

Title of report: Financial Strategy Terms of Reference

Meeting: Scrutiny Management Board

Meeting date: 14 May 2024

Report by: Statutory Scrutiny Officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

All wards

Purpose

To provide a draft terms of reference and work programme to the Scrutiny Management Board for their in scrutinising Herefordshire Council's financial strategy and budget setting.

Recommendation(s)

That:

- a) **Scrutiny Management Board considers the draft terms of reference and work programme for scrutinising financial strategy and budget setting, and makes any amendments it wishes;**
- b) **identifies topics of focus for the committee's work; and**
- c) **further identifies training or topic briefing required to support their work.**

Alternative options

1. Scrutiny of financial strategy and budget setting is a central objective for this committee. This report therefore presents no alternative options to this work.

Key considerations

2. The Centre for Governance and Scrutiny (CfGS) and The Chartered Institute of Public Finance and Accountancy (CIPFA) have produced guidance on carrying out scrutiny of financial strategy. They state that:

“All councillors have what is known as a ‘fiduciary duty’ to look after the interests of local taxpayers in the management of the council’s resources. The Local Government Act 2003 places a responsibility on councils to ensure that councillors in general play some role – which the Act does not specify – in the oversight of financial matters.”

Herefordshire Council’s Constitution places this duty with its Scrutiny Management Board. However, it is left to the discretion of the board to determine how to discharge this responsibility.

3. The guidance provides four areas where a scrutiny committee can add the most value to the budget setting process:
- a. **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 how the budget is spent and the impact of that spending. It links to the way that scrutiny selects and prioritises its work. This work will need to cover short-term (budget setting), medium-term (medium term financial strategy) and long-term (reserves strategy). This could include a review of service savings delivery plans, and the process by which savings are identified and developed within the budgeting process.
 - b. **Reviewing the integration between financial planning and service delivery planning:** what is the level of integration between corporate and service planning and performance and financial management? This will to some extent explore how the medium-term financial strategy supports policy development, and whether policy is grounded in realistic financial strategy. For example, scrutiny of the council’s performance on child protection should also involve a review of budgets for related services. Understanding the resource envelope within which a service operates – and the limitations, restrictions and opportunities that this envelope provides the council in how it works together with partners – means that debate on substantive policy issues (and recommendations made as a result) will be more robustly framed by an understanding of the financial issues.
 - c. **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 from both statutory and discretionary spending. A key role for the committee will therefore be to determine how the local authority defines ‘value for money.
 - d. **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.
4. In order to provide this level of scrutiny of financial strategy, a council’s scrutiny committee will need to conduct its programme of work over the course of the financial year (April to March). This will allow the committee to better understand:

- a. The broad resource constraints (funding, macroeconomic factors such as inflation, capacity to recruit);
 - b. The strategic and policy objectives of the council over the next five years, as contained in the forthcoming Herefordshire Council Plan
 - c. How financial strategy uses budget setting to meet its objectives in the context of financial constraints; and
 - d. How different ways of working will make best use of resources and deliver better services, for example with children's and adult services.
5. The committee will therefore need to consider the following for the year ahead:
 - a. How it will scrutinise the outturn of the 2024-25 budget as it occurs.
 - b. How it will track the development of the 2025-26 budget.
 - c. How it will use the new Herefordshire Council Plan and the medium-term financial strategy to inform its scrutiny of the budget.
 - d. Areas of knowledge development. These may include:
 - i. How council finances work
 - ii. The role of the project management function
 - iii. How scrutiny, cabinet, and audit and governance fit together.
 - e. Topic areas on which to focus the committee's work. These should be discrete areas of council practice where the council's financial strategy will inform policy development and vice versa.
6. During the 2023-24 financial year, the committee was unable to start its work until later in the year than it wished to. Accordingly it did not begin work until July, when it agreed a work programme for the year ahead. The agreed work programme focussed on asset management, fees and charging, and scrutiny of the budget then to be agreed by Council for the 2024-2025 financial year. In addition, the committee also carried out a task and finish group to focus on budget setting for the children and young people directorate.
7. The committee also undertook training around treasury management, as well as other as part of their programme of induction following their election in May 2023.
8. During the course of their work they made a number of recommendations to council and to officers of the council. Some of these recommendations were agreed by Scrutiny Management Board. However the recommendations made by the task and finish group were agreed by the Children and Young People Scrutiny Committee. The recommendation made by Scrutiny Management Board to Cabinet were as follows:
 - a. Income and charging detail is provided for services in each directorate.
 - b. Investment in and level of targeted support is made clear in the budget.
 - c. Evidence is provided justifying income targets within the planning service.

- d. There is ongoing monitoring of performance in areas where MERS savings were taken for the 2024-25 financial year.
 - e. Council to be provided with more detail on the proposed savings with regard to the BBLP contract.
 - f. For the administration to provide a forecast of where they are minded to adjust earmarked and general reserve lines to deliver the required £13.8 million to cover the overspend forecast at quarter 2 in children's services.
 - g. To provide further evidence to give confidence that the savings of £2.5 million in Children and Young People directorate are deliverable, from Q3 and Q4 2023-24.
9. Through the Children and Young People Scrutiny Committee, scrutiny made a number of recommendations following its task and finish group looking at budget setting for the children and young people directorate. They were as follows:
- a. Financial performance data to form part of the 'measures that matter' and performance dashboard data, and should be reported back to staff teams so that they are aware of the financial consequences of the service performance alongside other measures.
 - b. Children and Young People Scrutiny Committee to examine how SEND Transport demand and costs are managed, including a review of operations in other rural local authorities.
 - c. Children and Young People Scrutiny Committee to scrutinise work to step children down from residential care, and to reunify families where children have become looked after.
 - d. Dedicated financial resource to continue to be embedded within the children and young people directorate to provide challenge and assurance that day-to-day costs are being captured and forecast correctly.
 - e. Each monthly financial outturn report for the Children and Young People directorate, and weekly Children's Service Analysis Tool (CHAT) be provided to the chair of the Children and Young People Scrutiny Committee.
 - f. The Children and Young People Scrutiny Committee undertake a piece of work to examine the robustness of the council's data and management information supporting the children and young people directorate.
 - g. Savings as proposed to be targeted for Children's directorate to deliver in 2024-25 but assured funding to be found from elsewhere to balance the council's budget.
10. Appendix 1 lists potential thematic areas of focus during the year. The committee have already identified objectives for these areas of focus, and at which meeting it would like to focus on the topic.
11. In addition, the committee have expressed a wish to track and monitor delivery of savings targets as identified in the 2024-2025 budget and considered by the committee at its meeting on 16 January 2024. To do this, it may be necessary to move committee meetings so that they take place after Cabinet consideration of quarterly budget outturn.

Community impact

12. This programme of work seeks to maximise its beneficial impact on communities by ensuring the council's budgets is allocated to meet the priorities of Herefordshire Council as stated in the County Plan delivery plan and future iterations of the Herefordshire Council Plan and its delivery plan.

Environmental Impact

13. In its work to scrutinise how financial strategy underpins policy development and service delivery, the committee should ensure that strategy, policy and service delivery all align with corporate commitments on climate action.

Equality duty

14. The proposed programme of work includes a proposal to scrutinise public consultation on the 2025-26 budget. This work should consider how the consultation process engages with hard to reach groups. The committee should also consider the impact of budget decision and financial strategy prioritisation on disadvantaged groups.

Resource implications

15. Scrutiny of financial strategy is part of Scrutiny Management Board's 'business as usual'. There are therefore no direct resource implications in carrying out this work.

Getting early agreement to the plan for financial scrutiny is important to ensure that adequate resources are allocated to the work and that reports and meetings are appropriately supported.

Legal implications

16. The Local Government Act 2003 places a responsibility on councils to ensure that councillors in general play some role – which the Act does not specify – in the oversight of financial matters.
17. Herefordshire Council's Constitution states that its Scrutiny Management Board has a remit to scrutinise corporate strategy and finance, as well as the council's budget and treasury management.

Risk management

18. Effective planning of the committee's work programme ensures that it prioritises its work where it can add value to the policy planning, financial strategy and budget setting process.

Consultees

19. There have been no consultations in preparing this report.

Appendices

20. Appendix 1 – Financial Strategy

Background papers

Chartered Institute of Public Finance and Accountancy, Financial Scrutiny Practice Guide

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