

## PERTH AND KINROSS COUNCIL

## Strategic Policy &amp; Resources Committee

27 November 2013

SCOTLAND'S PUBLIC FINANCES FOLLOW UP AUDIT  
AUDIT SCOTLAND REPORT – AUGUST 2013

Report by the Head of Finance

**PURPOSE OF REPORT**

This report provides a summary of the Audit Scotland “Scotland’s Public Finances Follow Up Audit” report published in August 2013.

**1. BACKGROUND**

- 1.1 In August 2011 Audit Scotland published a report on “Scotland’s Public Finances: Addressing the Challenges”. The report provided an overview of the scale of the budget cuts expected to be faced by the Scottish public sector in the period 2010/11 to 2014/15 and how public bodies were beginning to respond to the challenges of reducing expenditure. The complete Audit Scotland report was considered by the Audit Committee on 25 September 2013 (Report No. 13/462 (A) refers) and is attached at Appendix 1.
- 1.2 In August 2013 Audit Scotland published a follow up audit report which aimed to assess how public bodies are responding to the challenges of public sector budget constraints and their efforts to achieve financial sustainability.
- 1.3 The Audit Scotland work focussed around two key questions:
  - a. Do public bodies have sustainable financial plans which reflect a strategic approach to cost reduction?
  - b. Do senior officials, elected members and non-executive directors demonstrate ownership of financial plans and are they subject to scrutiny before approval?
- 1.4 This report provides a summary of the findings and also highlights a series of questions and action points.

**2. FINDINGS**

*Do public bodies have sustainable financial plans which reflect a strategic approach to cost reduction?*

- 2.1 The report highlights that the Council has in place:

- A medium term financial plan which is updated and approved by Council on an annual basis;
- A seven year capital programme;
- A five year strategic financial plan for the Housing Revenue Account;
- A Final Revenue Budget for 2013/14 and Provisional Revenue Budget for 2014/15;
- A Transformation Programme; and
- A Reserves Strategy.

2.2 The report confirms that the Council has a strong track record in delivering efficiency savings and that it is in a relatively strong financial position going forward.

2.3 Overall Audit Scotland concluded that the Council had sustainable financial plans which reflect a strategic approach to cost reduction.

*Do senior officials, elected members and non-executive directors demonstrate ownership of financial plans and are they subject to scrutiny before approval?*

2.4 The report confirms that Elected Members are fully involved in agreeing financial plans and setting the framework for efficiencies. Elected Members agree the Medium Term Financial Plan and Reserves Strategy which provide the basis on which the Revenue Budget is set. The Revenue Budget is established from an informed position of the impact decisions have on services and customers.

2.5 The documents listed in paragraph 2.1 support the identification / management of financial risks and monitor progress in the Transformation Programme. The Strategic Policy and Resources Committee monitor the revenue and capital budget on a quarterly basis.

2.6 In addition the Executive Officer Team is the focal point for the establishment of budget proposals and regularly monitors the Capital and Revenue Budget, progress against the Transformation Programme and efficiencies achieved to date.

2.7 Audit Scotland conclude that it is clear that Elected Members and officers demonstrate ownership of financial plans and that these plans are subject to sufficient scrutiny prior to approval.

### **3. SUGGESTED IMPROVEMENTS AND COUNCIL RESPONSE**

3.1 The report identifies a number of potential improvements to the Council's approach to the financial planning framework which are set out below. Audit Scotland's findings are in italics.

3.1.1 *Developing a long term revenue financial plan looking at the impact of reducing budgets on service delivery.*

The Audit Scotland report confirms that that the Reserves Strategy and Medium Term Financial Plan allow the Council to mitigate the risks associated with the current financial climate and service pressures.

The Medium Term Financial Plan provides some commentary on the financial outlook over both the short and medium term at a macro level based on information from financial commentators such as the Centre for Public Policy in the Regions (CPPR).

The Council has also tended to set future years' Provisional Revenue Budgets in line with detailed local government settlements made available by the Scottish Government to ensure that any decisions taken are based on expected levels of funding available to the Council rather than estimates. This avoids the potential for significant unnecessary volatility in the budget process. As an example the figures announced by the Scottish Government for 2015/16 on 11 September 2013 were significantly different to those previously forecast and in this instance a longer term approach to financial planning might have had a significant adverse effect on service delivery. It is, therefore, proposed that the Councils current approach to financial planning continues in the future.

3.1.2 *Ensuring the capital investment programme delivers the planned improvements to the Council's infrastructure timeously.*

Audit Scotland acknowledges that the Council is taking action to ensure the delivery of the approved capital programme. This includes the establishment of the Strategic Investment Group (made up of the Executive Officer Team; Depute Directors; the Heads of Property, Legal & Finance and senior Elected Members) and commencing the appointment of a Capital Programme Manager.

3.1.3 *Further develops "process" benchmarking with other organisations with a view to identifying efficiencies and improvements.*

The Council currently undertakes a wide range of formal and informal benchmarking across Council Services in a number of areas.

Benchmarking forms a key stage of Best Value reviews, transformation projects and other reviews such as those undertaken by the Scrutiny Committee.

As part of its commitment to continuous improvement the Council is a member of various benchmarking groups. Most recently the Council participated in the SOLACE Benchmarking Project which was reported to the Strategic Policy and Resources Committee and Scrutiny Committee on 17 April 2013 (Report No. 13/163 refers). This report summarised the suite of SOLACE indicators along with data for Perth and Kinross Council and commentary from Council Services allowing the Council to compare itself with the other 31 Councils across Scotland. This is now an annual exercise.

There are other more specific examples of the current use of benchmarking across the Council including:

- Perth and Kinross Child Protection Committee where benchmarking has been a key element of their work for a number of years and has been systematically carried out to improve performance. The availability of this benchmarking information has allowed the comparison both with other local authority areas and against national performance frameworks. This benchmarking along with self-evaluation activities support the delivery of improved outcomes for children and families.
- Process benchmarking information is used to support options appraisals across the Council. For example the Chief Executive's Service took part in CIPFA's Benchmarking Club which featured seven core functions of the Service activity. The output from this exercise was then incorporated into the Accountancy and Exchequer Review within the Finance Division.

Benchmarking activity within the Council is a key tool to support improvement. The SOLACE benchmarking project, amongst others, has a strong focus on 'cost' measures, however it has underpinned these measures with process based indicators in order to best support future improvement.

The Council will continue to develop process benchmarking to deliver further efficiencies and improvements.

#### 3.1.4 *Incorporates the views of service users in the planning framework, where appropriate.*

The Council takes the views of service users into account and, where appropriate, incorporates their views in the planning framework.

Examples of this include:

- Placecheck where the Council worked closely with the community on how a fixed budget could be used most effectively in their public spaces.
- Other Community Greenspace initiatives included play area development; allotments; Friends of Parks and Bloom groups.
- In agreement with Tenants' representative groups, the Council continues to develop a medium / long term funding strategy for housing investment based upon linking annual reviews of rents to movements in the Consumer Price Index (CPI), the state of the local economy generally and creating more efficient services in the future.
- Revisions to the Council's Housing Investment Programme, Housing Repairs, Neighbourhood Services and the rental strategy are subject to consultation with the Tenants' representative groups and the wider tenant body.

- Culture Matters - The Big Listen is an example of a successful large-scale engagement project, through which service users have influenced the development and implementation of a broad range of improvement actions within Cultural Services provision. The learning from the first project informed the development and embedding of this activity as a core programme of engagement to take place every two years within the Service. This is with the view to not only continuing to make service improvements but to also track the impact and influence on participation of these improvements, ensuring a rich evidence base on which future planning and investments can be based.

The Council remains committed to incorporating the views of customers, where appropriate, in future planning frameworks.

#### 4. CONCLUSIONS AND RECOMMENDATIONS

4.1 The report concludes that:

4.1.1 The Council continues to show a good understanding of the financial challenges it faces and has been proactive in preparing financial plans to manage budget reductions.

4.1.2 The Council has a clear understanding of its costs and the impact that efficiency savings have on service delivery.

4.1.3 The Reserves Strategy and Medium Term Financial Plan allow the Council to mitigate the risks associated with the current financial climate and service pressures.

4.1.4 Benchmarking activity within the Council is a key tool to support improvement and the Council will continue to develop process benchmarking to deliver further efficiencies and improvements.

4.1.5 The Council remains committed to incorporating the views of customers, where appropriate, in future planning frameworks.

4.2 It is recommended that the Strategic Policy and Resources Committee note the contents of this report.

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#### Approved

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## ANNEX

### 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

| <b>Strategic Implications</b>                       | <b>Yes / None</b> |
|---|-------------------|
| Community Plan / Single Outcome Agreement           | None              |
| Corporate Plan                                      | Yes               |
| <b>Resource Implications</b>                        |                   |
| Financial   | Yes               |
| Workforce   | Yes               |
| Asset Management (land, property, IST)              | Yes               |
| <b>Assessments</b>                                  |                   |
| Equality Impact Assessment                          | Yes               |
| Strategic Environmental Assessment                  | Yes               |
| Sustainability (community, economic, environmental) | Yes               |
| Legal and Governance                                | None              |
| Risk  | None              |
| <b>Consultation</b>                                 |                   |
| Internal  | Yes               |
| External  | None              |
| <b>Communication</b>                                |                   |
| Communications Plan                                 | None              |

#### 1. Strategic Implications

##### 1.1. Corporate Plan

1.1.1. The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all objectives.

#### 2. Resource Implications

##### 2.1. Financial

2.1.1. There are no direct financial implications arising from this report.

## 2.2. Workforce

2.2.1. There are no direct workforce implications arising from this report.

## 2.3. Asset Management (land, property, IT)

2.3.1. There are no direct asset management implications arising from this report.

## 3. Assessments

### 3.1. Equality Impact Assessment

3.1.1. Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

3.1.2. The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

### 3.2. Strategic Environmental Assessment

3.2.1 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.

3.2.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

### 3.3. Sustainability

3.3.1 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.

3.3.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

## 4. Consultation

### 4.1. Internal

4.1.1 The Chief Executive and Depute Director (Environment) have been consulted on the contents of this report.

## **2. BACKGROUND PAPERS**

- 2.1 No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

## **3. APPENDICES**

1. Scotland's Public Finances Follow Up Audit – Audit Scotland – August 2013



# Perth & Kinross Council

## Scotland's Public Finances Follow-up Audit



Prepared for Perth & Kinross Council  
August 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Introduction

## Background

1. In August 2011 Audit Scotland published a report on "*Scotland's public finances: Addressing the challenges*". The report provided an overview of the scale of budget cuts expected to be faced by the Scottish public sector in the period 2010/11 to 2014/15, and how public bodies were beginning to respond to the challenges of reducing expenditure.
2. The national report identified that:
  - The Scottish Departmental Expenditure Limit revenue budget will fall by £2.1 billion (eight per cent) to £23.8 billion between 2010/11 and 2014/15 while the capital budget will fall by £1.2 billion (36 per cent) to £2.1 billion. The biggest budget reductions will take place in 2011/12.
  - Public bodies will face increasing demand and cost pressures in the future. Increasing demand will be generated as a result of an ageing population and the heightened expectations of the public, while cost pressures arise in areas such as maintenance backlogs and the cost of revenue-financed capital projects.
  - Public bodies need to focus on achieving long-term financial sustainability. This requires a clear understanding of the organisation's costs, a clear methodology for setting budgets based on priorities and the outcomes to be achieved, and strong leadership and governance.
  - Pay restraint and reducing workforce levels are the most common approach being taken by public bodies to reduce costs over the next few years. Good workforce planning will be necessary to ensure that the right people and skills are available to deliver effective public services in the future.
  - Public bodies are considering how they can work better together as a way to reduce costs, but progress to date has been limited and it is likely to be a number of years before cost savings are realised.
3. The national report provided a checklist setting out a number of key issues and risks which managers, elected members and other leaders of public bodies need to identify, monitor and manage:
  - Reforming public services - including the risk of short-termism, unclear aims and objectives and lack of commitment or constructive challenge.
  - Workforce reductions - including the risk of loss of essential skills as a result of key staff leaving and increased workloads for those who remain.
  - Financial sustainability - including the risk of unclear priority budget-setting, lack of risk and evidence-based cost-reduction strategies and unforeseen cost pressures.

- Leadership and governance - including the risk of lack of direction and ownership as a result of weak leadership, and inadequate scrutiny and challenge as a consequence of poor governance arrangements.
4. Workforce planning is a key focus for Perth and Kinross Council over the medium term. Audit Scotland is currently undertaking a performance audit on workforce planning and therefore to avoid duplication and overlap this follow-up work will not include the consideration of workforce planning issues.

## Audit scope and objectives

5. The aim of this review is to assess how public bodies are responding to the challenges of public sector budget constraints and their efforts to achieve financial sustainability.
6. Based on the original report, we focused our work around two key questions:
- Do public bodies have sustainable financial plans which reflect a strategic approach to cost reduction?
  - Do senior officials, elected members and non-executive directors demonstrate ownership of financial plans and are they subject to sufficient scrutiny before approval?
7. A checklist of questions has been developed and used by auditors to find out how well councils are dealing with these issues. The questions cover the two key questions above and were used in our discussions with management. The responses and supporting evidence form the basis of the key findings below.

# Key findings

## Economic climate

8. The Council aims to support the local economy and maintain current service provision. It is likely to face real term and possibly cash reduction in resources and along with all other public bodies in Scotland, the Council is having to make significant budget savings.
9. The medium term financial plan considered by the Council in December 2012 undertook an analysis of current longer term predictions and these are outlined below:
  - "The Office of Budget Responsibility's 2012 Long Term Report acknowledged that *"future governments are likely to have to undertake some additional fiscal tightening beyond the current consolidation plan for the next five years in order to address the fiscal costs for an ageing population"*.
  - The Head of the UK Civil Service also recently acknowledged that *"we are 25 per cent through the fiscal adjustment. Spending cuts could last seven, eight, ten years"*.
  - The Improvement Service has also recently suggested that:
    - There will be at least 3% to 4% real reductions in funding to Scottish Local Authorities for next two years
    - A prudent assumption is for £1 billion cash reductions to Scottish Block in the 2014 Spending Review which would translate into approximately a £340 million reduction in funding for Scottish local authorities
    - There is an expectation from the Scottish Government that health, social care and education will be protected from reductions
    - No real growth is predicted until 2018/19"
10. The above picture highlights that financial challenges will continue with the Council's current predictions being that 2015/16 and 2016/17 may be two of the most challenging years in terms of managing the Council's finances.

## Council's position

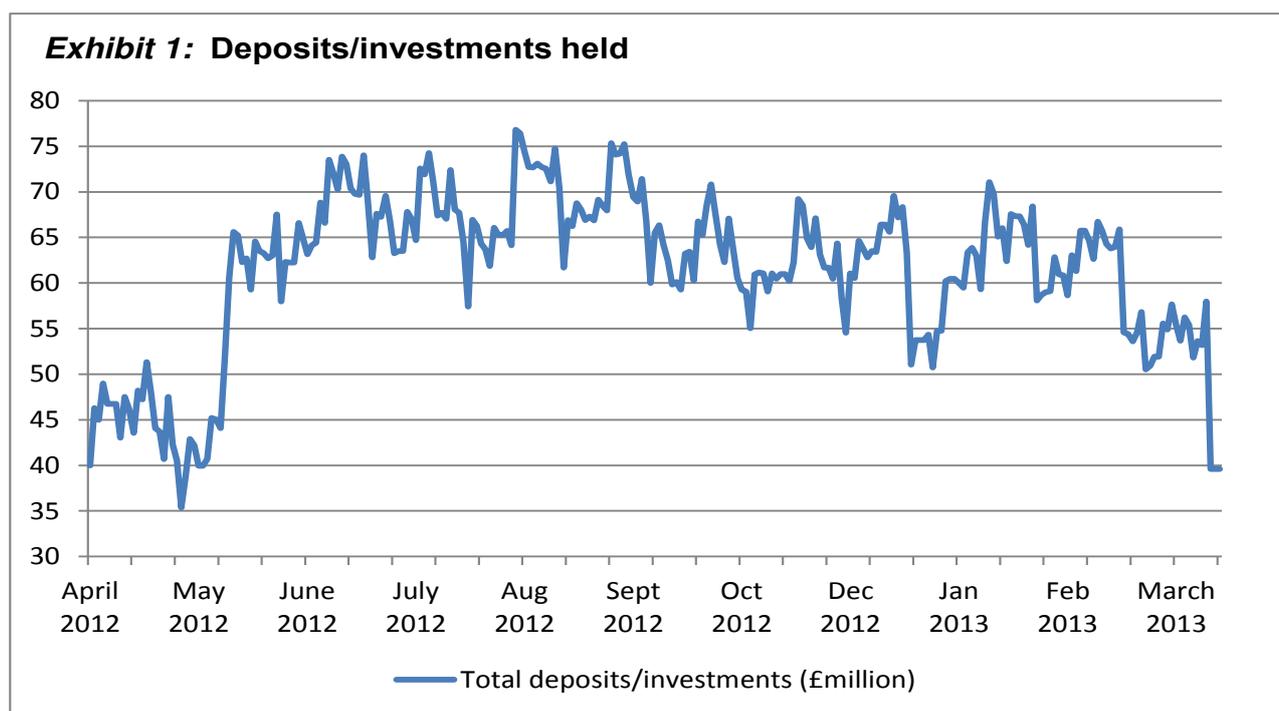
### Does the Council have sustainable financial plans which reflect a strategic approach to costs reduction?

11. A medium term financial plan is updated and approved by the Council on an annual basis. In December 2012 the Council considered its medium term financial plan and extended the current five year capital budget to seven years. This reflected the most up to date commentary on the economic climate and the latest information from the Scottish Government on the provisional settlement figures for the next two years. Given the uncertainty going forward the Council consider a longer term revenue plan to be an unrealistic aspiration.

12. The Council also has a five year strategic financial plan for the housing revenue account incorporating a housing capital investment programme. This plan also details the rent strategy and reserve strategy for the housing revenue account and is approved by the Housing & Health Committee annually.
13. The capital budgets flex between years due to the nature of the spend. However, as highlighted in our 2011/12 annual report the capital programme continues to see significant underspends in capital expenditure. Revisions are approved by the Strategic Policy & Resources Committee. The underspends have continued in 2012/13 with the initial gross expenditure budget approved in February 2012 for:
  - the composite programme of £50.9 million being revised during the year to £31.3 million (38% underspend)
  - the housing capital investment programme in February 2012 of £14.5 million being revised during the year to £11.4 million (21% underspend).
14. Actions is being undertaken by the Council to take forward the delivery of the capital programme including establishing a Strategic Investment Group chaired by the Chief Executive (comprising the Executive Officer Team and senior elected Members) and appointing a Capital Programme Manager.
15. The revenue budget for 2013/14, and the provisional budget for 2014/15, was agreed by the Council in February 2013. This was considered in the context of uncertainties in relation to Scottish Government funding beyond 2014/15 and the potential impact of health and social care integration, inflation, pay strategy, and legislative changes (e.g. welfare reform; Children and Young Peoples Bill). Whilst the Council is in a relatively strong financial position to deal with the challenges, it is recognised that significant savings will be required in future years.
16. The revenue budget details the expenditure pressures being faced by services and the potential compensating savings. An impact and risk analysis is undertaken in relation to each of the savings. This process allows an open and transparent assessment of the impact that the budget will have on Council services and service users. This analysis considers the following criteria:
  - Workforce – including information on numbers of employees affected, vacancies, staff turnover and fixed term contracts.
  - Customers – including information on the effect on all customers/stakeholders (both external and internal).
  - Outcome & Performance. – identifying any significant impact on the Single Outcome Agreement and/or Service Business Management and Improvement Plans.
  - Equalities/Diversity – ensuring that any statutory equalities issues are considered.
17. The Transformation Programme is integral to the budget process and consultation is a key element of the budget review process, where appropriate. Currently consultation is undertaken with staff through the unions on the savings options identified. Officers have indicated that consultations with stakeholders take place, where appropriate, in advance of the

budget decisions taken by the Council in February although it is acknowledged that this is not comprehensive. Decisions are also communicated with the public and stakeholders on specific areas following budget decisions, for example Greenspace.

18. The Reserves Strategy forms a crucial part of the Council's forward planning with reserves held for three purposes:
  - working balances to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
  - contingency to cushion the impact of unexpected events or emergencies
  - funds to meet known or predicted liabilities (earmarked reserves).
19. As highlighted in our annual report to members the Council's funds and reserves at 31 March 2012 totalled £53.394 million, an increase of £8.714 million on the previous year. Of this balance £39.431 million was earmarked for specific purposes leaving an unallocated general fund balance of £13.963 million. This is approximately 4.1% of the Council's net revenue budget for 2012/13 and is within the range of 2 to 5% of net expenditure the Council had previously deemed it required to hold to cover unexpected or unplanned events.
20. The Council's Reserves Strategy approved in February 2013 continues with the target level of uncommitted reserves to be in the range of 2% to 5% of the Council's net revenue expenditure in the medium term but highlights owing to current uncertainties that it "*may not be imprudent to maintain uncommitted reserves above 5% in the short term*". Any element above the 5% is to be earmarked for future costs in relation to workforce planning measures. The housing revenue strategic financial plan has a target level of 2% to 4% of gross housing revenue expenditure (maintaining reserves at £0.8 million for the next five years within the plan)
21. The Council is predicting an increase in reserve balance to £60.6 million (2011/12 - £53.394 million) with uncommitted reserves of approximately £12.2 million. The reserve balances are partially reflected in the money held by the Council during 2012/13 with the balance fluctuating depending on treasury management activity. During 2012/13 the balances were between £35.3 million and £76.8 million on deposit/invested as illustrated in Exhibit 1. These cash balances are planned to be utilised to enable the Council to reduce its borrowing requirement from 2013/14 onwards.



22. Underpinning the savings outlined in the budget is the on-going transformation programme, “*Securing the Future – Towards 2015 and Beyond*”, which was approved by Council in June 2010. The three key strands of the programme were:
- efficiencies in service delivery
  - service re-design
  - a targeted reduction programme considering the actual services to be delivered.
23. The programme identifies several key areas for delivering future savings including: workforce planning; procurement; asset management; shared services; efficiency reviews and process improvement. The programme itself details a large number of projects at a corporate and service level. The Council is effectively managing the process with a significant number of projects completed, a number of projects on-going and some delayed or put on hold.
24. The efficiencies identified and delivered form part of the Annual Efficiency Statement. The latest statement for 2011/12, which was considered by Council in September 2012, highlighted that the Council had delivered efficiencies of £12.9 million (£8.8 million in relation to workforce planning measures).
25. The Council has a strong track record in delivering efficiency savings with £33.4 million being identified in the previous five financial years. By re-investing the efficiencies achieved the Council has managed to maintain service delivery. The Council recognises that this level of efficiencies will not be available in future years given the reduction in staff numbers, however it is in a relatively strong financial position going forward through the efficiencies achieved to date.
26. A progress update on “*Securing the Future – Towards 2015 and Beyond*” was reported to Council in February 2013. This report also identified the service reviews planned as part of

the transformation programme. Projects within the programme are regularly monitored by the Executive Officer Team (EOT) and are managed through the Council's VERTO system which outlines savings targets, milestones and responsibilities.

27. Benchmarking costs and performance with other private and public organisations can be a valuable tool for identifying efficiencies and improvements. In December 2011 SOLACE commissioned the Improvement Service to develop a benchmarking framework on behalf of Scottish Local Authorities. The overall purpose of the framework is to support councils in focusing transformational change resources to areas of greatest impact in terms of efficiency (unit costs), productivity and outcomes. The Council considered the SOLACE indicators in April 2013. The SOLACE indicators in isolation are unlikely to support significant improvement without targeted 'process' benchmarking.
28. Benchmarking is seen as an important tool within the transformation projects and provides one strand to the reviews undertaken. There is limited evidence to show the outcome of any benchmarking exercise to date.
29. The EOT in April 2012 considered a report considering improving benchmarking within the Council particularly the further development of 'process' benchmarking i.e. comparing the systems/approaches used by comparators to identify improvements that can be achieved locally. The EOT recognised the requirement to increase targeted benchmarking activity within the Council. Each service identified two specific service areas in 2012 for focused benchmarking.
30. A report to the Strategic Resource and Policy Committee identified 9 areas where local 'process' benchmarking was to be investigated. These projects are at an early stage with progress not yet reported. Some projects have still to commence while others were dropped due to meaningful comparisons being unavailable or overtaken by national work. Whilst officers have indicated that 'process' benchmarking is being undertaken, it is acknowledged that this is currently work in progress.
31. The services' Business Management and Improvement Plans identify benchmarking comparisons being undertaken within the service. The housing revenue strategic financial plan also highlights comparisons of rental charges with other local authorities and registered social landlords.
32. Benchmarking activity was considered by Members in the Services Annual Performance Reports 2012/13 in June 2013. These predominately highlight areas where comparisons are made with other authorities with limited evidence to show that any 'process' benchmarking exercise has resulted in service improvements. With the exception of the registered social landlords information noted above there is no evidence that the Council carry out any benchmarking exercises with non local government organisations.
33. Overall we found that the Council have sustainable financial plans which reflect a strategic approach to costs reduction.

## Do members and senior officials demonstrate ownership of financial plans and are they subject to sufficient scrutiny before approval?

34. Members are fully involved in agreeing financial plans and setting the framework for efficiencies. Members agree the medium term financial plan and reserves strategy which provides a basis on which the revenue budget is set. The revenue budget is established from an informed position of the impact decisions have on services and customers.
35. The medium term financial plan and the annual revenue budget outline financial risks with the reserves strategy being integral to supporting the Council's approach to the management of these risks.
36. The Strategic Policy & Resources Committee and the Scrutiny Committee consider annually the progress on actions on the Corporate Risk Register to mitigate risks. The risk register includes two specific financial planning areas:
  - the continuing financial climate and increasing demands for services with the impact on the ability to deliver outcome targets and maintain service performance into the future
  - slippage in the capital investment programme
37. The revenue budget is monitored quarterly by the Strategic Policy & Resources Committee to scrutinise the Council's performance and ensure remedial action is being taken where necessary. The Council also consider progress with the transformation programme, approving new areas of review, which feed into the revenue budget setting process.
38. The transformation projects feature in the individual service's Business Management Improvement Plans (BMIPs) with six monthly progress reports considered by members. As highlighted above the Council also consider the annual efficiency statement outlining the efficiencies achieved during the year.
39. The Council, at its budget setting meeting, agreed the capital investment programme. In 2013/14 this was extended to cover a seven year period and the additional years were approved in February 2013. The housing capital investment programme for the five years to 2017/18 was approved by the Housing & Health Committee in February 2013. The Strategic Policy & Resources Committee monitors the capital investment programme on a quarterly basis and has delegated authority to approve revisions.
40. The EOT is the focal point for the establishment of the budget proposals and regularly monitors the budget, progress against the transformation programme and the efficiencies achieved. The EOT considered the service submissions for 2015/16 in November 2012 however these are still being developed given the uncertainties highlighted previously.
41. The Corporate Resources Group, which reports to the Corporate Management Group (CMG) then the EOT, provides a base for establishing the capital programme. In selecting projects for inclusion in the capital budget, the Council undergoes a process of ranking each proposed project against specific criteria. These criteria have been designed to ensure that the projects meet the Council's objectives and priorities, links with service's BMIPs and ensure best value and efficiency in the use of the Council's assets and in the delivery of Council services. Only

those projects that best meet these criteria, within the available resources, are included in the proposed budget.

42. It is clear that members and officers demonstrate ownership of financial plans that these are subject to sufficient scrutiny before approval.

# Conclusions

## Summary

43. The Council continues to show a good understanding of the financial challenges it faces, and has been proactive in preparing financial plans to manage budget reductions. The Council has a clear understanding of its costs and the impact efficiency savings have on service delivery. The reserves strategy and medium term financial plan allow the Council to mitigate the risks associated with the current financial climate and service pressures. The Council may want to consider further improvements to its approach to the financial planning framework by:
- developing a long term revenue financial plan looking at the impact of reducing budgets on service delivery
  - ensuring the capital investment programme delivers the planned improvements to the Council's infrastructure timeously. This will ensure that the infrastructure continues to deliver efficient and effective services and contribute to a prosperous, sustainable and inclusive economy for its area
  - further development of 'process' benchmarking with other organisations with a view to identifying efficiencies and improvements
  - incorporating the views of users of the service in the planning framework where appropriate.

## Management action

44. The Council should consider the areas for improvement outlined above. The issues identified in preparing this report are only those which have come to our attention during the course of the review and are not necessarily, therefore, all the issues that may exist. It remains the responsibility of management to determine the extent of any improvement actions appropriate to the Council. We would stress, however, that commitment to an improvement agenda is an essential part of the efficient management of any organisation.

## Acknowledgements

45. The contents of this report have been agreed with relevant officers in terms of factual accuracy. The assistance and co-operation received from officers during the course of our audit work is gratefully acknowledged.

