

Argyll & Bute Council

**Scotland's Public Finances:
Addressing the challenges.
A targeted follow up report**



Prepared for Argyll & Bute Council
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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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Background

1. In 2010, Audit Scotland agreed a targeted approach to following-up a small number of performance audit reports each year to promote local impact.
2. '*Scotland's public finances: Addressing the challenges*' published in August 2011 is the only performance audit report to be selected for targeted follow-up 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.
3. The aim of the local follow-up work is to assess how Argyll and Bute 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 local follow-up work.

Key findings

4. The following areas of good practice were identified through the review:
 - The budget pack was supported by a comprehensive package of budget papers outlining key assumptions, proposals, cost and demand pressures and financial risks;
 - The Council has carried out extensive budget consultation and engagement with members of the public, employees and key stakeholders;
 - The completed 3 year programme of service reviews identified and delivered the targeted savings.
5. The following points were identified for the council to consider:
 - The Council have identified a potential funding gap over the period 2013/14 to 2019/20 of £40.635 million. The gap is based on various assumptions and projections that may alter, perhaps significantly, as events develop;
 - The Council has identified required 2013/14 savings of £5.805 million. An approach/process is being developed to identify the further required savings of £34.830 million over the following 6 years.
 - Achieving the significant year on year incremental savings will require fundamental decisions to be made by elected members about service provision and delivery. As such there is scope for the Council to improve how it uses cost information to support decision making.

Management action

6. Management have agreed the factual accuracy of the report and completed the accompanying action plan (Appendix 1).
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 approaches 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. However, the report provided a checklist setting out a number of key issues and risks which managers, elected members and other leaders of public bodies 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's Performance Audit Group is currently undertaking an audit on workforce planning which is likely to address this issue in more detail.

Audit scope and objectives

13. The follow up audit is being carried out in all 32 Councils in Scotland. In addition, all health boards, 20 Central Government bodies, including the Scottish Government and Scottish Enterprise, and Scottish Water will be covered by the follow up audit. The aim of this follow-up work is to assess how public bodies are responding to the challenges of public sector budget constraints and their efforts to achieve financial sustainability.
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 sufficient scrutiny before approval?
15. These questions have helped us to establish how well Argyll and Bute Council is addressing the key messages contained in the national report.

Findings

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

Financial Plan 2013/14

16. In October 2012 the council adopted a medium/longer term approach to managing its budget by reviewing its financial position over a 7 year period. Previously the council adopted a strategic 3 year approach to managing its budget. This revised approach is based on a medium/longer term financial outlook for the revenue budget and sets out to manage that by spreading out the savings required over a 7 year period. It comprises a detailed 1 year budget, summary budgets for years 2 and 3 and high level forecasts for years 4 to 7. The revenue budget and savings required are to be reviewed and updated each year along with the corporate and service plans. The budget approach agreed by the council in October 2012 identified an annual funding gap in 2019/20 of £40.894 million resulting in required annual incremental savings of £5.842m (2.9% of service revenue budgets) each year.
17. Table 1 below lists the revenue budget for the periods 2013/14 to 2019/20 reported to the council on 14 February 2013. Whilst the longer term budget figures were reported to the council in February, only the detail of the budget for 2013-14 was approved. The updated annual funding gap in 2019/20 was revised to £40.635 million, resulting in required annual incremental savings of £5.805 million.

Table 1: revenue budget for periods 2013/14 to 2019/20

Funding Gap	Detailed Budget		High Level Budget					Summarised Budget			
	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000				
Base budget commitments	245,723	244,007	239,141	240,839	242,614	244,434	245,799				
Departmental non-pay inflation	1,929	4,019	7,175	10,434	13,744	17,141	20,626				
Departmental cost and demand pressures	2,077	4,524	6,091	8,091	10,091	12,091	14,091				
Savings previously agreed	-1,403	-2,292	-2,292	-2,292	-2,292	-2,292	-2,292				
Increased fees and charges	-350	-710	-710	-710	-710	-710	-710				
Total	248,326	250,258	250,115	257,072	264,157	271,374	277,514				
Funding	244,415	242,444	237,216	233,501	234,620	235,746	236,879				
Funding gap	-3,911	-7,814	-12,899	-23,571	-29,537	-35,628	-40,635				

18. The savings options agreed by the council in February 2013 meet the target of £5.842m per annum set by the council in October 2012 and are listed in Table 2 below:

Table 2: annual savings options agreed by council

Savings Proposals	Annual Saving £000
Improvement & HR	110
Strategic Finance	76
Adult Care	1,505
Children & Families	212
Community & Culture	348
Education	1,302
Facility Services	402
Customer & Support Services	248
Governance & Law	66
D&I Directorate	76
Economic Development	109
Planning & Regulatory Services	115
Roads & Amenity Services	910
3% increase in fees and charges 2015-16	363
Total Savings	5,842

19. Lead councillors worked with services to identify savings options and information on each savings option for 2013/14 is included within the annual service plans. Due to a required lead-in period, the council estimate that savings of £4.656 million can be realised for 2013/14. In order to achieve the updated annual funding gap arising from the budget (£5.805 million), the council agreed that the balance would be made up of diversion of one-off funding for Teacher Induction Scheme (£230,000) and transfer from reserves that have been unearmarked (£919,000).
20. The Scottish Government budget contains a commitment to ongoing efficiency savings. £2.160 million of the savings identified for 2013/14 are efficiency savings and £2.425 million of the full year savings shown at Table 2 represent efficiency savings.

Significant financial risks

21. A report submitted by the Head of Strategic Finance as part of the budget pack to the council in February 2013 summarises the current level of financial risk and compares to the financial risks noted within the report to council in February 2012. The report highlighted that there are a range of risks associated with the assumptions used in compiling the budget in terms of probability, service impact and financial impact.
22. An exercise was undertaken for each service looking at each of the main activities, teams and business units within a service and identifying risks related to cost levels, service demands and income. The probability, service impact and financial impact of each risk was assessed. A range of council wide risks were identified and assessed and risks related to savings options and funding were also identified and assessed.
23. The top three risks relating to service demands, in terms of the likely financial impact were identified as:
 - Winter Maintenance – Adverse weather conditions which require a greater than budgeted number of gritting runs
 - Adult care - Older People Population Growth
 - Older People - Level of service demand remains at current commitment or increases due to needs becoming more complex.
24. The main funding risks relate to council tax and Scottish Government grant. The estimated level of council tax income was reviewed at the end of November 2012 and is based on current and forecast band D equivalents and non-payment rates. No further increase in council tax income has been assumed for 2013-14 and 2014-15. A 1% variation in council tax income amounts to £0.450 million.
25. Scottish Government funding is based on the local government finance settlement announcement. The announcement on 27 November 2012 provided details of Local Government funding for 2013-14 and 2014-15 as part of the three year finance settlement. This represents a firm indication of funding for these 2 years and it is unlikely that funding will fall below these levels. One area of risk to funding would be if the council were deemed not to have met the conditions attached to the finance settlement and this has been assessed as remote. A 1% variation in Scottish Government funding amounts to £2.2m.
26. The report by the Head of Strategic Finance highlights that the council will need to monitor a number of the risks/assumptions contained in his report over the 2013/14 financial year and this monitoring will be built into the budget monitoring process.

Cost Reduction Plans

27. The council has completed a 3 year programme of service reviews where savings targets of between 15% and 20% were set. A clearly documented and structured approach encompassing baseline, benchmarking, future challenges, risks analysis and two stage options appraisal was used for each review. There was a robust methodology for identifying,

implementing and monitoring savings and changes in service delivery that led to efficiency savings, prioritisation or better use of resources. The council's Assurance and Improvement Plan Update 2013-2016 records that the council has demonstrated a good track record of completing service reviews to time and implementing the recommendations to deliver the required savings.

28. The programme of service reviews, which commenced in 2009, had been the main tool for the council in identifying budget savings since 2010/11. Savings proposals are now developed and considered as part of the budget process and are included within service plans. For 2013/14, the savings options section within each service plan contains a summary of all savings options followed by comprehensive details for each savings option. The details include impact on service delivery, impact on staff, longer term implications, risks associated with the implementation timetable and actions required to deliver savings. Where necessary, equality impact assessments have also been undertaken. Implementation of savings is reviewed through budget monitoring and performance scorecards to assess both the financial impact and the impact on performance.
29. As outlined above, officers have developed savings options for 2013/14, with each option described in the relevant savings template, and have also considered the actions required to deliver the saving and any risks associated with the saving implementation timeline. The council acknowledge, however, that the savings options have not gone through the same robust process as the service review options in previous years. As noted above, implementation of the savings will be monitored through routine budget monitoring.

Action Plan 1

30. The council has also developed a Corporate Improvement Plan to take forward corporate improvement, deliver the annual requirement for efficiency savings and support continuous improvement.

Benchmarking: costs and performance

31. Our Annual Report on the 2011/12 Audit recorded that there was scope to develop a more coordinated approach to benchmarking, to demonstrate benchmarking is being carried out on a comprehensive basis across all services and that it is being used to improve performance. The Report also noted that the process of mapping cost and budget to service and corporate outcomes could be further refined.
32. In their response, the council noted that these actions would be taken forward via the Corporate Improvement Plan as part of the project related to productivity and service improvement.
33. At its meeting in December 2012 the Audit Committee considered a report on the national review carried out by Audit Scotland "Managing Performance – Are You Getting It Right?" The committee noted that the areas for improvement identified in the report were also being taken forward through the project on Productivity and Service Improvement as part of the Corporate

Improvement Programme and that a key element of this project is the review of the council's Planning and Performance Management Framework (PPMF).

34. The council has produced an action plan to address the key points contained in Audit Scotland's report *Using cost information to improve performance* published in May 2012. The council acknowledge that it can improve how it uses cost information against a number of the key points from the checklist; in particular, there is scope to improve information in detailed cost analysis of services to support decision making arrangements. The action plan will be taken forward principally through the Corporate Improvement Plan project related to productivity and service improvement. No dates for completion of the action steps have been included in the action plan.

Action Plan 2

Longer Term Financial Strategy

35. As outlined in paragraph 16, the council's approach is based on a medium/longer term financial outlook for the revenue budget and sets out to manage that by spreading out the savings required over a 7 year period. It comprises a detailed 1 year budget, summary budgets for years 2 and 3 and high level forecasts for years 4 to 7. This approach was agreed by the council at its meeting on 25 October 2012 and proposed to balance income and expenditure over the medium/longer term, rather than requiring a fully balanced budget in each and every year. The key requirements for this approach were agreed as:
- spreading the revenue budget savings over the next 7 years;
 - reviewing and updating the revenue budget and savings required each year;
 - reviewing and updating corporate and service plans each year;
 - over the 7 years expenditure must not exceed income;
 - any use of reserves in any year must be offset by re-instatement in other years unless it is a one-off use of reserves to fund one-off costs;
 - the council must have adequate reserves to manage any interim differences between income and expenditure in the seven years; and
 - the final year expenditure must not exceed income that year to ensure the underlying budget carried forward is sustainable.
36. As detailed in Table 1, an annual funding gap in 2019/20 of £40.894 million was identified after deducting the current base commitments, inflation, cost/demand pressures and fees proposals from the funding and adjusting for the savings previously agreed as part of the 2012/13 budget exercise. In his report on the Revenue Budget to the council in February 2013, the Head of Strategic Finance records that if all of the proposals included in the budget were taken (including one-off requests for funds detailed in his report) then:

- total expenditure over the seven years is £12.630m less than income;
- the annual savings target of £5.842m has been met; and
- expenditure in 2019-20 exceeds income by £0.037m.

37. This is on the basis, however, that the savings targets each year from 2014/15 will be achieved. At this stage only savings for the first year (2013/14) have been identified and an approach to delivering the remaining years' savings is currently being developed. Continuing to deliver vital public services with a reducing budget will be a significant challenge for the council. Members will need to provide consistent and clear leadership on priorities. There is a risk that the council is unable to deliver vital public services if these savings are not achieved.

Action Plan 3

38. At its meeting of 27 June 2013, the council considered a report by the Head of Strategic Finance which set out proposals on how to take forward the revenue and capital budget process for 2014/15 and also provided summary information on the current budgetary outlook through to 2019/20 (long term position still around a £5.8m gap per annum). The proposals included a recommendation that the council need to consider whether it wants to continue with balancing the budget over the period to 2019/20 or whether the focus should be on a shorter period of time. A further update on the revenue budget outlook was reported to members on 29 August 2013. In overall terms this outlined a similar position to that reported in June.

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

Ownership of Financial Plans

39. The council has an effective budget setting process which clearly demonstrates an understanding of its costs, financial pressures and the impact of any proposed savings. The budget pack submitted to the council contains a comprehensive package of budget papers outlining key assumptions, proposals, cost and demand pressures and financial risks.
40. Within the budget pack, annual service plans are provided for each service, influenced by the objectives and priorities of the Corporate Plan. As part of the 2013/14 budget process, the council has also updated the Corporate Plan. Service Plans have been prepared for each service and these have been influenced by the objectives and priorities emerging from the corporate plan update and risk registers. The service plans provide an overview of each service, show how service and corporate outcomes relate to each other and set out the success measures, targets/timescales, and risks for each service outcome. The service plans also list details of the budgetary allocation against each service outcome and provide a summary of the key budgetary issues for each service.
41. Service budgets have been constructed to reflect the service plans. Within each service plan there are several templates including a financial summary, base adjustments, cost pressures, demand pressures, inflation and savings options. The templates also identify the risks and

resource implications as well as budgetary impact. As a result, the council is able to demonstrate it has allocated resources in line with its priorities.

42. Senior officials and elected members are involved throughout the budget setting and approval process. All budget related reports are presented to the council and lead councillors worked with services to identify savings options. Information on each savings option for 2013/14 is included within the annual service plans.
43. As noted at paragraph 21 above, a report submitted by the Head of Strategic Finance as part of the budget pack to the Council in February 2013 summarises the current level of financial risk and compares to the financial risks noted within the report to council in February 2012. Risks specific to Income & Funding and Expenditure are included in the Strategic Risk Register (SRR) which is considered regularly by the Audit Committee. The council oversees the strategic risks associated with activities mainly through direction from the Audit Committee. The SRR identifies 'a need to make significant and unplanned reductions in expenditure or redirection of budgets' in the amber risk category. The risk register also documents the controls in place to mitigate risks.
44. As part of the budget process, the strategic risk register is reviewed against the draft corporate and service plans. Service plans and budgets are prepared to reflect current risks.

Transparency and Accountability

45. As part of the 2013/14 budget process, 3,000 copies of the budget consultation leaflet were distributed to council offices for members of the public to access. It was also available through the council's website where there was a budget simulator tool and on the "looking local" television channel. Responses or comments could be made in writing, by e-mail (where a general e-mail address was set up) or online. There was also a web cast by the Council Leader. A presentation based on the content of the budget consultation leaflet was made to the Community Planning Partnership Management Committee and to special meetings of the Area Community Planning groups. Lead councillors met a number of stakeholder groups. Argyll Voluntary Action carried out engagement sessions with hard to reach groups. The Deputy Leader and Lead Councillor for Strategic Finance and SMT also met with the trade unions for a budget briefing session.

Role of elected members

46. Detailed quarterly revenue budget monitoring reports are presented to the full council. These provide narrative relating to year to date/forecast outturn position supported by overall successes, challenges, risks and future actions, objective (departmental breakdown) summary, subjective (cost type breakdown) summary and an analysis of targeted savings versus savings realised to date. This is supplemented by budget monitoring reports for each directorate detailing:
 - Successes, challenges, risks and future actions
 - Objective summary

- Subjective summary
- Targeted savings versus savings realised to date
- Major variances with explanations
- Expenditure to date versus remaining budget graph

47. Detailed quarterly capital monitoring reports are also presented to the full council.

Identified risks and management action

No	Para No.	Issue/ Risk	Management Response	Target Date
1	29	<p>The council acknowledge that the savings options developed for 2013/14 have not gone through the same robust process as the service review options in previous years.</p> <p><i>There is a risk that planned savings for 2013/14 may not be achieved as a result of inadequate scrutiny and challenge of savings options identified.</i></p>	<p>Implementation of budget savings will be monitored through routine budget monitoring and progress reported to Council. The June budget monitoring report which was reported to Council in August indicated that 75% of savings had been secured 25% of the way through the financial year. There were only 2 savings options where significant issues had been identified and these have been reported – Struan Lodge and Streetscene.</p>	Already actioned.
2	34	<p>The council has produced an action plan to address the key points contained in Audit Scotland's report "Using cost information to improve performance" published in May 2012. The action plan is to be taken forward principally through the Corporate Improvement Plan project related to productivity and service improvement. No dates are included in the action plan</p> <p><i>There is a risk that each of the action steps is not accomplished within a reasonable timescale.</i></p>	<p>This will be taken forward on a number of fronts. Service prioritisation reviews will require an element of cost information to be considered. The Councils approach to benchmarking will require unit costs to be compared including the use of the SOLACE national benchmarking information. Progress has commenced within Roads and Amenity Services on developing service based financial performance measures and this will be reviewed and rolled out to all service and captured as part of the review of the Planning and Performance Management</p>	Progress will be reviewed at 31 March 2014.

No	Para No.	Issue/ Risk	Management Response	Target Date
			Framework.	
3	37	<p>The required 2013/14 savings of £5.805 million have been identified. An approach/process is being developed to deliver future years' savings. Members will need to provide consistent and clear leadership on priorities.</p> <p><i>There is a risk that the council is unable to deliver vital public services if these savings are not achieved.</i></p>	<p>This will be addressed as the Council reviews its corporate plan and develops with community planning partners the detailed action plans to support delivery of the Single Outcome Agreement. These priorities will then be reflected in spending plans through the programme of service prioritisation reviews that will align resources with council priorities.</p>	<p>Progress will be reviewed at 30 June 2014.</p>