

Report

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Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	13 November 2012
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Audit Scotland Report - Using Cost Information to Improve Performance: Are You Getting it Right?
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ To provide Risk and Audit Scrutiny Forum with summary information relative the Audit Scotland Report 'Using Cost Information to Improve Performance; Are You Getting it Right?'

2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendations:-

- (1) that the detail of the report is noted
- (2) that the proposals to take forward the actions identified in the report be endorsed

3. Background

3.1. The Audit Scotland Report being considered within this report to the Forum is one of a 'how councils work' series of reports being prepared. The purpose of these is to stimulate change and improve performance. The report highlights the importance of having good quality cost information to inform policy decisions and scrutinise performance, and identifies some of the guidance and cost measures that already exist. The report includes a number of case studies which are considered to help councils and councillors think about how they might use cost information at a strategic and operational level more effectively.

3.2. The key messages noted within the Audit Scotland report are:

- Councillors need good cost information if they are to make well informed policy decisions and scrutinise performance effectively
- Cost information needs to be presented in an open and accessible way, with policy options and performance information provided to help councillors carry out their role
- Officers need good quality cost information to help them manage services efficiently, assess performance and demonstrate value for money
- A council's approach to using cost information should be driven by its priorities and objectives, with a focus on outcomes for service users and communities
- Tightening public sector budgets and increasing service demands require more effective use of cost information. Being open about costs can help keep communities engaged in the difficult decisions that lie ahead for councillors

- Effective use of cost information can lead to improved corporate and partnership working
- Councils can do more to share good practice and learning and could make more effective use of existing cost measures and guidance available

- 3.3. Throughout the report, use is made of case studies to identify examples of good practice in respect of the key areas of discussion. These will be referred to in this report to the Forum at the relevant paragraphs.
- 3.4. The report includes reference to characteristics of a cost-aware council as well as a checklist for councillors and for officers to consider progress towards being cost aware.
- 3.5. This report to the Forum will identify the key points of relevance for the Council and will consider the current position, as well as future requirements, in respect of availability and use of cost information. Consideration will also be given to the content of the checklist.
- 3.6. The main body of the Audit Scotland report is structured under three headings, which are considered at paragraphs 4-6 below.

4. Audit Scotland Report Part 1 – Councils need to use cost information more effectively

- 4.1. Paragraph 3.2 above notes a number of key messages. In addition to those messages, Audit Scotland also specifically highlights that a wide range of its local government reports have all concluded that 'councils are not using cost information effectively'. Within Part 1 of the Audit Scotland report, use is made of a number of key headings to discuss findings and identify recommendations, including reference to case studies. The most significant headings are used within this section of the report to the Forum to provide a summary of the key points and, where relevant, identify action.

4.2. Cost information is an essential element in assessing overall performance

Discussion:

Using cost information effectively contributes to the overall assessment of a council's performance (para 8). Effective performance management relies on clear objectives and measures to track both progress and impact, supported by good quality information on inputs, processes, outputs and outcomes.

Cost to deliver service = input measure
 Prompt delivery of service = process measure
 Level and quality of service = output measure
 Demonstrating impact = outcome measure

Unless the cost of service delivery is known, a council cannot assess whether a service represents value for money. This information can be used to benchmark against comparable authorities, and to consider both quality (based on local decision) as well as cost.

Case study:

The Audit Scotland report includes a case study on the use of the West Lothian Assessment Model (WLAM) which provides the basis for PSIF (Public Service Improvement Service), now used by many local authorities (and other public sector organisations) as a self assessment tool. The case study refers to the benefits gained from including results of unit cost information within the assessment model and how this can be used together with other performance information to help identify areas for improvement.

South Lanarkshire Council perspective:

The results (what we achieve) section of PSIF includes a section on key performance results. Within this section participants are encouraged to include performance data relating to both cost and quality of services. This contributes to the overall scoring, but perhaps more importantly provides a focus on performance year on year and the opportunity also to include benchmarking results (both positive and negative). SLC is in the final year of the first 3 year cycle of assessments. Taking account of the recommendations within the Audit Scotland report, the next 3 year cycle will include a commitment to ensure mandatory consideration of cost and quality performance results. By doing this, the use of self assessment tool will be further enhanced and given increased credibility within the Council's future Shared Risk Assessments and associated Assurance and Improvement Plans.

Action:

No. 1 –Empower Officers Group to ensure relevant unit cost performance data, and Council wide Key Performance Indicators, be included within results sections of Empower assessments.

4.3. **Effective decision-making relies on good cost information**

Discussion:

Good cost information is noted as being important to effective decision making. This information is relevant to make informed decisions on continuation of service and to what level and standard. This will apply on an annual basis in respect of budget proposals, but will also apply at any point in time when alternative service delivery models are being considered, eg service reviews, improvement programmes.

Case Study:

None

South Lanarkshire Council perspective:

The Accounts Commission SPI Direction 2012 makes reference to a number of headings under which it expects councils to have available performance information. This extends beyond the use Statutory Performance Indicators and is aimed at ensuring that councils take responsibility for having in place a sound approach to performance management. In order to assess the Council's current position, the Corporate Improvement and Advisory Board has recently provided information relative to the headings for each Resource. One of the headings relate to 'revenues and service costs'. This exercise enabled a gap analysis to be carried out to determine where there may be a need to introduce additional measures.

The Council has already made use of the savings prioritisation model to inform the decision making process in respect of budget preparation. The provided a comprehensive analysis of budget detail including risk assessment.

Action:

No. 2 - Use results of 'gap analysis' based on CIAB information to consider areas where unit cost data not available. Identify additional unit cost measures on a priority basis as appropriate.

No. 3 – Budget preparation exercise to continue to make use of savings prioritisation model.

4.4. **A focus on outcomes needs to be supported by a good understanding of costs**

Discussion:

Linked closely to effective decision making is the need to understand what outcomes are

being identified. The achievement of these outcomes will benefit from effective use of cost information to help inform service delivery options.

Case Study:

The report includes a case study from North Ayrshire Council which refers to a review of its fostering service which concluded that the current service delivery model was not sustainable in financial terms and also that it was not achieving best value in terms of outcomes for children. Effective options appraisal resulted in the implementation of a new service delivery model.

South Lanarkshire Council perspective:

The Council has, over many years, carried out a range of service review activity, which included the need to conduct an options appraisal. This approach will continue as Resources identify areas for review in the future. This will be further enhanced by the preparation of a Project Management Guidance document which will also include an updated version of the options appraisal process.

Previously, the Council's use of the savings prioritisation model, as part of the budget preparation exercise, contributes to the delivery of outcomes, and links to the detail reflected within Connect and Resource Plans.

Action:

Based on the detail noted above no further action required.

4.5. Councillors need good cost information to scrutinise performance and assess whether they are delivering value for money

Discussion:

Paragraph 4.3 above notes the importance of good cost information in terms of decision making. Linked to this is need to provide councillors with information on the cost and quality of services which enable them to fulfil their scrutiny role. The report notes councils do not generally bring these two elements of value for money together.

Case Study:

None

South Lanarkshire Council perspective:

Individual Resource Committees receive budget monitoring reports and IMPROVe reports on a regular basis. At a Council level these are presented to Executive Committee, and include IMPROVe reports in respect of Connect. Therefore, the Council can demonstrate that it provides the structure for presentation and consideration of both cost and quality of services. The challenge for the Council is to ensure that there is sufficient coverage and adequate mix of cost and quality data. This will be addressed by further consideration of the gap analysis referred to Action 2 above.

The work underway in respect of the use to be made of Solace benchmarking indicators will also contribute to providing councillors with useful information on the cost and quality of services.

Action:

Based on the detail noted above no further action required.

4.6. Use of cost information to proactively target activity and reduce ongoing costs

Discussion:

The link to decision making is further discussed within the report in the context of the case study on Dundee City Council, where spending decisions based on cost information reduced future outlays.

Case Study:

The case study refers to the council's risk management section working in conjunction with the Education department to adopt a risk based approach to targeting vandalism in schools. This is presented as an example of the benefits of having to hand cost information which was used as a baseline to measure how effective proactive measures are in reducing (or not reducing) costs. The case study notes an annual allocation of the risk management budget being made available to fund 'spend to save initiatives'.

South Lanarkshire Council perspective:

The Council has, for a number of years, worked with Resources and its claims handler to analyse the various categories of claims, to gain an understanding of 'hot spot' areas. These hot spots are considered in detail and measures taken to address the root cause as far as possible.

The 'spend to save' initiatives referred to in the case study is similar to the provision made for Resources to bid for a contribution from the Insurance Fund to contribute to the cost of initiatives which will help reduce risk.

Action:

Based on the detail noted above no further action required.

4.7. **Use of cost information must be driven by what the council is trying to achieve**

Discussion:

The Audit Scotland report notes the importance of the use of cost information to drive what a council is trying to achieve, ie vision and objectives. It refers to putting in place some key measures to understand costs in important areas, and to considering the use of 'priority based budgeting'.

Case Study:

The use of priority based budgeting is considered in a case study from Aberdeen City Council. The Council used this approach to help determine future service demands and related costs, leading to the development of a five year business plan to help manage the Council's finances and support the achievement of the Council's priority outcomes.

South Lanarkshire Council perspective:

South Lanarkshire Council has adopted a variation on the priority based budgeting approach in terms of the work carried out over the last 2-3 years in respect of savings prioritisation.

Aberdeen Council notes also that its approach included a range of stakeholder consultation. South Lanarkshire Council has historically adopted this inclusive approach in respect of budget consultation.

Action:

Based on the detail noted above no further action required.

5. **Audit Scotland Report Part 2 – Councils should use cost measures and share good practice more effectively.**

5.1. This part of the Audit Scotland report considers three issues, ie:

- Existing cost measures and guidance could be used more effectively
- Use of cost information can help deal with both strategic and front line service issues
- More effective use of cost information can help to improve corporate and partnership working

5.2. ***Existing cost measures and guidance could be used more effectively***

Discussion:

Reference is made in the report to the ongoing use of **Statutory Performance Indicators** (SPIs) and that these continue to be reviewed to reflect the changing context of local government. Whilst the number of SPIs has reduced significantly in recent years, it is noted that there remains a number of cost and income measures. The report notes that councils should use these to explore why costs may be higher or lower than comparator councils. It is also noted that use of family or comparator groupings will provide comparison based on factors such as geography or demographics and consequently help indicate where variations are as a result of service performance or efficiency.

Case Study:

None

South Lanarkshire Council perspective:

For the examples given in the report, whilst there are no longer formal family groups reported by the Accounts Commission, South Lanarkshire Council considers results against other 'like councils, as noted below:

SPI Cost/income measure	Family group comparators
Gross cost per case for benefits administration	Each year consideration is given to local authority peer comparators as appropriate, making use of all Scotland results for Statutory Performance Indicators as well as Scottish Housing Best Value Network and Housemark indicators. ¹
Cost per dwelling of collecting council tax	
Income due from council tax for the year, net of reliefs and rebates, and the percentage of that which was received during the year	
Total annual rent loss due to void expressed as a percentage of the total amount of rent due in the year	
Net cost per premise for refuse collection	City of Edinburgh East Dunbartonshire City of Glasgow
Net cost per premise for refuse disposal	City of Edinburgh East Dunbartonshire City of Glasgow

Having reduced the number of SPIs which councils are required to report on, the Accounts Commission make it quite clear, that it expects councils to balance this with other performance indicator information as appropriate. This additional information has already begun to be developed through the work on SOLACE benchmarking indicators, but this can also be supplemented with local performance indicators (LPIs) as required. South Lanarkshire Council already has in place a wide range of LPIs across Resources and the mix of SPI/LPIs is reviewed periodically through the CIAB as part of the preparatory work on the Council Plan and Resource Plans. In addition, the work referred to at paragraph 4.3 above and the associated actions will also demonstrate the Council's commitment to effective performance management.

Whilst work continues to widen the range of indicators being used, the Forum may be aware of the approach taken by the Council in the last 2 years to ensure due consideration remains to be given to those SPIs which do remain. This led the Council to focus on those SPIs which were considered to be of 'high importance' and linked to Council priorities.

In addition to the emphasis being placed on councils having a robust suite of indicators, the report also notes the importance of this information as 'an effective set of performance information which enables citizens and service users to understand how their services are performing in terms of quality, cost and impact'.

From a South Lanarkshire Council perspective the Forum is asked to note the work carried

out by the Corporate Improvement Unit in 2010 relating to consultation with the Citizens Panel on the approach to Public Performance Reporting. This consultation confirmed that, in the main, the approach was supported by the Citizens Panel, and no major changes were required. The Forum is advised also of the work currently underway to prepare the Council's first Annual Performance Report. Both of these are good examples of the South Lanarkshire's positive approach to effective public performance reporting. In order to ensure that our approach continues to meet the needs of the public, the opportunity will be taken to consult on the new Annual Performance Report.

Action:

No. 4 – Consult with Citizens Panel on new Annual Performance Report

Discussion:

The report notes the suite of **Value for Money indicators** published by the UK Audit agencies which relate to a range of efficiency and effectiveness indicator sets covering HR, Finance, ICT, procurement, legal and communications. The use of these indicators is voluntary but it is noted that councils are encouraged to consider their use to help ensure value for money in corporate support services.

Case Study:

None

South Lanarkshire Council perspective:

Whilst the use of this suite of indicators is voluntary, the opportunity should be taken to review the detail to identify those which are of relevance to the Council.

Action:

No. 5 - As part of the gap analysis exercise referred to at Action 2 above it is recommended that consideration is given to the potential use of VFM indicators where appropriate.

Discussion:

Reference is included within the report to the opportunity for councils to make use of cost related indicators and carry out benchmarking through the **Association of Public Service Excellence (APSE)**, which currently covers 14 service areas.

Case Study:

None

South Lanarkshire Council perspective:

Across the Council, Resources (Community and Enterprise, Housing and Technical) currently participate in APSE benchmarking, with indicators being used at Resource Plan and Service Plan levels as appropriate.

Action:

Based on the detail noted above no further action required.

Discussion:

It is noted that the Improvement Service (IS) is currently leading on work related to '**Outcome focused budgeting**' which will help community planning partners understand how individual and collective spending of public bodies affect the delivery of outcomes. Pilot work has been undertaken by the IS in respect of 'funding maps' on two areas of spend, ie health and social care for older people; and community safety. This work has identified that it is difficult to accurately map the relationship between spend and outcome. The next stage of will focus on a methodology for an **outcome focussed budgetary process**. This methodology will help provide an understanding on how individual partner's decisions impact on the achievement of agreed priority outcomes.

Case Study:

None
<p>South Lanarkshire Council perspective: SLC has reviewed the report produced by Deloitte for the Improvement Service on the project. The report notes</p> <p><i>'This is a potentially huge agenda that will require significant local and national change in processes, systems, roles, culture and ways of working. It would be a long term project, supported by a comprehensive change management and stakeholder engagement strategy.'</i></p> <p>At the present time there has been no request from the Improvement Service for volunteer Community Planning Partnership to participate in the next stage of this project. From a South Lanarkshire CPP perspective, consideration would require to be given to confirm if there was sufficient commitment and capacity from all partners to participate as a pilot.</p>
<p>Action: No. 6 - SLCPP to review detail of next steps, when advised by Improvement Service, in respect of request for pilot CPPs to participate in an outcome focused budgetary process at a local level.</p>

5.3. ***Use of cost information can help deal with both strategic and front line service Issues***

<p>Discussion: It is noted that the use cost information is important when councils are carrying out work on a corporate improvement programme or considering redesigning service delivery arrangements. At the same time it is also important to make use of cost information at service level to enable benchmarking of costs both internally and externally as appropriate.</p>
<p>Case Study: Reference is made to a case study from Glasgow City Council. Some of the key points made in this case study are</p> <ul style="list-style-type: none"> • Understand the service – activities carried out; outputs; and cost • Understand how this compares to other • Identify options for improvement • Review options and develop a prioritise improvement programme
<p>South Lanarkshire Council perspective: The Council has made use of various strands of improvement activity over the years and has prioritised its approach ie identified particular areas to review. This included National Diagnostics and target alternative service delivery projects. No further recommendations are made based on consideration of the case study referred to above, and no specific action required.</p>
<p>Action: Based on the detail noted above no further action required.</p>
<p>Case Study: A case study is also included in respect of Edinburgh Leisure and discusses the decision to analyse cost information in a range of different way eg income generated by different activities which enabled the Trust to make service delivery choices based on the balance of cost and usage (attendance) levels. It may be useful for South Lanarkshire Leisure and Culture Trust to consider the mix of cost data used by Edinburgh Leisure.</p>
<p>Action: No. 7 - Provide SLLC with background to Edinburgh Leisure case study to enable opportunity for sharing best practice.</p>

5.4. **More effective use of cost information can help to improve corporate and partnership working**

Discussion:

The report refers to the benefits which arise when consideration of the most appropriate benchmarking indicators is carried out both by officers who are finance professionals and those who have specific front line service delivery responsibilities. This helps promote **corporate working** and a shared understanding of costs and variations and how this may impact on front line service delivery.

Case Study:

An example is included within the report of a good example of **partnership working** being the exercise led by East Ayrshire Council to analyse each service area to identify how costs could be reduced without adversely impacting on service delivery and performance. It would also determine how individual councils maintained low costs and high performance in certain areas of service.

South Lanarkshire Council perspective:

South Lanarkshire is one of eight councils participating in this exercise. It is noted that councils recognised the benefits of sharing cost/performance information and in taking the time to carry out in depth analysis to ensure accurate and consistent comparisons.

Action: – Based on the detail noted above, no further action required.

6. Audit Scotland Report Part 3 – Key points for action

6.1. The report includes details of what are considered to be ‘the characteristics of a cost aware’ council. Examples of an effective council include:

- Knowing how much it costs to deliver core services and use of information to informs decisions on service delivery
- Ensuring budgeting arrangements consider cost of different policy options and do not rely on incremental budgeting
- Seeks out examples of existing good practice in the council and shares information across departments
- Considers benchmarking performance and costs with other councils
- Ensures options appraisals have robust costing information to support decision making
- Councillors provided with appropriate training on how to understand and use cost information effectively
- Communities involved in discussions about cost and service delivery

6.2. Since the characteristics noted at 6.1 above apply to the council as a whole, SLC will make use of these as part of the corporate self assessment to be carried out during 2013/2014. This will provide the opportunity for the CMT/Heads of Service to take a strategic view on the Council’s response to these key questions and, consequently, identify any areas for improvement. However, the other specific actions recommended within this report to the Forum will ensure the Council actively addresses all issues on a continuous basis.

Action No. 8 - Characteristics of a cost aware council to be considered at CMT/Heads of Service corporate self assessment in 2013/2014.

6.3. The Audit Scotland report includes a ‘tool for checking progress’ in respect of use of cost information both in terms of councillors and officers. In order to assess the Council’s position against these checklists, it is recommended that these are considered in detail and used to identify the Council’s current position and take action as necessary.

Action No. 9 - Review checklist for councillors and officers and take action as required to address gaps.

7. Next steps

- 7.1. The Forum is asked to note the actions discussed above and summarised at Appendix 1.

8. Employee Implications

- 8.1. There are no employee implications directly associated with the report.

9. Financial Implications

- 9.1. There are no financial implications directly associated with this report.

10. Other Implications

- 10.1. The focus of the Audit Scotland report includes the need for councils to have sufficient information which provides both an understanding of the cost of service delivery and which can also inform decision making and choices. If such information is not available, there is a risk to the Council that services may not be achieving value for money and/or the correct decision may not be made.

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 for consultation in respect of the content of this report.

Paul Manning

Executive Director (Finance and Corporate Resources)

10 October 2012

Link(s) to Council Objectives/Improvement Themes/Values

- Improvement Theme – Efficient and effective use of resources

Previous References

- None

List of Background Papers

- Audit Scotland Report (May 2012) 'Using cost information to improve performance; are you getting it right?'

Contact for Further Information

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

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**South Lanarkshire Council – Action Plan in response to Audit Scotland report
‘Using cost information to improve performance’**

	Action	Responsibility	Timescale
1	Empower Officers Group to ensure relevant unit cost performance data, and Council wide Key Performance Indicators, be included within results sections of Empower assessments.	Head of Audit and Improvement (Empower Officers Group)	April 2013
2	Use results of ‘gap analysis’ based on CIAB information to consider areas where unit cost data not available. Identify additional unit cost measures on a priority basis as appropriate.	Head of Finance (3 Year Budgeting Group)	December 2012
3	Budget preparation exercise to continue to make use of savings prioritisation model.	Head of Finance	Ongoing
4	Consult with Citizens Panel on new Annual Performance Report.	Head of Audit and Improvement	September 2013
5	As part of the gap analysis exercise referred to at Action 2 above it is recommended that consideration is given to the potential use of VFM indicators where appropriate.	Head of Finance (3 Year Budgeting Group)	December 2012
6	SLCPP to review detail of next steps, when advised by Improvement Service, in respect of request for pilot CPPs to participate in an outcome focused budgetary process at a local level.	Head of Administration	TBC
7	Provide SLLC with background to Edinburgh Leisure case study to enable opportunity for sharing best practice.	Executive Director Community and Enterprise Resources	October 2012
8	Characteristics of a cost aware council to be considered at CMT/Heads of Service corporate self assessment in 2013/14.	Head of Audit and Improvement	March 2014
9	Review checklist for councillors and officers and take action as required to address gaps.	Head of Finance and Head of Administration	December 2012