

## PERTH AND KINROSS COUNCIL

Strategic Policy and Resources Committee – 19 September 2012

**AUDIT SCOTLAND 'USING COST INFORMATION TO IMPROVE PERFORMANCE: ARE YOU GETTING IT RIGHT?' REPORT****Report by the Head of Finance and Head of Corporate Business Change and IT****ABSTRACT**

This report provides a summary of the 'Using cost information to improve performance: Are you getting it right?' report published by Audit Scotland in May 2012.

**1. RECOMMENDATIONS**

It is recommended that the Strategic Policy and Resources Committee:

- 1.1 note the findings of the 'Using cost information to improve performance: Are you getting it right?' report and consider the key points for councils and key questions for Councillors identified in the report.

**2. BACKGROUND**

- 2.1 In May 2012, Audit Scotland published the report 'Using cost information to improve performance: Are you getting it right?' as part of the 'how councils work' series of reports. The purpose of the series of reports is to stimulate change and improve performance. Audit Scotland selects topics based on the recurring themes and issues from their Best Value audit work, the work of local auditors and their annual overview report.
- 2.2 This report is the third in the series and focuses on the importance of having good quality cost information to inform policy decisions and scrutinise performance, and identifies some of the guidance and cost measures that already exist.
- 2.3 This report provides a summary of findings from the Audit Scotland report and also highlights a set of key questions for councils and Elected Members.

**3. SUMMARY OF KEY MESSAGES**

- 3.1 Councils have a statutory duty to provide Best Value set out in the Local Government in Scotland Act 2003. This duty applies to both Elected Members (Councillors) and council employees (council officers). Best Value requires councils to manage their performance and resources effectively; a sound understanding of costs is central to this. A good understanding of both the cost and the quality of services is essential if councils are to demonstrate that they are delivering good value for the public money that they spend.

- 3.2 Councillors need good cost information if they are to make well-informed policy decisions and scrutinise performance effectively. Audit Scotland state that through their audit work they have found Councillors are keen to get better information to help them do this important job. Audit Scotland suggest that officers should offer training and support to help members better understand cost information and become more confident at using it to scrutinise policy options and service performance.
- 3.3 When considering financial information, Councils do not generally bring together the two core elements of value for money: cost and quality. Councillors need to have reports that provide an assessment of what is being delivered and what it is costing in order to assure themselves that the council is providing value for money.
- 3.4 The monitoring of financial information in councils tends to focus on spend against budget and the difference between the two. These budget monitoring reports are an essential element of sound financial management. However, as these reports focus on cost centres which do not necessarily align with defined services or outcomes, they do not cover what it actually costs to deliver specific services.
- 3.5 Management accounting adopts a different perspective and makes clearer links between spend in an area and the service outcomes. Where financial accounting tends to focus on the past, management accounting is concerned with looking forward, understanding cost patterns and what resources will be needed in the future. Therefore this accounting approach can more effectively support councils' planning and decision-making processes than if financial accounting is used alone. Audit Scotland suggest that councils could integrate aspects of management accounting practices to support their strategic planning and decision making processes.
- 3.6 A council's approach to using cost information should be driven by its priorities and objectives, with a focus on outcomes for service users and communities. Community Planning Partnerships need to understand how the collective spend of public bodies affects the delivery of their shared outcomes. However, Audit Scotland acknowledge that outcomes are often long term and require councils and other public and private sector organisations to work together in partnership, which can be a particular challenge as different bodies will have different performance, financial management and accounting arrangements.
- 3.7 Councils have been responding to the planned budget reductions by updating their financial plans and savings targets however, this has often been done without a clear understanding of what the cost of delivering services and functions has been. The effective use of cost information is crucial for identifying policy options and supporting decision making on those options which would work best for the individual circumstances of councils. For example, accurate cost information is essential to understand whether service levels and quality can be sustained when the workforce is reducing. A clear

focus on the effective use of cost information is therefore required to support decisions about how services can best adapt to reducing budgets. However, effective use of cost information to support budget setting processes should not be seen as important only during times of financial constraints. Embedding the use of cost information is a key element of delivering value for money services whatever the financial context.

- 3.8 With budget reductions and increasing service demands councils face difficult decisions and some are in the challenging position of having to reduce levels of service provision. This often results in negative reactions from local communities and the media and puts pressure on local councillors. Greater openness about the choices that councils need to make can help communities to understand and appreciate the difficult decisions that councillors are having to take. Having robust information to hand on what it costs to deliver services and how this is becoming increasingly difficult within the context of reducing budgets is essential.
- 3.9 The effective use of cost information can lead to improved corporate and partnership working and this is reflected in several of the case studies within the Audit Scotland report. Several councils have brought together finance and service staff and this has led to finance staff gaining a greater understanding of the demands on the service and how these can impact on costs and, in turn, Service Managers have benefited from the skills of financial professionals to support them in identifying the current cost of service provision and the costs of options for future service delivery. This has helped create a corporate culture which is based on constructive challenge.
- 3.10 Councils can do more to share good practice and learning and could make more effective use of existing cost measures and guidance available. There is a range of existing cost measures and guidance that has already been established which include:
- Statutory Performance Indicators (SPIs);
  - Improving local authority benchmarking indicators – The Society of Local Authority Chief Officers (SOLACE) in Scotland have been developing and identifying indicators which will cover efficiency, process and outcomes and support benchmarking for each major service area provided by councils and meaningfully add to and improve cost information of service delivery on a comparative basis;
  - Value-for-money indicators for corporate services – The UK public sector audit agencies have developed indicators to measure and demonstrate the value for money of corporate functions in the public sector and councils are encouraged to consider using them to measure the value for money of their corporate support services;
  - Benchmarking through APSE – there are cost-related indicators available through the 14 Association of Public Service Excellence (APSE) performance networks which make use of a range of cost and performance measures,

similar to SPIs, and enable councils to ask why their costs are higher or lower and what can be learned from other councils; and

- Improving outcome-focused budgeting – the Improvement Service has been leading on this and have carried out pilot work to understand how individual and collective spending of all public bodies affects the delivery of outcomes.

- 3.11 The report also provides some case studies to illustrate how councils and councillors are currently using cost information. Audit Scotland suggests that the case studies provide a useful insight into how some councils are using cost information to inform their work and this can help other councils and councillors think about how they might use cost information at a strategic and operational level more effectively. However, they recognise that what works in one council may not be appropriate for another and that in some instances, the activity in councils covered in the case studies is still developing.
- 3.12 Audit Scotland have compiled a list of characteristics of a cost aware council which is contained in Appendix 1 of this report. Audit Scotland suggests that councillors and officers should review the report and identify how their council is dealing with the points raised. A series of questions for both officers and councillors is provided in the report.

#### **4. POSITION IN PERTH AND KINROSS COUNCIL**

- 4.1 Many of these areas identified in the Audit Scotland report are already being addressed in Perth & Kinross Council and the progress made against each question for officers has been included in Appendix 2.
- 4.2 Due to the current financial climate and the performance challenges local authorities face, benchmarking has become even more important. To support this SOLACE and the Improvement Service have developed the benchmarking framework referred to at 3.10. Perth and Kinross Council is fully engaged in this project and in addition is developing ambitious benchmarking projects in specific priority areas within each Service.
- 4.3 Services have also made progress with development of two Integrated Resource Framework (IRF) projects, one for older people's services and one for early years. The information from these projects will help to provide a clearer understanding of current resource use across health and social care services for older people and across education, children's services, health and the voluntary sector provision for the early years. By linking this information with performance information it will be possible to provide a better understanding of the costs as well as the quality of the services we provide.
- 4.4 Councillors will receive financial training in September 2012 as part of the Perth & Kinross Council's Elected Member's Development Programme. This will include consideration of the characteristics of a cost aware council as outlined in Appendix 1 of this report and the questions below which Audit Scotland suggests councillors should consider:

- Do I receive the information I need on the cost of my council's activities and services? If not, what information do I need?
- When scrutinising performance do I get information on both the quality and the cost of the services?
- How well can I currently evaluate whether the cost of my council's service provision demonstrates value for money?
- Is cost information presented together with relevant performance information?
- How easy is it to compare my council with others?
- When I am presented with decisions to make, are policy options supported with adequate information on the cost implications of those options?
- Do reports include information on current costs?
- Are the options I am being asked to consider costed?
- Which priorities/service areas do I most need information on?
- What training do I need to better understand cost information and what it means?

## **5. CONSULTATION**

- 5.1 The Executive Officer Team, Head of Democratic Services, Head of Legal Services and Head of Finance were consulted in the development of this report.

## **6. RESOURCE IMPLICATIONS**

- 6.1 There are no resource implications arising from this report.

## **7. CORPORATE PLAN OBJECTIVES**

- 7.1 The Council's Corporate Plan 2009-2012 lays out five Objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:-

- (i) *Provide a Safe, Secure and Welcoming Environment*
- (ii) *Promote Healthy, Caring Communities*
- (iii) *Build a Prosperous, Sustainable and Inclusive Economy*
- (iv) *Develop Educated, Responsible and Informed Citizens*
- (v) *Support Confident, Active and Inclusive Communities*

This report supports delivery of all five Corporate Objectives.

## **8. EQUALITIES IMPACT ASSESSMENT (EqIA)**

- 8.1 An equality impact assessment needs to be carried out for functions, policies, procedures or strategies in relation to race, gender and disability and other relevant protected characteristics. This supports the Council's legal requirement to comply with the duty to assess and consult on relevant new and existing policies.
- 8.2 The function, policy, procedure or strategy presented in this report was considered under the Corporate Equalities Impact Assessment process (EqIA) with the following outcome:
- i) Assessed as not relevant for the purposes of EqIA.

## **9. STRATEGIC ENVIRONMENTAL ASSESSMENT**

- 9.1 Strategic Environmental Assessment (SEA) is a legal requirement under the Environmental Assessment (Scotland) Act 2005 that applies to all qualifying plans, programmes and strategies, including policies (PPS).
- 9.2 The matters presented in this report were considered under the Environmental Assessment (Scotland) Act 2005 and no further action is required as it does not qualify as a PPS as defined by the Act and is therefore exempt.

## **10. CONCLUSION**

- 10.1 Many of Audit Scotland's audit reports have found that councils need to make better use of cost information. Using cost information effectively can help councils and councillors make well informed policy decisions and assess the efficiency and effectiveness of their services. This is all the more important in the current economic climate where public spending is being reduced significantly.

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**Note:** The following background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (and not containing confidential or exempt information) were relied on to a material extent in preparing the above report.

Using cost information to improve performance: are you getting it right? May 2012

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**Appendix 1:** Characteristics of a cost aware Council

**Appendix 2:** A tool for checking progress for officers

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Council Text Phone Number 01738 442573





**Characteristics of a cost aware council****An effective council will:**

- know how much it costs to deliver core services
- use this information to inform decisions about what services to provide and how best to provide them
- ensure self-assessment and performance management frameworks include information on costs and assess whether the council is providing value for money
- Understand the different levels of cost information required to support assessments of value for money in terms of:
  - overall council performance
  - service performance
  - delivery of outcomes
- ensure budgeting arrangements consider the costs of different policy options and do not rely only on incremental budgeting
- focus on its priorities, and from there identify the most useful appropriate cost information to use. This will help to ensure a pragmatic approach is adopted which best fits the needs of the council
- seek out examples of existing good practice in the council and share this information across council departments
- consider benchmarking performance and costs with other councils (and other organisations) to make value-for-money comparisons
- promote an awareness and understanding of the importance of costs and make clear that costs are everyone's business, not just the finance officers'
- use cost information to focus improvement activity

**An effective council will ensure that:**

- officers provide meaningful cost information to councillors to help ensure that the scrutiny of a council's activities and service provision includes the consideration of costs
- decision-making arrangements are supported by good-quality information on costs which is provided to councillors in a way that is clear and unambiguous
- options appraisals have robust costing information to support decision-making
- councillors have agreed what cost information they need to support their decision-making
- councillors are provided with the appropriate training on how to understand and use cost information effectively
- communities are involved in discussions about the cost and service delivery implications of budget choices. This will help ensure communities have a greater understanding of what options are being considered and why, and the implications of those decisions.



## APPENDIX 2

### A tool for checking progress for officers

QUESTIONS FOR OFFICERS	ASSESSMENT/ACTIONS
Can I provide a clear and accurate assessment of what services cost?	There is detailed information behind each cost centre.
Do I know how this compares to other organisations?	Comparisons are made where there is published information available, such as SPI's or CIPFA Director of Finance performance indicators. A better understanding of how PKC compares to other councils in terms of costs will come from the SOLACE benchmarking project.
Do I use cost information as part of a performance management framework?	High level cost information is included within Service BMIP's but this could be enhanced with additional information such as comparison with other Councils. The SOLACE benchmarking project will help to achieve this and it is anticipated results will be incorporated within the corporate performance report.
Can I give an informed assessment of whether council services provide value for money?	Through best value reviews we can assess whether services provide value for money. However, further work is required to look at cost information in conjunction with performance information in general.
Am I satisfied that we have enough accurate and up-to-date cost monitoring information at the different levels of the organisation?	Revenue and capital budget reports are reported to Strategic Policy and Resources Committee on a 8 weekly cycle, however to enhance governance arrangements information is now also reported to EOT monthly.
Am I making effective use of cost measures that already exist (for example SPIs, value-for-money indicators, SOLACE indicators, APSE indicators, etc)?	Some of these cost measures are being used within Service BMIP's and the Council's Annual Performance Report, but there is scope for improved analysis.
When I present reports to councillors, do the reports include cost information relating to performance and/or policy options?	This is an area which is being reviewed by the Head of Democratic Services and the Head of Legal Service as part of the 'Right First Time Agenda'. Committee reports will provide more detail on cost information in future.
Have we given councillors the appropriate training to enable them to understand costs effectively?	Councillors will receive financial training in September 2012 as part of the Perth & Kinross Council's Elected Member's Development Programme.
Where I use cost indicators, am I clear about how they are calculated and what this means when making comparisons over time or with other organisations?	We are clear about how our own costs are calculated however, the issue is when we compare ourselves with other councils. We have concerns about consistency in approach in how other councils are calculating their costs. However, again detailed benchmarking will help address this issue.
How can I start to implement a more effective approach to using cost information?	We are currently in discussions with teams to identify what costs are meaningful within the different Service and function areas for reporting. Within team plans, we will review what areas we concentrate on and take account what senior officers and elected members want. SOLACE has also provided some areas where they wish to see information reported.
What more can I do to foster a culture of cost awareness across the council?	
Do all staff (not just the finance team) understand the importance of cost information and the fact that costs are everyone's business?	Monthly meetings take place between Finance and Service budget managers in which budget managers are held to account for their budgets. Feedback is then reported to the relevant SMTs.

