1. PURPOSE OF REPORT

1.1 The purpose of this report is to present to the Governance and Scrutiny Committee the key findings of the ‘Scotland’s Public Finances – A Follow-up Audit: Progress in Meeting the Challenges’ report published by Audit Scotland on 5 June 2014; and to outline to the Committee how the Council intends to respond to the key messages outlined within the report.

2. BACKGROUND

2.1 The report is the latest in a series of Audit Scotland reports which have looked in detail at public sector spending across Scotland. It builds upon these previously undertaken reports, most notably Audit Scotland’s 2011 publication ‘Scotland’s Public Finances: Addressing the Challenges’. In addition, cognisance is taken of the recurring themes which have appeared in annual NHS financial performance reports; annual Audit Scotland overview reports on local government in Scotland; and reports on further education and Scottish colleges.

2.2 The report is also set firmly within the context of the Scottish Government’s ongoing public service reforms and the wider political landscape, in the run up to the 2014 referendum on Scottish independence. It is recognised that, irrespective of the outcome of the Referendum, the pressures on public finances will remain. Those leading and managing public services will face increasingly difficult choices about how to spend the money that is available; making best use of that money is paramount.

2.3 This report provides a high level update on the current financial position and on how public bodies are meeting the challenges of reduced public spending. It considers the importance of long-term financial planning and the key role of councillors and non-executive directors in ensuring that public bodies are well positioned to deliver quality services for less money.

2.4 The content and key messages arising from this report were considered by the Corporate Management Team at its meeting of 28 July 2014. A full copy of the report has been placed in the Members’ portal and information point.

3. KEY MESSAGES

3.1 Scotland’s public sector continues to face significant financial challenges. The Scottish budget has fallen nine per cent, in real terms, from £31.9 billion in 2009/10 to £28.9 billion in 2014/15 and is expected to reduce further. Public bodies have coped well so far but face increasingly difficult choices in reducing spending while maintaining service standards and meeting rising demand.
3.2 In setting budgets, public bodies need to focus more on their priorities, making clearer connections between planned spending and the delivery of outcomes. Rigorous use of options appraisal based on sound information is required for good budget-related decisions and making those decisions clear and understood.

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

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

3.5 Following on from the key messages highlighted above, the report concludes with three recommendations for public bodies, which are as follows:

- Public bodies should implement an approach to budgeting that focuses more on priorities and links planned spending more closely with the outcomes they want to achieve.
- Public bodies should develop a longer-term approach to financial planning that takes account of priorities, risks and liabilities and provides assurances on long-term affordability.
- Public bodies should support effective scrutiny by ensuring that good-quality information is available and that councillors and non-executive directors have the right skills to carry out their scrutiny roles.

4. **PRIORITY BASED BUDGETING**

4.1 It is recommended that public bodies should adopt a priority-based approach to budgeting, allocating funds to the services or areas which contribute most to delivering identified priority outcomes. This depends on a shared understanding of which services contribute most and least to the organisation’s priorities. Services and activities that contribute least to outcomes may be reduced or withdrawn. A priority-based approach helps non-executive directors and councillors take decisions in the clear knowledge of the consequences. Local audit work has found that only a few bodies across Scotland have adopted a priority-based approach to budgeting.

4.2 Within the context of Community Planning, since September 2013, there has been an expectation that relevant partners in CPPs should share budget, resource and planning information; and agree how total resources can most effectively be deployed and aligned between partners to achieve outcomes. It is recognised that public bodies require to work together to identify where they can direct money to make the greatest difference. This means that budget setting takes full account of shared priorities and commitments.

4.3 Options appraisal and benchmarking are identified within the report as key components of financial management including priority-based budget setting. Public bodies require to identify the risks associated with budget options, particularly in respect of stopping or reducing services, and require to consider the potential implications for how services perform, the impact on service users and the effect on longer-term outcomes.
5. **LONGER-TERM FINANCIAL PLANNING**

5.1 Long-term financial strategies covering a five to ten year period help set the context for annual budgets, notwithstanding the fact that Scottish Government funding allocations typically cover one to three-year spending review periods. With limited information on available funding beyond 2015/16 public bodies should undertake scenario planning as part of their long-term financial strategies. This involves making assumptions about different levels of future income, expenditure and activity and outlining options based on each scenario.

6. **EFFECTIVE SCRUTINY**

6.1 The essential role that scrutiny plays in ensuring effective performance by public bodies is an often recurring theme in Audit Scotland publications and this current document is no exception. It is stated that scrutiny plays an essential role in ensuring that public bodies/ budgets, financial plans and strategies are credible and transparent, however the key message is that effective scrutiny is dependent on relevant, timely and reliable information being provided to those responsible for scrutinising, i.e. elected members. In addition, it is essential that the scrutiny role should involve regular monitoring of progress towards outcomes and include feedback on where further improvements can be made.

6.2 Finally, in respect of scrutiny, it is more important than ever that non-executive directors and councillors are supported in their role. All public bodies should assure themselves that they provide appropriate training to those individuals who have a role in scrutinising budgets and financial plans/strategies.

6.3 The full Audit Scotland report is available on the Members’ Information Portal and at the Members’ Information Point.

7. **IMPLICATIONS FOR EAST AYRSHIRE**

7.1 This Council has undertaken significant work to ensure that it is well placed to meet the ongoing challenges of budget constraints and increasing demands for services and is fully cognisant of the need to focus on long term financial sustainability within this context. As Members will be aware, in June 2012 the Council approved the Transformation Strategy 2012-2017, aligned to the lifespan of the administration of the Council and developed to ensure that Council services remain financially sustainable in the current economic climate. This strategy is essentially a dynamic five year budget which was designed to be reviewed and updated on at least an annual basis over the period. The Transformation Plan Strategic Board, chaired by the Chief Executive, meets on a fortnightly basis to consider and review progress being made in delivering the programme and continue to challenge services to close the remaining budget gap.

7.2 It is however recognised that funding assumptions beyond 2014/15 are difficult to predict and will depend upon a range of external factors including Scottish, UK and world economic and political conditions and the outcome of the next Spending Review undertaken by the UK Government. Whilst these are uncertain, it is important for the Council to continue to plan ahead based on information currently available, accepting that variances are inevitable, and with management arrangements in place to detect changes, estimate their impact and alter plans accordingly.
In addition, the comprehensive review of Community Planning in East Ayrshire is currently being progressed and a range of consultation has been undertaken in respect of the development of the new Community Plan which, it is anticipated, will be a 15 Year Plan for the period 2015 to 2030, with a three-yearly review process built into the planning cycle. A key aspect of this work will be the identification of the Partnership’s key priority outcomes in the years ahead. The new Plan will provide the strategic framework within which future budget setting and strategic financial planning across each of the Partner agencies will take place.

The role of elected members in the scrutiny of Council’s financial plans and strategies is well established. Consultation, with Elected Members and the wider East Ayrshire community, was undertaken on the Transformation Strategy and ongoing scrutiny of performance against Transformation Strategy work streams and overall financial performance is undertaken through the East Ayrshire Performs framework. The East Ayrshire Performs Report is considered four times per year by Cabinet and by the Governance and Scrutiny Committee. This report provides a detailed update in respect of a number of important performance measures, including the financial position for the year to date, ongoing expenditure reduction measures, treasury indicators and progress of the capital programme. A detailed suite of supporting information is also made available on the Members’ Portal in respect of each East Ayrshire Performs report.

8. FINANCIAL/POLICY/LEGAL IMPLICATIONS

8.1 There are no direct financial or legal implications arising from this report. There are no new policy implications arising from this report.

9. RECOMMENDATIONS

9.1. The Governance and Scrutiny Committee is requested to:

i) note the general findings and recommendations within the content of ‘Scotland’s Public Finances – A Follow-up Audit: Progress in meeting the challenges’;

ii) note the key messages detailed at paragraphs 5 to 8 of this report;

iii) note the activity being progressed in East Ayrshire to address the issues identified within the Audit Scotland Report; and

iv) otherwise note the content of this report.

Alex McPhee
Executive Director of Finance and Corporate Support
5 August 2014

LIST OF BACKGROUND PAPERS


Any person wishing to inspect the above background papers or to seek further information on this report should contact Craig McArthur, Head of Finance, (Tel: 01563 576513) or Gwen Barker, Policy, Planning and Performance Manager, (Tel: 01563 554602).

IMPLEMENTATION OFFICER

Alex McPhee, Executive Director of Finance and Corporate Support