

# Raising the Stakes: financial scrutiny in challenging times

A guide for Welsh local authorities



accountability, transparency, involvement



atebolrwydd, tryloywder, cyfranoglad



Grant Thornton

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## The Centre for Public Scrutiny

The Centre for Public Scrutiny (CfPS), an independent charity, is the leading national organisation for ideas, thinking and the application and development of policy and practice to promote transparent, inclusive and accountable public services. We support individuals, organisations and communities to put our principles into practice in the design, delivery and monitoring of public services in ways that build knowledge, skills and trust so that effective solutions are identified together by decision-makers, practitioners and service users.

## Grant Thornton

We have worked with the public sector for over 30 years. We service a large proportion of the public sector audit market across England and Wales, so our clients know that they can draw on a breadth of sector experience which spans local and central government and the NHS. This means we can truly appreciate the wider issues facing our clients, as well as provide solutions and services that are grounded in reality. We also bring best practice from across the sector for the benefit of our clients. We provide audit tax and advisory services to local government and related bodies across the UK, including London boroughs, county councils, district councils, city councils, unitaries and metropolitan authorities, as well as fire, police and national park authorities.

## Acknowledgements

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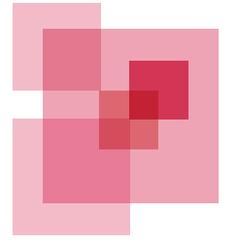
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Chris Moore, Head of Financial Services, Carmarthenshire County Council and representative for Society of Welsh Treasurers

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Finance is critical to the services councils deliver and the financial issues facing councils affect everyone in terms of the services they receive and the taxes or charges they pay. As it gets harder to find necessary levels of savings through efficiencies, councils will need to think hard about the choices they face, asking themselves difficult questions about which services to offer in future and whether historic means of delivering those services are still appropriate. And most of all, how can expectations be managed in making the necessary changes? This guide offers practical advice to council officers and councillors about how scrutiny can add value to financial planning and financial management. It is supported by case studies about how others have implemented effective financial scrutiny. The guide is a starting point and we welcome comments about how it might be improved and developed. We recognise that there is no universal template which can be applied to all councils, but the guide contains general principles and tips from those who have travelled this road before or are travelling alongside.

In the current economic climate, councillors need to make the most effective use of the limited resources available, especially finances. The key question from a scrutiny perspective must always be 'how can we add value?' In this context, scrutiny must be able to demonstrate it adds value to each stage of the financial process - the budget setting process itself, the determination of priorities among competing demands, the effective use of funding and how financial monitoring and control takes place are all key issues. Scrutiny is more than adding value to decisions - it's about ensuring that there is proper scrutiny in the effective planning, execution and follow up of key decisions impacting on taxpayers and local communities. Scrutiny is very different from Audit, with the former providing effective challenge and the latter ensuring that there is appropriate assurance over all of the Councils activities, including in the scrutiny arrangements. But councils should be clear about the importance of effective communication between the two functions. The next few years are likely to present an opportunity to make a managed transition to fundamentally different kind of organisations, rather than an annual review of budgets based on short term assumptions that lead to a series of unconnected year-on-year cuts. We encourage you to use the guide to generate a discussion in your council about how the principles can best be put into effect.

**Jessica Crowe**, Centre for Public Scrutiny

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# Background and introduction

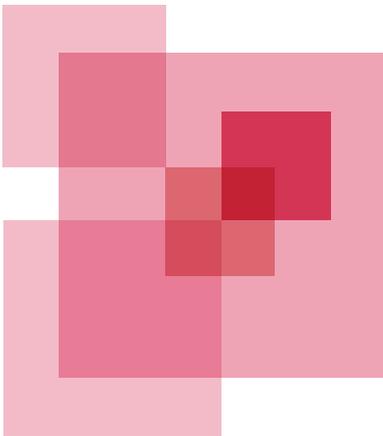
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This guide sets out advice about how council scrutiny functions can add value to council financial management, budget setting and assessment of outcomes, helping overcome barriers and has been written for all councillors and all local government officers and sector stakeholders. This guide draws upon CfPS's existing publication "On the Money", most recently updated in 2011 which contains relevant and transferable lessons to Welsh local government, particularly given the context of significant funding reductions.

The guide, draws on existing good practice from Welsh and English local government to provide practical advice and ideas on how councils can ensure effective scrutiny and accountability of the use of public money.

*“ All elected members, independent health board members, non-executive directors, and officers must acknowledge the importance and value of scrutiny in improving services for people and organisations in Wales. The independence of scrutiny must be strongly asserted and protected, as must its essentially constructive and positive nature. ”*

The Commission on Public Service Governance and Delivery, January 2014



# What's on the horizon for Wales?

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## **The Local Government Settlement position and anticipated future pressures**

The Institute for Fiscal Studies developed a series of funding scenarios for the Welsh Government budget to 2025. The overall base case shows devolved revenue funding falling from £15.1 billion to £13.6 billion in 2017-18 with funding not returning to 2010-11 levels until 2022-23 at the earliest. If delivered, this would mean seven years of retrenchment in public service spending in Wales, in stark contrast to the first ten years of devolution. Welsh Public Services 2025 also reflected on these future funding scenarios. The solutions discussed include more regional/shared services, and co-production and councillors' scrutiny role was seen as critical.

The Local Government Settlement for 2014-15 saw councils in Wales receiving £4.26 billion in general revenue funding. After adjusting for transfers this is a decrease of 3.4% compared with 2013-14. Settlement funding is indicated to reduce by a further 1.5% in 2015-16, but this is highly indicative and subject to change. The scale of these funding reductions, and the impact of austerity on council budgets, create significant challenges for councils to maintain quality services which deliver strong outcomes through more efficient, innovative and collaborative ways of working. Whatever the financial outlook for public spending in the future, the principles in this guide provide the basis for effective council scrutiny arrangements. The current challenges make effective financial scrutiny vital. They also require executive councillors and officers to engage openly, at an early stage, not just inside the council but with citizens and wider stakeholders to identify solutions to delivering outcomes for communities in the face of future funding constraints.

Councils should ensure that their financial management processes are transparent and that councillors have sufficient opportunity to receive financial information in ways that help them identify risks and ask questions (and expect answers) to understand the development and impact of budget proposals on the provision of services in their communities.

Some key issues that need to be considered include: if the challenging savings targets are reached, what is the impact on services for those who need them? If the targets are not realised, what are the knock-on effects on the budget overall and on other service areas? Is the council learning from experience elsewhere of improving efficiency – for example by joint commissioning or delivery ; streamlining back-office functions; and providing services in new ways, such as through community groups, new partnerships or transferring services to employee-owned mutual companies?

## **The changing role of scrutiny**

The Commission on Public Service Governance and Delivery published its final report on 20 January 2014. A key focus of the review was “what arrangements, for governance, accountability, delivery and scrutiny, can deliver a step change in the performance of and continuous improvement in our public services?”

Local government in Wales faces some key scrutiny challenges, not least those identified in the Commission's report. If accepted by the Welsh Government, the report's recommendations will see radical change over the next three to five years. The report's recommendations place considerable emphasis on the role of scrutiny, noting that “public scrutiny is a particular and essential form of accountability in the public sector. It is most often used in reference to the formal local authority scrutiny

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function or scrutiny by the National Assembly for Wales or the UK Parliament but our treatment here is intended to cover a wider interpretation. Scrutiny can be continual or ad hoc, and either structured around formal processes or a more fluid dialogue” and that that the new structures proposed by the Commission “will achieve nothing without the wider changes we propose, for instance to governance, scrutiny, accountability, leadership, culture, values and performance management.”

The Welsh Government is currently consulting on expanding council scrutiny via a ‘Designated Persons Order’ under the Local Government (Wales) Measure 2011 to cover more organisations including NHS Trusts, Fire and Rescue Authorities, Local Health Boards and Registered Social Landlords (RSLs). In addition, Welsh Government is developing a Future Generations Bill, which plans to make Local Service Boards statutory, introduce a duty on community planning partners for cross organisational working and sustainable development, and potentially granting greater scrutiny powers. These powers might broaden the application of council scrutiny to the wider public service placing new duties on council scrutiny to scrutinise public service providers in their area.

### **What does scrutiny need to focus on for the future?**

The impact of funding reductions will profoundly affect the way local services are delivered over the medium to long term, and decision-making processes will need to include arrangements for constructive challenge. A wide range of partners will also be involved in these decisions, necessitating the need to think intelligently about the way in which councillors can work with other non-executives in the public sector. ... It is also important that scrutiny focuses on longer term outcomes not just short term savings.

#### **Short term**

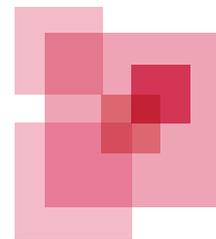
The immediate imperative is to develop an effective plan for setting the budget for the next financial year and any steps that councils are taking to respond to the financial situation over the next eighteen months. Councils should review their approach to scrutiny of budgets and financial management generally, to provide assurance that scrutiny:

- is involved at key milestones as the budget is prepared – for example, a mix of information sharing, ‘set piece’ events allowing councillors opportunities to test assumptions, examine risks and challenge priorities;
- has access to the public consultation process as the budget is developed – for example, using insight from public consultation to influence how scrutiny tackles proposals for budget priorities;
- can act as a focal point for debates about major changes to services;
- identifies longer term pressures that might arise from short term decisions.

#### **Medium term**

Medium term issues are those around helping councils, partners and local communities to manage the transition between current patterns of service provision and the likely pattern of services that councils will be able to resource by 2020.

For some services this may mean a stronger role for other individuals or organisations to run services if councils cannot provide funding. There is scope here for scrutiny to play a more creative role, for example:



- Flagging up risks involved in decommissioning services to allow a meaningful and reasoned public debate;
- Providing a non-partisan arena for debate, so that councils and partners get a clear steer about the views and aspirations of the public;
- Ensuring a strategic, long-term approach is taken to major service reconfiguration, taking account of externalities (such as the possible impact on acute healthcare or social care services if support for early interventions is removed);
- Focusing on ‘future-proofing’ services to withstand future changes when central support might be significantly lessened;
- Resisting the temptation to continue to “salami-slice” rather than use social value techniques to inform decisions about budgets;
- Providing a constructive environment for reasoned, detailed and public discussions amongst politicians about changes, taking some of the heat out of the controversial nature of many of them;
- Challenging assumptions about shared services and commissioning arrangements, particularly if arrangements risk “locking in” failure, in the form of assumptions about future spending and income which may be inaccurate in the context of an unpredictable funding situation;
- Considering whether income generation arrangements show sufficient ambition and whether reasonable thought has been given to new and creative ideas;
- Considering whether realistic options exist to ‘mothball’ services or run them in reduced form in the expectation of an improved funding outlook in the future;
- Considering impacts of major changes on partners and suppliers, and the effect on the local economy more generally;
- Considering new ways of structuring and raising finance from either social or commercial investors through the use of Social Impact Bonds to improve societal outcomes and innovation in public service delivery;
- ensuring that alternative delivery models for service delivery are compared effectively to existing delivery methods.

### Long term

Scrutiny should be playing a role in exploring what public services might look like post 2020. Some key issues to examine might be:

- What will demographic changes mean for council services in the 2020s?
- What will local people expect of council services in the next decade?
- How can councils and partners best work together to meet these expectations?
- What role will councillors play if more local services operate outside council control, or are not delivered at all?
- Will anyone provide services that councils stop running? How can councils support a transition that will be as easy as possible under the circumstances?
- Will decisions made now make it more difficult to tackle these issues in the future?

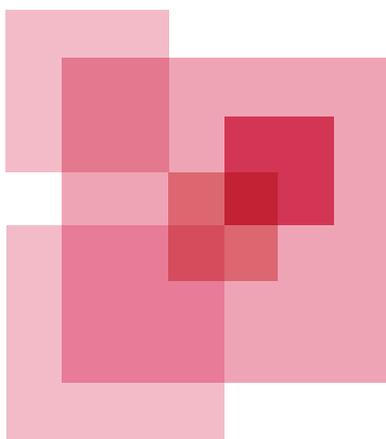
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- How can councillors help develop community aspiration and resilience in the face of funding cuts?

### **How prepared are councils for these challenges?**

Scrutiny's non-partisan approach may be challenged in these scenarios, as tough decisions will need to be made about service provision but scrutiny can provide a neutral forum for these debates, providing a bridge between local people and decision-makers.

Senior officers and cabinet members have the chance to adopt a transparent and inclusive approach to engage scrutiny to examine the options for change rather than put plans together in private. Scrutiny can and should lead this process. Councils designing executive-led consultations on these changes may not be able to demonstrate credible public participation.

Scrutiny can test assumptions that traditional management solutions will address challenges and can help develop innovation in public participation.



# The need for financial scrutiny

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## How can financial scrutiny add value?

Cabinet review and approval of the annual budget and other financial plans provides democratic legitimacy, but cannot fulfil independent scrutiny. Grant Thornton's Local Government Governance Review of 2013 found that councils still have a lot to do to prove that scrutiny functions are effective – 40% of council leaders said their scrutiny function did not demonstrate the value it adds.

Presenting councillors with columns and tables of figures may generate a lack of confidence in their ability to scrutinise financial management. However, financial scrutiny is ultimately about testing how councils make choices about resource allocation and how well resources are used to deliver policy objectives.

Councils face significant uncertainties in managing their finances. Things can easily go wrong and, when they do, trying to sort things out can sometimes add to the problems – for example, emergency 'budget call ins', undisciplined political debate and tabling of alternative budgets might not be the best ways to secure effective solutions. 'Late surprises' which impact on financial performance may be symptomatic of a budget process that lacks rigour, culminating in poor financial resilience. By contrast, a systematic approach to financial scrutiny is an essential building block of sound financial management and governance.

Through scrutiny, councillors have the opportunity to 'step back' and consider the relationship between costs and performance. The rigours of the annual budgeting round can focus attention on dealing with reduced funding without fully appreciating the impact on delivery of service priorities and performance targets. Cutting costs may achieve short term financial gain and a balanced budget but impact citizen perception and the achievement of improvement objectives, which end up storing up costs for the future.

Grant Thornton's 2014 Local Government Governance Review focuses on the following areas where scrutiny can play an important role:

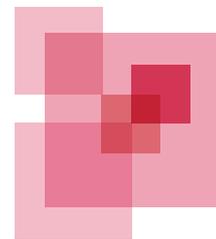
- Risk leadership: setting a tone from the top which views risks as opportunities as well as threats, and encourages innovation as well as managing potential pitfalls – scrutiny can contribute significantly to fostering such a culture by functioning as an effective 'critical friend';
- Partnerships and alternative delivery models: implementing robust and proportionate governance arrangements for new service delivery models, to retain accountability without stifling innovation – scrutiny can contribute by ensuring arrangements for effective governance.

Grant Thornton has had extensive dialogue across local government about the financial challenges it faces, which has identified a range of 'tipping point' scenarios which could lead to council finances becoming unmanageable. A key role of scrutiny is to be alert for indications that any of the scenarios below are developing:

| <b>Tipping point scenario</b> | <b>Description</b>  |
|-------------------------------|---|
| <b>Decision paralysis</b>     | Councils fail to make necessary decisions to manage financial and other challenges. This has been identified as a potentially over-arching 'tipping point'.   |
| <b>Statutory</b>              | Councils can't meet statutory responsibilities to deliver a broad range of services with the funding available, leading to legal challenges and protests from people who use services.  |
| <b>Financial</b>              | Section 151 officers unable to set balanced budgets, leading to an unbalanced budget report in line with Section 114 of the Local Government Finance Act 1988 (England and Wales); or where increased uncertainty leads to budget overspends that reduce reserves to unacceptably low levels; or where councils demonstrate characteristics of an insolvent organisation, such as a failure to pay creditors. |
| <b>Industrial</b>             | In response to pay restraint, changes to terms and conditions and job losses, employees and trade unions enact prolonged industrial action, leading to major service disruption and long-term industrial relations disputes.  |
| <b>External</b>               | Major suppliers fail leading to significant service disruption and reputational damage to the council.  |
| <b>Incremental</b>            | Multiple, smaller failures in individual service areas lead to an eventual critical mass of 'tipping points'.   |
| <b>Militancy</b>              | Councils ignore or defy statutory obligations.  |
| <b>Civil disturbance</b>      | Service cuts run so deep that the dissatisfaction of users leads to widespread civil disturbance which impacts on business continuity and resilience of councils.   |
| <b>Doomsday</b>               | A further banking/financial crisis leads to even greater levels of austerity, over a significantly longer timeframe.  |

Source: '2016 tipping point? Challenging the current' (Grant Thornton December 2013)

Effective financial scrutiny is not only about increasing transparency, it can have a real impact on decisions and outcomes. The case studies in this guide show how financial scrutiny can make a difference to how councils perform and deliver their services.



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## Characteristics of good scrutiny

CfPS has supported the Wales Scrutiny Officers Network to identify characteristics of good scrutiny in terms of:

- **Better outcomes** – ensuring democratic accountability succeeds in driving improvement in public services
- **Better decisions** – ensuring democratic decision making is accountable, inclusive and robust
- **Better engagement** – ensuring the public is meaningfully engaged in democratic debate about the current and future delivery of public services.

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### **Better outcomes** scrutiny should have:

- a clearly defined and valued role in the council's improvement and governance arrangements
- dedicated support from officers who are able to undertake independent research effectively, and provide councillors with high-quality analysis, advice and training

#### **and needs to:**

- undertake inquiries that are non-political, methodologically sound and incorporate a wide range of evidence and perspectives
- engage in evidence based challenge of decision makers and service providers
- provide viable and well evidenced solutions to recognised problems.

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### **Better decisions** councils should ensure that:

- scrutiny councillors have the training and development opportunities they need to undertake their role effectively
- the process receives effective support from the council's corporate management team, with high quality information provided in a timely and consistent manner
- scrutiny is councillor-led, takes into account the views of the public, partners and regulators, and balances the prioritisation of community concerns against issues of strategic risk and importance
- scrutiny meetings and activities are well-planned, chaired effectively and make best use of the resources available to them
- decision makers give public account at scrutiny committees for their portfolio responsibilities.

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### **Better engagement** scrutiny should:

- be recognised by the executive and corporate management team as an important council mechanism for community engagement, and facilitating greater citizen involvement in governance
- be characterised by effective communication to raise awareness of, and encourage participation in democratic accountability
- operate non-politically and deal effectively with sensitive political issues, tension and conflict
- build trust and good relationships with a wide variety of internal and external stakeholders
- enable the 'voice' of local people and communities across the area to be heard as part of decision and policy-making processes.

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## Approaches to financial scrutiny

Within the principles and characteristics set out in this guide, it is important that councils choose an approach that is right for them. Some common approaches in Wales and England are:

- **dedicated budget scrutiny panels** which ‘shadow’ budget and financial planning processes. They provide a useful corporate overview, but need to be integrated with the other scrutiny work going on;
- **overarching budget scrutiny panels**, supported by service specific scrutiny committees considering departmental budget headings.
- **Standing scrutiny committees** that feature financial and budget scrutiny as part of their work . Their findings can feed into the corporate budget process, as well as monitoring their particular area, taking account of the financial implications of recommendations
- **Time limited task groups** that review particular financial issues. These give councillors time and scope to look at an issue in more detail, helping scrutiny prioritise.

Themed reviews provide opportunities to hear from external stakeholders and the public, who are more likely to respond if asked questions about a specific policy area. This gives councillors a chance to actively generate proposals, whereas monitoring work can feel more passive, focusing on what hasn’t gone according to plan rather than helping to raise ambition.

## What are the barriers to financial scrutiny?

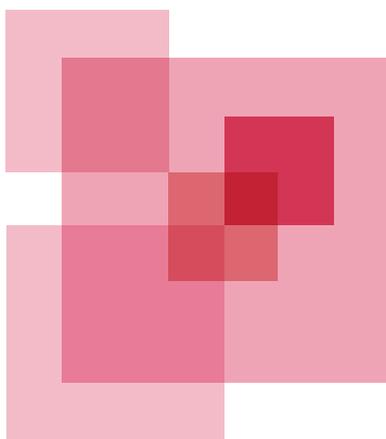
The results of CfPS surveys consistently show that councils find effective financial scrutiny difficult:

- It is political, but it can work in ways that are different from other political group activities;
- It is perceived as technical and confused with audit and compliance;
- It can highlight tensions between the council executive and other councillors, between officers and councillors and between service departments and the finance department or corporate centre;
- It has to integrate financial scrutiny with policy and/or service scrutiny going on throughout the council.

Done well, scrutiny can influence financial and planning processes, as well as financial performance and outcomes of particular services. So how can financial scrutiny work well, given the potential barriers?

Financial scrutiny should be challenging but constructive - it is not the same as ‘opposition’ and is not about putting forward an alternative budget or council tax. It should be focused, but not micro-managing or second-guessing financial management that is the responsibility of finance professionals. Overview and scrutiny of councils’ resources and budgets should address strategic issues:

- considering the budget strategy within the context of challenges facing the council and people who live in its area;



- assessing lessons and issues arising from previous years audited financial statements and related outturn reports;
- providing a constructive assessment of whether the council’s financial planning systems are effective in delivering stated priorities – how are resources allocated and growth and savings dealt with;
- assessing whether financial systems are reliable and accessible; and
- considering how financial and resource decisions are made, what assumptions and criteria are used and what information is taken into account.

### The relationship between audit and scrutiny

Councils have a statutory duty to operate an audit committee, however it cannot assume that this provides comprehensive financial scrutiny. Audit Committees have responsibility for ensuring adequate financial controls, compliance with probity and accounting rules but should resist the temptation to undertake the scrutiny role.

Scrutiny should review policy priorities and outcomes and challenge the executive about its actions to deliver stated policy goals. Audit committees should provide assurance about financial controls to mitigate key risks and that the council has effective financial management arrangements that include scrutiny.

|                      | Scrutiny  | Audit   |
|----------------------|---|---|
| <b>Definition</b>    | power to get information, question executive councillors, officers and certain other organisations, to make recommendations and get responses   | maintains an overview of the council’s financial management arrangements, control systems and compliance with probity and accounting rules  |
| <b>Wider powers</b>  | power to consider matters which affect the council’s area or its residents.   | no power to consider non-financial matters or matters that are not the responsibility of the council  |
| <b>Call in</b>       | right to ‘call-in’ key decisions and ask the decision-maker to think again, or to refer the decision to full council for consideration  | no power to ‘call in’ decisions but can request officers and councillors to attend and respond to specific issues.  |
| <b>Audit role</b>    | no formal role in assuring compliance with probity and accounting rules.  | receives external and internal audit reports on financial statements and systems of control and governance. Head of Internal Audit should have a right of direct access.                              |
| <b>key questions</b> | 1 why has the executive decided to spend money on this?<br><br>2 Do the outcomes demonstrate financial and/or social value?<br><br>3 What would happen if the council stopped spending on this? | 1 how do we know what the council has spent on this?<br><br>2 has the council complied with statutory requirements?<br><br>3 Are we sure that we can predict risk and protect the council against it? |

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## Financial scrutiny in practice

Financial scrutiny should take account of the wider context – linking budget scrutiny to scrutiny of corporate strategies and performance; and with an understanding of the key issues facing the council and the public sector climate.

Financial scrutiny should mirror the key areas of councils' financial activities:

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### Financial planning

- involved in medium-term financial, service and corporate planning
- challenging how the budget is constructed

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### Financial management

- regular, but not detailed, budget monitoring or review that effective monitoring is taking place elsewhere
- reviewing financial and performance forecasts as well as current budget and performance monitoring information
- evaluation of financial and/or social value

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### Savings and efficiency plans

- considering the impact of savings proposals
- monitoring the delivery of agreed savings plans
- reviewing outcomes of efficiency projects and alternative delivery models

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### Citizen participation

- getting the public involved in financial scrutiny
  - carrying out equalities impact assessments
  - promoting transparency, inclusion and accountability in financial planning, decision-making and financial management.
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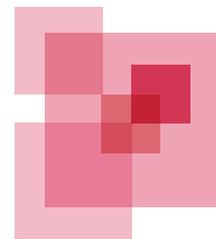
## Scrutiny of partnerships and alternative delivery models

Scrutiny can play an important role in holding external service providers to account. However, there are some barriers to scrutiny of the private sector, including:

- providers may not acknowledge the requirements of scrutiny and/or claim that 'commercial confidentiality' precludes them from taking part;
- executives may be defensive about disclosing information about procurement criteria, expected outcomes or payments;
- confusion about who is accountable – provider, commissioner, or both;
- contractor, client and scrutiny may lack the skills and knowledge to participate effectively.

The CfPS guide '*small print BIG PICTURE*' (2008) sets out some key elements to a successful approach to scrutiny of such arrangements. These are:

- **A focus on relationships:** Scrutiny should build mutual understanding and a productive relationship with providers.



- **Clarity and agreement about contractual obligations and expectations:** contracts should include obligations regarding scrutiny; an alternative may be an agreed protocol between the parties.
- **Clarity about channels of communication:** scrutiny should always start with the client, before approaching the provider. High profile contracts will benefit from a written arrangement regarding senior representation from the provider.
- **A more tailored approach:** The traditional 'select committee' style may be less appropriate than alternatives such as site visits or task and finish groups.
- **Training and development programmes:** After assessing the skills it already has and those it needs, scrutiny should commit itself to developing these to carry out its role more effectively.

In an environment where accountability is becoming more and more fragmented due to authorities entering into partnerships and other 'alternative delivery models', financial scrutiny can play a vital role in 'following the money' and assessing the value for money obtained from such initiatives.

#### Public sector partnerships

Public sector partnerships with major financial implications, such as strategic service delivery partnerships, should be particularly subject to scrutiny. Some key questions might be:

- how are these partnerships financially managed;
- what is the impact on the overall budget;
- what are the financial and other criteria for entering into them;
- how are outcomes and payments monitored; and
- how does the council ensure they are democratically accountable?

Challenging the impact spending has in cross-cutting policy areas such as troubled families where there are various funding streams and financial information may not be directly or clearly aligned to the policy area, is another way in which careful financial scrutiny can help open up complex issues to the public.

#### Public-private partnerships

The rise of private sector provision of council services presents new challenges for accountability and governance. Such providers will be used to forms of legal and financial compliance but they may be unfamiliar with democratic accountability. As highlighted in recent reviews such as *Responding to the Challenge: alternative delivery models in local government* (Grant Thornton, January 2014) and *small print BIG PICTURE* (2008) - scrutiny has an important role to play in assuring value for money from outsourced services. It can:

- provide a forum to hear and assess the views of provider, client and service user that is separate from contract monitoring or customer care;
- capture a rounded view of service delivery from beginning to end – from setting the policy imperatives to checking the service outcomes;
- provide a way of amplifying the voices of service users, especially to express concerns about evidence (or a perception) of service failure;

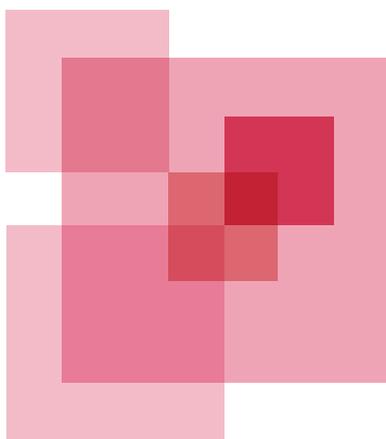
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- elicit the providers' contribution to policy review and development, drawing on their experience of service delivery elsewhere;
  - provide additional capacity to challenge provider performance, particularly if the client is under-resourced or lacks expertise.

### Third sector partnerships

Partnerships with the third sector, or voluntary, community and faith sector (VCFS), are important from a scrutiny perspective because:

- the VCFS is increasingly involved in the provision of services, often in community-based settings;
- the VCFS provides a conduit for liaising with the public.

Welsh Government highlights in its *Statutory Guidance from the Local Government Measure (2011)* how it considers that the voluntary sector has an important role to play in providing input to council scrutiny. There are many examples across Wales of voluntary sector engagement with scrutiny making a valuable contribution through enriching and authentic perspectives. This has directly led to the improvement of public services in some cases and strengthened communication between citizens, special interest groups and decision makers in others.



# Why councillors must play their part in financial scrutiny

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## **Councillors have a legitimate right to challenge council finances**

Councillors have a fundamental democratic right to commission financial information and provide challenge to executives and officers about finances. Scrutiny should be led by councillors, which involves:

- reading information in advance
- asking relevant and timely questions

Participating in a range of scrutiny activities Councillors need the time and opportunity to ask questions.

Scrutiny councillors are not expected to be financial experts, but they have a key role in ensuring accountability and value for money are demonstrated to the public.

Budget proposals need to be provided early enough to give councillors time to properly consider the impact. Council administrations should share budget proposals with other political groups openly and in a timely way. They should also ensure that information provided to support the decision making process is written in clear language.

Effective questioning skills can make a real impact on effective scrutiny. Councillors should consider the style and approach to questioning according to the type of people providing information.

Appendix B provides a range of questions scrutiny could usefully ask to provide 'critical friend' challenge to budgets and financial plans.

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## **Case Study – Buckinghamshire County Council – Effective questioning by Members**

Following the local elections in May 2013, Buckinghamshire established a select committee model to perform its scrutiny functions, which include challenging the Cabinet's draft budget proposals. Buckinghamshire County Council produces 3 year indicative budgets as part of its annual medium term planning (MTP) process. The MTP process for 2014-15 to 2017-18 was particularly difficult due to central government not providing clarity around the local government settlement until late December 2013, requiring assumptions to be made about funding levels.

The new Finance, Performance and Resources Select Committee scrutinised the draft budget proposals over 4 days in December 2013 and January 2014. The principle objectives of this exercise were to examine whether Cabinet produced a balanced budget that supported the County Council's Strategic Plan priorities, and to provide a second opinion and make evidence-based recommendations for strengthening the proposals.

The Select Committee were working to very tight timescales for an exercise of this size. Members responded to this challenge. After the final evidence sessions were held in early January, the Committee produced a final report two weeks later, which included 15 recommendations for the Council's Cabinet to consider. Cabinet responded to these recommendations in writing prior to agreeing their final, revised revenue and capital budgets for 2014-15 to 2017-18 on 3 February 2014.

The Select Committee's recommendations were wide ranging and included:

- the need to lobby central government for a timely financial settlement

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- the need to continue to move towards financial self-sufficiency
  - improvements to the budget setting process, focusing on the transparency and accessibility of the budget
  - devolving further competencies to parish and town councils
  - exploring further joint working opportunities with partners such as District Councils, and
  - exploring ways of funding a long term programme of road improvements.

The Select Committee also identified a number of specific reductions that could prove to be counter-productive or contrary to the Council's Strategic Plan priorities if implemented. Cabinet agreed to reverse the majority of these and to part-reverse or seek to mitigate the impacts of the remainder.

In addition to scrutinising the Council's budget proposals, a key aim of the Select Committee was to 'open up' the budget setting process by raising its profile and making it more accessible to members of the public. The Select Committee's budget scrutiny work was covered on BBC South Today and in local press, which helped to raise the profile of the Council's scrutiny function and budget setting process.

The Finance, Performance and Resources Select Committee held sessions with each Cabinet Member to question them on their draft spending plans and portfolio priorities. Cabinet Members were asked to introduce their portfolio and their proposals before taking detailed questions from the Select Committee for approximately an hour. The Leader of the Council was questioned on the overall policy direction of the Council, the Leader's portfolio, and on issues arising during the Budget Scrutiny process. A specific session on the Council's Capital programme was held with the Deputy Cabinet Member for Finance & Resources.

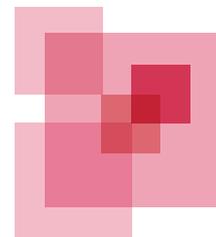
The Select Committee also engaged with external witnesses such as:

- Community Impact Bucks, who represent the local voluntary and community sector
- Barnardo's, who provide a number of children's services for the local authority, and
- Buckinghamshire Business First, who provide a link between public policy and the local business community.

These external witnesses were invaluable in explaining the specific impacts of various budget proposals, and helped to inform the Select Committee's questioning of Cabinet Members, as well as their recommendations.

The Chairmen of the Council's three other select committees (Education, Skills and Children's Services; Environment, Transport and Locality Services; and Health and Adult Social Care) were each involved in scrutiny sessions that related to their select committees' terms of reference. The Chairmen added value by imparting their detailed knowledge of the portfolios under scrutiny and by contributing to the questioning of decision makers.

In preparation, Members reviewed the draft budget proposals in detail, held informal sessions with the Council's Chief Finance Officer and Team Leader for Research, and took on board the views of local residents, businesses and community organisations by reviewing the results of the Council's Budget Consultation. All evidence sessions were held in public and were webcast live on the Council's website. These recordings are available to view online for 6 months. The Select Committee's report is also available to view via the Council's website.



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The Council Leader commented on the benefits of the robust scrutiny provided by the Select Committee:

‘All the Cabinet Members were summoned in to explain their budget proposals. We were grilled very rigorously on those budget proposals. I think most of us still have bruises to show for the thoroughness of that grilling, and as a result of that particular exercise, which lasted the best part of a week, a very detailed report has been prepared ... I’d like to thank [the Committee Chair] in particular but also all your Members for the excellent and very dedicated and very professional way in which you undertook your work. Certainly you have all devoted a significant amount of time to briefing yourselves, to understanding the budget, to really delving into the detail on behalf of all County Councillors. This is a cross-party group... and I think you do a great service to all the residents of the county.’

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### **Information can help make decisions**

Scrutiny of how money is allocated, spent and managed should be a key priority for all councillors. Yet local government finance is often perceived as opaque and we know that people feel financial scrutiny is least effective. However, financial scrutiny goes beyond audit – it is about challenging how councils make crucial choices about priorities for funding and how well resources are used to achieve policy objectives.

Similarly, performance management may appear full of jargon which frustrates attempts by non-executives to investigate performance properly. Performance management is a method for improving services – it’s about making things better for local people and about ensuring that the way services are planned and delivered provides value for money. Performance monitoring is the role most often undertaken in council scrutiny.

Developing confidence and ambition to understand financial and performance information, link it to the way people experience services and use it to drive improvements will increase the impact of this aspect of scrutiny.

Performance information combined with budget information can be used in all scrutiny reviews to provide insight into whether value is being achieved and whether improvements are necessary, feasible and affordable. In the context of ‘value’, scrutiny should also consider the social value of services not just their financial cost. This isn’t an extra job for you – it is a way to make what you already do more effective by grounding your work in reality.

Councillors should work to ensure that, when reviewing a service, that it is reviewed as a whole, not just at the limited picture offered by performance information or finance. So ask yourself, for instance, whether performance and finance information aligns with your own research, particularly the experience of service-users and whether performance management and financial control are meeting the right goals in the right ways so that council priorities are being met.

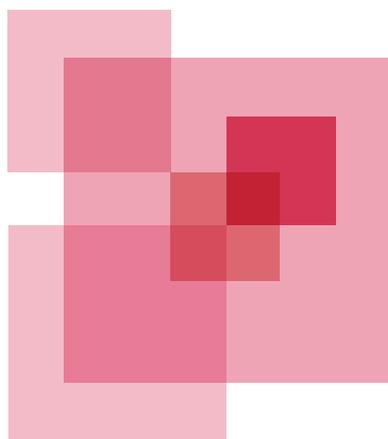
Examples of useful criteria for financial scrutiny are: was there a significant over or underspend? Were there issues with demand or supply and what does it tell us about the future? Has spending on this specific project or policy achieved value for money and what social value has it added? Does the overall budget line up with the council’s identified priorities? Finally, are changes to the budget linked to performance management reports? Similarly for performance management,

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here are some suggestions for criteria to use when reporting by exception: do the number and nature of corporate complaints suggest that there are causes for concern? Furthermore, has performance, according to council's own measures, been poor for two successive quarters? Does recent work relating to self-regulation or other assessment or inspection activities, suggest that there is cause for common concern? Finally, is this a priority for the organisation at the moment?

A helpful analogy for councillors may be to think about what questions you would be interested to know the answer to in an everyday matter involving your own finances, for example, purchasing a house. Before making the decision to on what house to purchase you are likely to consider what characteristics or priorities are important to the household in terms of location, number of rooms, specific features, etc. In terms of financing this you are likely to apply a whole life costing approach to deciding what is affordable, what income sources are available to you to finance it? what would the ongoing household mortgage and running costs be? what structural work, repairs and home improvements are likely to be required? What assumptions underpin these cost estimates that you have determined? These considerations are all very valid and the principles can be equally applied to the review of council finances.

Appendix C sets out an example of a typical budget monitoring report and provides some helpful prompts to where questioning could be directed when reviewing similar data at your council.



# Understanding roles and responsibilities

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Councillors and officers have a collective and individual responsibility for ensuring that a council's finances are effectively managed. A summary of the key roles and responsibilities is:

## **Council**

The council's responsibilities include agreeing the policy and budget framework.

## **Cabinet/Executive**

The cabinet or executive is responsible for proposing the policy and budget framework and key strategies, including the medium term financial plan and the annual budget. It has power to take all executive decisions within the policy and budget framework agreed by the Council.

## **Corporate Management Team**

Within the policy and budget framework and decisions taken by executives, Chief Executives, Chief Finance Officers and Monitoring Officers have key responsibilities for the way councils are run in terms of compliance with legal duties. Section 151 of the Local Government Act sets out requirements to prepare a prudent and balanced annual budget including maintaining reasonable levels of reserves. Other members of the corporate management team are responsible for administering annual service budgets.

## **Finance Professionals**

Finance professionals, such as auditors and accountants, should identify how financial planning and management processes can ensure time and space for scrutiny to add value and make a difference. This will probably mean providing information to scrutiny throughout the financial cycle. Scrutiny should appreciate that this information might be draft and subject to change.

## **Scrutiny Chair**

Good chairing can contribute to the success of scrutiny by:

- providing leadership and direction;
- ensuring that scrutiny works efficiently and effectively;
- ensuring that scrutiny remains within its terms of reference;
- making the best use of resources, particularly time, available;
- promoting scrutiny both within the organisation and externally; and
- representing the council at networks and events.

The Chair should encourage all scrutiny councillors to take a full part in scrutiny, including taking part in any agreed work outside of the formal meetings. They should set the tone of the meeting, helping to ensure that scrutiny does not become confrontational. Scrutiny recommendations hold more weight if they are backed by consensus. The Chair is responsible for developing constructive relationships with the appropriate Cabinet Member(s) and with senior officers in the services being scrutinised.

## **Scrutiny councillors**

The role of scrutiny councillors is to review policy and challenge whether the executive has made the right decisions to deliver policy goals. Their role comprises:

- Assisting the cabinet in the development of properly costed policies and budget proposals;
- Monitoring the service and financial performance of the council and its partners;
- Examining the impact and implementation of cabinet decisions and policies;
- Holding the council leader, cabinet and senior officers to account; and
- Scrutinising external organisations who provide services to residents.

### Co-opted members

Non-councillors may be co-opted onto scrutiny panels or associated task groups. Co-opted members can be particularly helpful in representing community perspectives, providing a wider/balanced perspective on issues and encouraging public engagement in budget proposals.

### Dedicated scrutiny support

We have already discussed finance professionals supporting financial scrutiny. CfPS research has found that the effectiveness of scrutiny is directly related to the level of dedicated support it receives. In councils that commit resources to provide dedicated support, the benefits that can be seen are:

- task and finish work, leading to specific and evidenced recommendations, is more common and carried out more efficiently;
- outcomes are followed up in a planned way;
- officer time is available to scrutiny to support creative and innovative scrutiny; and
- a commitment to transparency, inclusion and accountability that allows non-executive councillors a role in policy development.

## Do councillors have the right knowledge and skills?

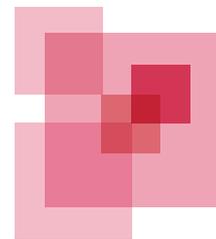
“ There is no outline of what is required of a councillor, so how could anyone coming from a background not familiar with financial planning know whether they would be any good at it or would want to do it? ”

“Representing the Future”, the report of the Councillors Commission (Dec, 2007) – Department for Communities and Local Government

Being elected as a councillor does not mean having solutions for communities but through experience and expanding your grasp of your role you will be better placed to deal with the range of issues that arise. Diversity in scrutiny tends to lead to better outcomes, so it is important that councillors not only represent the communities that they serve, but also have a wide range of backgrounds, skills and experience.

How should councillors be selected to carry out financial scrutiny? It is useful if they have a background in financial planning, or a relevant sector or industry that helps them appreciate some of the broader aspects of the role and the outcomes of their scrutiny activity, but these need not be the only factors. Councillors need to distinguish between their specific roles and community interests as a ward representative and their role in scrutiny. In 2013, the New Local Government Network <sup>1</sup> explored the skills councillors need to bring to the budget setting and financial planning process. The key factors identified were:

1. The New LG network is a collaboration of around 50 organisations from the public and private sectors united by the belief that local government, through partnership working, can not only navigate the current spending reductions but turn present circumstances to their advantage.



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### **Effective communication**

In particular between the Finance Portfolio holder and Cabinet colleagues and other Members, and between officers and Members. Financial planning information needs to be timely, accurate and in a format that is understandable. The effectiveness of the working relationship between Members and officers was considered critical.

### **Maximising the Use of Key Skills**

It was recognised that all Members have some financial skills, whilst others will have specific skills via their professional background. The availability of such skills need to be both recognised and effectively deployed. When considering the balance of skills required by Members in financial planning, the Future Councillors programme identified political understanding and scrutiny/challenge as the core skills. Where skills gaps are identified training, support and development opportunities must be available. It was further recognised that on occasion Members will need to draw on specialist advice and it is important to recognise when this is required.

### **Training, Support and Development**

Even when Members have relevant financial skills, such as via a business background, it was recognised that training and support was required from officers to ensure financial information is effectively understood - for example a local government accounts are presented differently to a private sector organisation. It was also recognised that Members could support their understanding of current issues affecting local government finance by attending external conferences and events, for example, those provided by CIPFA. The availability of national or regional forums for Members to share their experiences in relation to financial planning was also identified as important.

### **Understanding Financial Planning Tools**

Members' understanding of budget setting tools and techniques, such as Scenario Planning, Zero Based Budgeting and Activity Based Costing, was seen as important, both for when they were being used by their authority, or for challenging why they were not being used. It was recognised that Members have a role to challenge whether the current way of approaching budget setting is appropriate or good practice, in the same way they challenge the status quo in relation to service delivery. There was further discussion regarding the need to adopt new financial planning approaches such as outcome based budgeting.

### **Effective Timescales**

Financial planning was recognised as an all-year round activity. It is critical that the Medium Term Financial Plan is being continually reviewed so that assumptions remain correct, and that there is appropriate time available to prioritise budget planning discussions, savings identification and undertake necessary stakeholder engagement.

### **Knowing What Questions to Ask**

Given that a key role and skill for Members in the budget setting process relates to scrutiny and challenge, knowing what questions to ask is critical. Some example questions are set out later in this guidance document.

### **Stakeholder Engagement**

A key role for elected Members is how their engagement with citizens and businesses helps them inform key financial planning decisions, in particular service delivery priorities and savings identification. Understanding service users' needs, and the tools available to do this, was also recognised as important, particularly during periods of significant change

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and transformation. The electoral cycle was identified as a key inhibitor to medium term financial planning, so the ability for Members to take difficult but necessary decisions was seen as critical.

*'Future Councillors – Where next for local politics? (New Local Government Network, July 2013)*

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Councils should ensure that they invest sufficient time to ensure councillors have the right skills, officer support and training to undertake effective financial scrutiny.

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### **Case Study – Cardiff Council: Assessing scrutiny member needs and training requirements**

In preparation for the 2013-14 budget setting process, all scrutiny Members were invited to participate in two budget briefing sessions by the team of the Corporate Chief Officer (Corporate Services) & Section 151 Officer, to gain an understanding of the context in which the 2013-14 budget was delivered. Members were also invited to attend additional training run by the Chartered Institute of Public Finance and Accountancy.

The Council has five Scrutiny Committees which consider the sections of the draft Budget Proposals and draft Corporate Plan which are relevant to their terms of reference. Following these meetings, the Chair of each Committee sets out in a letter to the Cabinet the Scrutiny Committees' comments. The outcomes of this exercise for 2013-14 identified a number of common areas to consider in relation to the processes for scrutiny of the Council's budget. These included improving timeliness of papers, ensuring reports were concise and easily understandable for councillors and ensuring availability of good quality equality impact assessments to support budget reduction proposals.

Following the local elections in May 2012, a number of new councillor appointments were made, and changes to Scrutiny Committee membership had also taken place during the first 18 months of the new Administration. Given the huge anticipated level of challenge associated with the 2014-15 budget setting process, this brought about discussions within the Council's Scrutiny Chairs' Liaison Forum about how councillors could be supported in the development of their skills and knowledge to enable them to carry out effective budget scrutiny. From this emerged the need to develop a training and needs assessment of scrutiny councillors with a specific focus on budget scrutiny.

The Council has a dedicated four officer scrutiny research team who undertook an extensive literature review to identify the common skills required for councillors involved in the scrutiny of budgets and financial information. This literature review informed the development of a detailed survey of 11 questions for members to complete using a 'Survey Monkey' platform to compile the survey. The survey had a good response rate from councillors, the results of which were compiled and reported back to the Scrutiny Chairs' Liaison Forum in November 2013.

A full copy of the survey questions are set out in Appendix E to this guidance document.

The results of the survey has enabled the Council's scrutiny support team to develop a training programme for its scrutiny councillors highlighting the key topic areas where they have identified greatest need for further support. Training delivery methods vary between the topics areas identified and include the provision of briefing papers, councillor one to one briefings through to small groups training delivered by internal teams such as the Citizen

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Focus and Audit teams, and external advisors such as the Local Government Data Unit Wales. This exercise builds upon the Council's wider skills and knowledge development of its councillors as it works towards WLGA charter status.

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### **Training and support**

The Commission on Public Service Governance and Delivery's report (January 2014) highlighted that:

*'To be effective in holding to account and constructively identifying opportunities for improvement, scrutiny must be well resourced to support robust and challenging questioning. In local authorities, sufficient support must be available, at officer level, to develop co-ordinated scrutiny plans, identify gaps in expertise on the committees and provide proportionate and understandable information to committee members.'*

... and that:

*'Effective, credible scrutiny needs more than skilled elected members provided with training no matter how knowledgeable they may become about their service area. For scrutiny to be well informed it also requires sufficient capacity to engage with the issues and a wide range of information, perspectives and expertise.'*

Scrutiny presents many challenges – councillors need to lead the process, manage themselves as a team, and make the most of their time through effective questioning, and evidenced based recommendations. Councillors may find that when undertaking the scrutiny role, it requires skills that they may not have used or have been required to use in their experience before being elected. Adequate training on the required skills is a worthwhile investment, to build capacity and maximise the value obtained from scrutiny.

For Members involved in the scrutiny of council finances, there is likely to be great value in workshops focusing on explaining how the budget and financial planning processes work, and what Members can bring to the process by challenging assumptions with confidence. These could be run by the council's finance officers, external audit or other independent experts on local government finance.

It is however important to highlight the need to separate training and understanding of council finances from the scrutiny process itself i.e. the critical analysis, formation of conclusions and development of recommendations. Where finance officer run workshop sessions focus on draft cabinet proposals these are often interpreted by corporate management teams as scrutiny having 'considered' the proposals which can lead to budget scrutiny being ineffective.

# Scrutiny and financial planning

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## Key characteristics of good financial planning

There are two main elements to councils' financial planning:

- strategic planning - the medium term financial plan
- annual planning - the council budget.

## Scrutiny's involvement in medium term financial, service and corporate planning

Scrutiny should consider whether:

- medium term financial planning is actually happening and, if so, does it work?
- the annual budget is driven by an understanding of the council's medium-term financial, corporate and service planning pressures?

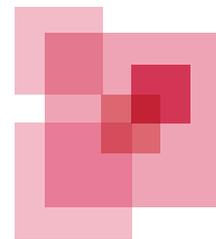
Financial scrutiny should also focus on outputs and outcomes, rather than inputs:

- Does the executive measure the effectiveness or impact of its resource allocation decisions and spending?
- Are financial targets and indicators appropriate given the council's medium-term forecasts and situation?
- Are targets being achieved? Are targets related to outputs or outcomes?
- Does the council measure the 'social value' of its spending rather than just the 'financial cost'?

In addition to assessing the robustness of medium-term financial and other plans, there should be some early involvement of scrutiny in assessing how the executive is going about integrating service and corporate planning with financial planning, testing, for example:

- whether different strategies and plans are consistent;
- whether the corporate and service plans are properly informed by the financial strategy;
- whether the executive has the appropriate financial information to underpin the service planning process;
- whether the annual budget is being set in accordance with the medium term financial plan;
- whether there are financial implications arising from service plans; and
- whether targets have been met, whether and why there are overspends or underspends.

Scrutiny should review the medium term plan to ensure that it is sufficiently robust in terms of delivering the executive's aims, objectives and priorities. However, in order to be effective, scrutiny will require information on the overall financial position of the council and the assumptions made in the preparation of the plan in order to satisfy themselves that resources are moving to priority areas. Therefore, it is important that finance professionals prepare information not only on the overall forward financial position, but also on the service consequences of the medium term plan.



This is likely to involve aligning finance information with policy and performance information. This can be complex so scrutiny will require support to understand and evaluate the medium term plan. Scrutiny can also be a valuable resource in evaluating various competing priorities, making recommendations to the executive and council as part of the council's overall review of its spending priorities. The process of compiling this performance and financial data will be helpful to finance professionals in understanding the performance of services as a whole.

### Strategic issues to consider

Scrutiny of the medium term financial plan is also the chance to take a strategic overview of issues such as:

- does the council have the right policy on the amount of reserves it needs to hold?
- is the overall planning approach appropriate to the council's circumstances?

#### Reserves policy

The Audit Commission guide 'Striking a balance: Improving councils' decision making on reserves' sets out some key questions scrutiny should be asking:

- How much does the council have in reserve and how does it compare to councils with similar circumstances?
- What are we holding reserves for? What are the risks or future spending plans for which the council is holding reserves?
- Are the levels of the council's different reserves appropriate to the risks it faces and the scale of its future spending plans?

#### Alternate financial planning approaches

Scrutiny can also assess whether the overall approach to financial planning is the right one for the council. The two main alternatives to the 'traditional' incremental approach are:

- **Zero based budgeting** : where resource allocation is based on need and anticipated impact, instead of previous budgets simply rolling forward with an uplift for inflation. The need to choose between competing claims on scarce resources fosters more effective decision making.
- **Priority based budgeting**: where resource allocation is based on priorities rather than precedent. Priorities could be decided through a process of engagement with the local community, for example to decide between council tax rises, increased fees and charges or changes in the level of services provided. As the WAO's 2014 review, 'Meeting the Financial Challenges Facing Local Government in Wales' commented:

*'Austerity and rising customer demand are forcing councils to focus their resources on priority areas and to make difficult decisions. These could be decisions to: stop delivering activities that do not contribute to their priorities; scale back activities that make less of an impact on their priorities; or to identify alternative and more efficient delivery arrangements for those activities which they choose to continue or expand. By prioritising resources towards priority areas (including areas for improvement), councils can demonstrate a clear commitment to concentrating resources and energy on those actions that will make a difference.'*

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## Best practice: what to look for in strategic financial planning

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- Service and financial planning processes are integrated.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working.
- Annual financial plans follow the longer term financial strategy of the authority.
- There is regular review of the MTFP and the assumptions made within it. The authority responds to changing circumstances and manages its financial risks.
- The authority has performed sensitivity analysis on its financial model using a range of economic assumptions.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.
- Zero Based Budgeting is used to improve strategic prioritisation during the financial planning cycle.
- Effective treasury management arrangements are in place.

Source: Grant Thornton - Local Government Financial Resilience Review 2012 ('Towards a tipping point?')

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## Constructing the annual budget

Having reviewed the medium term plan, scrutiny should next be examining the assumptions behind the annual budget strategy:

- Is it in line with the overall approach – incremental, zero based or priority based?
- What is the rationale behind the major growth and savings proposals and how will growth be funded?
- Are the financial implications of proposals from departments and committees built into the overall budget?
- Is the level of reserves appropriate and in line with the medium term plan?

Some things to bear in mind when responding to budget proposals:

- Get your requirements in first – what you want to see in the budget in terms of content and format - rather than waiting for the proposals to arrive and then responding to them.
- Examine how the budget matches up to the executive's manifesto and corporate plan – does the allocation of resources reflect their stated priorities?
- Look at processes as well as specific figures – ask how the executive arrived at the proposed amount rather than trying to second-guess whether it is precisely the right amount.

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To make sure that scrutiny is actively involved in reviewing medium term plans and assessing whether the annual budget is set in accordance with it, finance professionals should provide clear linkages between the annual budget and the MTFP “year two”, explaining the differences between the two documents. The linkage between finance and performance should also be clearly made in the annual budget process. Traditional budget books are unlikely to provide the right level of information to enable scrutiny to link budget allocations, performance and value for money. The production of detailed financial information without linking this to performance data encourages a disjointed approach to service and budget scrutiny.

It is also important to recognise that whilst much scrutiny effort takes place on the revenue budget and council tax, the annual budget process also establishes capital budgets and, where relevant, Housing Revenue Account budgets for council housing. Finance professionals should ensure that councillors are guided sufficiently to enable them to engage with both revenue and capital budgets, and understand the linkages between the two. This is likely to include robust capital project appraisal processes and business cases. Scrutiny may wish to review such business cases prior to their formal inclusion onto the capital programme.

Scrutiny should be resourced to enable members to conduct in-depth reviews of services or policy areas during the year. However, such service reviews are likely to result in a request for more detailed information on unit costs and value for money, and it is likely that finance professionals will be called upon to provide and interpret such information. Finance should consider its own capacity to resource detailed service scrutiny reviews, and finance professionals will often need to become more involved in providing information and support to scrutiny reviews. Finance officers should see benefit in their involvement here as it will help inform them on what proposals are politically viable by exposing them to alternate views and ideas.

# Scrutiny and financial management

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Financial management in councils is primarily focused on the annual budget. The budget process in councils is a rolling process – in most councils, it never stops. Robust scrutiny, therefore, cannot be a one-off event – happening just before the council tax is set: there is inevitably too much to take in, too little time, and no real context. It has to take place throughout the year, wherever or whenever key policies with financial implications are under consideration or review. Challenging how well the executive is managing the budget is an ongoing process.

## Budget monitoring

In some councils, scrutiny will comment on overall budget proposals or the proposed levels of council tax; in others, scrutiny will not do this. However, regardless of detail, there should be a clear framework in which scrutiny is involved in a degree of financial monitoring throughout the year, for example:

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|                          |  |
|--------------------------|--|
| <b>June/July</b>         | Consider revisions to the current year's budget, pressures and key issues in the light of the prior year's draft financial statements          |
| <b>September/October</b> | Consider executive proposals for the next financial year, growth and savings, and ongoing monitoring for this year and out-turn against budget |
| <b>November/December</b> | Provisional settlement and executive's response and revised proposals  |
| <b>January/February</b>  | Scrutiny of final budget proposals   |

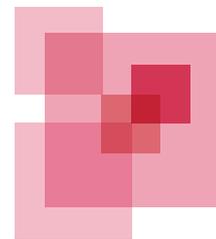
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Monitoring could include reviewing progress on growth and savings targets, revised forecasts, and projections – what will probably change, what is unlikely but possible? Scrutiny is not meant to be doing the executive's job: it should be challenging the effectiveness of the executive's control of the budget and asking questions about what lies behind variances.

Some councils use summary information, exception reporting, or a traffic light system – highlighting early warnings of key changes, action taken or proposed, commitments being entered into and emerging gaps. Detailed budget monitoring is primarily an officer responsibility, reporting to the portfolio holder and/or cabinet. Scrutiny should assure itself that effective financial monitoring is taking place, conducting ad-hoc reviews as required.

Scrutineers might also be interested in carrying out a review of performance and how well the budget has been managed:

- Have the planned service outputs and outcomes been met?
- Has the council managed its resources effectively through the year?
- Why are there under or over spends?
- What has been achieved from additional resources?
- Where does this year's outturn leave the council's finances for the next year?



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Some important things to bear in mind when scrutinising a budget:

Scrutiny takes place in a political environment – don't replicate audit and don't ignore the political dimension.

Don't be afraid to ask for more detailed or clearer information, but be strategic about what information you ask for. Ask for information that will help you to answer a question and in a format that will be useful, rather than making general requests in the hope that all will become clear.

Look for trends and themes over time or across different budget headings.

Watch out for round numbers, they are often a sign of balancing rather than budgeting for a particular purpose.

Don't restrict your scrutiny to assessing whether the services were delivered within the allocated budget. Look at the impact of the expenditure – what was achieved?

Make use of independent expert advice if you can. It provides authority and helps build confidence in recommendations.

There is no such thing as a stupid question, especially if it begins with the word 'why'.

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### **Gaining an overview of the council's basic financial processes and responsibilities**

Commonly, the council's constitution will make it clear that budget monitoring is primarily delegated to budget managers, and that the relevant portfolio holder is responsible for oversight of the budget and control for his/her services. The council's Scheme of Delegation and Financial Standing Orders should spell out these responsibilities in a clear and transparent way.

It is, therefore, not usually an effective use of scrutiny time to conduct further detailed budget monitoring. Rather, scrutiny could assure itself that the processes and responsibilities are both clear and being fulfilled, check that budget monitoring is taking place and conduct ad-hoc reviews as required, for example, into significant over or under spending. It is critical that the level of detail is right – detailed line-by-line information will actually obscure the scrutiny process and make it harder for councillors to see the full picture.

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### **Case Study – St Helen's Council: Scrutiny's input to regular budget monitoring**

St Helens Borough Council has set up an Audit and Financial Monitoring Overview and Scrutiny Panel which receives regular reports on financial and service performance throughout the year. This complements the scrutiny of the annual budget carried out by the council's Overview and Scrutiny Commission, by reviewing delivery of the budget and service outcomes. It also scrutinises Internal Audit reports alongside finance and performance results to gain a wide understanding of the council's performance, bringing a broad perspective that complements the work of the council's Audit and Governance Committee.

The Panel meets eight times a year. It receives quarterly Corporate Financial Reports which provide an update on the council's financial position covering revenue and capital, reserves and balances and treasury management activity. It also receives quarterly Budget and

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Performance Reports which present key financial results in a narrative format alongside a performance summary that covers Key Performance Indicators with key actions to address any reported issues. Each meeting also considers the most recent Internal Audit reports.

In addition, to help foster a scrutiny culture all councillors have access to monthly Budget and Performance Reports (a less detailed version of the quarterly report). The aim is to ensure that councillors gain an understanding of how spending matches policies and are comfortable with numbers. Councillors' general understanding of financial information and its readability have been identified as key barriers to effective financial scrutiny, and a training programme has been developed to tackle this.

Bite size informal training sessions are held before each Panel meeting to give councillors an opportunity to improve their understanding of any areas they are unclear about. During the past 18 months, training on the council's Performance Monitoring System has also been provided. These are practical sessions about how to access up to date performance information and keep abreast of service underspends/overspends, spot trends and note areas of good/under performance. This training was originally for scrutiny but has now been extended to all councillors. Officer support to all meetings and informal training sessions is provided at Assistant Treasurer level.

Additionally, a briefing sessions on the council's budget setting process is provided prior to the council meeting to consider the annual budget.

The establishment of the Panel and the contextual nature of the financial information presented to it has given councillors a much deeper understanding of the climate in which it operates. The Panel regularly requests supplementary reports and calls in officers to explain areas of under-performance. A 'feedback' loop to the executive is provided via a standing item on the cabinet agenda to address issues arising from scrutiny. There is also a standing item on the Audit and Governance Committee agenda to consider the Panel Chair's report on items scrutinised, highlighting issues the Panel wishes to draw to the committee's attention.

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The achievement of the council's aims and objectives will almost certainly require resource reallocation, and so the financial plans and budgets should clearly demonstrate the link between what the council intends to achieve and where it spends its money. Finance is one of the most important resources at the council's disposal and so it is also essential that the link is made between the need to balance the budget and make efficiency savings and the consequences this has on services in terms of their performance and achievement of outcomes.

Not only is the nature of the information important, however, but also how it is presented. For example, local government finance is full of terminology and jargon, and so it is essential that finance professionals not only provide training but also that they explicitly consider whether reports and information are unnecessarily impenetrable due to their language. One approach is the use of "crystal clear" reviews of financial information and many councils now employ the "traffic light" system for financial information as well as performance information.

Finance professionals should be pro-active in responding to the information needs of scrutiny, Councillors often 'don't know what they don't know' and may not be best placed to request data that would best meet their needs. They need time, space and support to build confidence so they can take ownership of their information needs and commission data accordingly. Scrutiny should ask for reports

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that integrate finance and performance and should not be afraid of letting officers know if they do not get data and information that meets their needs.

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### **Best practice- what to look for in financial management**

- The council operates within a locally determined appropriate level of reserves and balances.
- The General Fund balance is maintained at or above the locally agreed minimum level.
- Working capital is at, or above, a ratio set by the Section 151 officer.
- Manageable levels of long-term borrowing within prudential borrowing limits.
- Targets have been set for future periods in respect of key indicators, such as reserve balances and prudential indicators.
- The authority has a track record of spending to budget and proactively managing forecast overspends in-year.

Source: Grant Thornton - Local Government Financial Resilience Review 2012 ('Towards a tipping point?')

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# Scrutiny and the efficiency agenda

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'Austerity' has put savings and efficiencies on all councils' agendas. Scrutiny can have a key role in influencing improved performance, delivery of efficiencies and achieving planned outcomes from savings plans. The scale of the financial challenge and the potential impact on local services mean that engaging communities about options for spending and efficiencies is essential.

In supporting councils' drive for efficiencies, scrutiny can play a role in:

- considering the impact of savings proposals;
- monitoring the delivery of agreed savings plans; and
- reviewing the outcomes of 'invest to save' and efficiency projects and alternative delivery models.

## Considering the impact of savings proposals

The WAO, report 'Meeting the Financial Challenges Facing Local Government in Wales' (January 2014) commented that 'nearly all councils in Wales have underdeveloped arrangements to evaluate the impact of their savings plans on their citizens' and noted that a small minority were unable to identify the impact of the decisions they take and the changes they make to service delivery. The Audit Commission's 2011 'Tough Times: Councils' responses to a challenging financial climate review' looked at councils responses to austerity measures in England. It found no link between the extent of service impacts and the size of cuts and concluded that good local decision-making was key to managing the impact of budget reductions on services. Scrutiny should therefore look for assurance that savings plans have fully considered the impact of planned reductions as part of a coherent strategy supported by sound decision-making.

## Monitoring the delivery of agreed savings plans

Scrutiny should not be duplicating the monitoring role of cabinet, but asking key questions such as:

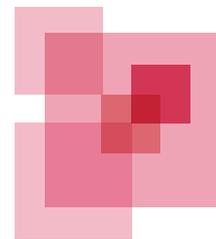
- Is the savings plan being properly managed with adequate resources?
- If there are large or numerous variances to the plan, what does this indicate about the council's overall strategy?
- Is the impact of savings on services greater or less than expected?
- Is there a need for an ad hoc review of a particular variance and/or unexpected effect of the savings plan?

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## Case study – Budget setting - Bridgend

Since 2008, Bridgend County Borough Council has established an annual Research and Evaluation Panel which has been tasked with considering the draft budget proposals of its Cabinet. This panel was constituted as a discussion and advisory panel to the Corporate Resources and Improvement (CRI) Scrutiny Committee and has historically been made up of three Members of CRI along with the Chairs of the Council's other four Scrutiny Committees.

The process has evolved over a number of years and has developed each year as the process is refined and amended. This process has enabled members to analyse proposals in relation to the reshaping of particular services as part of the Bridgend Change programme



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and review detailed budget proposals to provide assistance to scrutiny committees in providing challenge and making recommendations to the Cabinet. As a result, the Council meeting to set the budget is generally non-contentious, as the issues have been discussed in scrutiny between October and January.

The Panel is principally active from October till February and the process is:

- Panel have early sight of budget proposals (October)
- Panel meets with Corporate Management Board and Cabinet to discuss (November)
- Budget proposals go to each Overview and Scrutiny Committee, including observations from the Panel (December)
- CRI Committee co-ordinates the comments of each Committee and sends a single report with recommendations to Cabinet (January)
- Cabinet agree the budget proposals (Jan/ Feb)
- Budget set by Council (Feb/ March)

This process was amended further in 2013 where the panel would meet throughout the year to look at some of the significant savings proposals that are being developed as part of the medium term financial strategy. The benefit of this is that Members have early sight of some proposals and a fuller understanding of the financial pressures facing the authority, and officers get an early temperature check regarding which proposals may be acceptable and which are considered unjustifiable. Because of the links to the medium term financial strategy, the specific budget proposals for 2014-15 were also considered by this Panel.

In considering the challenges associated with continued budget reductions, Members of the 2013-14 Budget Research and Evaluation Panel (BREP) recognised the need for a 'whole Council' response to be adopted in managing anticipated cuts to services against a backdrop of increasing demand, public sector reform and the challenging financial outlook.

It was recommended that a Standing BREP be established as a standing working group to enable Members to engage in more meaningful discussion on budget proposals as well as to enable members to feed in community intelligence gained from their representative role and engage in shaping future service provision. This recommendation was endorsed by both the Corporate Resources and Improvement Overview & Scrutiny Committee and Cabinet as part of the 2013-14 draft budget consultation process.

It was agreed that each scrutiny committee would nominate two members to sit on the Standing BREP. The primary purpose of the approach was to:

- achieve a detailed overview and assessment of the budget proposals where the expertise and knowledge pertaining to each Committee service area contributes to a Corporate understanding and appreciation of the draft budget proposals;
- To assist the Council to develop a budget for 2014-15 that aims to meet the needs of the communities of Bridgend County Borough;
- To facilitate firmer understanding of the budget setting process and the draft proposals in order to assist the Committees in making informed comments, constructive challenge or recommendations to Cabinet as part of the budget consultation process.
- To achieve consensus on the direction of the budget over the life of the medium term financial strategy. The Bridgend Change Programme has been developed to meet future budget reductions for 2014-15 to 2016-17 and that this has been incorporated into scrutiny processes to ensure accountability and oversight of the process.

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Consulting with Overview & Scrutiny Committees in this way has enabled the Council to work towards the following positive outcomes:

- Increased understanding of the budget setting process amongst Non-Executive Members;
- Enhanced Member input into the annual budget setting process;
- Achievement of wider representation of Community needs in discussions relating to anticipated changes to services;

The Standing BREP has met on a number of occasions throughout the year and explored by means of semi-structured interviews with Directors and Heads of Service, management options that inform the development of the draft Cabinet proposals both in relation to proposals related to medium and longer term reviews linked specifically to the Bridgend Change Programme as well as Budget Reductions and Budget Pressures for 2014-15.

Each Overview & Scrutiny Chair and respective nominated member contributed their service and Committee specific knowledge to the process which led to the Standing BREP achieving a wider understanding of the likely implications associated with proposals put forward.

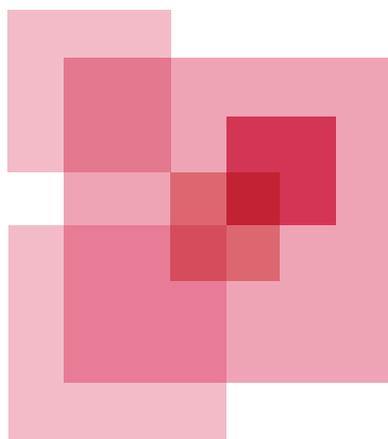
This process was assisted by the input of the Corporate Director - Resources and the Head of Finance and Performance who were present to provide advice to the Standing BREP at the interview sessions. This enabled Cabinet to consider its 2014-15 draft budget proposals on 10 December 2013.

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### **Reviewing outcomes of efficiency projects and alternative delivery models**

Councils undertake specific projects to realise efficiencies, including 'Invest to Save' initiatives and the use of alternative delivery models such as shared services and outsourcing to external providers. Scrutiny can contribute to the council's overall savings programme by carrying out reviews of the outcomes of such initiatives asking questions such as:

- Were the objectives clearly defined?
- Have these objectives been achieved?
- If not, how does the cabinet plan to put this right?
- What elements of the project went well?
- What did not go so well?
- What wider learning have we gained?
- Have all the expected savings been delivered?
- If not, has there been a review to find out why?
- Did the partners involved play their full part?
- If not, what redress do we have?



# Citizen participation

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## Opening up finance to the public

Robust financial scrutiny can open up the council's budget process to the public whose taxes are being spent. Financial scrutiny can widen understanding of local government finance and of financial management, enhancing transparency and accountability about how choices are made about what to spend.

When councillors are more confident about councils' financial processes, they can more effectively facilitate public participation in decisions that councils have to make around priorities, costs, income generation and levels of council tax.

## The importance of public participation

One of the four principles of effective public scrutiny set out by CfPS is that it should amplify the voice and concerns of the public. Welsh councils are facing a scale of funding reductions that mean this principle is more important than ever. Section 62 of the Local Government (Wales) Measure 2011 requires councils in Wales to enable all persons who live or work in their area to bring their views to the attention of scrutiny committees, which must take these views into account. In addition, Participation Cymru's National Principles for Public Engagement have been endorsed by Welsh Government and the Welsh Local Government Association as offering a consistent set of principles and good standard for public participation (<http://www.participationcymru.org.uk/national-principles>).

Scrutiny is by its nature a dialogue and offers the potential to connect councils to the public throughout the political cycle, not just at election time and there are a range of options for capturing and responding to public views.

*'The Civic Square and the Public Triangle'* (Barry Quirk, Institute for Government, February 2014) sets out a conceptual framework that scrutiny may find useful when considering how to secure public participation.

- **The Civic Square** – an arena, a stage or a place in which public dialogue occurs about complex public policy problems. An arena created by public authorities to support comprehensive public dialogue on changes to public infrastructure, public goods, public services and public problems.
- **The Public Triangle** – a framework for supporting public dialogue that represents three points of a triangle; these are the three key questions for addressing any complex public problem. First, what is the 'public interest'? Second, how is 'public value' best realised? And third, what are the demands of 'public reason' in resolving this problem?

Councils can use scrutiny as an arena for public participation in discussions about public problems and what needs to be prioritised given the current financial constraints. This will add weight to public consultation approaches so that budget decisions are based on properly considered public choices.

## Getting the public involved in financial scrutiny

### Social media

The internet and social media offer more scope than ever for residents and stakeholders to participate in decision-making, increasing legitimacy and accountability of decisions. Online budget simulators can help people make choices about spending priorities. Systems such as MORI's 'You Choose' enable people to see the consequences of choices, promoting a more informed level of public

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participation. Social networks such as YouTube or Facebook are ways to consult on the budget via presentations with links to more information and opportunities to feed back.

<http://www.youtube.com/watch?v=53ipajXeF0s>

<http://www.youtube.com/watch?v=L6GvT4JinMc>

### **Collective participation**

Participatory Budgeting and Priority Based Budgeting are systematic ways for people to participate in financial planning processes. People and groups from all parts of the community discuss and vote on priorities and spending for some or all of the annual budget, and local people are also given a role in scrutiny and monitoring.

The PB Network ([www.pbnetwork.org.uk](http://www.pbnetwork.org.uk)) has information, case studies and resources on current practice in Participatory Budgeting.

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## **Case Study – Carmarthenshire Council: Effective public consultation on budget proposals**

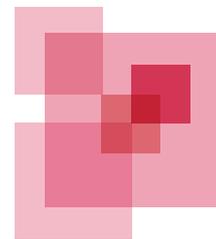
In light of the shift in public sector expenditure, and the extent of savings to be made, it was agreed the 2014-17 budget setting process necessitated a more rigorous and extensive consultation than years past. In respect of the 2014-17 consultation, discussions to establish a methodology began around June 2013.

The approach to the budget consultation was developed and advanced by a project group, jointly led by the Assistant Chief Executive, and the Head of Finance. The proposed actions of the project group were mandated at appropriate points in the process, through reference to the Council's Executive Board ('cabinet').

Following the WG budget announcement on the 16<sup>th</sup> October 2013, an all-member budget seminar took place on the 21<sup>st</sup> October to determine the acceptability of each of the Council's 51 budget proposals. The process showed that there were varying degrees of support, but that all proposals had a level of support, suggesting each was worthy of public consideration. Executive Board (Cabinet) considered the results of the member seminar and agreed to publicly consult on the proposals. This took place from 18<sup>th</sup> November 2013 until 3<sup>rd</sup> January 2014.

Consultees were given a comprehensive summary of all efficiency saving proposals, consisting of: appropriate service budget, indicative three year saving; proposal description; and probable service impact. A balance was struck between providing sufficient information to allow respondents to arrive at a reasoned and informed judgment, and the potential of overwhelming the respondent.

The budget consultation programme had to satisfy a number of key time parameters, many beyond the direct control of the project group. The key fixed, and overriding, timescales were: firstly, the Welsh Government's budget settlement announcement (16<sup>th</sup> October 2013); and secondly, the Council meeting to deliberate and agree the budget (19<sup>th</sup> February 2014). This provided the 'window' within which the public consultation could take place, though other considerations were important in constraining the actual consultation period, as elaborated below.



Savings options were developed during September 2013, but it was only once the WG budget announcement had been made (and the extent of required savings known), that the process of full deliberation could begin. Pre-public consultation, the member seminar needed to take place, followed by the Executive Board meeting to mandate the public consultation. This process determined a public consultation launch date of 17<sup>th</sup> November, in advance of which a survey was designed and produced, publicity developed, road shows and a stakeholder event scheduled.

At the other end of the process was the need to work back from the Council meeting in February 2014. In arriving at this point, the budget consultation results needed to be considered, firstly, by CMT, and secondly, by Executive Board. Working back, and allowing a short period for data analysis, a date for closing the consultation (Friday 3<sup>rd</sup> January) was arrived at.

Progress was monitored by the project group, who met on a regular basis. It is acknowledged that key dates set by WG, and Council processes, interacted to add complexity to the inherently complicated process of developing, and publically consulting on, the budget.

The Project Group assumed overall responsibility for managing the consultation, with tasks assigned to appropriate officers. The group included specialist 'in-house' consultation and engagement expertise. Key decisions were deliberated and ratified by the project group. The composition of the project group – including senior financial and policy officers – evidences the importance the consultation was given. In addition, expertise and support was drawn upon as required, including:

- The Communications section, particularly in respect of publicising and reporting the results of consultation.
- Key officers skilled in facilitation.
- Equality expertise – to ensure compliance with Equalities Act 2010
- Accountants.

The project group reported its progress periodically to Corporate Management Team (CMT). This ensured project awareness and visibility across all six Council directorates, an enabled a corporately-mandated approach to be taken.

In determining the audience for the consultation exercise, the Council took the view that all Carmarthenshire residents – as Council Tax payers – had an interest in the Council's budget. As such, the budget consultation was publicised through Carmarthenshire News, a publication produced by the Council and partners, and delivered to every household. The article directed readers to the budget consultation survey on the Council website, and included a freepost coupon for suggestions on saving money or raising income.

Recognising the risk that the views of all sectors of the community may not be given appropriate consideration, the Council ran a stakeholder event comprising representatives from Equality Carmarthenshire (an umbrella grouping of diversity groups, including the Youth Council, 50+ Forum, Disability Coalition, the Multicultural Network, etc), together with other key stakeholders, including businesses and town and community councillors.

In addition, the consultation survey (publicised through the media) incorporated a range of demographic profiling questions. These allowed results for different groups to be analysed and presented as distinct from the main 'headline' figure (see also below).

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In terms of the budget consultation survey, a number of demographic questions relating to age, gender, ethnicity, religion, sexuality and partnership status were included to enable segmentation of responses by demographic variable to allow comparability against overall sample. The survey also asked for comment on any adverse impact on people or communities, and comments on how any identified impacts could be mitigated.

The stakeholder event was also designed to ensure a wide cross section of views, and to provide a 'control' against which to consider the overall survey result, (given the results of the survey could be influenced by the expressed views of 'vocal minorities' in relation to specific proposals). The overall consultation approach was developed with the requirements of the 2010 Equality Act firmly in mind.

Using Council libraries, road shows also took place at the end of November 2013, into early December 2013 to demonstrate the Council's preparedness to listen, raise awareness with residents on the Council's financial position, solicit feedback and promote an open decision-making process. Executive Board members attended, alongside finance and policy colleagues. Information boards were prepared, presenting information on council departments and areas for potential savings. Discussions were held with interested members of the public and comments recorded. Attendance was variable across the selected locations.

The road shows were semi-structured in nature to cater for a range of demographic groups. Attendees' could receive assistance in completing the survey (using the computers in the libraries), pose questions, submit their own suggestions for saving money or simply absorb information on the Council's budget. Key documents, including Budget Digest, a supplementary budget report and hard copies of the budget survey, were available to hand. Moreover, A5 'postcards', containing summary information on how to participate in the consultation, were handed to all attendees. Excess copies were left in Customer Service Centres. A QR code was inscribed on each postcard, providing direct and immediate access to the online survey through use of a smart phone.

A barrier encountered was the degree of public appetite for engaging in the consultation. This was addressed through use of a mix of methods – including holding road shows in communities nearer where people live – and publicity.

A further consideration was the matter of ensuring information about savings proposals was sufficiently meaningful to enable considered comment from the public. In some cases, this meant ensuring the language was accessible, whilst in others, explaining the financial aspect of the proposal.

In the context of future exercises, the Council hopes to do more to ensure information on proposals is fully accessible, including, where appropriate, easy read and young people friendly versions. Further consideration will be given to increasing the participation rate, as this underpins the weight that can be given to results.

The consultation summary report predominated discussion at the Executive Board meeting to consider the budget. The consensus view was that members found the report to be a very useful tool in aiding the discussion, as it was clearly laid out, whilst simultaneously comprehensive. Following consideration of the consultation findings, six proposals were rejected or modified, namely: denominational schools, post-16 transport, school crossing patrols, flood defences, workplace parking & respite centres.

A comprehensive summary report on the consultation was produced for councillors and the public. Summary information was publicised through a two page spread in Carmarthenshire News.

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Thorough information was provided to relevant departments and officers in relation to each proposal. This information included all relevant qualitative data (i.e., specific comments about proposal or service area).

The Council plans to build on this approach in the context of arrangements for its 2015-2016 budget consultation. The identification of efficiency saving proposals for the budget consultation was largely an internally driven process. To address this, they are preparing plans for a 'phase one' and 'phase two' consultation for the coming budget cycle. Phase one, scheduled for May–July 2014 will involve promotion and utilisation of a budget simulator – YouChoose – to facilitate Priority Based Budgeting, through the identification of broad priorities for savings. This opens the option to develop saving proposals in line with broad priorities for savings, which can then be consulted upon through stage two of the consultation. In this way, the process can be made more 'citizen-led'.

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### **Community leadership**

The voluntary, community and faith sector (VCFS) has close connections to the public. Involving community advocates in scrutiny can support and strengthen the community leadership role of councillors and the specific expertise of VCFS representatives can have significant value.

### **Co-option**

Co-option of representatives with financial or other relevant knowledge and skills can bring in expertise, giving a voice to outside bodies and improving public perception of the effectiveness of scrutiny.

### **Equalities impact assessments (EIAs)**

EIAs are the process of assessing the impact of existing or proposed policies and practices (or functions) in relation to their consequences for equality. Budget proposals have the potential to impact on equalities, perhaps in unintended ways, so it is important that scrutiny ask questions about impact and equity of decisions.

### **Engaging with the business community**

Councils, other public sector employers and businesses need to work together to support economic development, regeneration and employment opportunities. Grant Thornton's report '*Agents of growth*' (2014) aims to help councils particularly increase their understanding of the needs of medium sized businesses (MSBs) and to target resources in response, in alignment with their overall strategies for economic regeneration and driving business growth.

Given its remit for matters that affect the council's area or its residents, scrutiny has a significant role to play in engaging with the local business community such as formal consultation with local business representative bodies e.g. chamber of commerce, during the financial planning cycle.

### **How open is your financial planning and decision-making?**

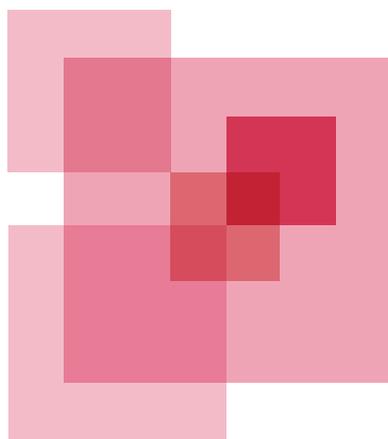
The CfPS publication '*Accountability works for you*' (June 2012) offers a methodology for evaluating and improving governance arrangements that could be applied to test whether financial planning and decisions achieve the aims of accountability, transparency and involvement.

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In particular, councils should ask themselves:

- Do the criteria for placing items on a forward plan for important decisions reflect the interests and concerns of service users and the public?
- How is decision-making made publicly accessible?
- How can business planning be influenced by non-decision-makers?
- How do decision-makers take account of views of the public?

The methodology involves setting up a project group, carrying out a high-level evaluation to identify areas for more in-depth analysis, resulting in an action plan. Councils applying the methodology are likely to get more out of it by using some external input, from CfPS or other advisors.



# Appendix A: top tips for effective financial scrutiny

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Using the themes from the characteristics of scrutiny developed by the Welsh Scrutiny Officers Network, below are some principles of effective financial scrutiny.

## **Environment**

Councils regard finance scrutiny as a fundamental democratic right of non-executive councillors and forward work programmes and the allocation of resources to support scrutiny reflect the high priority attached by councils to financial scrutiny

Scrutiny Chairs and non-executive councillors are confident in designing their own approaches to different finance scrutiny roles and are proactively supported by executives and corporate management teams to do so.

Councillors can ask for financial information in a variety of formats according to their needs and feel comfortable in challenging information that does not match their expectations.

## **Practice/Behaviour**

Non-executive councillors from the same political group as the administration demonstrate intellectual independence in their role and do not 'dumb down' questions or recommendations to cabinet.

Executives and corporate management teams regard scrutiny's financial challenge role as an important check and balance to spending plans and performance and initiate early engagement with the council's medium term financial planning and annual budget setting processes.

Training and development programmes are informed by an annual needs analysis across the council to establish baseline levels of understanding of local government finance and build incrementally on experiences to strengthen confidence and performance.

## **Impact**

Development and training activities differentiate between the knowledge needed by councillors to undertake their finance scrutiny role and the skills necessary for councillors to apply their knowledge so that scrutiny results in positive impact.

Because the connection between spending, performance and value is recognised and reviewed throughout the year, scrutiny can demonstrate that it is adding value to corporate governance

Councils' budget setting and financial management arrangements are transparent, councillors and the public can influence the executive's decisions about spending priorities based on evidence of impact and value

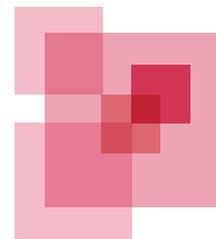
## Appendix B: checklist of effective questioning

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- How much will that cost?
- Are you sure that the cost will be what is stated here?
- Is this cost for this year only or is it ongoing?
- Is this a statutory requirement?
- What happens if this is not funded?
- What would be the consequences of only part funding?
- Is there external funding available to contribute to the cost?
- Could we charge for this?
- When will we see the benefits from this spending?
- Can this be deferred?
- Where is the business case?
- What can be used to measure its success?
- Can we increase income from assets?
- Is this funding contractually committed?
- Why are our balances set at this level?

### **... and more detailed questions**

- How will the budget reflect investments that are aimed at achieving longer-term savings – ‘invest to save’?
- What consideration has been given to maximising income (where appropriate and equitable) – e.g. income from sales, fees and charges etc.?
- How is the workforce planned and managed to ensure that market considerations are taken into account when determining pay scales?
- What is the anticipated impact of efficiency targets on the budget and how is the council planning ahead to deal with the cumulative effects of efficiency targets?
- What is the anticipated impact of budget pressures on:
  - Services
  - Performance (including performance indicators and standards)
  - Clients/service users
  - Partnerships and joint working
  - Staffing levels
  - Job Evaluation



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- To what extent is compliance with external inspection having an effect on budgets and spending?
  - What choices and options did you have when setting your budget targets?
  - How were decisions arrived at in order to decide between options?
  - How do your budget targets contribute to the achievement of:
    - corporate priorities
    - E-government targets?
  - Is this external funding time-limited – if yes, have we got an exit strategy?
  - Are we making full use of prudential borrowing and trading and charging powers?
  - How can our income be increased in a sustainable way?
  - How much of our budget is fixed – what do we have discretion over?
  - Can you clarify how setting the budget is linked to medium term financial planning?
  - How do we use the medium term financial plan to decide on resource allocation to corporate and service priorities?
  - Are the financial implications of proposals from departments and services built into the overall budget?
  - Are the level of reserves appropriate and what is the logic behind that level?

## Appendix C: top tips for presenting financial information

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- summary tables rather than lengthy information
- contextualised information
- reporting by exception
- standardised formats for financial reporting for each portfolio holder, including a graphical summary, using a traffic light system to highlight key issues
- budget monitoring presented alongside monitoring reports on service plans and performance indicators, perhaps presented online or by email
- a plain language summary of the budget estimates book produced for the public and councillors – in hard copy or online
- agreement between the cabinet and scrutiny about the timing of papers so that sufficient time is allowed for effective scrutiny and challenge, set out in a timetable or in a more formal protocol which also confirms what information scrutiny should expect to receive
- reports checked for overuse of jargon and financial technical terms – where this is unavoidable, they should be clearly defined in plain language
- survey of councillors on whether the financial information they get is adequate, accessible and timely
- specific local government finance training as part of induction and ongoing training

## Appendix D: what to look for when reviewing financial information

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The following example is fictional but not untypical of how budget reports are presented in council finance reports.

We have added some explanations and hints about lines of questioning that scrutiny could consider.

The annual budget is often revised during the year as circumstances change.

The Finance Director's estimate of the year end results.

**Q**  
How reliable are these forecasts?

**Q**  
What assumptions are they based on?

**Q**  
What factors could have an adverse impact on these assumptions?

### Revenue Budget Monitor

| Directorates                   | Revised Budget (£) | Projected Outturn (£) | Projected Over (Under) spend (£) | Percentage (%) |
|--------------------------------|--------------------|-----------------------|----------------------------------|----------------|
| Education                      | 75,000             | 75,500                | 500                              | 1%             |
| Social Care                    | 75,000             | 79,500                | 4,500                            | 6%             |
| Housing Revenue Account        | (5,000)            | (8,000)               | (3,000)                          | 60%            |
| Other Housing                  | 2,000              | 1,800                 | (200)                            | -10%           |
| Highways & Transportation      | 12,000             | 11,250                | (750)                            | -6%            |
| Culture & Related Services     | 6,000              | 6,200                 | 200                              | 3%             |
| Planning Services              | 2,500              | 2,300                 | (200)                            | -8%            |
| Environmental Services         | 12,500             | 12,250                | (250)                            | -2%            |
| Corporate and Democratic       | 2,500              | 2,500                 | 0                                | 0%             |
| Central Services to the Public | 1,000              | 950                   | (50)                             | -5%            |
| Total Directorates             | 183,500            | 184,250               | 750                              | 0%             |
| Levies                         | 5,000              | 5,000                 | 0                                | 0%             |
| Investment income (net)        | (1,000)            | (1,500)               | (500)                            | 50%            |
| Capital Financing Costs        | 7,500              | 7,000                 | (500)                            | -7%            |
| <b>TOTAL</b>                   | <b>195,000</b>     | <b>194,750</b>        | <b>(250)</b>                     | <b>0%</b>      |

#### Analysis of variance:

**General Fund**

**2,750**

**Housing Revenue Account**

**(3,000)**

**Q**  
Why are some services overspending while others underspend?

**Q**  
Is it due to poor budgeting, high demand, unforeseen costs?

**Q**  
What actions are being taken to remedy the position?

**Q**  
Are there emerging trends that we need to be concerned about?

The General Fund is the main revenue fund from which the Cost of Services is met.

Income and expenditure account for the council's social housing stock. Many councils have transferred their housing to Housing Associations so no longer have this account.

The overall position looks like an underspend here, but the General Fund and the Housing Revenue Account have to be treated separately as the latter is ring-fenced.

The General Fund budgets have overspent, mainly on social care, offset to some degree by other budget underspends.

Reserves carried forward from one year to the next and available for use if needed. Councils usually have 'earmarked reserves alongside the General Fund balance.

The General Fund's expected overspend is reducing reserves to a level that does not look sustainable.

**Q**  
What are the council's plans to deal with this?

**Q**  
How robust are they?

**Balances**

|  |                 |
|--|-----------------|
| Original Net General Fund Budget                         | 199,500         |
| In year approved budget changes                          | 500             |
| Revised Net General Fund budget                          | 200,000         |
| <hr/>  |                 |
| General Fund balance 31-3-13                             | (3,500)         |
| Projected General Fund variance 2013/14                  | 2,750           |
| <b>Projected General Fund balance 31-3-14</b>            | <b>(750)</b>    |
| <hr/>  |                 |
| Original Net Housing Revenue Account Budget              | (4,000)         |
| In year approved budget changes                          | (1,000)         |
| Revised Net Housing Revenue Account budget               | (5,000)         |
| <hr/>  |                 |
| Housing Revenue Account balance 31-3-13                  | (6,000)         |
| Planned Surplus for 2013-14                              | (5,000)         |
| Projected Housing Revenue Account variance 2013/14       | (3,000)         |
| <b>Projected Housing Revenue Account balance 31-3-14</b> | <b>(14,000)</b> |

The Housing Revenue Account is building up healthy reserves due to annual surpluses.

**Q**  
Is this by accident or design?

**Q**  
What are the council's plans for this balance?

**(Selected) Key Performance Indicators – Social Care**

|   | Target | Actual |
|---|--------|--------|
| The percentage of referrals during the year on which a decision was made within 1 working day.                  | 95%    | 75%    |
| Percentage of re-referrals within 12 months.  | 25%    | 40%    |
| The percentage of reviews of LAC, children on the CPR and CIN carried out in line with the statutory timetable. | 90%    | 67%    |
| Percentage of short term sickness absence   | 2.5%   | 7.5%   |

Social care budgets are overspending but the service is not delivering on key indicators.

**Q**  
Why is social care overspending but not delivering?

**Q**  
Are the two issues symptomatic of a deeper problem?

**Q**  
What can we learn from other authorities?

# Appendix E: councillor training and needs assessment

## – Cardiff Council example survey

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### Q1. How many years' experience do you have in undertaking budget scrutiny?

- No experience
- 1-2 years
- More than 2 years

### Q2. How did you acquire your current knowledge and skills in carrying out budget scrutiny. Please tick all that apply.

- Personal experience
- Reading about it and/or unstructured learning
- Experience as a Scrutiny Committee member
- Structure 'Budget Scrutiny' training organised by Scrutiny Services
- Externally provided training (not provided/sponsored by the Council)
- Academic and professional qualifications and training
- Other (please specify)

### Q3. The following is a list of the key tasks involved in Budget Scrutiny. How would you rate your capabilities/ability to effectively carry out these tasks?

*Using the following rating scale for each task (Not developed/Needs some further development/competent/very competent/outstanding)*

- Reviewing the effectiveness of the budget setting process
- Reviewing the level of 'citizen engagement' in the process
- Challenging the alignment and integration of the budget proposals with the Council's corporate priorities, service plans and performance objectives
- Reviewing and challenging how resources are allocated, monitoring their use and impact
- Challenging whether budget allocations are achieving value for money
- Reviewing the budgets and budget management arrangements of partnerships that the Council is involved in
- Challenging usage of alternative forms of service delivery
- Reviewing the Medium Term Financial Plan against long term financial pressures such as climate change, ageing population or waste management, etc.
- Reviewing and assessing mechanisms and plans to respond to these pressures
- Reviewing and monitoring of the Council's asset management plan and capital investment strategy

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**Q4. The following is a list of some of the information and data sets that members need to enable them to carry out effective budget scrutiny. How would you rate your current knowledge and understanding of these information and data sets?**

*Use the following rating scale (No knowledge/very poor/poor/moderate or average/very good/excellent)*

- The Council's Corporate Plan and delivery plans for Cabinet portfolio
- The Council's Medium Term Financial Plan' and associated long term financial pressures
- The Council's Budget Strategy report
- The Council's financial management processes, how the Council budget is structured, the key drivers for the process and the strategy
- Budget impact, risk and achievability assessments, e.g. equality impact assessment and mitigation strategies
- Service area financial performance in terms of its inputs, outputs and outcomes
- Comparative information on other LAs budget spending and savings and its outputs and outcomes
- Best practice on the approached and methods for carrying out financial scrutiny

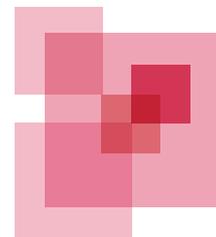
**Q5. The following is a list of some of the generic skills sets or competencies required to carry out effective budget scrutiny. How would you rate your skills and competencies to undertake the following tasks?**

- Understanding and appraisal of complex quantitative information such as financial accounts, budget reports, performance indicators, population statistics, etc.
- Using qualitative evidence in evaluating performance information
- Using key tools and techniques for evaluating 'value for money'
- Using questioning or challenging skills – techniques to elicit information from witnesses
- Communicating clearly and effectively with the public and other stakeholders

**Q6. Would you benefit from the following types of support that could be provided by the scrutiny team during the budget scrutiny process?**

*Please choose from one of the following options for each item listed (Definitely not/ Probably Not/Probably/Very Probably/Definitely)*

- Organising structure knowledge and skills training for members on Budget Scrutiny
- Guidance and advice on various approaches and methods for scrutinising the budget
- Identifying priority areas and focus in scrutinising the budget



- 
- Developing lines of enquiry with Chairs and all Committee members
  - One to One support with each committee member to clarify issues
  - Pre-meeting with all Committee members to discuss focus and scheduling of questioning
  - Engagement and research with local community and other stakeholders on budget issues
  - Yearly review of the effectiveness of the Budget Scrutiny process

**Q7. What are the challenges that would hinder you from effectively carrying out scrutiny of the budget? Please tick all that apply:**

- Accessibility of financial information and documents
- Scheduling, duration and timescale of the budget scrutiny process, e.g. sufficient time to scrutinise the budget properly
- Availability and capacity of dedicated Scrutiny officer to support the budget scrutiny process
- Engagement and support of other Council officers during the budget scrutiny process
- Availability and access to the views of the public, voluntary organisations and other stakeholders regarding budget proposals and related issues
- Access to benchmarking information on budgets and associated performance information of other LAs
- My current skills and capabilities to carry out budget scrutiny
- My knowledge and understanding of the budget scrutiny process
- My knowledge and understanding of the Council's financial management processes and relevant corporate information
- Other (please specify)

**Q8. Training could be provided for all Committee members on a range of topic areas in December 20xx or January 20xy. Which month would best suit your schedule?**

- December 20xx
- January 20xy
- Both months suitable
- Neither dates suitable

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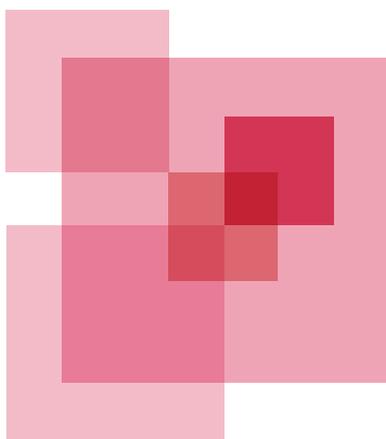
**Q9. Which time during the day would suit you to participate in budget scrutiny training? Please tick all that apply:**

- Early Morning 8 – 9.30am
- Morning 9 – 12pm
- Early afternoon 1- 3pm
- Late afternoon 3-6pm
- Early evening 4- 7pm
- Other (please specify)

**Q10. What is your preferred method/approach for the delivery of the budget scrutiny training sessions?**

- Interactive small group seminars or workshops
- One to one training or mentoring sessions
- “Distance Learning” approach – on-line modules, tutorials, support and printed resources
- Simulation or role playing workshops
- Other (please specify)

**Q11. Which scrutiny committee do you represent?**



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## Further information and support

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- [www.grant-thornton.co.uk/en/Sectors/Government--Public-Sector/](http://www.grant-thornton.co.uk/en/Sectors/Government--Public-Sector/)
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