

# **West Dunbartonshire Council**

## **Scotland's public finances: Addressing the challenges A targeted follow-up report**



Prepared for the West Dunbartonshire Council  
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# Executive Summary

## 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 West Dunbartonshire 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 local follow-up work.

## Key findings

### Areas of good practice

4. The Council has produced a long term financial strategy 2011/12 - 2020/21 which provides direction on how the Council should manage and structure its financial resources to ensure they are utilised effectively and are directed towards achieving the Council's corporate objectives in the medium to long term. It is updated regularly and considers the financial outlook and key known, or anticipated, issues and which need to be factored into the Council's financial resources in the short term (within 3 years), medium term (5-10 years) and long term (over 10 years).
5. The annual revenue budget is based on current service demand, forecast funding reductions and targeted savings based on the council's policies and plans. The draft budget is subject to a consultation process which allows the public to fully consider the proposals, provide input and perspective, and enable public opinion to shape and influence the decision making process.
6. Strategic and departmental plans are updated regularly and reported to the relevant committee and/or full council (as appropriate). The Council reports comprehensively on performance and has introduced balanced scorecards which focus on strategy and have performance indicators aligned to strategic objectives.
7. The Corporate Management Team (CMT) regularly consider both financial risk and the achievement of, and progress toward, efficiency targets. Financial risk is a key strategic consideration on the Council's risk register and an appropriate risk scorecard and mitigation plan have been implemented.

## Areas with scope for improvement

8. The Council has recognised a number of areas where improvement can be made, although it is noted that these represent improvements to existing practices rather than material weaknesses in current processes. In particular:
- Improving information provided on the potential impact of budget reductions and efficiency savings on service delivery.
  - Further enhancing budget-setting and cost reduction plans through:
    - developing a clearer understanding of how current and future performance and outputs are affected by funding levels
    - considering how funding can be better focused on those services and activities which are most aligned to achieving the Council's objectives
    - continue to review approaches to consultation and engagement that promote early stakeholder involvement and consideration of any proposals for change and efficiencies.
  - Considering the benefits of benchmarking costs and charges with other organisations to determine if additional savings could be achieved from following alternative approaches used by other organisations.

## Management action

9. Management have agreed the factual accuracy of the report and completed the accompanying action plan (Appendix 1).
10. 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

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

# Introduction

12. *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.
13. 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 approached 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.
14. 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.

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 scoping an audit on workforce planning which is likely to address this issue in more detail. To avoid duplication and overlap therefore, targeted follow-up work will not include the consideration of workforce planning issues.

## Audit scope and objectives

15. 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. The aim of the 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.
16. 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?
17. These questions are expanded in a checklist developed by our performance audit colleagues. The checklist breaks down the two key questions into a number of sub-questions aimed at finding out how well the Council is doing, locally, in addressing the key messages contained in the national report. The checklist formed the basis of this local report and is reproduced at Appendix 2.

# Main Findings

## **Q1: Does the Council have sustainable financial plans which reflect a strategic approach to cost reduction?**

### **Financial plan 2013/14**

18. The Council approved a 2013/14 financial plan in February 2013. This details the revenue budget for 2013/14, savings and growth options to incorporate into the 2013/14 budget and indicative budgets for the financial years 2014/15 and 2015/16.
19. A projected funding gap of £1.238m is estimated for 2014/15 and £6.881m in 2015/16. The Council has identified cost reduction options to help address this funding gap and this is explained later in the report. However, the projected funding gap will continue to vary as events unfold and could increase over the period of the financial plans.

**Action Plan 1**

### **Budget-setting process**

20. The Council has a well-established budget setting process which includes the CMT, active participation between council officers and elected members and consultation with local residents through consultation forums and online questionnaires. The consultation process allows the public to fully consider budget proposals, provide input and perspective, and enable them to shape and influence the decision making process. Following a disappointing response during the 2012/13 process, the Council adopted a number of differing methods to attract greater participation during the 2013/14 process. The Council have recognised that public consultation is an area requiring on-going development and we welcome their commitment to exploring alternative ways to encourage greater participation by stakeholder and consultation groups.
21. Budget setting is predominantly based on priorities factoring in current levels of service and demand, known or forecast funding reductions and increased demand or known burdens. Efficiency savings identified in budgets are political decisions based on resource prioritisation, supported by the joint planning and budget guidance. Although prior year service delivery is taken into account when setting budgets, in particular where current funding levels are or could impact on performance issues, the Council recognise this as an area where further improvements could be made. Furthermore there is recognition that budget setting could be enhanced through more detailed analysis of those service/activity areas which are most aligned to achieving the Council's objectives.

**Action Plan 2**

### **Cost reduction plans**

22. The Council has identified a series of efficiency savings / cost reduction options which contain a range of service redesign and restructure programmes that are estimated to deliver £3.8



million in savings in 2013/14. Executive Directors are accountable for cost reduction plans that affect their departments and progress in achieving the targets is monitored and reported quarterly to the CMT. However transparency and accountability could be enhanced by also reporting this to the relevant committee.

### **Action Plan 3**

23. Prior to approving the annual revenue budget the impact of proposed CMT savings options, including staffing implications and the likely impact on Council strategic priorities, is highlighted to members. In addition to CMT proposals the political groups submit savings options as part of the budget papers. The 2012/13 revenue budget proposals included an appendix which highlighted savings against budget lines. For each saving there is a brief description and the amount of proposed saving. However political group proposals do not highlight issues such as a description of the potential service impact, action required to deliver the budget reduction and, where applicable, the potential reduction in staff numbers (FTE). Officers recognised that the information provided needs to be improved.

### **Action Plan 4**

## **Benchmarking: costs and performance**

24. The main form of benchmarking planned for use by the Council from 2013/14 onwards will be the adoption and monitoring of the 55 SOLACE benchmarking indicators. This will enable the Council to identify areas where they compare favourably and unfavourably with other councils, especially those councils of a similar make-up.
25. Although the Council do make some use of other benchmarking, i.e. Housing Environmental Economic Development utilise the Association for Public Service Excellence for benchmarking information across a range of services, it is limited and they do not routinely benchmark costs or charges made for services. During this period of increasing financial constraint, consideration should be given to the benefits of benchmarking costs and charges with other organisations to determine if additional savings, or increased income, could be achieved from following alternative approaches utilised by other organisations.

### **Action Plan 5**

## **Longer term financial strategy**

26. The Council prepared a Long Term Financial Strategy 2011/12 - 2020/21 which was first approved by the full Council on 31 August 2011. It is a live document which is reported to full Council three times per annum. It was last updated in September 2012 and a further update is due in October 2013. The strategy is designed to provide direction on how to manage the Council's financial resources to ensure they are utilised effectively and are directed at achieving the Council's corporate objectives in the medium to long term.
27. The strategy sets out a summary financial model, explains the national and local context within which the Council operates and outlines financial assumptions and the short, medium and long term revenue issues that the Council are facing.

**Q2: Do senior officials, elected members and demonstrate ownership of financial plans and are they subject to sufficient scrutiny before approval?**

**Ownership of financial plans**

- 28. Throughout the budget setting process elected members meet regularly with council officers, including the CMT, to discuss options. Revenue and capital budgets are approved annually by full Council and elected members consider the impact of budget reductions on service delivery based on the information provided in the proposed budgets prepared by Council officers in conjunction with elected members. This allows for adequate levels of discussion and challenge to take place prior to approval of financial plans.
- 29. Budgetary control reports are reported to the CMT on a monthly basis and reported regularly to relevant service committees and full Council. Members are updated on issues which may impact upon the Council's financial plans such as Welfare Reform and Treasury Management through member briefings and member development days.
- 30. Attendance at committee meetings and review of committee minutes has confirmed that there is appropriate scrutiny of the budget and on-going monitoring of performance against budgets.
- 31. The CMT consider financial risk regularly and financial risk is a key strategic risk on the Council's risk register with an appropriate risk scorecard and mitigation plan in place.

**Transparency and accountability**

- 32. During the setting of the 2012/13 budget elected members, at a Council meeting held in December 2011, were provided with a copy of the draft revenue estimates and a report providing details of the financial settlement received from the Scottish Government. This was followed by the public consultation process described at paragraph 20. At the budget-setting Council meeting the approved budget reflected the outcome of the public consultation process and draft budget adjustments identified by the CMT. For the 2013/14 budget a similar process was followed with the exception that elected members were provided with a copy of the CMT savings options in December rather than the full draft revenue estimates. The Council is currently reviewing their approach to consultation and engagement in a wider sense, including how the budget consultation processes align with a holistic approach to consultation with a focus on promoting early stakeholder involvement and consideration of any proposals for change, aligned to the Council's strategy and priorities.
- 33. Strategic and departmental plans are updated regularly and reported to the relevant committee and/or full Council (as appropriate). The Council reports comprehensively on performance and has introduced balanced scorecards which focus on strategy with performance indicators aligned to strategic objectives.

**Role of audit or scrutiny committee**

- 34. As noted above budgetary control reports are reported to the CMT on a monthly basis and reported regularly to appropriate service committees and full Council for scrutiny. Minutes of committees and Council are reviewed throughout the audit year and this confirms that

budgetary control reports are regularly submitted and action is taken in response to adverse variances. These reports compare budget with actual to date and all service variances in excess of £25,000 are included within the report alongside explanations for the variance. The report collates a large amount of information and if any member wishes further details on any of the variances they have the opportunity to contact the relevant council officer prior to the committee meeting or ask questions at the meeting.

# 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	19	<b>Funding Gap</b> The projected funding gap of £1.238 million in 2014/15 and £6.881 million in 2015/16 identified in the financial plans in February 2013 could vary as events unfold or if planned efficiencies are not attained. There is a risk that the funding gap may increase and the Council will have to identify further savings.	The financial strategy will be reviewed and reported to Council in October and at appropriate future Councils thereafter. These updated strategies will consider the changing financial landscape and identify changes to the projected funding gaps on an ongoing basis.	Head of Finance & Resources	First update planned for 30th October 2013
2	21	<b>Budget Setting Process</b> The Council's budget setting process could be further enhanced by further considering the impact of funding levels on performance and outputs and identifying the service/activity areas most aligned to achieving strategic objectives. There is a risk that resources are not allocated based on a clear understanding of priorities and performance targets.	Officers will consider the approach to budgeting and whether a priority based budgeting approach can be developed in a meaningful and productive manner which would assist Members in considering where funding priorities lie.	Head of Finance & Resources	31st July 2014
3	22	<b>Monitoring Cost Reductions / Saving Options</b> Progress toward achieving	The budgetary control	Head of	From 1st

Action point	Refer para no.	Risk identified	Planned management action	Responsible officer	Target date
		cost reduction measures is not routinely reported to an appropriate committee. There is a risk that elected members are not scrutinising progress toward achievement of savings options.	reports provided to Committees and Council will provide information in relation to the achievement of agreed cost reduction measures	Finance & Resources	October 2013
4	23	<b>Cost Reductions / Savings Options</b>  When approving the revenue budget the description of proposed saving options could be enhanced by detailing the potential service impact, action required to deliver the budget reduction and, and, where applicable, the potential reduction in staff numbers.  There is a risk that members approve savings options without having a full appreciation of the potential impact on service delivery.	The savings options developed for financial year 2014/15 will include improved standard of information for Members consideration	Head of Finance & Resources	31st January 2014
5	25	<b>Benchmarking</b>  The Council do not systematically benchmark costs and charges against other organisations.  There is a risk that the Council could forego an opportunity to achieve further savings and/or income by considering good practice in other organisations.	Officers are reviewing the Council's Continuous Improvement Strategy. The review includes a systematic approach to benchmarking. The new model is currently being tested in a number of service areas.	Executive Director Corporate Services	30th October 2013

# Appendix 2 - Audit checklist

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

Sub-question	
1.1	<ul style="list-style-type: none"> <li>Does the organisation have a balanced financial plan for 2012/13 which sets out:</li> <li>Assumptions about sources of income and cost pressures?</li> <li>What cost reductions and other efficiency savings will need to be made, and how they are to be delivered?</li> <li>Risks to service delivery as a consequence of the need to reduce costs and deliver identified efficiency savings?</li> </ul>
1.2	<ul style="list-style-type: none"> <li>Does the organisation have a clear budget-setting process which:</li> <li>Demonstrates a clear understanding of its costs and how costs vary with activity?</li> <li>Takes into account previous years' service delivery performance and where improvements need to be made?</li> <li>Takes into account the body's track record on delivering against budgets and analysis of the reasons for previous years' under/over spends?</li> <li>Allocates resources according to a clear understanding of its priorities, including which services or activities are expected to contribute most and least to the achievement of the organisation's outcomes?</li> </ul>
1.3	<ul style="list-style-type: none"> <li>Is there a clear evidence base to cost reduction plans? If yes:</li> <li>Does the organisation undertake a programme of service reviews designed to identify the scope to reduce costs?</li> <li>Do cost reduction plans provide adequate detail on how savings are to be made and over what timeframe?</li> <li>Do cost reduction plans state who within the organisation is accountable for their delivery?</li> <li>Do cost reduction plans give adequate consideration to the impact of reduced expenditure/ changes to service delivery arrangements on service performance and outcomes?</li> <li>Are clear baselines established against which efficiency savings can be measured?</li> </ul>
1.4	<ul style="list-style-type: none"> <li>Does the organisation regularly use benchmarking to compare its costs and performance with other organisations, including public bodies in other sectors and</li> </ul>

Sub-question	
	<p>other non-public sector bodies?</p> <ul style="list-style-type: none"> <li>Can the organisation demonstrate real and measurable benefits from its benchmarking activities in terms of cost and/or quality improvements?</li> </ul>
1.5	<ul style="list-style-type: none"> <li>Does the organisation have a longer term financial strategy which:</li> <li>Takes into account planned changes to service delivery arrangements and anticipated changes in demand for services?</li> <li>Sets out how financial resources will be matched to strategic goals?</li> <li>Demonstrates that current cost reductions and efficiency savings are in line with longer term strategic objectives?</li> </ul>

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

Sub-question	
2.1	<p>Do senior officials, elected members and non-executive directors demonstrate ownership of financial plans:</p> <ul style="list-style-type: none"> <li>Are high level financial targets and the overall financial position of the organisation discussed regularly at board level meetings?</li> <li>In setting financial plans, do members adequately consider the impact of budget reductions on service quality and outcomes?</li> </ul>
2.2	<p>Do senior officials, elected members and non-executive directors provide:</p> <ul style="list-style-type: none"> <li>Sufficient focus on strategy and performance?</li> <li>Adequate challenge on longer-term financial plans?</li> <li>Regular consideration of financial risks?</li> <li>Adequate monitoring of the achievement of efficiency targets?</li> </ul>
2.3	<p>Is there appropriate transparency and accountability of decisions about cost reduction measures and future organisational plans:</p> <ul style="list-style-type: none"> <li>Is there appropriate consultation with the public and other stakeholders over cost reduction plans which identify various options and their impact on service delivery and outcomes?</li> <li>Do financial and corporate plans adequately spell out the consequences of reduced budgets on the organisation's ability to deliver services and outcomes?</li> </ul>
2.4	<p>Do finance/resource committees and other scrutiny committees play a suitably prominent role in the consideration of budget plans and risks to service delivery:</p> <ul style="list-style-type: none"> <li>Are finance/resource and other scrutiny committees sufficiently involved in the consideration of budget plans, including:</li> </ul>

Sub-question	
	<ul style="list-style-type: none"> <li>– the impact of budget reductions on service delivery</li> <li>– the organisation's track record of delivering against budgets?</li> <li>– reasons for previous years' under/over spends against budget?</li> <li>• Do finance/resource and other scrutiny committees undertake a regular programme of reviews of business areas to examine issues such as the achievement of value for money and service delivery?</li> <li>• Do finance/resource and other scrutiny committees regularly assess areas such as financial risks and efficiency savings?</li> <li>• Are reports from finance/resource and other scrutiny committees on budget plans and risks to service delivery given proper consideration by officials, with recommendations being promptly acted upon?</li> <li>• Do finance/resource and other scrutiny committees receive reports on the extent to which cost reductions and efficiency savings have impacted on service delivery?</li> </ul>