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**To:                Audit, Scrutiny & Petitions Board**

**On:                16 February 2015**

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**Report by:     Director of Finance & Resources**

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**Heading:        Audit Scotland Report, ‘Scotland’s public  
finances. A follow-up audit: Progress in meeting  
the challenges’**

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**1.                Summary**

1.1                Audit Scotland recently issued the report above as a follow-up to their 2011 report ‘Scotland’s public finances: Addressing the challenges’, which they produced for the Accounts Commission. Copies of the full report are available on the Audit Scotland website or from the Director of Finance and Corporate Services. The report provides a high-level update on the financial position and on how the 67 public bodies examined are meeting the challenges of budget constraints. This report to Members outlines the main findings of the Audit Scotland report, and provides some detail on the Renfrewshire Council position with regard to the issues raised.

1.2                The auditors assessed whether public bodies had sustainable financial plans that reflected a strategic approach to their finances. They also considered the role of councillors and non-executive directors in approving budgets and in holding staff to account for delivering budgets.

1.3                Audit Scotland recommended that public bodies should:

- implement an approach to budgeting that focuses more on priorities and links planned spending more closely with the outcomes they want to achieve

- develop a longer-term approach to financial planning that takes account of priorities, risks and liabilities and provides assurances on long-term affordability
- support effective scrutiny by ensuring that good quality information is available and that councillors and non-executive directors have the right skills to carry out their scrutiny roles.

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## 2. **Recommendations**

- 2.1 That the Audit, Scrutiny & Petitions Board notes the Audit Scotland report, 'Scotland's public finances. A follow-up audit: Progress in meeting the challenges'

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## 3. **Background**

- 3.1 The Audit Scotland report outlines the significant financial challenges that public bodies face. All public bodies are required to produce balanced budgets and hold people in their organisations to account for how the money is used and what is achieved. Councillors and non-executive directors have an important role in making sure the budgets they approve are used to best effect. To do this they need good quality and timely financial information. They also need to take a longer-term view on: the options available for services and how these will deliver outcomes; the standards of services that are affordable; and the sustainability of financial plans. The report is based on local audit work in 67 public bodies and provides a high-level summary of the main themes arising and identifies what more work needs to be done.

- 3.2 An extract of the key messages contained within the Audit Scotland report are summarised below in bold text along with further supporting summary information from the detail of the report. In addition, in relation to each key message the Renfrewshire Council response is shown in italics.

### **Overview of Key Messages and Renfrewshire Council Position**

- 3.3 **Scotland's public sector continues to face significant financial challenges. The Scottish budget has fallen nine per cent, in real terms, from £31.9 billion in 2009/10 to £28.9 billion in 2014/15 and is expected to reduce further. Public bodies have coped well so far but face increasingly difficult choices in reducing spending while maintaining service standards and meeting rising demand.**

The report highlights that public bodies have coped well so far with reduced budgets. Reducing staff costs was one of the main methods used to achieve the required savings. Between 2009/10 and 2011/12 staff numbers reduced by 26,600 to 373,400 (whole-time equivalent) using voluntary early release schemes and transferring almost 10,000 (whole time equivalent) staff to ALEOs and organisations outside the public sector. Where staff transferred, some form of public funding is paid to the provider to deliver public services, a proportion of which will be used to pay staff. Other methods such as pay and recruitment freezes were also used to manage costs.

Public bodies continue to face significant challenges from rising demand and increasing pressures on services. Examples of these pressures are highlighted in the table below.

<b>Ongoing pressures in the public sector</b>	
<p><b>Demand</b> Increase pressure on health and social care services, advice services and affordable housing due to:</p> <ul style="list-style-type: none"> <li>• Ageing population</li> <li>• Changes to welfare system</li> <li>• Recent recession</li> </ul>	<p><b>Investment</b> Investing in the public sector estate is key to economic growth. With reductions to the capital budget, public bodies are exploring options for financing capital projects such as borrowing, non-profit distribution and tax incremental financing. Long-term affordability is an important consideration for public bodies when making investment decisions, with the Scottish Government setting a limit on annual financing costs in relation to budgets.</p>
<p><b>Financial</b> Increased challenges of providing services as budgets continue to fall. Measures taken in recent years, such as pay freezes, are unlikely to be sustainable in the longer term.</p>	<p><b>Assets</b> The rising cost of backlog maintenance and repair continues to be a problem. For example, around a third of Scotland's local roads need repairs, with 6% of these categorised as high priority.</p>
<p><b>Workforce</b> Most public bodies have reduced staff levels and have plans to make further reductions. The costs associated with voluntary redundancy or early retirement schemes place immediate pressures on annual budgets.</p>	<p><b>Environmental</b> Managing rising energy and fuel costs, zero waste targets and challenging targets to reduce emissions often require spend-to-save investment.</p>

*Renfrewshire has experienced many of the pressures outlined above; and has since 2009 made significant savings to address both reducing resources and increasing budget pressures. The Director of Finance and Corporate Services reported to the Leadership Board in December 2014 that over the medium term to 2017/18 it was projected that the Council has an underlying budget saving requirement of £20 million to £30 million; with increasing uncertainty around future grant, pay levels and growing pressures in for example social work pushing the risk towards the upper end of this forecast. It is recognised that while efficiency savings still play a crucial role in addressing these pressures, a more transformational approach is required to ensure the Council can continue to operate within its resources. The Better Council Change programme will be a key part of supporting the Council to respond to this challenge over the medium term.*

**3.4 In setting budgets, public bodies need to focus more on their priorities, making clearer connections between planned spending and the delivery of outcomes. Rigorous use of options appraisal based on sound information is required for good budget-related decisions and making those decisions clear and understood.**

Audit Scotland feel that public bodies need to focus on making the most of the money available as well as identifying ways to reduce costs. Effective budgeting is an important component of good financial management and can help bodies understand where best to direct resources to achieve the greatest benefit. It sets out where and how much money will be allocated and provides the basis for monitoring the position throughout the year. As a result, the development and scrutiny of setting annual budgets is an important activity within public bodies, particularly during periods of financial constraint.

The report suggests that in the current financial environment, public bodies need to implement an approach to budgeting that focuses on their priorities and links planned spending more closely with the outcomes they want to achieve. The outcome-based performance framework (through the National Performance Framework and Single Outcome Agreements) provides a basis for public bodies to adopt a priority-based approach. The approach focuses on priorities and allocating money to the services or areas that contribute most to delivering these outcomes. This depends on a shared understanding of which services contribute most and least to the organisation's priorities. Services or activities that contribute least to outcomes may be reduced or withdrawn.

Achieving outcomes often involves joint working with partners. Where this is the case, for example in Community Planning Partnerships (CPPs), public bodies need to work together to identify where they can direct money to make the greatest difference. This means ensuring that budget setting takes full account of shared priorities and commitments.

Audit Scotland considers that options appraisal and benchmarking are key components of financial management including priority-based budget setting. Rigorous options appraisal based on sound information, including information from service users, helps ensure good budget-related decisions and helps make clear why decisions are made. Using benchmarking information in budget setting can highlight potential opportunities associated with different options such as improved procurement practices or more efficient deployment of staff.

*Both the Community Plan and the Council Plan “A Better Future, A Better Council” outline the key priorities for the Council over the medium term, providing a clear strategic framework to guide the Council in its budget setting and financial planning. Close working throughout the course of the year between members and officers; and between services ensure a clear and consistent understanding of these priorities and how they underpin the Council’s financial planning arrangements*

*In strictly applying the Council’s project management framework for all significant projects, the Council ensures that rigorous option appraisal is undertaken with key decisions being based on sound evidence and thorough costings and the Council actively engages in a wide range of self evaluation processes and national benchmarking arrangements as part of identifying opportunities for improvement.*

**3.5 There is limited evidence of longer-term financial planning. Plans generally focus on the short to medium term up to five years. More work is needed to develop and regularly review long-term financial strategies that reflect priorities, risks and liabilities and the implications for affordability.**

Long-term financial strategies covering a five to ten-year period help set the context for annual budgets and can also help identify problems with sustainability at an early stage. Although funding allocations from the Scottish Government typically cover one to three-year spending review periods, Audit Scotland feel that this should not prevent public bodies assessing their spending needs and options over a longer period.

Audit Scotland is of the view that with limited information on available funding beyond 2015/16, public bodies should undertake scenario planning as part of their long-term financial strategies. This involves making assumptions about different levels of future income, expenditure and activity and outlining options based on each scenario. This helps to identify potential solutions to difficulties arising from variations in levels of future funding. It also provides an opportunity to outline ways to maintain service levels.

*The Council has for some time used a long term financial planning model in forecasting key areas of financial risk for the Council over the next 10 years. This model is not used as a budgeting tool, but to inform the Council's medium term financial strategy through modelling different scenarios with regards funding settlements and areas of service pressure. This assists the Council to identify early the key long term financial risks, their potential long term impact on the Council's financial sustainability and allows appropriate and early mitigation strategies to be developed and incorporated into medium term financial planning arrangements.*

### 3.6

**Non-executive directors and councillors have a crucial role. This involves approving budgets and holding people within their organisations to account for how the money is spent and the outcomes achieved. Public bodies need to improve the quality of information provided to non-executive directors and councillors to support them in their role.**

The report highlights that while scrutiny arrangements are generally sound, more information is needed on progress towards delivering outcomes. Effective scrutiny should be independent, balanced and hold people to account for their spending plans and use of public money for which they are responsible. It requires relevant, reliable and timely information.

The opportunity to provide good scrutiny and challenge of financial plans will be reduced if information is not provided, incorrect, out of date or incomplete. The characteristics of the information should be as follows:

- **Reliable** – Information should be accurate, representative and verifiable. Where assumptions or estimates are used these should be clearly stated.
- **Timely** – Information should be up to date and provided on a regular basis.
- **Complete** – Information should be comprehensive and cover the areas relevant to the needs of key decision-makers.
- **Transparent** – Information should be clear, understandable and easy to obtain.

- **Consistent** – Information should be reported on the same basis across different periods to allow for comparisons to be made.

The report also suggests that benchmarking should be used by public bodies to gain a better understanding of their costs and performance, identify areas for improvement, highlight opportunities and validate successful performance. In local government, auditors reported that councils could benchmark more effectively and do more to demonstrate its benefits. SOLACE, COSLA and the Improvement Service have been leading on work to establish a new benchmarking framework in local government.

Finally, the report highlights the importance of training for councillors and non-executive directors to support them in budget-setting and scrutinising performance against budgets. The introduction of different methods of paying for major capital investment, such as tax incremental financing and Non-Profit Distribution, is an example of a complex area where support may be required to ensure public sector leaders are fully aware of the key issues, risks and impact on public finances. Effective budget-setting and scrutiny can only take place when these people have the right skills and support to carry out their roles.

*The Council has well established scrutiny arrangements in place, both through the operation of the Audit, Scrutiny & Petitions Board and the Policy Boards to which financial performance is regularly reported; with a Council-wide financial overview being considered at the Finance & Resources Policy Board.*

*The Council actively uses and supports the development of benchmarking information, with the Council playing a key role in the development of the Improvement Service benchmarking framework. The Council also regularly uses benchmarking information – both financial and non-financial – to assess the service performance eg CIPFA performance indicators, Rating Review information, and ADSW benchmarking information.*

*Regular training sessions are available for all elected members to participate in on a range of topics; in addition to specific training sessions being held for members of the Audit, Scrutiny & Petitions Board.*

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### **Implications of the Report**

1. **Financial** – the Audit Scotland report outlines the financial position of the public sector in Scotland; and outlines the challenges facing public sector organisations in terms of financial management, reporting and scrutiny.
2. **HR & Organisational Development** - None.
3. **Community Planning** – None.
4. **Legal** – None.
5. **Property/Assets** – None.
6. **Information Technology** – None.
7. **Equality & Human Rights** - The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.
8. **Health & Safety** – None.
9. **Procurement** – None.
10. **Risk** – None.
11. **Privacy Impact** – None.

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