

**Audit Scotland Report: Scotland's Public Finances – A follow up audit:
Progress in meeting the challenges****Report By: Gary Fairley, Head of Finance and Integrated Service Support****1 Purpose**

To provide Audit Committee with a summary of the Audit Scotland report, 'Scotland's Public Finances – A follow up audit: Progress in meeting the challenges' and the Council's response in relation to the report's key messages.

2 Background

2.1 Scotland's Public Finances – Progress in meeting the challenges was published by the Accounts Commission in June 2014. The report can be obtained on Audit Scotland Website http://www.audit-scotland.gov.uk/docs/central/2014/nr_140605_public_finances.pdf. The report was a follow up audit from the previously published 2011 report 'Scotland's public finances: Addressing the challenges', which set out challenges which the public sector were facing and the scale of budget reductions expected to meet those challenges in the five years to 2014/15. The audit report is set out in two parts:

- **Part 1** – sets out the current financial position
- **Part 2** - sets out how public bodies are meeting the challenges of reduced public spending, taking into consideration long-term financial planning and the key role of Councillors in ensuring bodies are well positioned to deliver quality services for less money.

2.2 The key findings from the report are set out below, and a Checklist to support councillors' scrutiny of public finances (Local Government) is attached as an appendix to this report:

- Scotland's public sector continues to face significant financial challenges, with the overall Scottish budget expected to reduce further;
- In setting budgets, public bodies need to focus more on their priorities making clear connections between the planned spending and the delivery of outcomes;
- There remains limited evidence of longer-term financial planning, and more work is needed to develop and review long-term financial strategies that reflect priorities, risks and liabilities and the implications for affordability;

- Councillors and non-executive directors have a crucial role in the financial scrutiny of spending plans and the outcomes which are achieved, and as such there is a need to ensure that they have the appropriate skills to carry out their scrutiny roles. Public bodies need to improve the quality of information provided to non-executive directors and councillors to support them in their scrutiny role.

Part 1 – Financial Position

- 2.3** This section of the report sets out the current financial position in the wider context of the overall Scottish Government budget. The report highlights that public sector spending in Scotland has reduced by 9% in real terms since 2009/10, and highlights the real possibility of future budget reductions in the overall Scottish DEL budget by £3.2 billion to £25.6 billion in 2018/19.
- 2.4** The report highlights that public bodies have so far managed to work within reduced budgets, with staffing reductions one of the main ways in which the required level of efficiencies have been delivered. The report does however highlight that significant challenges remain including; rising demand, the need for new and continued investment in our public sector estate, all of which must be met from within a backdrop of reduced public expenditure.

Part 2 – Getting the Most from Budgets

- 2.5** This section of the report sets out how public bodies are meeting the financial challenges with the need to ensure that budgeting approaches are designed to focus on priorities and the delivery of outcomes they want to achieve.

Budgeting

- 2.6** Particular reference is made for public bodies to adopt a priority-based approach to budgeting which focuses on allocating monies to the services or areas that contribute most towards the delivery of agreed outcomes.
- 2.7** The report also highlights that benchmarking and options appraisal are key components of financial management, providing the opportunity to highlight opportunities or setting out any risks associated with budget decisions, including service performance, impact on service users and effect on longer-term outcomes.

Longer-term Financial Planning

- 2.8** The report highlights the need for public bodies to develop long-term financial planning strategies for public bodies covering a 5 to 10 year period. The findings from the report highlight that most Local Authorities adopt a longer term financial planning framework, however the planning horizon for other public bodies including the NHS and other Central Government bodies varies, with most focusing on a three or five year plans.

Information to allow Scrutiny of Spending Plans

- 2.9** The report highlights the need to ensure appropriate scrutiny arrangements are in place within public bodies, and highlights that in general appropriate financial scrutiny arrangements are in place within most areas of local government.
- 2.10** The report highlights the need to ensure that information is available to support the wider scrutiny role and in particular to monitor the outcomes associated with spending decisions. This includes ensuring that finance departments have the appropriate leadership, capacity and resilience to provide the necessary information to allow the scrutiny of budgets, and highlights in particular the crucial role of the statutory Chief Financial Officer in providing financial advice which remains central to effective governance.
- 2.11** The need for public bodies to make greater use of benchmarking data in order to understand costs and performance and identify areas for improvement is an area which has been highlighted within the report, with specific reference to the benchmarking framework within local government which has now been established between SOLACE, COSLA and the Improvement Service.
- 2.12** Overall the report highlights that there remains scope to improve the financial information which is provided for scrutiny, ensuring that Councillors and non-executive directors to have the necessary skills and training in order to carry out the wider scrutiny of budget performance.

3 Midlothian Position

- 3.1** The following provides information on how Midlothian Council has or is addressing the key points and challenges raised in the Audit Scotland Report.
- 3.2** The budget for 2015/16 approved by Council on 10 February 2015 provided Council with projections for 2016/17 and 2017/18 which indicated a balanced budget could be achieved for 2016/17 with a remaining deficit to address for 2017/18.
- 3.3** Multiyear Capital Plans are in place for General Service's and Housing Revenue Account. These capital plans for are developed taking into consideration the capital expenditure limits set out within the Financial Strategy and the HRA borrowing headroom which is determined by the Rents Strategy.
- 3.3** The budgets are set within the context of the Financial Strategy approved by Council in February 2014 which sets out the main opportunities, risks and constraints which face the Council and which is aimed at maintaining financial sustainability and focussing resources on the Community Planning

Partnerships agree priorities in a period of continuing financial constraint. Given the extent of the medium term financial challenge which the Council is facing, changes in how services are managed and delivered will be required. Understanding the impact of financial decisions on all those within the community will help to ensure that decisions around future provision of services meets the needs of the community effectively.

- 3.5** Specifically in relation to scrutiny of financial plans, the Council already has in place governance structures which considers financial plans and in year progress against the approved budgets. The information provided to support this process is continually reviewed and updated to ensure that appropriate scrutiny can be undertaken.
- 3.7** In recent years elected members have been provided with briefings on specific financial areas such as Treasury Management, and it is hoped to explore further options around wider briefings / training which will be helpful to Councillors in undertaking their wider scrutiny role.
- 3.8** The Council has been actively participating in the wider Local Government Benchmarking framework which has now been established. To date, involvement has included submission of returns and participation within specific studies within respective 'family groups' e.g. Council Tax. Making greater use of the benchmarking data to identify areas for improvement is an area which will continue to be considered in more detail.
- 3.9** To date, the financial planning process and the Financial Strategy has allowed the Council to continue to deliver services within reduced resources, taking cognisance of both rising cost and increased demand pressures. The Council recognises that challenges remain in place for the foreseeable future and as such this will require a more radical change to the way in which services are delivered, including wider partnership arrangements outcomes and commitments, and this is being considered within the wider context of future financial planning.

4 Report Implications

4.1 Resource

There are no direct resource implications as a result of this report.

4.2 Risks

There are no additional direct risks to be considered as a result of this report.

4.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth

- Business transformation and Best Value
 None of the above

4.4 Key Priorities within the Single Midlothian Plan

Midlothian Council and its Community Planning Partners have made a commitment to treat the following areas as key priorities under the Single Midlothian Plan:-

- Early years and reducing child poverty
- Economic Growth and Business Support
- Positive destinations for young people

This report does not directly impact Midlothian Council's key priorities.

4.5 Impact on Performance and Outcomes

Whilst not directly impacting Midlothian Council's and wider partners performance and outcomes the report does ensure consideration is given to the wider strategic planning and objectives as part of Midlothian Council's response to Audit Scotland's findings for the areas noted in the report.

4.6 Adopting a Preventative Approach

This report does not directly impact actions and plans in place to adopt a preventative approach.

4.7 Involving Communities and Other Stakeholders

This report does not directly relate to involving communities and stakeholders, but Audit Scotland's findings in relation to this area are supported by examples of Midlothian Council's activities supporting the wider community and stakeholder involvement.

4.8 Ensuring Equalities

This report does not recommend any change to policy or practice and therefore does not require an Equalities Impact Assessment.

4.9 Supporting Sustainable Development

The challenges highlighted in the Audit Scotland report have informed Midlothian Council's position in relation to budgeting and longer term planning and therefore supports ongoing sustainable development.

4.10 IT Issues

There are no direct IT implications arising from this report.

5 Recommendations

The Committee is asked to:

- a) Note the Audit Scotland report and the position of Midlothian Council in relation to the report; and
- b) Consider the checklist attached as appendix 1.

Appendix 1 – Checklist to support councillors' scrutiny of public finances
(Local Government)

Date: 27 April 2015

Report Contact:

Gary Fairley Tel: 0131 271 3110

gary.fairley@midlothian.gov.uk

Background Papers:

Audit Scotland Report: Scotland's Public Finances – A follow up audit: Progress in meeting the challenges

http://www.audit-scotland.gov.uk/docs/central/2014/nr_140605_public_finances.pdf

Supplement 1

Scotland's public finances – a follow-up audit

Checklist to support councillors' scrutiny of public finances (Local Government)

Prepared by Audit Scotland

June 2014

Introduction

The following checklist is designed to help councillors with their important role in budget-setting and overseeing financial plans and financial performance. It also provides a basis for discussions in councils on the budget-setting process, long-term financial planning and the availability of good information to support effective scrutiny of public finances.

The questions should help councillors to seek evidence, and subsequently gain assurance, on their council's approach in dealing with ongoing financial pressures. The applicability of the checklist will vary according to the responsibilities of each councillor.

If the answer to any question is 'no', then we would encourage councillors to speak with the council's Director of Finance (section 95 officer), or, where appropriate, the Chief Executive, to discuss how improvements can be made.

The checklist is divided into three sections and should be read in conjunction with the report [***Scotland's public finances: a follow-up audit \(PDF\)***](#) published in June 2014. This report provides a high-level update on the financial position and on how public bodies are meeting the challenges of reduced public spending. It considers the importance of budget-setting linked to outcomes, long-term financial planning and robust scrutiny of finances.

Section 1: Budget-setting – roles, responsibilities and approach

The following questions focus on the roles and responsibilities of those involved in the annual budget-setting process. Questions also cover the budgeting approach and how budget-setting links to the achievement of outcomes. **(See main report paragraphs 29 to 33)**

	Budget-setting – roles, responsibilities and approach	Y/N
1.	<p>Do I have a good understanding of how the budget-setting process works within my council?</p> <ul style="list-style-type: none"> • Do I have confidence that budget proposals are realistic? • Are the roles and responsibilities of individuals and committees involved in budget-setting clearly documented and understood? • Am I clear about my own specific responsibilities within the budget-setting process? 	
2.	<p>Has my council developed a priority-based approach to budget-setting which makes connections between planned spending and intended outcomes?</p> <ul style="list-style-type: none"> • Are budgets clearly linked to the council's priorities and outcomes as set out in strategy documents? • Does the council work well with community planning partners to ensure budget-setting takes full account of shared priorities, such as those included in the Single Outcome Agreement? • Are different spending options made available to decision-makers, including new ways of delivering services, and have I seen them? • Are the costs and benefits (financial and non-financial) of each option clearly documented including the impact on service users and related risks? • Do spending options consider the unit costs of services and benchmarking data and how these will change over time? 	
3.	<p>Is there a clear mechanism for monitoring and reporting how, over time, spending decisions are contributing to outcomes?</p> <ul style="list-style-type: none"> • Is sufficient time built into the budget-setting process to allow for effective scrutiny and challenge of spending plans? • Is sufficient attention given to current year spending against the current year budget when setting budgets for future years? 	

Section 2: Long-term financial planning

The following questions consider councils' financial strategies and plans over the short (one year), medium (two to five years) and longer-term (five to ten years). **(See main report paragraphs 34 to 38)**

	Long-term financial planning	Y/N
4.	<p>Does my council have a long-term financial strategy (covering 5 to 10 years)?</p> <ul style="list-style-type: none"> • Does the council also have detailed financial plans that outline spending commitments over the short (one year) and medium-term (two to five years)? • Do the financial strategy and financial plans provide me with an overall understanding of the financial health of the council? • Are the financial strategy and financial plans subject to scrutiny by the finance committee and full council on a regular basis? • Where assumptions and forecasts are used are they clearly stated? Are they reasonable? 	
5.	<p>Does the financial strategy consider:</p> <ul style="list-style-type: none"> • the cost of providing individual services? • the main cost drivers for each activity? • evidence-based options for achieving savings? • details of one-off and recurring savings? • scenario planning to outline best, worst and most likely scenarios of the financial position? • details of assets, liabilities and reserves and how these will change over time? • an analysis of levels of service demand and projected income? • any income or funding shortfalls and how to deal with these? • clear links to other relevant strategies such as workforce and asset management? • the risks and timescales involved in achieving financial sustainability? 	
6.	<p>Do detailed short and medium-term financial plans clearly link and align to my council's longer-term financial strategy?</p> <ul style="list-style-type: none"> • Do short and medium-term financial plans take account of the overall resources available in the community planning partnership area? 	
7.	<p>Am I satisfied that appropriate action is being taken to address potential future funding gaps?</p>	

	<ul style="list-style-type: none"> • Am I aware of all significant financial risks facing the council and their implications? • Am I satisfied with the council's approach to holding, moving and using reserves? • Am I aware of all contracts which will have a significant long-term financial impact on the council? • Am I aware of the long-term financial impact on future budgets of using revenue-finance methods (such as non-profit distribution and tax incremental financing) to pay for capital investment? 	
--	---	--

Section 3: Information to support effective scrutiny of public finances

The following questions consider the importance of good quality information for financial scrutiny. They also consider the training provided to councillors to support them in their role. **(See main report paragraphs 39 to 51)**

	Information to support effective scrutiny of public finances	Y/N
8.	<p>Am I provided with good financial and performance information which enables me to effectively challenge spending proposals and decisions?</p> <ul style="list-style-type: none"> • Do I know whom to ask for explanations or if the information is not what I require? • Am I able to gain assurance that any questions raised are addressed and resolved? 	
9.	<p>Is there a culture of openness and transparency in providing information for scrutiny and in the scrutiny process itself?</p> <ul style="list-style-type: none"> • Is information provided: <ul style="list-style-type: none"> – reliable? – timely? – complete? – transparent? – consistent across time periods? 	
10.	<p>Do I receive financial and non-financial information in a form that enables me to easily understand my council's financial position?</p> <ul style="list-style-type: none"> • Do I receive good information about the changing environment within which the council operates including: <ul style="list-style-type: none"> – financial and service pressures? – impact of public service reforms, such as welfare reform and health and social care integration? 	

	<ul style="list-style-type: none"> – the effect of policy decisions such as no compulsory redundancies and national pay policies? – the introduction of, and changes to, legislation? – actions by other councils, public bodies and private and third sector organisations? • Is benchmarking data made available about other councils on comparable services and is this used to inform decision-making? • Is trend information available to allow a clear understanding of the organisation's progress towards achieving financial sustainability? • Are satisfactory explanations provided for all significant changes in comparing budgets with actual spending? 	
11.	<p>Am I confident my knowledge of public finances enables me to challenge and review financial and performance information?</p> <ul style="list-style-type: none"> • Am I provided with, and take up, sufficient training to support me in my scrutiny role? • If sufficient training is not provided, do I know who is responsible for resolving this? 	