

Falkirk Council

Scotland's Public Finances: Addressing the challenges

A targeted follow-up report



Prepared for Falkirk Council
July 2013

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Executive Summary

Background

1. Audit Scotland has a targeted approach to following up a small number of national performance audit reports to promote local impact. *Scotland's public finances: Addressing the challenges*, published in August 2011, was selected for targeted follow-up across the public sector in Scotland in 2012/13. This 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 aim of the local follow-up work is to assess how Falkirk Council (the council) is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability. This report summarises the key findings arising from our targeted follow-up work.

Key findings

3. The following areas of good practice were identified through the review:
 - The council has a clear understanding of future financial pressures facing it and these are outlined in the medium term financial plan. Budget gaps of £10.8 million, £15.7 million and £8.5 million have been identified for 2014/15, 2015/16 and 2016/17 respectively with a cumulative budget gap of £35 million by 2016/17.
 - The council is working on strengthening the link between the budget and the council's corporate plan.
 - The council participates in the SOLACE benchmarking project and officers have carried out recent visits to other Scottish councils to learn from good practice, for example, on priority based budgeting systems.
 - Elected members were involved in the 2013/14 budget setting process and more specifically, the administration participated in a series of meetings with council officers including staff from finance. This allowed those members the opportunity to discuss, consider and challenge the savings proposals for each service.
 - Members regularly scrutinise the council's financial position through budget monitoring reports and reserve strategy updates.
4. The following areas for improvement were identified for the council to consider:
 - A funding gap of £35 million has been identified in the council's medium term financial plan to 2016/17. Officers are exploring saving options consistent with that level of gap, however, these proposals have yet to be considered and approved by members. Early approval is vital to ensure that the council is well placed to monitor its response to increasing financial pressures.

- Members regularly scrutinise the council's overall financial performance through the existing budgetary control arrangements. However, as part of this process, in the future members should also review and monitor the delivery of specific savings plans.
 - Officers need to regularly consult with members to ensure that the financial and other information they receive is sufficient to allow them to assess the impact of their decisions on service delivery and outcomes.
 - The council has recognised the need to refine its approach to stakeholder consultation to ensure that the information extracted is useful and feeds into the decision making process.
5. It should be noted that the council has already recognised that improvements are needed in a number of the areas identified above and actions are being taken. For example, savings options for the next three years are being explored and will be discussed with members in due course. The planned improvements are at an early stage in their development and there is insufficient evidence available to us at this stage to assess whether they will be successful. We will continue to monitor the situation in future years.

Management action

6. Issues arising from this report together with management's responses are detailed in the Action Plan at Appendix 1. The factual content of this report and the management actions have been agreed with the appropriate officers.
7. 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. We would stress, however, that commitment to an improvement agenda is an essential part of the efficient management of any organisation.

Acknowledgement

8. The assistance and co-operation received from officers during the course of our audit work is gratefully acknowledged.

Introduction

9. *Scotland's public finances: Addressing the challenges* was published by the Auditor General and the Accounts Commission in August 2011. 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. In particular, the report highlighted some of the main cost pressures facing public bodies and emphasised the importance of them achieving long-term financial sustainability.
10. The key messages from the report were:
 - 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.
 - 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.
11. The report did not make any direct recommendations but, supported by a checklist for public sector leaders and elected members, set out a number of key issues and risks which managers will 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.
12. A key consideration of *Scotland's public finances: Addressing the challenges* was the extent to which workforce reductions were being used as a means to deliver financial savings. Audit Scotland is currently carrying out a national audit of changes to the Scottish public sector workforce that will address this issue in more detail. Our follow-up audit therefore excludes consideration of workforce planning issues in order to avoid duplication of effort.

Audit scope and objectives

13. The follow-up audit is being carried out in all 32 councils in Scotland. In addition, all health bodies, 20 central government bodies including the Scottish Government and Scottish Enterprise, and Scottish Water will be covered by the follow-up audit.
14. The follow-up work focuses on two key questions:
- Does the council have sustainable financial plans which reflect a strategic approach to cost reduction?
 - Do senior officials and elected members demonstrate ownership of financial plans and are they subject to scrutiny before approval?
15. The above questions have been expanded and developed into an audit guide checklist by our performance audit colleagues. The completed checklist, and supporting evidence, formed the basis of the main findings section of this local report.

Main Findings

Does the council have sustainable financial plans which reflect a strategic approach to cost reduction?

Financial plan 2013/14

16. The council's 2013/14 revenue budget was approved in February 2013 and identified a spending gap of £10.7 million. The supporting budget papers identified significant cost pressures. These included pay awards, salary increments, fuel and energy charges, indexation of PPP/NDPO contracts and non-pay inflation.
17. The budget papers also outlined the council's approach to bridging the funding gap including :
 - review of base budgets (£2.0 million savings)
 - corporate initiatives - procurement, efficiencies, asset management (£1.0 million savings)
 - savings proposed by services (£4.9 million recurring savings)
 - application of reserves (£2.8 million).

Budget-setting process

18. As part of the 2013/14 budget setting process services reviewed individual activity areas to identify potential savings. Services were asked to complete a revenue budget template for any significant savings identified by this process. The template includes consideration of the statutory basis for the service, previous performance and benchmarking data, service standards, alignment with corporate priorities, future service demand, service delivery options, and options for savings and efficiencies. The completed templates were not used when engaging with members of the administration on the proposed options, although they were used to aid the peer review process that was carried out by the corporate budget working group. Members were provided with a high level equality impact assessment of the 2013/14 budget review. Individual equality impact assessments were performed at service level where this was deemed to be appropriate.
19. The 2013/14 budget papers show that the funding gap has been partially bridged by a review of base budgets, indicating that services are taking steps to review and respond to prior year variances. The chief finance officer has highlighted that finance staff will be engaging with relevant services to examine the scope for rebasing budgets in 2014/15.
20. There is clear evidence to show that resources reflect the council's outcomes and the external environment in which it operates. For example, there has been an increase in the provision for care of the elderly in social work services which reflects demographic pressures. In addition, the council's planned investment in affordable housing is aligned with the increasing demand as a result of the economic downturn and the rise in demand as a result of the so called 'bedroom tax'. The council is also exploring alternative methods of investment, namely Tax Incremental Financing (TIF), to boost economic growth in the local area.

21. The council recognises the need to strengthen the link between the budget setting process and the priorities set out in the council's corporate plan. Officers have been exploring opportunities to reshape the budget setting process and have carried out recent visits to Aberdeen City Council and West Lothian Council to gain an understanding of their approach to priority based budgeting. In addition, savings proposals for 2014/15 and beyond will be mapped to the council's priorities and ranked to reflect their anticipated impact on the delivery of corporate priorities. The proposals will also be allocated a risk category (low, medium, high), which will be subject to peer review.

Cost reduction plans

22. Officers recognise a need to improve the service review process to ensure that it is more focused on savings. In common with many public bodies across Scotland, a significant proportion of savings to date have been achieved through early retirement and voluntary severance schemes.
23. The 2013/14 budget utilises £2.3 million of the uncommitted general fund balance and £0.5 million of the devolved schools management reserves to help balance the budget. It is anticipated that a further element of the uncommitted general fund balance will be used to balance the 2014/15 and 2015/16 budgets. This approach to financing the funding gap is not sustainable in the long term. In 2012/13, the council has earmarked £3.5 million of the uncommitted general fund balance for spend to save initiatives. The council's chief finance officer has highlighted the importance of ensuring that reserves continue to be deployed in this manner.
24. An effective monitoring process will be critical to ensuring the successful delivery of agreed savings in the future. It is good practice for officers to prepare cost reduction plans based on SMART (**S**pecific **M**easurable **A**ction oriented **R**ealistic and with **T**imescales) criteria. Currently, there is no formal process in place to enable members to track progress against individual agreed savings, and scrutiny relies on the routine budget monitoring arrangements to highlight discrepancies.

Action Point 1

Benchmarking: costs and performance

25. Historically, the Accounts Commission's statutory performance indicators (SPIs) were the main indicators used for comparative purposes across councils. In March 2013, the first SOLACE benchmarking report was issued, based on 2010/11 and 2011/12 performance information. At this stage it is too early to comment on the council's response to the findings. The benchmarking project is an iterative process and the indicators will further develop in future years. Audit Scotland welcomes the progress that is being made by the local government community through the SOLACE led project to improve performance information.
26. In the council's assurance and improvement plan (AIP) update 2013-16 the local area network highlighted performance management as an area where further information is required. This assessment reflects the fact that the council has acknowledged this as an area for

improvement and has identified specific actions to strengthen the performance management framework and drive challenge and improvement within the council. We are continuing to monitor developments in this area and will report on our findings in our 2012/13 annual audit report.

Longer term financial strategy

27. The council's medium term financial plan forecasts the funding gap on the basis of a 2% cut in cash terms in 2015/16 and a flat cash settlement beyond this point, as advised by the Improvement Service. There is uncertainty surrounding the council's future funding, which stems primarily from factors outwith the council's control. Notably public sector reform, including pensions and welfare. The current forecast will be reviewed on an on going basis to reflect changing circumstances.
28. Work is currently underway to identify savings to bridge the £35 million funding gap for the period to 2016/17. In March 2013, a meeting was held for senior officers to highlight the significant budget gap that has been forecast over the next 3 years and its implications. Officers are exploring savings options consistent with that gap, however, these proposals have yet to be considered and approved by members. In the absence of a longer term approved savings plan there is a risk that the council fails to reach timely agreement on the necessary savings.

Action Point 2

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

Ownership of financial plans

29. As part of the 2013/14 budget setting process senior finance staff organised a series of meetings with elected members of the administration to discuss and consider the savings proposals for each service. These meetings formed an integral part of the budget setting process and provided those members with an opportunity to assess the options put forward by officers. The information provided to members was kept to a minimum to ensure the decision making process was efficient. Finance management advised us that members requested briefing papers on specific options where they felt more information was needed to make a decision. Officers need to regularly consult with members to ensure that the financial and other information they receive is sufficient to allow them to assess the impact of their decisions on service delivery and outcomes.

Action Point 3

Transparency and accountability

30. The council used a number of means to consult the public on the 2013/14 budget including issuing questionnaires with council tax bills and inviting feedback through the council's website

and Falkirk Council News. The council's corporate management team accept that more attention needs to be given to the way in which the council communicates, consults and engages with stakeholders to ensure that the information extracted is useful and influences the decision making process.

31. The chief finance officer stated in the 2013/14 budget papers that it is their intention to carry out more focused engagement with the public and stakeholders to support the budget setting process going forward. The nature of this consultation is still to be determined, however, the focus will be on ensuring that the purpose of any engagement is clearly defined.

Action Point 4

Role of audit or scrutiny committee

32. Throughout 2012/13, budget monitoring reports were presented to the policy and resources committee. The most recent budget monitoring report presented to the committee in January 2013 provided an update on the financial position as at 30 November 2013. The committee were also provided with reserves strategy updates throughout the year, which examined the use of earmarked funds and the uncommitted general fund balance. The 2013/14 budget was considered by the policy and resources committee before being referred to the full council for discussion and approval in February 2013.
33. As stated at section 24 above, members should also review and monitor the delivery of specific savings plans.

Appendix 1 - Action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	24	<p>Monitoring of savings plans</p> <p>Members regularly scrutinise the council's overall financial performance through the existing budgetary control arrangements. Members should also review and monitor the delivery of specific savings plans.</p> <p>There is a risk that agreed savings are not achieved, putting further pressure on future finances.</p>	<p>It is agreed that planned savings are achieved. To the extent they are not, this will become evident during budgetary control as the budget will have been adjusted.</p> <p>Notwithstanding this, the delivery of saving in cross-cutting initiatives could usefully be subject to specific review.</p>	CFO	During financial year 2013/14
2	28	<p>Long term savings plans</p> <p>Savings options consistent with the funding gap of £35 million are being explored but have yet to be considered and approved by members.</p> <p>There is a risk that the council fails to reach agreement on the necessary savings. The use of the uncommitted general fund balance to finance the funding gap is unsustainable.</p>	<p>The budget preparation exercise for financial years 2014/15 - 2016/17 has started early to allow savings options to be identified and to allow more time for members to evaluate savings options.</p> <p>It is recognised that the use of reserves to fund the gap is not sustainable and this is regularly highlighted to members.</p>	CFO	During financial year 2013/14
3	29	<p>Member involvement</p> <p>Officers need to regularly consult with members to ensure that the information they receive is sufficient to allow them to assess the</p>	<p>Notwithstanding that there is currently regular engagement, the scope for this to be developed will be kept under review.</p>	CFO	During financial year 2013/14

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>impact of their decisions.</p> <p>There is a risk that members are unable to assess the true consequences of their decisions.</p>			
4	31	<p>Stakeholder consultation</p> <p>The council has recognised the need to refine its approach to stakeholder consultation to ensure that the information extracted is useful and feeds into the decision making process.</p> <p>There is a risk that decisions do not reflect the needs and wishes of the community.</p>	<p>Officers & members will determine a clear purpose for engagement. It is recognised that conveying to stakeholders the nature and scale of the financial demographic pressures facing the council is an important dimension.</p> <p>The Community Planning Framework offers a suitable platform for stakeholder engagement.</p>	CFO/Head of Policy, Technology & Improvement	During Financial Year 2013/14