

# Report

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Report to:	<b>Risk and Audit Scrutiny Forum</b>
Date of Meeting:	<b>4 September 2012</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>Audit Scotland Report : Scotland's public finances – addressing the challenge</b>
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## 1. Purpose of Report

1.1. The purpose of the report is to:-

- ♦ provide the Risk and Audit Scrutiny Forum with summary information on, and the Council's response to the Audit Scotland report (August 2011) 'Scotland's Public Finances – Addressing the Challenge'.

## 2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- (1) that the action taken to respond to the Audit Scotland report is noted

## 3. Background

- 3.1. The Audit Scotland report is noted as providing an overview of the financial environment facing the public sector in Scotland as well as specific cost pressures. The report outlines what the public sector is doing to respond to current and future budget reductions and highlights a number of key risks and issues that need to be managed in order to respond to that challenge.
- 3.2. The report has three parts to it. Part 1 considers the financial environment relating to the 2011/12 Scottish Government Budget; Part 2 reviews the main cost pressures facing the public sector and Part 3 summarises how public sector organisations aim to reduce costs and make savings. The information in Part 3 was based on returns from 47 public sector organisations, including local authorities, health boards and fire and police boards. Data was collected by means of a data survey and requests for specific information, together with desk research. South Lanarkshire Council was one of 15 councils which returned data survey information.
- 3.3. The report includes a checklist for long term financial sustainability for public sector leaders and elected members. The checklist includes four areas for consideration, ie the future of public services; workforce planning; financial sustainability and leadership and governance.
- 3.4. Also included within the report are details of potential risks and issues which should be considered on an ongoing basis. While these will be captured by use of the checklist, they will also inform the Council's regular review of top risks process in the future. These risks and issues include:
- Short-termism in decision making
  - Lack of commitment or constructive challenge of reform measures

- Impact on service delivery caused by unmanaged workforce reductions
- Failure to deliver outcomes or budget reductions
- Poor decision making or governance

3.5. This report to the Forum provides information on officers' review of the checklist and resultant action.

#### **4. Part 1 – The Current Financial Climate**

4.1. The focus of this part of the report was to confirm that Scottish Government portfolios had less to spend in real terms in 2011/2012 compared to previous years and noted that, for local government, this equated to a figure of 7%. Reference is made to the work of the Centre for Public Policy and Research and to the worst case scenario projections of 11% real-term reduction in the Scottish Government DEL budget over the three year period 2011/2012 to 2013/2014.

4.2. The report goes on to note the significance of Scottish Government funding to local authorities. It acknowledges that individual councils have responsibility to allocate this funding, together with monies from council tax and borrowing, to respond to both local and national priorities.

#### **5. Part 2 – Cost Pressures in the Public Sector**

5.1. The main cost pressures are categorised as follows:

- Demand pressures – eg consequences of an ageing population. It is noted that, in some cases, public bodies have little or no control where services are universal public services such as free personal and nursing care. Only change in government policy would manage this, for instance changes in eligibility criteria.
- Financial pressures – includes impact of efficiency savings, inflation and reduced income. The report notes that Audit Scotland was unable to provide assurance on the level of efficiency savings reported (for all Scottish local authorities) as part of the 2008 -2011 Efficiency Programme. The impact of higher than anticipated level of inflation is noted. In terms of income generation, it is noted that increased charges may be possible, but care needs to be taken to ensure it does not adversely affect demand. The level of income from sale of land and buildings is affected by the downturn in the property market.
- Workforce pressures – whilst the pay freeze may act as a constraint on costs, it is also noted that a number of equal pay claims have to be resolved, many remaining at tribunal. Long term cost pressures on public sector pension schemes is noted.
- Investment pressures – borrowing to finance capital spend has long term implications for future revenue budgets. Councils must assess long term financial sustainability of borrowing to ensure plans are affordable and in accordance with professional good practice.
- Maintaining asset pressures – whilst most councils have investment plans to address maintenance backlogs in property assets, significant reduction in the capital budget would impact on these plans.
- Environmental pressures – the impact of increased energy costs is noted and how reduced budgets may make it difficult to undertake spend to save initiatives. In respect of fuel, limiting vehicle usage could reduce spend but may also impact on services. The cost of meeting targets to reduce greenhouse gas is noted.

## **6. Part 3 – Addressing the Challenge**

- 6.1. The report notes that the public bodies need to focus on achieving long-term financial sustainability. They must take a strategic approach to reducing spend and consider the impact this will have on the quality and quantity of service delivery. Any approach taken must take account of local priorities, aims and objectives.
- 6.2. Following on from this strategic approach, public bodies must also develop a better understanding of their costs. Reference is made to the fact that a previous Audit Scotland report (*Improving Public Sector Efficiency*) noted that, whilst there was baseline information on costs, there was a lack of unit cost information.

## **7. Implications for South Lanarkshire Council**

- 7.1 Sections 1 and 2 of the Audit Scotland report outline current and future financial pressures for the public sector. Section 3 provides information on how to address the most significant challenges. The report then goes on to provide a checklist to be used to help ensure long term financial sustainability for public sector organisations.
- 7.2. The checklist is for public sector leaders and elected members and covers four key areas, ie
- The future of public services
  - Workforce planning
  - Financial sustainability
  - Leadership and governance
- 7.3. The questions included within the checklist were considered by Finance Services, Personnel Services and Audit and Improvement Services as appropriate. This included an assessment of the Council's current position and, where relevant, identification of proposed actions in respect of the four areas noted at 7.2 above.
- 7.4. Consideration of the checklist confirmed that the Council already has in place a wide variety of arrangements to address the points raised. Appendix 1 to this report summarises this activity and notes how it will continue where appropriate.
- 7.5. Forum is asked to note the Council's response at Appendix 1. Progress will be monitored, as appropriate, through relevant working groups, eg Corporate Improvement Advisory Board, Governance Group, Risk Sponsors Group, 3 Year Budgeting Group, Personnel Managers Group, and South Lanarkshire Partnership Board.

## **9. Employee Implications**

- 8.1. There are no employee implications.

## **9. Financial Implications**

- 9.1. There are no specific financial implications. However, the results of the proposed actions will include consideration and reporting of financial implications where appropriate.

## **10. Other Implications**

- 10.1. Risk management implications will be considered for each of the proposed actions as appropriate.

## **11. Equality Impact Assessment and Consultation Arrangements**

- 11.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and, therefore no impact assessment is required.
- 11.2. There is no requirement to undertake any consultation in terms of the information contained within this report.

**Paul Manning**

**Executive Director (Finance and Corporate Resources)**

25 July 2012

### **Link(s) to Council Objectives/Improvement Themes**

- Efficient and effective use of resources

### **Previous References**

- None

### **List of Background Papers**

- Audit Scotland Report 'Scotland's Public Finances – Addressing the Challenge'

### **Contact for Further Information**

If you would like to inspect the background papers or want further information, please contact:-

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## Appendix 1

Area	Key questions		Assessment	Action	Responsibility
The future of public services	1	Are plans to reform public service delivery integrated across the public sector?	Public sector perspective represented within Community Planning Partnership – plans for service delivery within Community Plan and Single Outcome Agreement. Scottish Government advice on future of SOA will be taken account of.	Continue with the current approach.	
	2	Do plans involve private and third sector providers?	CPP Board includes 2 representatives from VASLAN with the aim of increasing the capacity of the third sector to contribute towards service delivery.	Continue with the current approach.  Consider, in future, impact of VASLAN work.	South Lanarkshire Partnership Board
	3	Does your body have the freedom to innovate and reorganise future services?	Variety of partnerships and alternative service delivery models (eg. SLLC; Schools Modernisation; M74) in place. Demonstrates Council has effectively considered options and can continue to do so in the future.	Further consideration of alternative service delivery models as part of renewed approach to continuous improvement and development of 'improvement agenda'.	3 Year Budgeting Group
	4	Have future plans been subject to sufficient and ongoing engagement with service users and communities?	Key strategic plans subject to consultation with stakeholders eg. Community Plan, Council Plan, Local Housing Strategy. Consultation feedback considered and reflected as appropriate within Plans. Also relevant to note is development of Community Engagement Framework.	Continue with the current approach.	
	5	Expectations of public services are growing. Is this fully incorporated into future plans?	Where expectations are specifically identified (eg through feedback from stakeholder consultation) these will be considered. Feedback will be provided and also explanations included through public performance reporting channels.	Public Performance Reporting is key element of Best Value. The opportunity could be taken to review current arrangements. This would provide the opportunity to further inform public of how expectations are considered and managed.	Corporate Improvement Unit; Corporate Improvement Advisory Board

Area	Key questions		Assessment	Action	Responsibility
	6	Are current models of joint working, such as partnerships and shared service arrangements working effectively?	Performance monitoring and reporting arrangements in place to consider financial and operational performance, and to identify any remedial action necessary.	Work underway to consider specific requirements relating to ALEOs.	Governance Group
	7	Have clear accountability mechanisms been established which clearly set out the roles and responsibilities of those involved in joint working arrangements?	Establish at business case stage.	Review of specific requirements of ALEOs underway.	Governance Group
	8	Is there clarity around financial, risk and performance management arrangements within models of joint working?	Risk management and performance (including financial) management arrangements in place for significant partnerships.	Review of application of risk management underway for high risk partnerships.	Risk Sponsors Group
Workforce planning	9	Are workforce plans driven by longer-term analysis of workforce capabilities and requirements as opposed to short-term cost reduction?	Yes, Finance and Corporate Resources responsible for co-ordinating workforce plans across all resources. Each Resource responsible for identification of their savings and identification of the impact on employees.	Continuation of controlled workforce planning taking account of long-term delivery and analysis	
	10	Do workforce plans address the impact of the potential loss of essential skills and corporate knowledge to the organisation?	Yes, key role of Corporate Learning and Development. Completion of impact assessments across each of the NDP / BV projects to assess the impact of the reduction and tailor learning and development to support skill gaps. Where appropriate identify mentoring and coaching for those taking on new roles.	Continuation of the Corporate Learning and Development role.	
	11	Do workforce plans address the risk of staff shortages in key service areas.	Monitoring of workforce plans takes place at Resource levels. An example within Social Work Resources is the short term increase in growth in Home Care posts, linked to developments around Change Fund monies and the transformation	Continuation of resource analysis and Corporate analysis of workforce data over 2010-11, 2011-12.	

Area	Key questions		Assessment	Action	Responsibility
			agenda. Through the implementation of Supporting Your Independence we have seen significant reductions in the external purchase of home care. In the longer term the Council's response to 'Supporting Your Independence' and developments through the Change Fund will result in a workforce reflective of optimum numbers required to deliver services. This is an area of high turnover, so the balance between recruitment campaigns and transferability of skills through redeployment, to maintain service delivery, is important.'		
	12	Fewer staff may result in a transfer of service delivery responsibilities to the third sector. Does the third sector have the capacity and skills to take on the increased expectations placed on them and deliver the required service quality?		See note at 2 above	
	13	Staff reductions are likely to lead to increased workloads for remaining staff. Have workforce plans considered the impact of workforce reductions on the staff who remain?	Impact Assessments, Risk Assessments across areas of the business affected by reduction to assess impact on the workforce. Initiatives include: Employee Audit Performance Development Reviews, identification of learning and development. Assessing the impact of NDP / BV outcomes LEAN reviews / EMPOWER, streamline service procedures / efficiencies Roll out of risk / stress audit Team meetings	Continue with current approach.	

Area	Key questions		Assessment	Action	Responsibility
			Clear and relevant KPI's aligned to service delivery		
Financial sustainability	14	Is there a clear risk and evidence-based approach to cost reduction within public bodies?	<p>The Council has approached its budgeting setting, and efficiency generating process taking consideration of risk and evidence. Exercises have included national diagnostic and cross resources exercises and reviews to establish ways to reduce spend taking cognisance of impact.</p> <p>Along side this, commencing with the 2011/12 budget setting process, the Council embarked on a formal prioritisation exercise across all proposed savings. This exercise considered a relative scoring matrix for each proposed saving/function of the Council and enabled a clear corporate assessment of the suite of savings proposed.</p>	Continue with the current approach.	
	15	Is there a clear budget setting plan which focuses on priority outcomes?	The Council has a clear budget setting plan. We prepare an annual Budget Strategy paper for Executive Committee which considers our budget planning using factual or assumed levels of Government Grant anticipated as well as potential income generated from Council Tax. Consideration of Council priorities feed into budget adjustments for commitments.	Continue with the current approach.	
	16	Are public bodies generating sufficient information linking productivity, service quality and costs to help understand the links between inputs, outputs and outcomes?	Resources have identified that they do have in place unit costing which allows internal performance measurement / management and decision making.	We will consider the usefulness of unit costing where appropriate.	3 Year Budgeting Group
	17	Is sufficient attention given to	The Council considers increase in	Maintain involvement in LFR	3 Year



Area	Key questions		Assessment	Action	Responsibility
		setting clear baselines covering costs, productivity and outcomes against which increased efficiency can be measured?	<p>efficiency through means including the collation of the efficiency statement.</p> <p>Baseline costs are considered by departments and movement reported.</p> <p>From a national level, recent experience in comparing the completion of LFRs across Councils has identified a number of areas of uncertainty in the allocation of costs to specific headings. This work identified the need for revised guidance to enable valid cost/ performance comparisons to be made.</p>	exercise to ensure comparative baselines can be measured.	Budgeting Group
	18	Are benchmarking programmes being developed to allow your organisation to compare its costs and performance with other private and public organisations?	<p>An exercise to restate LFRs is now been driven forward across all councils to provide basis for taking realistic comparators forward.</p> <p>Resources participate in data collations / benchmarking locally through provision of PI's, unit cost data etc.</p>	Continue the exercise the preparation of LFRs / Benchmarking statistics to ensure ownership and correct allocation of costs.	
	19	Is sufficient money being spent on asset maintenance and renewal such that the value of public assets is being sustained?	The Council has prepared Asset management plans since 2005. Capital planning and expenditure are linked to these plans.	Continued review of the Council's Asset Management Plan is required to ensure monies are directed as appropriate.	
Leadership and governance	21	Do audit and other scrutiny committees play a suitably prominent role in the consideration of budget plans and risks to service delivery?	Risk and Audit Scrutiny Forum considers risk perspective, and Financial Scrutiny Forum considers financial information.	<p>Continue with the current approach</p> <p>Preparation for new Council included a review of current arrangements.</p>	
	22	Can leaders demonstrate adequately the impact of budget reductions on service	Impact on service delivery is considered as part of the budget preparation discussions. Preparation of the annual	Continue with the current approach.	

Area	Key questions		Assessment	Action	Responsibility
		quality and outcomes?	efficiency statement includes additional information.		
	23	Are leaders engaging with each other effectively to ensure a coordinated and integrated approach to cost reduction?	New organisational structures resulting in reduced number of Resources and savings.	Continue with the current approach.	
	24	Is there appropriate transparency, openness, accountability and scrutiny of decisions made about cost reduction measures and future organisational plans?	Budget savings and proposals reported to special committees. Savings prioritisation work reported. Changes to organisational structures reported to Executive and Resource Committees as appropriate. Savings are also considered at Members seminars and discussed with Trade Unions	Continue with the current approach.	
	25	Are leaders fully committed to plans to reform and reorganise services?	National Diagnostics; Alternative Service Delivery projects; Service Reviews; Service prioritisation	As part of the Council's response to Best Value and continuous improvement – development of improvement agenda.  Continue with the current approach.	
	26	Do leaders communicate plans effectively with staff, service users, other public bodies and stakeholders?	Use of numerous communication channels – website, Internet, SL Reporter, Housing News, Works Magazine. Specific communication strategies developed as required for 'high profile' plans/strategies eg Council Plan, Sustainable Development Strategy.	New communication strategy being developed.  Continue with the current approach.	