of Link is widespread across many other Local Authorities, and it is highly regulated, recognised and respected.

32. **We considered if there should be an interim annual reserve review in such uncertain times, with inflation high.**

The difficulty in replenishing reserves mid-year was highlighted and risk assessments and some money for inflationary pressures had already been added into earmarked reserves mid-year which would ease pressure on general balances next year. The County Treasurer informed the Working Group that the in-year contingency budget of £10million could be accessed by Cabinet should it be required. As such it was considered there was not a need to review the reserves more frequently.

33. **We considered if some long-term loans could be rescheduled and if SCC was paying a premium**

The rescheduling of a long-term loan would depend on the repayment timing and if it was the right time to address that, taking into account of rising inflation and interest rates. Early loan termination can sometimes carry associated costs.

34. **We considered how much variance there is within funding streams from the agreed original plan for each project and if any post analysis of our budgeting at the end of a project**

Analysis and evaluation of the project is required to determine the level of reserves required. Programmes and projects are monitored throughout, and funds can be released as part of that process. It was questioned whether post project reviews were carried out to provide analysis of spending and funding and determine if the level of funding was correct.

35. **Prudence: We considered if the organisation was overly cautious**

The Cabinet Member for Finance and Resources indicated that he did not think this was the right time to be adventurous due to the pressures on inflation and upcoming changes to Health and Social Care. He reminded the group that inflation was a risk which has only recently emerged, and that the inflation reserve had to be assembled from other funds so there may be a need to vire between reserves. The County Treasurer commented on Invest to Save projects and used street lighting as an example, in that the Council was set to have a surplus on that reserve however due to inflationary pressures, it has had to pay more money to achieve that project. There was a constant requirement to challenge investments the Council makes.

36. **Investing money into income generating**

The Cabinet Member for Finance and Resources clarified that the Councils policy was to not invest for income generating in businesses but rather market intervention and services as deemed appropriate. In order for the Council to make any significant returns on income generating the Council would need to heavily invest in more high-risk areas which he did not feel was appropriate due to the risk. Investing in energy schemes such as Robin Hood Energy or Yorkshire Partnership, the Cabinet Member for Finance and Resources did not think this was something the Council should be looking to get involved in. It was confirmed that the Audit and Standards Committee monitors treasury management controls.

37. **Benchmarking**

We considered a presentation on reserves and benchmarking against the Councils' nearest statistical neighbours, with the latest data from 2020/21. The Councils reserves had increased in this period due to unspent Covid grants from the Government. The CIPFA financial resilience index showed that the County Council had a lower risk for Unallocated and Earmarked reserves however a higher risk of Children and Adult Social Care ratio. We noted that reserves were used to fund fluctuation in demand.

We found that we had high levels of reserves which meant that risk was low, however we questioned if 61% of earmarked reserves was too high and if there was therefore a missed opportunity in investments. We commented on social care comparisons and the age profile of Staffordshire compared to the other statistical neighbours in 2021 Census Data. We also considered that there is a need for training on reserves for all Members.

Area of Focus 3 - SEND Transport

38. We identified SEND Transport Budget as an area of budgetary concern. A SEND national review by the Department for Education had taken place in March 2022 which identified that the system had become financially unsustainable. The Cabinet Member for Education and SEND highlighted that there was a full review of SEND underway. A breakdown of the budget for 2022/23 was shared with the Working Group. We concentrated on SEND Transport.

39. We learned:

- a significant rise in cost of SEND transport of over 80% in four years. 22/23 has seen a sharp rise in costs (CPI / Fuel / Ukraine) forecasting an overspend of £2.9 million for the year.
- Risk that (if current CPI rates remain high) costs will continue to increase further and costs unlikely to drop back in line with existing MTFS.
- Additional provision within the draft MTFS for £2.6m.
- We challenged the SEND strategy of expected gradual tailing off of growth as launched in 2021, as numbers had increased rather than reduced.
- There are 23 special schools in the whole of Staffordshire and not many school places available.
- The County Council is currently consulting on a process to develop enhanced provision within mainstream schools (academies and maintained) which would reduce the travel for some of the children and young people.
- £16 million SEND Capital funding is available to develop this enhanced provision. The Council is currently in phase 3 – Co-Design, deliverable by September 2023.

Area 3 – Lines of Enquiry

40. **What is being done to keep spend within budget?**

The Cabinet received quarterly budget updates. We were informed that all potential savings for 2022/23 have been removed, however in the longer term it was anticipated that the spend could be reduced pending a full review of SEND.

We discussed if the work was underway to have more SEND children in mainstream education sooner, in order to realise savings. We were informed that this work was underway and discussions were ongoing however there is a need to make sure it is suitable for each child on an individual basis. We were advised by the service area that there was a need to work with early help and SEND transformation to reduce the EHCPs which would reduce the transport required.

41. **We considered why is there an increase in numbers of children and if SCC was comparable with other Local Authorities**

We found that 1,900 children receive SEND transport on around 757 routes and the average cost per route was around £25,000. There had been a gradual increase of more single and dual occupancy routes.

When Benchmarking against Staffordshire's nearest statistical neighbours it suggested that similar cost pressures were impacting on councils across the country and Staffordshire was in in the middle. There is an expectation that all schools will be able to provide early intervention and places for SEND children to reduce distances travelled to school.

42. **We considered how Nottinghamshire and Norfolk deliver SEND Transport**

We had identified that Nottinghamshire had a lower SEND Transport budget and considered information and guidance relating to SEND Transport in Nottinghamshire and Norfolk to compare with Staffordshire. The difference in focus and terminology was highlighted:

- Staffordshire outlined its statutory responsibility;
- Nottingham encouraged parents to use school transport or arrange their own child's transport; and
- Norfolk encouraged parents to go on training and take the lead in their child's travel arrangements.

We encouraged investing in training for parents and children to increase their ability to be more independent. We recommend that SCC should further investigate what is offered at Nottinghamshire and Norfolk and consider taking the same approach.

43. **We considered home to school travel, cost and why decisions are made.**

The number of routes since 2018 had increased by 40% and increasing prices of 30% which meant that costs had increased by 80%. Two large contributions from discretionary support policy (£1.35m) and hyper-inflation (£1.5m) which would offset the in-year overspend.

The shift of pupils from multi-occupancy to more expensive single occupancy transport, which was often due to parental pressure, dictated by the choice of school and often supported by the schools.

When determining what transport was needed (taxi verses use of parent/guardian own vehicle) the team would investigate the most appropriate form of transport. We discussed that the Council could consider the feasibility of paying parents a mileage and they use their own car. A parent can refuse a particular mode of transport.

With a suitable, advance notice period, then the payments could be stopped when a child was sick.

Home to School Travel policy:

1. Statutory policy – free transport to nearest school. Estimated cost £18million
2. Discretionary policy – Free transport to catchment school. Estimated cost £1.5million
3. Discretionary policy – considered necessary by the Council – subsidised post 16 transport to access school or college of their choice. Estimate cost £1.5million. Parental charge for 2022/23 is £688 pa.
4. Discretionary policy – considered necessary by the Council – free transport for adults with the most severe disabilities to undertake further education or training. Estimated cost £500,000.

We were informed that the majority of spend was in statutory policy. Home to school contracts is the majority of spend. Majority of spend in SEND transport. The SEND transport priority work 2022/23 was shared with the us highlighting the Corporate Delivery Plan 2022/23, Informal Cabinet 1 June 2022 and the SCC Accelerated Progress Plan all to encourage multiple occupancy.

44. **We considered logistics and route mapping - proximity of appropriate schools for children travelling from and to**

We were informed that a nearest appropriate school was based around the Education and Health Care Plan EHCP. The Council consult with the group who would decide who the consultation will take place with. There is an opportunity for schools to advise if they cannot meet the needs for the child.

45. **Why 329 single taxi routes**

The reason for the number of single taxi routes was complex. It was partly related to Origin and destination, an increase in provision of colleges and

challenging behaviour of children. The Assistant Director for Connectivity and Sustainability indicated that there was more that the team could do. There is a major review of the routes every four years, each year the transport would get less efficient. We discussed the frequency of full reviews and if it should be done annually rather than every four years.
A child would need to be in school for the full day, varying transport times was not an option. There was a peak element in the travel times and cost.

46. **We considered tenders for transport and the risk of transport providers withdrawing from contracts**

Contract increases due to the cost of living and if these contracts could be lowered if the prices reductions were possible. There was not much competition in the market which was considered to be fragile like many sectors, and there were over 1,000 routes on a school day which reduces competition. Tenders are County wide and new suppliers were now from mostly outside the County.

47. **Climate change implications**

Climate Change implications with using taxis for SEND transport were raised and advice re carbon emissions was included in the report. There were ongoing discussions relating to taxi licensing and emissions.

48. **When routes cross boundary and out of area are costs apportioned to different Authorities?**

We were advised that costs are apportioned to different Authorities however the process could be slicker.

49. **We considered Education Health Care Plan – Process and decisions**

A lower proportion of children and young people with an EHCP are in mainstream education in Staffordshire when compared with statistical neighbours and nationally. A significant number of pupils with an ECHP attending a mainstream school nationally, travel less than two miles however those pupils who attend a Staffordshire special school travel five miles on average. Transport was provided for Pre 16, post 16 and post 19 young people with EHCP. EHCPs should be reviewed annually however due to pressures there is a system where ECHPs are reviewed when a child moves schools. In relation to level of security – unique or escorted transport it was reported that the Council does not usually provide a passenger assistant, but it is sometimes required as part of the EHCP assessment.

50. **What input does the parent have?**

We were informed that a parent can express a preference but cannot insist that the Council name that school in the EHCP. We were also informed that there was not a right of appeal until the school has been named in the plan, however this would then go to a tribunal where the Council would not normally win.

51. **We considered if a Staffordshire County Council transport could be developed**

It was anticipated that this would not be a viable solution as the cost would be too great, however further exploration of this this option was recommended. Making more efficient use of Council owned vehicles was something the Council had looked at a number of years ago. At the time, Schools were reluctant to release those vehicles and due to insurance issues it became difficult to progress.

Scrutiny of the Draft MTFS 2023-2028

52. The Cabinet Member for Finance and Responses attended the MTFS Working Group to discuss the Medium-Term Financial Strategy 2023-28, which provides details of how the Council's operations will be funded over the five-year period 2023-2028, to be considered by Cabinet on 14 December 2022. He advised that given so much had changed since the MTFS was set in February 2022, the report provides an update on the MTFS, setting out change and plans following from national financial impacts since February 2022.

We were advised that there were Children's Transformation challenges, the number of children coming into the care system had increased and the impact of the demand following from the COVID-19 pandemic had placed significant pressure on the MTFS. The Cabinet Member for Finance and Resources advised that when the MTFS was set the British economy had low inflation, the economy was now at double digit inflation and high interest rates. He advised the coming year (2023/24) will balance however without knowing the details of the settlement (anticipated on 21 December 2022) would require support from reserves to fill the gap. This would provide the Council some time to look at opportunities to save and innovate in order to spend more effectively in 2024/25.

The latest news from the government was that there would be a 2-year settlement with inflation-based increases, although, whilst this news would be well received by the Council, until the settlement was received it could not be considered in full.

We were advised that the MTFS will be refreshed in December 2022 to reflect the settlement, considered by Cabinet in January 2023 and then on to Council in February 2023.

53. **We considered the assumptions made in the report**

The assumptions based on inflation were considered to be low by the working group. We were advised that the assumptions in the report are taken from planning across the sector and were fairly prudent.

We were informed that the Bank of England expect inflation to start to come down at the end of 2023. The expected inflation rate in the MTFS report is 4% and it was expected that rates would reduce to target level within a year or two. It was acknowledged that there would be specific targeted areas where costs would be higher, materials etc, also the care market, which had other complex factors and not just the inflation affects.

54. **We considered the reduction of £115m over the past 6 years and questioned if there was a limit to how many savings could be achieved whilst maintaining a County Council in its current model**.

The Cabinet Member for Finance and Resources advised that there may be scope for further remodelling of local government due to lessons learnt from Covid pandemic, and greater interaction and work with partners in communities, however at this time the government's plans for devolution were not yet known. The County Treasurer highlighted social care as a particular financial risk however, it appeared that significant amounts of extra funding would be made available for Councils with social care responsibilities which would be beneficial to give time to think about changes to the Social Care model and provide opportunity to explore other options, partnerships, and integration with health. The financial risk relates to grant allocations and whether or not they will remain ongoing

55. **We considered Climate change and the cost of achieving net zero**

The cost of Climate Change had been planned for and there was enough money in reserves. In relation to the climate issues and significant cost of SEND transport, we were advised that a full review was underway however the process was complex and would take some time to fully deliver. We suggested investigating use of logistics and computer programmes to make the transport more efficient.

56. **We considered the references in the report to increased costs in ongoing work**

For example street lighting, and if there was a case to move faster to upgrade the outstanding street lights to LED. It was reported that the programme was well underway however it may be possible to tweak it so all the remaining lights upgrades could sooner.

57. **We considered Council tax increase**

It was reported that the Autumn Statement from the government included the announcement that the council tax referendum limits would be revised to allow local authorities to increase the Adult Social Care precept by a further 1% (making 2% in total) and the general precept can also be increased by a further 1% (making 3% in total). In response to a query of the Council giving consideration to not increase the Council tax by the thresholds, the Cabinet Member for Finance and Resources indicated that the Council were minded to increase the Council tax. There would however still be a significant gap in the Councils budget to fund social care, although less than the £70million - £80million gap (before any tax increases). The County Treasurer went on to say that the National living wage increase would cost £9 million - £10 million.

We commented that the there was no commentary as to why there was an increase in pressures in care commissioning. In response the County Treasurer explained that this has been taken into consideration, but that the report is written to not be repetitive from previous reports.

58. **We considered use of Reserves**

It was reported that next year £20million reserves were to be used, however the following year there was due to be a return for £3million - £4million. The Cabinet Member for Finance and Resources explained that there was a need to replenish reserves. It was hoped that the settlement would reduce the amount of reserves required however this was still awaited. It was confirmed that the amount of Earmarked Reserves would be confirmed in the January Cabinet report.

59. **We considered school transport costs**

We sought assurance that school transport costs would be reviewed and that should include improved use of technology to route plan, reduce single occupancy transport and alternative methods of transportation to reduce costs, impact on the environment and improve sustainability.

60. **We considered continued funding in communities and highways**

We discussed that it had been confirmed that the Communities Fund was to be continued in 2023. There are no changes to the Divisional Highways Projects (DHP) or specific adjustments. £15 million of funding had gone into support capital highway projects, with an additional £1 million of funding allocated to the highways revenue budget.

We requested clarification of who sits on the MTFS Community Impact Assessment CIA task and finish workgroup referred to in the report. The Group was informed this is an officers' group to progress savings plans agreed as part of the MTFS.

61. **We considered risks around the number of children in care**

We were advised that there were Children's Transformation challenges, the number of children coming into the care system had increased and the impact of the demand following from the COVID-19 pandemic had placed significant pressure on the MTFS.

We highlighted the increases of children in care and the need to get people out of the system in a timely fashion.

The MTFS Working Group made recommendations last year to progress work towards moving children out of care towards permanency to address the rising cost of children in our care. We received an update on progress of the refreshed Children in Care Plan: Current work is progressing to strengthen our decision making and exit planning, however, there are considerable factors which impact progress of this plan. Some of these factors are workforce issues, market pressures, and legislative changes resulting in regulatory pressures (unregulated placements).

Provisional Local Government Finance Settlement 2023/24

62. The Provisional Settlement was announced on Monday 19th December 2022 by a written ministerial statement. This settlement followed the Autumn Budget announced in November. The Settlement is for **one year only** which does not assist longer term planning, although national totals have been published for 2024/25 meaning that estimates of the County Council's allocations can be made.

63. The Settlement included additional funding for social care alongside the continuation of some existing funding streams. Revenue Support Grant received an uplift for inflation and New Homes Bonus also continues for a further year in 2023/24. The additional social care funding consists of an increased Social Care Grant which can be spent on both Adults' and Children's social care, a grant for assisting with discharges from hospitals and a grant for market sustainability and improvement. The total additional funding for both Adults' and Children's social care is £30.8m.

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64. The County Council's allocations are shown in the table below which also indicates whether this is an increase or reduction against our prior assumptions.

	Assumed	**Settlement**	**(Additional Funding) / Reduction**
	£m	£m	£m
Revenue Support Grant	(11.256)	(12.438)	(1.182)
Core Services Grant		(3.931)	(3.931)
New Homes Bonus		(1.187)	(1.187)
Better Care Fund	(32.708)	(32.708)	0.000

Social Care Support Grant	(34.634)	(56.759)	(22.125)
Market Sustainability and Fair Cost of Care	(4.191)	0.000	4.191
ASC Market Sustainability & Improvement Fund		(8.294)	(8.294)
Capacity & Discharges Grant		(4.586)	(4.586)
Total	**(82.789)**	**(119.904)**	**(37.114)**

Grant conditions will apply to some of these funding streams and more will be known on those in the coming weeks. In addition, some of these grants (iBCF, Market Sustainability and Fair Cost of Care) will need to be earmarked for Health and Care.

Council Tax

65. The Settlement confirmed the referendum thresholds as announced in the Spending Review. The threshold for the general council tax precept will be 3% in both 23/24 and 24/25, whilst the Adult Social Care precept threshold is set at 2%, also for both years.

Conclusion

66. The additional grant is welcome and the indications for the second year is also welcome. However, there is a Spending Review due in 25/26 and it has already been suggested that further reductions in public spending will be required to restore economic stability. This adds a level of uncertainty for local government finances which needs to be considered carefully.

Cabinet will consider the final recommendations for the MTFS and budget for 2023/24 at its meeting on 25 January 2023. From the Settlement information above, the Working Group assumes the need to use reserves to balance the budget in 2023/24 will be much reduced, if required at all. However, the uncertainty from 2025/26 onwards means that services need to continue to identify innovative ways of working to ensure the County Council keeps within its means.

Conclusions and Recommendations of the MTFS Working Group

Conclusions

67. Overall, given the assurances we have had to date, we feel it has been demonstrated that the process of preparing the County Council’s Medium Term Financial Strategy (MTFS) 2023 – 2028 and setting the 2023/24 Annual Budget and Council Tax has been thorough and robust.

68. We highlighted budget gaps in 2025/26 and 2026/27 and the many risks inherent in the MTFS. Although Staffordshire's overall risk picture is low, there are high risk areas, with a large proportion of the budget spent on social care. We acknowledged the risks to setting a balanced budget as follows:

    a. Social Care reform
    b. Social care market
    c. Numbers of children in care
    d. SEND Transport
    e. Levelling up / bidding approach
    f. Funding Reviews
    g. Ongoing reductions in highways and capital funding
    h. Inflation

69. The County Council maintains a cautious approach to investments and follows a policy of using internal reserves cash instead of borrowing continued to generate savings, helping reduce the average interest the County Council pays on its debt. Overall, the County investment activities were being undertaken prudently and in line with agreed strategies in a very challenging environment.

70. We found that the ratio of reserves to net revenue budget was at the higher end and more than appropriate for the risks currently being faced. The level of reserves was appropriate for the scale of future spending plans and ensure financial sustainability for the foreseeable future.

71. We were assured that Governance of the Capital programme and assets was managed well. The Capital Strategy is approved annually as part of the MTFS, it also linked with the Treasury Management and Commercial Investment Strategies. Prudential Indicators set out whether the level of borrowing is affordable.

72. In relation to the recent rise in interest rates, we were assured that the interest rate forecast from the Councils' Treasury Advisors had been factored in when setting the budget for next year. It was clarified that when setting the budget for this year it had been assumed interest rates would be low, the Council had been able to make necessary adjustments and allocate an additional £1 million into the highways revenue budget.

73. We were reassured that additional funding for social care may be received in the settlement, so subject to Cabinet and Council approval, there may not be a need to use as much of the reserves.

74. In relation to children in care numbers the majority of the MTFS Group attended a 'Journey of the Child through Children and Families System' training session on 17th November 2022 and the question was raised how long non-active cases were kept open. This echoed last year's MTFS groups concerns that children in care cases were not closed as readily as

possible when compared to other County Authorities from investigations at that time.

75. We feel that Staffordshire residents can have confidence that the County is well managed financially and has a budget strategy in place aligned to the to the ambitions and delivery of the principles, priorities, and outcomes of the Staffordshire Corporate Plan. The Council is developing strategies to address the issues and future-proof services in the County which impact on residents, businesses, and some of the most vulnerable in our communities.

76. Settlement Grant - The additional funding for social care in 2023-24 is welcome. However, the approaching Spending Review for 2025/26 hangs over all local authorities as a potential cause for concern. The outstanding reviews of the funding system will not be completed imminently but the possibility of those reviews, combined with potential new or amended social care reforms only add to the financial uncertainty.

Recommendations

Area 1 – Capital Programme and Assets

1. The Cabinet Member for Commercial Matters give consideration for a review of the assets disposal strategy to assist prioritisation of financial receipts.

2. The Cabinet Members for Commercial Matters and Finance and Resources consider if selling all surplus land is the most suitable approach, could the Council hold onto some land for longer to increase its value?

3. That the Cabinet Member for Finance and Resources consider closer working with the Districts and Boroughs to get information needed to gather the Section 106 monies in a timely manner to not incur costs in having to finance projects by other means.

4. That the Cabinet Members for Commercial Matters and Finance and Resources give consideration to closer partnership working with Districts and Boroughs to maximise value of property across the County.

5. The Leader considers lobbying the government for an Urban Area Traffic Scheme.

Area 2 – Reserves

6. That the Cabinet Member for Finance and Resources consider if the time is right to invest in projects due to the high level of general and earmarked reserves.

7. That the Cabinet Member Finance and Resources consider if the time is right to review long term loans due to interest rate rises, after due consideration of risks and inflationary pressures.

8. That the Cabinet Member Finance and Resources develop a reporting mechanism for review of larger project delivery. The Working Group has not seen evidence of past project review or monitoring and suggest that the Council may be able to invest in more projects if the allocation of funding is tighter from monitoring and learning from the past.

9. That all members be offered training to better understand General Balances and Reserves.

Area 3 – SEND Transport

10. That the Cabinet Member for Education (and SEND) prioritise the SEND Transport review and consider if timelines can be moved forward. This should be a priority and addressed early in the financial year.

11. That there is a need to work with early help and SEND transformation to reduce the EHCPs which would reduce the transport required.

12. That consideration be given to a review of allocating SEND transport provision on an annual basis to reduce the number of single route taxis. We questioned whether the system used by SCC for route calculation was best in class or whether a more modern system may be beneficial. Routing reviews should also be carried out on a regular and frequent basis e.g. each academic year.

13. The SEND Transport supporting guidance should set out an expectation that total parent choice is unaffordable. Norfolk and Nottinghamshire seem to start with 'an educate the parent first' approach.

14. That the Cabinet Member for Education (and SEND) review guidance and training for SEND parents and carers taking into consideration best practice in Nottingham and Norfolk, to encourage parents to use travel allowance and encourage independent travel which is beneficial for a child's long-term development.

15. Welcome the work being done to provide more mainstream education provision for SEND pupils, what are the SMART metrics here as to when we will see some benefits to the budget and the rate payers of Staffordshire.

16. That consideration be given to the feasibility of making more efficient use of Council owned vehicles in SEND Transport.

Priority area from Draft MTFS report - Children in Care

17. We recommend work is prioritised to review of closure of Children in Care cases in a more timely fashion to address the significant pressure placed on the MTFS.

Priority area discussed at Corporate O&S - post settlement

18. In view of the £37.8m additional government settlement announcement, which may allow for the £20m draw on reserves to no longer be needed, along with the Government scheme delay affecting £4.2m in the 'budget for market sustainability and cost of care' in Social Care, there were options to invest. A sum could be committed as investment in Highway/Capital improvements (in the same way as that proposed last year), as this would save money in the long term.

Community Impact Assessment – MTFS

77. A high-level overarching CIA on the MTFS - a cumulative assessment of impact which identifies key issues and includes plans for mitigation - has recently been updated to consider additional savings proposals, key Covid-19 impacts and reflects the refreshed CIA priorities for the upcoming year.

Implications

78. Resources and Value for Money - Consideration of the MTFS, annual budget and Council Tax, inevitably means that this review focused on the allocation of the County Council's resources. Considering the value for money delivered by services was a central theme of the evidence gathering process. Many of our conclusions and recommendations are focused on ensuring that the County Council is achieving value for money.

79. Equalities and Legalities - Determining priorities is central to the MTFS and budget setting process, and we were conscious in our review that this means some services are identified as being a lower priority than others. Any decision to significantly change or reduce a service based on its priority level will need to be taken into account the impact on various groups (equality impact assessment). There are no specific legal implications to the report.

80. Risk - Our conclusions and recommendations draw attention to some of the key risks to the successful delivery of the MTFS. We considered the relationship between risk management and financial management and

asked questions about the main financial risks to the authority and how these might be mitigated during the course of our work.

81. Climate Change - Taking action to reduce the County Council's Carbon Emissions has the potential to have a positive impact on the budget both in terms of avoiding financial penalties from Central Government and in terms of reducing energy costs. This is an issue which the Cabinet must continue to work on.

Acknowledgements

82. We would like to thank the following officers who supported the Working Group:

Rachel Spain	Corporate Finance Manager
Deb Breedon	Scrutiny and Support Manager
Zach Simister	Scrutiny and Support Officer

The Working Group would like to thank the Members and officers who participated in the budget interviews.

County Councillor Colin Greatorex
Chairman of the MTFS Working Group
Chairman of the Corporate Review Committee
January 2023

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List of Appendices/Background Papers

Presentation: Strategic Plan and Medium-Term Financial Strategy 2023 -28
Cabinet MTFS Report 14 December 2022 Medium Term Financial Strategy 2023 - 2028.pdf (staffordshire.gov.uk)