

REPORT OF THE PERFORMANCE AND CORPORATE SERVICES OVERVIEW & SCRUTINY COMMITTEE: SCRUTINY OF CONSULTATION BUDGET PROPOSALS 2023/24 – 2025/26

Cllr Eddie Reeves

Chair of the Performance and Corporate Services Overview & Scrutiny Committee

December 2022

RECOMMENDATION

1. The Cabinet is **RECOMMENDED** to:
 - note the observations of this report.

REQUIREMENT TO RESPOND

2. This report contains no formal recommendations from the Scrutiny Committee. Consequently, the Cabinet does not have a duty to respond under section 9FE of the Local Government Act 2000, though it may do so if it wishes.

INTRODUCTION AND OVERVIEW

3. At its meeting on 09 December 2022, the Performance and Corporate Services Overview and Scrutiny Committee considered the Council's consultation budget proposals for the period 2023/24 – 2025/26.
4. The Committee recognises the pressured financial context in which this budget has been produced, and consequently the significant corporate effort required to develop the proposals put forward. It would like to thank Cabinet members and corporate directors for attending the Scrutiny meeting to discuss these proposals, but recognises that - more than other reports coming to Scrutiny – this has been a cross-organisational undertaking with numerous individuals working extremely hard to make important contributions.

SUMMARY

5. To ensure the greatest time was available for scrutiny of the budget proposals themselves rather than understanding background context, members of the Performance and Corporate Services Overview and Scrutiny Committee were provided with background briefings to each directorate before the meeting. These covered investments, baseline budgets, outturn forecasts, in-year pressures, demand modelling, funding assumptions, core planning assumptions, capital programmes, and the Medium Term Financial Strategy (MTFS). In addition, Scrutiny members were briefed on the budget through an all-member briefing, as well as receiving a report and briefing at its pre-meet

on the implications for the budget of the Autumn Statement. As a consequence of this level pre-briefing, the Committee received little additional introduction to the proposals and accompanying report at the meeting itself.

6. The exception to this was a presentation provided by Cllrs Leffman and Miller. Cllr Leffman introduced the budget proposals for 2023/24 to 2025/26, outlining and summarising the key aspects of the report and presentation. The Leader explained that all budget assumptions and work undertaken for the MTFS were underpinned by the Administration's nine priorities and informed by budget engagement and public consultations, including Oxfordshire Conversation events and a representative residents' survey.
7. Cllr Miller provided the Committee with an overview of the proposed changes for the MTFS, new budget proposals for 2023/24 – 2025/26, and the updated position for 2023/24 compared to current MTFS.
8. Owing to the amount of ground to cover within the revenue budget, the Committee deferred consideration of the Council's proposed capital budget and programme until its 19 January 2023 meeting.
9. As referenced above, this report does not contain any formal recommendations to Cabinet, but simply makes a number of observations. The Committee expects to make any formal recommendations to the post-consultation proposals. The observations it makes cluster around a number of themes: i) the management of uncertainty and risk, ii) the deliverability of savings proposals, iii) the traceability of the Council's spending relative to its strategic priorities, iv) the importance of active consultation, v) specific issues around recruitment and retention, and vi) the Council's work around children's social care.

OBSERVATIONS

i) Uncertainty and Risk

10. One crucial but under-appreciated element of budget scrutiny is the consideration of uncertainty and risk. Scrutiny enquiries are not simply whether resources are being prioritised correctly, but whether the assumptions underpinning the proposals are credible, and if they do not occur as predicted, how serious are the consequences?
11. In the past three years the world has experienced a global pandemic which, in the UK, caused the deepest contraction in economic output in over 400 years. The subsequent bounce-back in demand, amidst disrupted global supply-chains and the return of war to mainland Europe, with the associated energy-price shock, has led to the highest rate of inflation in the UK for a generation. This has heavily impacted on the Council's financial position; the scale of the associated cost being far higher than anticipated requiring a need to use contingency funding to cover above-forecast pay settlements, and to find £27m in 2023/24 alone to cover the gap between the inflation rate anticipated

in the MTFP and the current forecasts. To state that the Council was wrong in its predictions is not meant as a criticism but simply a statement of fact and a recognition that even reasonable assumptions can prove to be a long way off. The Committee agrees with the point made during discussion that prices are unlikely to continue spiking at the same rate over the coming year given the nature of inflation being a measure the rate of price increases year on year, but the point remains that the macro-environment is particularly unstable and unpredictable at the moment. Consequently there is a wider range of potential downside outcomes for the Council than is usually the case.

12. A second area in which the Council's forecasts have proven difficult has been in relation to demand for its services, and in particular children's social care and SEND expenditure. The Committee notes that the funding of these is not discretionary; costs are a function of demand. It is clear that the Council's strategy is to implement policies which delay or prevent demand arising, for example the investments in the Oxfordshire Way for adult social care and increasing emphasis in supporting children to remain with their families where possible in children's. However, although Children's Services is receiving the most significant cash increase of all the directorates, with the effect of inflation it is seeing a real-terms contraction of 2.8% in its budget. Given responding to demand is non-discretionary this makes the assumption that levels of demand have indeed peaked, rather than continuing on an upward trajectory. Based on the challenge of predicting last year's demand, the opportunity for further overspend is a clear risk.
13. The Council's primary approach to managing this risk and uncertainty is to provide an additional £6m to contingency funding, which can be used to cover unexpected costs. The Committee considers the provision of increased resources to be a prudent policy, though in light of the comments below and the scale of uncertainty there is some question as to whether it is sufficient to act as an effective buffer relative to the scale of financial risk. In view of this it is the Committee's belief that early identification of any overspends is vital to enable mitigation strategies to be put in place. However, addressing overspends is not simply a case of withdrawing funding; it may be that the overspend is unavoidable or that to reduce it would lead to unacceptable consequences. With this in mind, the Committee is of the view that as well as contingency funding, contingency plans for overspend would be of significant benefit. Such plans would identify the possibility and impacts of reducing elements of spend within a directorate and allow considered responses which best fulfil the Council's priorities in a timely manner. It is possible that this suggestion is too resource-intensive for the Council to implement. If that is the case, the Committee still feels pre-consideration is key to making an agile and informed response and would suggest the use of directorate-level financial risk registers as an alternative.

Observation 1: That the Council is operating within a more uncertain macro-environment at present, and that confidence in forecasts is therefore lower. This makes rapid recognition and pre-considered response of deviations from forecasts particularly important.

ii) Deliverability of Savings

14. One specific risk was discussed by the Committee across multiple directorates and deserves to be highlighted: whether proposed savings could indeed be realised.
15. The 2022/23 budget included planned directorate savings of £17.4m. Of these, current projections are that 62% (£10.7m) will be delivered and 26% (£4.6m) are assessed as amber meaning work is on-going to ensure they are achieved by year end. The remainder, £2.1m (12%) savings are assessed as red. The most positive-case scenario, assuming all amber-rated savings are fully delivered, is that one in approximately every £8 of savings committed to in the last budget will not be delivered in the current year. The negative-case scenario, assuming all amber-rated savings are not delivered, is that one in three will not be.
16. The current budget commits to making double the level of savings from last year, £35m. If the Council's current savings delivery performance were to be replicated in the current year, £4.2m would be classified as red, with a further £9.2m as amber. The budget proposals make a £6m contribution towards contingency, making an available total of £7.3m, which provides a buffer to service provision before reductions must be made. However, if current performance were replicated, the best-case scenario is that there would be just over £3m to cover any other contingencies in-year, and the worst would exceed contingency provision by almost 100%. The Committee recognises that successive savings become progressively harder to deliver, and that the current proposals not only mark an acceleration in the pace of savings, but that they come on the back of multiple years of savings already. As a consequence, simply matching the performance of last year will likely require significant effort.
17. The Committee does not wish to speculate on the Council's future performance, but simply to highlight this as an area of potential risk.

Observation 2: That the scale of savings envisaged in the budget, the inherent difficulty of making successive savings, and the level of contingency are an area of potential risk to the robustness of its projections.

iii) Traceability

18. A budget is largely an expression of priorities – what gets resourced and to what degree. Admittedly, the Council's budget contains large portions of non-discretionary spend which partially curtails the effect. Nevertheless, what discretionary items it does choose to fund, and the quantum of that funding, remain important indicators of what it seeks to achieve. The Council's priorities are set out in its Strategic Plan, which outlines the nine actions that it will take to achieve the vision of 'leading positive change by working in partnership to make Oxfordshire a greener, fairer and healthier county.' However, during

discussion the Committee returned to the same point on multiple occasions: that they struggled to read across from the Strategic Plan to the budget proposals, particularly with reference to the Council's activity around the environment, public health and equalities. To be clear, this is not to say that the Committee doubted the Council's commitment to those things. Rather, that it was hard to get a sense of how the Council's spending and budget allocations truly reflected corporate priorities when the Council's approach has been to embed its activity to support these priorities throughout the entire organisation. The same point can and was made from the opposite direction also, that it is not clear how the level of savings made in different areas were arrived at in reference to the Council's priorities. This, however, is more difficult given the number of factors which influence when and where savings are made within a particular directorate.

19. In response to the initial point, it was explained to the Committee and is recognised that budgets are a vehicle somewhat unsuited to expressing such broad, cross-cutting themes by virtue of the fact that a particular budget must be specifically allocated, even when the actual delivery is diffused throughout the organisation. Nevertheless, if Scrutiny members - who have the benefit of familiarity with the Council and have been provided multiple briefings - find it difficult to discern whether the Council is 'putting its money where its mouth is' then this is likely to be similarly opaque to the county's residents, on whose behalf this money is being spent. Notwithstanding the challenges of doing so, the Committee feels there is value in making it easier for residents to understand how spending proposals underpin the Council's strategic priorities.
20. The Committee appreciates the particular challenge of developing this most recent budget, so this observation is not made as a veiled criticism. Rather, it is a reflection on an aspect which might, in future, be improved and, in doing so, would strengthen the Council's accountability towards its electors.

Observation 3: That it is difficult even for informed readers to determine how and to what degree the Council's budget proposals reflect its strategic priorities.

iv) Active consultation

21. The Committee welcomes the response made by the Leader to questions concerning efforts to ensure comprehensive consultation on the budget, and welcomes the innovations implemented around Oxfordshire Conversations to capture more fully the views of residents as part of the budget consultation process. It notes that consultation is imperative if the Council is to fulfil its ambition to be a listening council; the resource framework established by the budget determines what is possible at a later point. If the Council does not understand and listen to its residents at its budget-setting stage, at the point concerns are heard it may not have the flexibility to accommodate them easily, quickly or cheaply. There is little value in listening when there are no realistic alternatives to what you are proposing.

22. One significant challenge on the issue of consultation is that not all residents share the same level of interaction with the Council; at any one time a majority of residents receive fewer Council services, whilst a minority are provided with significant additional support. This imbalance manifests itself in responses to consultation, with high levels of response and interest being expressed around universally-provided services, such as highways, and much less feedback being received around, for example, social care. This is problematic on two counts. Firstly, given that social care forms the majority of the Council's spend it means that the Council has a lot of feedback on areas of low spend, and less on those areas of greater spend. This makes any listening exercise less effective than it could be as the details of the majority of the budget are looked at lightly. Secondly, the personal impact of changes to the resourcing of social care services is far, far higher than universal services, which makes it far more important that the Council truly understands what its users want as outcomes from its spending. The Committee is gladdened that this issue has been recognised by the Leader, and that steps are being taken to refine the Oxfordshire Conversations to ensure greater focus is put on social care. This is certainly welcome, but additional, informed consultation with service users may be necessary.

Observation 4: That budget consultation is an imperative element of being a listening council, but it must be managed sensitively to give voice to the concerns of the majority who have lower levels of engagement with the Council, and the minority who rely heavily on Council services. This latter element may require further development in future.

v) Recruitment and Retention

23. One of the consequences of the Covid pandemic has been the dramatic fall in the size of the workforce nationally. The ONS has noted a dramatic increase in the number of economically inactive individuals who are not working due to being long term sick. In the most recent quarter, this figure was half a million workers higher than in 2017, half of whom are 50-65.¹ Relatedly, and whether by choice or not, many older workers have taken early retirement. The Institute for Economic Affairs estimates the workforce to be approximately a million below its pre-pandemic trends, leading to a much tighter labour market nationally.² For Oxfordshire, which has tended to have low levels of unemployment anyway and high housing costs, this effect has led to recruitment becoming a major issue across many sectors. The Council has been far from immune, where the difficulty in finding suitably qualified permanent members of staff has led to a high reliance on agency staff across the organisation. Whilst the Committee recognises the value of being able to call on agency workers and is grateful to their contribution, in the long run this is problematic on two counts. Firstly, the increase in cost; temporary staff command a pay premium as well as the additional cost of the agency's fees.

¹ [Data on economic inactivity because of long-term sickness - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)

² [Labour Market Statistics, June 2022 | Institute for Employment Studies \(IES\) \(employment-studies.co.uk\)](https://employment-studies.co.uk)

The scale of this issue is evidenced by the way in which the reduction of agency staffing costs figures so extensively within the budget savings proposals. Secondly, by its very nature temporary work leads to higher rates of staff churn and turnover, which results in reduced institutional familiarity and memory, and a diminution of the Council's effectiveness. This makes recruitment, as well as the retention of existing staff, a core strategic issue for the authority.

24. Even within areas of the Council where regulation of staff workloads exists, there is a cost to permanent staff when turnover rates rise. It takes time and effort to select and induct new members of staff, and the lack of institutional memory means more jobs will be directed the way of those who have the experience to deal with them. Consequently, even when staffing levels are maintained at necessary levels there is a negative impact for those who are in permanent positions if there is significant a significant churn of agency staff. Given the significant wage differential between permanent and temporary staff, exacerbated by below-inflation wage rises for permanent staff and increases in wages for temporary staff owing to their scarcity of supply there is a danger that the offer for permanent work becomes increasingly unattractive. Why take on the burden of being a permanent member of staff when you could get paid much more by becoming an agency member of staff elsewhere without the additional burdens being asked of you, or work part time and for the same money and have time-out to manage the stress of the working environment? From the briefings received by the Committee from different directorates, this is a genuine problem already being faced.
25. The Committee welcomes the budget's recognition of this issue, and the proactive steps it is taking in response. For example, the emphasis on growing the social care workforce by up-skilling current staff who have existing roots in Oxfordshire is certainly valuable, likewise consideration of key worker housing. However, the point that the Committee would wish to make is in light of the risk posed. The current situation regarding agency reliance is not one which can be allowed to continue. The Committee is concerned that in a situation where many permanent staff have seen the discrepancy in salary between permanent and agency workers, that it will prove difficult to achieve the savings envisaged over agency staff. Given that staffing is a core strategic issue, the Committee would draw attention to the fact that the level of investment in the recruitment and retention of permanent staff must be sufficient to effect this change, and that there is value to the Council having contingency plans which include further investment if the effectiveness of proposed intervention do not improve the rate of recruitment as quickly as anticipated.

Observation 5: That the Council is already in a cycle in many areas where pressure on staff is increasing and real-terms pay decreasing, which poses a threat to the Council financially and to its service standards. To become sustainable in an increasingly challenging environment, this trend cannot simply be arrested. It must be reversed, and the level of investment must reflect this.

vi) Children's Social Care

26. The link between demand, cost and service standards is particularly clear in the highly-regulated area of children's social care. In an environment in which referrals rose dramatically during the pandemic and have largely remained elevated the Council has faced a choice: raise case-loads for social workers beyond the CQC-recommended limit, or hire agency staff at a time where there is a national shortage of social workers and pay a significant premium. The Council has decided to maintain standards, one of the contributors to a projected overspend within the directorate of almost £9m, or almost 6%.
27. Though Covid-related growth in demand is an extraneous (and national) issue, the Council's rate of referrals is higher than its comparator councils, albeit this gap is narrowing. In discussion it was suggested that one reason for this higher rate was a lower level of community infrastructure to provide the support needed for children to remain at home. The Committee accepts the conclusion that there are children who, with greater support in the community, would be able to stay with their families and not need to go into care. This will, hopefully, continue the drop in referral numbers, the size of the workforce required, and the cost of the service. There is a risk, however, that that process could be shortcut if the reduction in cost were to be driven not by demand-reducing measures, but in cuts to supply. The outcomes for children in the two scenarios are vastly different; where a child is supported to stay at home this is expected to provide better outcomes than taking them into care. Where a child on the margins of care is not provided the support they need because of a tightening of criteria this is clearly a recipe for significantly worse outcomes. The Committee highlights this risk and encourages the Council to satisfy itself that even amidst cost pressures the service must respond to demand and not seek to determine supply.

Observation 6: That the Council's rate of children in care is higher than comparator councils, but that to address this structural change is required. The Council must be careful to ensure that the speed with which referrals drop must be led by increases in community capacity and not a cut in provision.

28. The Scrutiny function recently hosted an all-member briefing which included a presentation from the chair of the Oxfordshire Children's Safeguarding Board. Heavy emphasis was placed on the degree to which children's social care is a collective undertaking with multiple agencies needing to work together within an overarching system. This same view was reiterated to the Committee, which is gladdened by the degree to which partnership working is considered fundamental.
29. One area the Committee suggests there may potentially be room for improvement in this joint-working is on the externalities generated by each partner. As an example, a school providing a breakfast club bears the cost of that breakfast club, and they get the benefit of a child able to focus on learning because they are not underfed. However, feeding a child when they might not otherwise get food (or at least as nutritious food) has other benefits, such as around health. Negative consequences of ill-health are avoided, which results

in savings to the health service, savings which accrue to them despite having not made any investment. The Council, holding the statutory responsibility for children's social care, is the primary provider of services. In a time when funding levels are under particular stress, it may be valuable to assess whether the system is apportioning funding appropriately given these externalities. This is a particularly apposite time for the Council to be having these discussions with the development of the Integrated Care Boards pulling health and social care more closely together.

30. It is, of course, not just a case that 'more money' is required, particularly when all partners do face financial and resourcing challenges. With relationships being malleable at present, there is the opportunity to work together differently to be more effective, and to ensure that system interventions are occurring in conjunction with one another and at the most effective time, improving outcomes and avoiding downstream costs. The Committee would expect the Council to be investigating the opportunities in this area also.

Observation 7: That partnership working and taking a system approach is fundamental to addressing the pressures in children's social care, and that the early stages of the ICB's formation provides an opportunity where relationships are malleable. It is expected that the Council will take steps to address system-wide funding of the Council's provision and take the opportunity to ensure any new structures developed will enhance joint-working.

NEXT STEPS

31. The Performance and Corporate Services Overview & Scrutiny Committee is scheduled to revisit the budget proposals in order to consider capital expenditure and any amendments to the consultation budget proposals at its 19 January 2023 meeting. It expects to make any recommendations for change to these proposals.

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