



**A report on Policy Led Budgeting  
by the Scrutiny and Audit Committee**

**June, 2009**

**SAC Report No. 17**



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## SUMMARY

This report sets out the process, conclusions and recommendations of the 17<sup>th</sup> investigation undertaken by Aberdeenshire Council's Scrutiny and Audit Committee. The subject of the investigation was Policy Led Budgeting.

The investigation took place between October and December, 2008. The Committee heard evidence from both Aberdeenshire Council staff and external witnesses during 11 sessions. The Committee considered all the evidence gathered and drew up its conclusions and recommendations at meetings on 14 and 21 November, 3 December, 2008, and 29 January, 1, 14 and 29 May, 2009.

The topic of the investigation was one of the suggestions put forward by Councillors or senior officers in September 2008. The Committee agreed to undertake this investigation largely because it was clear from Audit Scotland's Audits of Best Value and Community Planning that policy led budgeting is an important issue to them. The Committee agreed that the objectives of the investigation would be to consider the approach taken by Aberdeenshire Council so far and compare it with that of other Scottish local authorities. Further objectives were to assess the amount of financial discretion available to local authorities and to determine how meaningful policy led budgeting can be, given the Council's statutory obligations. It was agreed to examine the effectiveness of current policy led budgeting.

The Committee explored the theory of policy led budgeting, and found that although increasingly used, the term had no clear definition. Even Audit Scotland representatives, appearing as witnesses, and authors of Best Audit Value reviews of Scottish local authorities, were unable to provide guidance on how policy led budgeting should be demonstrated, beyond suggesting that linkages between strategic priorities, resourcing decisions and performance management should be made explicit. It was felt that policy led budgeting could be seen as the ultimate form of strategic financial planning, and on that basis, the Committee considered Aberdeenshire Council's current financial infrastructure and processes which support decision-making. On guidance from the external expert, this was agreed to be demonstrated by consideration of aspects of forward financial planning; the extent of cohesion between financial and strategic planning; the robustness of financial baseline analysis assuring the Council's financial standing; the adequacy of arrangements for review and challenge of budgets; the appropriateness in degree of member involvement in strategic financial planning; and the robustness of processes to identify and measure savings.

In looking at all of these factors, the evidence from witnesses suggested that while Aberdeenshire currently performs well in each area, there is work, already in process and planned, which will further develop the necessary infrastructure. The area of outstanding work would be the pulling together of existing threads to present a comprehensive and complete contextualised picture of the decisions made to support the delivery of the Council's strategic priorities.

The Committee was impressed to hear of the recent work undertaken by the Orkney Islands Council in moving its strategic financial planning to a more complete process,

but believe that Aberdeenshire already contains many of the necessary building blocks within its current infrastructure and processes.

Recent work to inform the capital plan by linking the Council's property assets to support for service delivery, and also that relating to the expression of strategic objectives from an overarching strategy to outcome linked key objectives, is welcomed by the Committee. The planned work to add an assessment of staff resources to service delivery is welcomed, as is additional consideration of meaningful performance management.

In several evidence statements, reference was made to the work of the Policy and Budget Steering Group. Although solely a vehicle for discussion between the ruling administration of the Council and senior officers, the group's work had allowed exploration of clearer linkages between the "what", the "how", and the "how much" of choices in service provision. The Committee is also confident that elected members of all parties are able to access the appropriate information, from a variety of sources, at the appropriate time to inform their decision making.

The Committee believes that the direction of travel, linking more closely what it currently assesses to be strong financial management with the achievement of strategic objectives, is correct, and would urge that consideration be given to the identification of resources to move the process forward at the earliest opportunity. During the last wrap up session, the Committee was shown an example of a budget report where the headings were presented and linked to themes of strategic priority. Whilst the example was a working document and not fully developed, the Committee is clear that this is the way forward to clarify linkages between resource allocation and priority of service delivery and would commend the use of this proforma for presentation.

In more detail, the Committee would recommend the following:

- that clear links between the stated outcomes of the Single Outcome Agreement and the Council's strategic priorities be expressed in all policy and budget documents to enable demonstrably policy led budgeting in action for the 2010/2013 budget process;
- that a financial strategy document be established, in early course, as an overarching statement of how the other plans and budgets fit together and should be considered in tandem;
- that no immediate work be done to review all service budgets on a zero base budget format, as this will not be of any great value;
- that actions arising from the agreed strategic priorities be confirmed and resources allocated to them as the next stage;
- that officers consider and report to Councillors a method for comparing priorities across the strategic outcomes, to better inform the allocation of resources, acknowledging that this is ultimately a political decision to be taken by members,

but to help establish an awareness of order of priorities and assist with the making of hard decisions in times of financial pressures;

- that the work on workforce strategy and infrastructure resource tracking to delivery of strategic priorities be pursued and resourced to allow a fully developed expression linking property, people and pounds to specific outcomes of strategic priorities which would better inform and support members in allocation decisions;
- that the strategic priorities be reassessed regularly to ensure that every service delivery is aligned within the Council's voiced objectives;
- that the regular review of strategic priorities inform and improve understanding of the financial management of Aberdeenshire Council by establishing the links between strategic priorities and resource planning, including greater awareness of benchmarking and performance management;
- that appropriate action be taken to support the further training for elected members in financial management and the challenge they exercise over budgets, services and service levels; and
- that the Council refute Audit Scotland's stance that an authority's budget will inform its policy decisions, as the application of policy led budgeting will demonstrate a budget led by policy decisions.

## **1 INTRODUCTION**

### **1.1 The Scrutiny and Audit Committee**

1.1.1 Within Aberdeenshire Council's Scheme of Delegation, the Scrutiny and Audit Committee is empowered to:

- Review the effectiveness of Council policy implementation and Council service delivery and to identify potential improvements;
- Undertake an annual programme of reviews; and,
- Make recommendations regarding improvements to the performance of Services.

1.1.2 In carrying out its reviews, the Scrutiny and Audit Committee is able to:

- Call upon any officer of the Council or Chair/Vice-chair of the Council's committees to give evidence or provide written reports, as appropriate; and,
- Call upon expert witnesses or members of the public to give evidence, where necessary.

1.1.3 The Committee operates according to the following principles of working:

Deliberative	Outward-looking
Investigative	Inclusive
Open	Influencing
Evidence based	Proactive
Transparent	Flexible
Accountable	Non-partisan
Responsive	

### **1.2 This investigation**

1.2.1 The Scrutiny and Audit Committee met on 6 September, 2007 to consider potential topics from 35 proposals submitted by either Councillors or senior officers of the Council. It agreed to undertake an investigation into policy led budgeting because it was clear from Audit Scotland's recent Best Value assessments of Scottish local authorities that this was a matter of increasing importance to them. Many Best Value reports asked for "greater demonstration of policy led budgeting", without defining exactly what was intended or how it should be evidenced. The choice of topic also allowed members the opportunity to look in considerable depth at the Council's current financial systems and processes.

1.2.2 It was agreed that the purpose and objectives of the investigation should be to 1).to consider the approach adopted by Aberdeenshire Council in terms of policy led budgeting;

- 2). to assess the amount of discretion allowed to local authorities in responsiveness to changes in prioritisation of spending;
- 3). to determine how meaningful policy led budgeting can be, given the Council's statutory obligations;
- 4). to compare Aberdeenshire's approach to policy led budgeting to that of other Scottish authorities; and
- 5). to examine the effectiveness of current policy led budgeting.

The detailed brief for the Committee's investigation is attached as Appendix A.

- 1.2.3 The Scrutiny and Audit Committee members who were involved in this investigation were Councillors Peter Bellarby (Chair), Cllr. Amanda Allan, Cllr. Nan Cullinane, Cllr. Sandy Duncan, Cllr. Tom Fleming, Cllr. Ian Gray, Cllr. Gillian Owen, Cllr. Andy Ritchie, Cllr. Michael Sullivan and Cllr. Robert Thomas.
- 1.2.4 It has been agreed that the Scrutiny and Audit Committee should appoint independent external experts to assist with its investigations where appropriate. For this investigation, Paul McMenamin, of the Institute of Public Finance, (IPF), the commercial branch of the Chartered Institute for Public Finance and Accountancy, (CIPFA,) was appointed. His previous experience had involved working with authorities in both England and Scotland on the matters of strategic financial management and budget prioritisation, and was considered to be of great assistance in considering the relatively newly voiced concept of "policy led budgeting", on which there were no publicly accepted definition or academic assessment.

## **2 HOW THE INVESTIGATION WAS PROGRESSED**

The Committee undertook a range of different activities to enable it to carry out this investigation.

### **2.1 Documentation**

- 2.1.1 A range of background documentation was provided to the Committee at the commencement of the investigation. This included information from both within and outwith Aberdeenshire Council:

INTERNAL DOCUMENTATION:-

Committee Papers and background information:-

1. Budget monitoring reports to Policy & Resources Committee:
  - (a) Revenue Budget Unaudited Outturn for the Year to 31 March, 2008 – report 18 September, 2008;
  - (b) Revenue Budget Monitoring as at 30 June, 2008 – report 18 September, 2008;

2. Reports to Scrutiny & Audit Committee - Policy led budgeting;
  - (a) Extract Minute of Meeting of 13 December, 2007;
  - (b) Report to Committee, 15 May, 2008; and
  - (c) Extract Minute of Meeting of 15 May, 2008.
3. Reports to Policy & Budget Steering Group – Aligning Budgets with Corporate Priorities:
  - (a) 7 December, 2005; (CONFIDENTIAL) and
  - (b) 1 March, 2006. (CONFIDENTIAL)
4. Capital Plan 2008-2013 – Reports to Policy & Resources Committee, 13 November, 2008; and
5. Report to Policy Budget Steering Group, 20 May, 2009;
6. Capital and revenue budgets 2008/09:
  - (a) Aberdeenshire Council’s Capital Plan 2008/ 2023 – report to Policy & Resources, 12 June, 2008;
  - (b) Revenue Budget, 2008 – 2011 – report to Council, 14 February, 2008;
7. Aberdeenshire Finance Service Plan, 2008 - 2011;
8. 2006/07 Annual Accounts;
9. Council Vision;
10. Aberdeenshire Council Strategic Priorities 2007 -2011;
11. Single Outcome Agreement 2008 - 09 between Aberdeenshire Council, Aberdeenshire Community Planning Partnership and Scottish Government;
12. Extract Best Value Review of Aberdeenshire;
13. Statutory Performance Indicators; and
14. Performance Indicators:
  - (a) To Education, Learning & Leisure Committee, 22 May, 2008;
  - (b) To Infrastructure Services Committee, 21 August, 2008;
  - (c) To Social Work & Housing Committee, 11 September, 2008; and
  - (d) To Policy & Resources Committee, 18 September, 2008.

EXTERNAL DOCUMENTATION:

15. 2007/08 Annual Audit Plan (Audit Scotland, March, 2008);
16. North Lanarkshire Council:
  - (a) Budget Facts and Figures 2008 to 2009;
  - (b) Service Improvement Plan, 2006/07 – 2008/09; and
  - (c) Corporate Plan, 2008 – 2012;
17. Harrow Council:
  - (a) Correspondence from Corporate Director of Finance;
  - (b) Extract from website;
  - (c) Corporate Plan, 2008- 2011;
  - (d) Best Value Performance Plan, 2008/09; and
  - (e) Strategic Performance Report – Quarter 4, 2007/08; and
18. Teignbridge District Council:
  - (a) Corporate Plan;
  - (b) Extract Draft Annual Report 2007/08 and Statement of Accounts;
  - (c) Best Value Performance Indicators, 2007- 2008; and
  - (d) Capital Programme.

## **2.2 Witnesses and evidence gathering**

- 2.2.1 Members of the Committee met a cross-section of senior Aberdeenshire Council officers, and elected members, involved in the consideration of budget matters and financial arrangements and the interrelationship between strategic objectives and resource commitment. In addition, extensive information was provided by finance officers. The full list of Aberdeenshire Council staff who appeared as witnesses during the investigation is given in Appendix B.
- 2.2.2 Individuals with relevant expertise from a wide range of organisations were invited to give evidence to the Committee. Amongst those who appeared before the Committee were: Albert Tait, Director of Finance, Orkney Islands Council and Fiona Mitchell-Knight, Assistant Director of Audit Services, Lesley McGiffen, Best Value Portfolio Manager and Colin Morrison, of Audit Scotland. A full list of the external witnesses interviewed during the investigation is given in Appendix B.
- 2.2.3 Full details of the evidence given to the Committee by witnesses are contained in the agenda papers for the Scrutiny and Audit Committee meeting on 17 December, 2008. These are located on the Council's Arcadia intranet system. These are public documents and can be made available on request.

### 3. WHAT IS POLICY LED BUDGETING?

In order to better understand what was meant by policy led budgeting, the Committee sought information from a variety of sources, as there appeared to be no official, generally accepted definition of the term and how it should be demonstrated. A simplistic model would suggest that a list of strategic priorities linked to service delivery outcomes would be created, and funding allocated in turn to the top priorities till there were no resources left, at which point the lower priorities would need to be deferred to another year. Was this the case, and if so, how should it operate?

#### 3.1 Aberdeenshire Financial Officers

3.1.1 Mr. Armstrong, Director of Finance, and Mr. Alex Stephen, (Principal Accountant, Corporate Finance and Performance,) indicated that they felt policy led budgeting would involve looking at what the Council's priorities were, and then identify whether every pound spent was aligned to those priorities. It should be noted that the first iteration of this may not include all spending action. This may mean not that the spend was inappropriate, but rather that the terms of the strategic priorities needed to be adjusted to explicitly encompass all activities. The level of spend on each priority should also be scrutinised to ensure that it was correct. The Council had already established key outcomes in terms of service delivery and it was necessary to look, through performance reporting, at how Aberdeenshire's outputs compared nationally.

3.1.2 Mr. Armstrong reported that until Aberdeenshire Council prioritized its strategic plan themes, true policy led budgeting would be hard to demonstrate. He suggested that there was already a good basis for this work, as a framework for policy led budgeting was in place around core activities, but this would need a lot of work to adapt further. He believed that Aberdeenshire Council's financial management systems, recently appraised as part of the authority's Audit of Best Value and Community Planning, as "sound traditional financial control" already delivered the key components necessary to enable policy led budgeting. The Audit had also highlighted the need for a more strategic approach to financial management, together with more integrated performance management. The Finance Service continued to focus on this development in consultation with the Administration members through the Policy and Budget Steering Group (PBSG).

3.1.3 Mr. Armstrong suggested that for all the complexity of local authority budgeting, the decision-making principles to determine any purchase would be the same as those of an individual who wanted to buy a new car. Any budget decision would need to be informed by total funds available, and the commitments already drawn from that resource. This would indicate a maximum resource against which other wishes would compete for funding. If a new car were the highest priority for the individual, ranked above all others, to obtain the car of choice might need funds to be redirected from other calls on the resource. Again, the individual would have to make decisions if there were competing calls for priority spending, and this might mean a deferred

purchase, alteration of the model or age of vehicle bought, or some other compromise. For an authority with ample funding to deliver all its priority commitments, policy led budgeting was less of an issue than for those with conflicting demands on finite and reducing resources.

## 3.2 Audit Scotland

- 3.2.1 The representatives of Audit Scotland, Fiona Mitchell-Knight, (Assistant Director of Audit Services,) Lesley McGiffen, (Best Value Portfolio Manager,) and Colin Morrison, (Senior Auditor,) advised the Committee that the core of policy led budgeting was about demonstrating the amount of resources to deliver the Council's priorities. Especially at times of limited resources, it was important that an authority understand its costs so that when making decisions about alternatives for service delivery, it had the information required to make informed decisions.
- 3.2.2 Ms. Mitchell-Knight suggested that the main component of policy led budgeting was making sure that there was a strategic plan which reflected the Council policies and that this was linked to the authority's Service Plans, and then clearly linked to budgets. On that basis, when changes were made to how, or what, services were provided, these changes should be reflected in the resource plans. This would apply to both capital and revenue budgets.
- 3.2.3 Audit Scotland suggested that whilst they could not detail the processes by which they would expect policy led budgeting to be demonstrated, they would expect it to see a Council linking its awareness of the amount of resources required to deliver its agreed priorities.
- 3.2.4 Ms. Mitchell-Knight indicated to the Committee that councils needed to understand the costs of all their activities. It was particularly crucial to understand the costs of the core statutory services, over which there was less discretion, so that it would be known that what was left to provide the more policy led services. Audit Scotland would expect to see a link, in every cost for provision, with Service Plans and Financial Plans.
- 3.2.5 In response to a question from the Committee asking for good practice elsewhere to which Aberdeenshire Council should look in seeking to demonstrate transparent and clearly documented policy led budgeting, the representatives of Audit Scotland reported that, in their experience, no Council was, so far, sophisticated in policy led budgeting. They acknowledged that the work Aberdeenshire was currently doing as good practice, but suggested that it was now about developing that further and articulating clearly linkages between strategic priorities and spend profiles. The Audit Scotland representatives stated that whilst there was currently no accepted exemplar of how to implement policy led budgeting, good practice could be seen in Orkney, where a base budget exercise had been carried out to assist in understanding how service delivery was undertaken.

### 3.3 External Expert – Institute of Public Finance (IPF)

- 3.3.1 Paul McMenamin, external expert to the Committee, an Institute of Public Finance consultant, working with the business arm of the Chartered Institute of Public Finance and Accountancy (CIPFA), suggested that policy led budgeting was an end product, an expression of a council's corporate plans with pound signs. This required a strong infrastructure to be established, linking financial and non-financial information at each stage when spend in pursuit of agreed service delivery was considered. He suggested that policy led budgeting needed to be rooted in the process by which a council established its budgets, with elected members having the core responsibility to scrutinise and challenge the use of Council finances. There would be an increasing need for this as budget pressures on local authorities increased, particularly in the current economic climate.
- 3.3.2 Mr. McMenamin linked policy led budgeting to three stages of financial scrutiny – (a) financial planning; (b) focus on outputs; and (c) integration of service and corporate plans and financial planning. Financial information should be extended to encompass all resources – people and property as well as pounds, and this was often neglected in traditional budget considerations. There should be a medium term financial strategy, as a statement of the aims of the council in financial terms. This would allow the authority to be aware of the impacts of under- and over-spends in making its choices for service provision.
- 3.3.3 Financial planning also needs to be linked to performance management. Mr. McMenamin suggested that effective financial scrutiny added value to how a council managed its finances. In terms of monitoring effectiveness, this should be done by officers but ultimate responsibility rested with councillors, as democratically elected representatives with an obligation to manage the public pound. Councillors should challenge whether processes were effective and accessible, and whether the reporting and management was sufficiently integrated.
- 3.3.4 The use of resources should be examined to ensure how they were used and what impact they had on outcomes. Testing should take place of whether the resources were directed effectively to meet priorities and every opportunity should be taken to ensure that the Council's management of its resources were transparent. To facilitate this, financial and non-financial information required to be inextricably linked, either in a single document or with the complementary information reported to the same Committee at the same meeting to be discussed in tandem. Otherwise, how could an authority know what it cost to deliver its aims and objectives, or make informed decisions about resource changes if these were not related back to strategic objectives? Once linked, robust financial scrutiny should be an ongoing process.

### 3.4 Senior Council officials

- 3.4.1 Ian Fowell, Chair of the Council's Capital Plan Group (CPG), spoke of the changes made to the processes of that group with the application of the

Prudential Code which allowed local authorities to finance capital works as long as they could sustain the interest payments on the debt. This had allowed greater flexibility in phasing and monitoring of works, but still required a detailed analysis of all proposed projects to see where they sat in terms of the Council's strategic priorities. There was no assurance possible that funding would be available to support all the strategic objectives of the future, and already there were difficulties because all the identified projects could not be funded. At present, decisions were recommended to councillors for final approval on the basis that the projects fitted within the priorities. It was a judgement call as to whether it was more important to have projects that fitted a number of priorities, or whether meeting certain of the priorities made the project more important.

- 3.4.2 Mr. Fowell did not see policy led budgeting to be as easy as spending money on priorities 1, 2 and 3, until the available funds ran out. He thought that there required to be flexibility about the amount of money which could be spent on any single priority to the exclusion of all other works. What was chosen to be spent on priority 1 would affect how many of the subsequent projects could be pursued. Similar choices would require to be made for revenue budget commitments.
- 3.4.3 The Directors of Housing & Social Work and Transportation & Infrastructure, Colin Mackenzie and Iain Gabriel, believed that policy led budgeting meant a process by which resources could be clearly seen being transferred to support service delivery which had been identified as a priority. Each policy committee monitored the application of resources to allow their service to be provided at its agreed level and each had re-directed funding to resource aspects of delivery which were under budget pressure. Mr. Mackenzie referred to the Social Work & Housing budgets for 2005/6 when the Policy & Resources Committee had agreed to transfer £900,000 to augment the funds previously allocated. The resources set aside had not been sufficient to fund the agreed level of delivery at the actual volume of demand and so monies were transferred to meet the need – this was a clear application of policy led budgeting, where the Committee had chosen to provide the extra funding required to implement the agreed level of service provision.
- 3.4.4 Mr. Gabriel saw evidence of policy led budgeting in recent work undertaken to establish and agree an Asset Management Plan for the Council, where the traditional resource allocation process had been turned on its head. The initial analysis had begun with looking at the Council's strategic priorities and the Single Outcome Agreement (SOA) and identifying what was required in terms of assets to support their delivery. If the process had started with finance, it would have stalled because of gaps in funding. As it had focused on policy led budgeting, which looked initially at what was needed, with officers working hard to identify resources to support that aspirational delivery, the process had been very valuable. Mr. Gabriel provided a further example to illustrate policy led budgeting from the Transportation & Infrastructure service. Roads maintenance was a high priority for Aberdeenshire Council, which defined what level of maintenance would take place by using the views expressed through the Aberdeenshire Residents Survey. The level of

maintenance to be provided had also been informed by research coordinated by the SCOTS, (Society for the Chief Officers of Transportation in Scotland), which had developed a single measurement for roads across Scotland. Aberdeenshire was currently in the top 2/3 Scottish local authorities in delivery of roads maintenance programmes, but the condition of roads in north east Scotland continued to decline, despite investment. That was policy driven – to improve standards with increased investment would require a political will to direct more funds to achieve this outcome. Mr. Gabriel suggested that although the phrase “policy led budgeting” was not often used as a badge, Aberdeenshire Council was better at policy led budgeting than it thought it was.

3.4.5 The Committee heard from Alan Campbell, Chief Executive of Aberdeenshire Council that his understanding of the requirements to consider policy led budgeting had altered from the early days of the authority. On local government reorganisation in 1996, the task had been to merge the inherited budgets and policies from four predecessor councils, and it was not easy to focus on reflecting the manifesto of the political Administrations. Also, Council priorities were becoming more and more sophisticated. There had been a constant struggle with delivering the services which would have been wished for by the people and communities in Aberdeenshire, due to central government’s calculation of Grant Aided Expenditure (GAE). This had long been held by north east authorities as not truly meeting the costs of delivering services in a primarily rural economy. Although lobbying continued to try to persuade the Scottish Government to increase the current level of budget allocation, any amendment would obviously impact on the residual funding available to the 31 other councils – turkeys would not vote for Christmas.

### 3.5 Senior elected members

3.5.1 The Leader of the Council, Councillor Anne Robertson, spoke of her understanding that policy led budgeting was a financial plan that mirrored the strategic plan so that the budget followed Council priorities. She emphasised that the pound needed to follow the need, i.e. to be following strategic priorities with the changing demographics. There would, of course, be political input into what goes in, or comes out of, a budget in determining its application to the delivery of agreed strategic priorities.

3.5.2 Councillor Joanna Strathdee, leader of the SNP Group, currently a party of opposition in Aberdeenshire Council, gave her interpretation of policy led budgeting as follows: “Policy led budgeting is exactly what it says on the tin. The policies of the Council would drive the budget. You would build the budget based on the priorities of the Council.” This view was echoed by Councillor John Cox, Co-ordinator of the Independent Aberdeenshire Councillors, who suggested that this approach may alter significantly with previous approaches to budget formulation. Policy led budgeting would allow the council to set its objectives and then build the budget to suit that delivery, rather than allocate budgets based on what has been provided in the past.

3.5.3 Councillor Marcus Humphrey, Depute Provost and Leader of the Conservative Group, now part of the joint administration but previously an opposition party in Aberdeenshire, raised a different issue, suggesting that the initial consideration should be “by whose policy are councils being led?” He suggested that this should be considered in terms of “whose money”. In both of these questions, Cllr. Humphrey felt that authorities were required by legislation to provide a huge range of “statutory” services, (such as education, social work and roads,) for which funding was allocated by central government. Recent initiatives such as the Concordat signed between the Scottish Government and Scottish local authorities had merged even more the policies of both to a single, agreed expression of what should be delivered – the Single Outcome Agreement. He believed that there was very little left where policies could be fashioned locally to suit local circumstances, given the commitments made to national priorities and projects.

### 3.6 Other local authorities

3.6.1 The Committee met with Mr. Albert Tait, Director of Finance, the Orkney Islands Council, who provided information on a range of detailed financial reviews undertaken by that authority to inform their resource management strategy and priorities. He had inherited a budget process which was incremental, with no priorities and all budget bids being agreed at Full Council on the basis of a list of requests from the Directors of Services. The new process focused on identifying what the Council wanted to achieve, identifying priorities and allocating resources to fulfil those requirements. Whereas previously the authority might have had 49 “conflicting” priorities, which had not themselves been prioritised, these had now been reduced to 6 key priority areas, in addition to meeting statutory obligations. This process was done with all 21 independent councillors setting the priorities, and also undertaking work to produce a document showing the priorities and projects with costs and outcome information and established measurements which would ensure that the outcomes were being met.

3.6.2 Mr. Tait believed that this process was a clear demonstration of policy led budgeting in action. He explained that policy led budgeting would see elected members setting targets, seeing those targets being properly resourced and delivered. The process of setting priorities should involve all councillors so that they knew the resource decisions relating to particular choices, and the implications of this for other options. The council’s direction should make it clear what it sought to deliver and also acknowledge that it was not that other issues were not priorities, but these were assessed, and agreed, to be lesser priorities.

3.6.3 Mr. Tait suggested that there was a greater need, if following policy led budgeting, to ensure that there were no dubieties in interpreting what exactly was intended by the policy. The situation would not always be clear cut, despite all these safeguards, as there were bound to be opportunities which may arise to alter pre-agreed priorities. He gave an illustration of a current project in Orkney to provide new schools which had allowed an Arts Forum to suggest an upgrade to the drama/theatre included in the school provision.

Similarly, whilst swimming pools had always featured in the original development, there was pressure to add in squash courts. This provision was not a priority, but could be accommodated within the scheme. Members were interested in exploring this matter.

- 3.6.4 Other Scottish local authorities were hesitant to participate in the discussion of policy led budgeting, as it was felt to be a relatively new idea and one which would require political acceptance before it could be applied. In the general absence of discussion of the topic between officers and elected members, the matter of policy led budgeting was not one in which other councils who had not explored the concept, (unlike Orkney, as referenced above,) felt able to participate.
- 3.6.5 The Committee viewed, as background papers, financial and performance management documents from North Lanarkshire Council which already demonstrated in a single document resource allocations against the Council's chosen corporate plan themes which identified priorities. Major capital plans were identified in the authority's "Budget Facts and Figures, 2008" as having been informed by the work of its Capital Resources Working Group. This had developed asset management plans which had enabled informed decisions on the long term use of existing and new assets to support the corporate priorities of the Council.
- 3.6.6 From English authorities, background papers contained evidence where a prioritisation of service delivery provision had been undertaken, these were often linked to the differing types of financial and resource management reporting already expected by statute and standard audit processes. Often the move to choice in the allocation of resources had become clear in times of restricted and restricting resource availability. This was demonstrated in the correspondence from the Director of Finance, Harrow District Council and also in the authority's budget and related papers. The situation at Teignbridge Council also gave information of a prioritisation of resources being directed to fulfil, in turn, the delivery of services from a prioritised list of agreed work.

#### **4. WHAT DISCRETION ARE LOCAL AUTHORITIES ALLOWED TO RESPOND TO CHANGES IN PRIORITISATION OF SPENDING?**

In exploring how far policy led budgeting could be applied in Aberdeenshire, witnesses informed the Committee of the current sources of major spend allocations, and the factors which seemed to limit total discretion for local authorities.

##### **4.1 Statutory requirements and Grant Aided Expenditure**

- 4.1.1 The Director of Finance and Directors of Transportation & Infrastructure and Housing & Social Work all brought the Committee's attention to the impact of delivery of statutory requirements, reducing residual budgets which might be able to be applied to the Council's policy objectives.

- 4.1.2 The issue of statutory service provision was agreed by officers and members of Aberdeenshire Council to take up the majority of the Council's resources – in terms of pounds, people and property. There was a clear understanding of an assumed close relationship between central government's assessment of the costs of service provision, as demonstrated in its award of Grant Aided Expenditure (GAE) across all 32 Scottish local authorities and the main areas for spend. All Aberdeenshire witnesses spoke of struggles since the formation of Aberdeenshire Council to try to get the amount of centrally allocated funding to match more closely the actual costs of service provision for the Council. GAE was firmly believed to have underfunded Aberdeenshire Council for many years, and this had been seen to limit the Council's ability to fund additional works beyond what it was obliged to provide, as current funding only supported the non-discretionary aspects of council service provision. The restrictions on funding meant that there was little left over to consider in terms of the Council's own priorities.
- 4.1.3 The Chief Executive, Mr. Campbell, and Councillors Robertson and Humphrey, spoke of repeated lobbying of the Scottish Executive (and now Government) seeking to have additional resources made available to Aberdeenshire to address the perceived under-funding. As Mr. Campbell understood it, part of the difficulty in asking for more was that the Council appeared to have managed to have survived with the level of funding it had been allocated. Mr. Campbell made reference to other north east authorities which had also felt themselves to be underfunded, and had recently received headline attention for cuts required by budget shortfall. Aberdeenshire Council's sound financial management, combined by an awareness by Aberdeenshire's political administrations, in the years since local government reorganisation in 1996, had reduced the difficulty in finding areas on which to spend less to allow more to be directed to other areas of need. Part of the challenge with the government allocation of GAE was that central belt definition of "deprivation" did not encompass strictures of rurality – the country was seen as "des res" by city dwellers, and any alteration in the sharing out of GAE across Scotland would need the 31 other local authorities' support. Whilst that might come from some other, more rural authorities who felt similarly underfunded, there was little chance that others would volunteer a change which would reduce the level of funding they enjoyed.
- 4.1.4 In the absence of any possibility of gaining additional resources through the GAE system which could allow greater margins of funds to be available to be applied to the areas of strategic priority, the only other route by which local authorities could raise income, apart from consideration of increased charges for services, would be through an increased Council Tax. This had been ruled out in recent years by a national agreement between central and local government that no increased call would be made on local Council Tax payers in return for increased central government contributions. The Committee was also made aware of the current debate about the future of Council Tax as compared with other methods of local funding of local government. The lack of clarity in this meant that long term future planning had an unidentified factor which would impact on all financial calculations.

- 4.1.5 Councillor Humphrey referred to his earlier political role as a member of Aberdeenshire County Council in 1966. The then councils had power to levy a “shilling rate” which could then be applied to local issues of funding pressure. He contrasted this with the current position where raising additional funds at a local level was no longer a possibility.
- 4.1.6 The definition of “statutory” obligation could not be automatically assumed to make any service provision beyond challenge. The Director of Housing & Social Work suggested that there were 32 ways of delivering statutory requirements, otherwise there would be more similarities across the resource allocations of the 32 Scottish local authorities. Mr. Mackenzie stressed that although “statutory requirement” was no longer a favoured defence of a funding bid, there were still some things that every council knew it had to provide, and that there were a finite numbers of ways to achieve them. The Council, he suggested, would need to be clear that the provision of choice was the most effective way of delivery.
- 4.1.7 Mr. Gabriel, Director of Transportation & Infrastructure, agreed with the need to determine the most effective method of service provision. He felt that this could be illustrated by referring to the council’s policy, backed by an element of budget provision, to deal with “edge of carriageway water features” (aka potholes). This was an area where benchmarking with other local authorities was undertaken, often informed by the work of the Society of Chief Officers of Transportation for Scotland (SCOTS). This may be considered as delivering part of the Council’s statutory duty in relation to roads maintenance, but Mr. Gabriel suggested that whilst a pothole could lead to a massive insurance claim, it was not appropriate to deduce from this that repair of roads should be the Council’s highest priority for funding allocation. A judgement call needed to be taken on how the statutory function should be delivered, with a risk assessment informing the adoption of policies which could not be 100% inclusive. There were a spectrum of costs and options available to fulfil statutory obligations, linked to an assessment of the effectiveness of how money should be best spent. Mr. Gabriel reiterated that bench-marking was a key tool in this process of ensuring comparative effectiveness of allocation funding, to be assured that unit costs were valid relative to other providers. It was also an advantage in assessing performance management, as unit cost tracking encouraged a change of emphasis from inputs to outcomes, i.e. not the funds allocated to deliver an assumed level of service, but rather a clear accounting for the work able to be delivered for a particular cost.
- 4.2 Ring fencing and Concordat – freedom or still prescriptive?
- 4.2.1 With the change in central administration in 2007 had come a removal of the ring-fencing of funds in the GAE which had previously allocated indicative resources to deliver on particular projects or initiatives. Did this removal actually give councils more flexibility to direct resources to other projects?
- 4.2.2 It was reported to the Committee that Aberdeenshire Council had not looked to move funds previously ring-fenced to specific areas of work in the current

budget. On that basis, it was unclear from witness evidence whether the removal of ring-fencing was, in reality, a game of semantics and made little difference to the Scottish Government's expectation that various services would continue to be funded by local authorities from central government resources. The Chief Executive, Mr. Campbell, suggested that ring-fencing was a red herring – whilst it may sound as if councils had big blank sheets of paper with countless millions to spend, the reality was that legislative provision was never the problem; it was a lack of money that was the real problem.

- 4.2.3 Other witnesses felt that the removal of ring fencing did allow Aberdeenshire Council options to reallocate funds. Cllr. Strathdee suggested that previous initiatives which had been allocated ring fenced funds had often been in areas where the council was already undertaking work. On those occasions, the monies had had to be rebadged to allow Aberdeenshire Council to spend them. Removal of ring-fencing meant that the Council could allocate resources to its own priorities without having to go through a paper chasing exercise. Cllr. Cox welcomed the relaxation of ring-fencing, suggesting that it was an opportunity for the Council to focus resources more closely to local community needs.
- 4.2.4 The Director of Transportation & Infrastructure, Mr. Gabriel, supported the abolition of ring-fencing as he believed that the Council itself had to decide how to spend its money. The removal of ring-fencing allowed Aberdeenshire greater flexibility to deliver on its own priorities and not spend money on specific pieces of work which were not necessarily local priorities. Although the funding previously ring-fenced to specific actions had not been removed from their delivery in the current financial year, there would be a review which would look at future allocations. Mr. Mackenzie, Director of Housing & Social Work, emphasised that any review of ring-fenced funds, of which there was a significant amount in his service, should ensure that changes did not impact badly on the most vulnerable people. It was essential that the Council was assured that the funding was used in the most effective way.
- 4.2.5 Whilst few resources were now linked explicitly or “set aside” to specific aspects of service delivery, the Concordat signed between the Scottish Government and Councils in 2007 was effectively an agreement of areas on which local authorities would, together with their community planning partnerships, work to achieve agreed outcomes. The fact that Aberdeenshire Council had willingly accepted and signed that national concordat had informed the Council's consideration of its own strategic outcomes, which were approved by all political parties at a meeting of the full Council on 22 November, 2008. There was some debate amongst witnesses as to whether the Single Outcome Agreement (SOA) was the iteration of local or central politicians, but all agreed that its acceptance, cross-party, by Aberdeenshire Councillors made this distinction irrelevant – by agreeing to it, the Council had made these areas of outcomes its own strategic priorities. Was it therefore more prescription to spend on priorities determined at a central, as opposed to a local, government level?

#### 4.3 Partnership working and shared accountability through Single Outcome Agreements

4.3.1 An issue relating to the need to follow the public pound was raised by witnesses in speaking of the Single Outcome Agreement, (SOA). Whilst the principle of joint working to achieve mutually agreed aims was valued, where would the blame fall if the chosen outcomes were not delivered? Democratically elected councillors had a clear responsibility for allocating resources available to deliver local services, but it was not clear how the imminent renewed SOA between the community planning partnerships and central government would facilitate to move to shared budgets to pursue the agreed priorities. Currently, the situation appeared to be that Aberdeenshire's Community Planning Partnership's priorities which had a local government role were being voiced in the Council's budget. They were not as clearly evidenced as joint budgets, but often appeared in individual partners' budgets as a contribution to a shared project. Would council budgets, through the GAE award, be penalised if the outcomes were not delivered?

4.3.2 From the Head of Policy, Mr. White, the Committee heard that Aberdeenshire was already further advanced than some other local authorities in its joint working with community partners in the preparation of the draft SOA – this meant that there was already a high degree of joint ownership and buy-in. From Mr. Tait, the Committee heard of Orkney Council's initial SOA as being primarily a local government creation – work to move the ownership fully to the community planning partners would therefore be more onerous than for those places where great involvement and buy in had already been achieved.

4.3.3 Mr. Mackenzie, Director of Housing & Social Work, spoke of the increased partnership working, even in its early days, as changing the Council's thinking of how it dealt with partners. Jointly accountable, there would be a need to ensure that local governance worked. He felt that the joined working was the right way to go, as virtually everything Aberdeenshire did was in partnership, but there would be significant challenges especially when partners face budget pressures. Reconciliation of the different aims of the individual partners would take careful management. For example, Grampian Health Board brought to the Community Planning table the issue of discharge and treatment targets which would need to be met, in their assessment as a priority, but the Council and other partners may not share this view.

#### **5. HOW MEANINGFUL CAN POLICY LED BUDGETING BE, GIVEN THE COUNCIL'S STATUTORY OBLIGATIONS?**

5.1 It was suggested to the Committee that current funding of local government from the Scottish Government only supported the non-discretionary aspect of councils' service provision. This meant that the current and long standing under-funding through the GAE limited Aberdeenshire Council's ability to respond more closely to the delivery of its strategic outcomes, which reflect the political manifestos of its ruling administration.

- 5.2 Several witnesses spoke of the spectrum of potential responses to statutory duties. It was suggested that an open consideration of what level of service might be the best to be afforded might allow increased resource efficiency delivery – or at least the provision of services in a different way. Such an approach demonstrated very transparently the choices made in specific provision, clearly aligned with cost.
- 5.3 Mr. Gabriel, Director of Transportation & Infrastructure, stressed, in his evidence to the Committee, that there was an increasing need to match resources to outcomes. He could, he assured the Committee, quite easily ask for resources of £x for road improvements, and return at the end of the financial year having spent the funding, without the Council having been assured that any particular volume of work had been achieved. The link to measurement of outcome would be more obvious if the resources were allocated to anticipated outcomes, (e.g., in this example, the upgrading of y roads at an average cost of £a per mile). This unit cost monitoring would better inform effective budget application. It would also inform future under- and over-spends – if the y numbered roads could be improved at a cost of £a -1, the budget allocation per unit outcome could be reduced – or a decision taken to increase the number of roads to be improved within the same budget provision.
- 5.4 Several other witnesses echoed the need to know real costs of what statutory provision was, in order to determine what level of service should be provided. Cllr. Cox thought that a review of current spending would identify no need to cut services to save money. Efforts should concentrate on how services were provided, which would include identifying how much it cost to provide a service.

## **6. HOW DOES ABERDEENSHIRE'S APPROACH TO POLICY LED BUDGETING COMPARE TO THAT OF OTHER SCOTTISH LOCAL AUTHORITIES?**

### **6.1 The Aberdeenshire Approach**

As there was no “one size fits all” definition of what policy led budgeting was, or how it should be demonstrated, the Committee heard from various witnesses, senior elected members and officers of the authority, on issues relating to the key lines of enquiry, (KLOE, attached as Appendix C,) accepted as demonstrating the principal threads of sound financial management, linked to strategy and priorities: outline of strategic financial planning in Aberdeenshire; extent of cohesion between financial and strategic planning; robustness of financial baseline analysis assuring the council's financial standing; adequacy of arrangements for review and challenge of budgets; appropriateness of degree of member involvement in strategic financial planning; and robustness of process to identify and measure savings.

### 6.1.1 Financial processes and procedures

6.1.1.1 The Committee heard from the Director of Finance, Charles Armstrong, that although the authority may not currently be demonstrating “policy led budgeting”, however that may be defined, there were obvious building bricks of good practice in various sections of the Council’s financial management which could be easily converted to more obviously link the processes of financial management and the pursuit of strategic objectives. He suggested that any assessment of Aberdeenshire Council’s “policy led budgeting” building blocks should not only consider the individual components already in place, but also recognise that the process was a journey, and that the path to the intended destination was also crucial. It was important to acknowledge not only where Aberdeenshire was currently, but also where it planned to be. Mr. Armstrong felt that the commitment to explore these matters had been voiced through the Council’s administration in the Policy and Budget Steering Group, (PBSG,) in addition to being demonstrated at each policy committee’s consideration of budget and resource allocation decisions, being more and more linked to delivery of strategic outcomes.

6.1.1.2 Mr. Armstrong spoke of two exercises previously undertaken by the Finance Service to stimulate consideration of how policy led budgeting could become more embedded into everything that the Council did. The first exercise had been considered by the Management Team and Councillors of the Administration, through the mechanism of the PBSG. The initial approach had been to link the budget to prioritized strategic plan themes. Whilst the general approach had been welcomed, it was felt that there was not enough focus on outcome and also limited flexibility in taking this approach. The second iteration of the document tried to link the Council’s Strategic Plan to the core activities identified in the Service Plans, and then link the budget pages to the core activities. The exercise had been challenging as there was no consistency in expressing core activities and those articulated did not link easily to budget pages. Performance management linkage to core activities was also mixed. Some services had been suspicious of Finance’s expression of the resources needed to support core activities as a unit cost.

6.1.1.3 Mr. Armstrong advised the Committee that the Council’s approach to policy led budgeting was more fully developed for capital than for revenue allocations. Recent work on linking the Council’s asset management plan to the capital works programme had been invaluable in allowing a different approach to be taken. Works were now to be supported though an acknowledgement of how they fitted in the delivery of services, themselves assessed in terms of delivering the Council agreed strategic priorities, which in turn were expressed in terms of commitment to deliver on the aims of the nationally agreed Single Outcome Agreement. The asset management work clearly linked resource allocation to distinct areas of activity, but Mr. Armstrong agreed that there could be improvements in making more visible the “golden thread” which linked the other plans to resource.

6.1.1.4 The Council’s current capital plan covered 15 years, albeit with the latter periods indicative only, based on projected forecast needs, but informed by

the asset management work undertaken by the Property service, was able to priority projects in terms of importance to deliver the Council's stated outcomes. Although the capital plan was only funded to year four, with resource allocation not agreed beyond that point, Mr. Armstrong, and other senior officers of the Council, were convinced that it needed to remain aspirational. While there may be challenges ahead if the future funding was not rosy, it was thought better to have ambitious plans for which resources could be sought rather than limit the vision to those projects only for which funding could be assured.

- 6.1.1.5 The aspirational expression was also defended by the Director of Transportation & Infrastructure. Mr. Gabriel suggested that no council could properly afford its strategic priorities, but that the starting point should be from aspirations. These would serve to raise the bar and be a focus for striving to achieve. Mr. Gabriel felt that without aspirations, an authority would be in danger of achieving only the average. Even if an ambitious plan were only 80% delivered, this was a better achievement than fully delivering pre-restricted outcomes. "It's not about speed; it's about direction of drive to achieve".
- 6.1.1.6 Audit Scotland representatives were asked whether a council's strategic priorities, in setting the bar high and therefore not immediately affordable, would put the authority in risk of being assessed poorly, compared with setting a less ambitious plan could mean that the Council could perform more highly. Ms. Mitchell-Knight reported that it would not expect that corporate priorities would be set for the Best Value (BV) audit, but rather that they would be set by each council to meet the service needs of its local community. Audit Scotland would expect the plans to be achievable but aspirational. Ms. McGiffen echoed this by stressing that Audit Scotland would not want councils to be less ambitious.
- 6.1.1.7 There were challenges in making policy led budgeting obvious in terms of the revenue budget, particularly in the day to day services such as Council Tax collection, which did not join up easily to the Single Outcome Agreement or the Council's strategic priorities. These were processes which were, however, essential to the effective operation of the authority. Unlike the capital plan, the Council's revenue plan was only three years and needed to be developed further. Councillors and officers were aware of this issue and had agreed to produce a 15 year revenue budget.
- 6.1.1.8 Revenue funding options would require close attention to future demographic projections, which further complicated the issue of how future service delivery would have to be shaped. It may be, for example, that provision of services for an increasingly elderly population may require more care at home and not necessarily the construction of more care homes. Mr. Fowell, Chair of the Capital Plan Group, also advised the Committee that there were options in how such support may be delivered – rather than resource a care home directly, if needed in the future, it may be better to buy in residential care from an external provider.

- 6.1.1.9 Mr. Mackenzie, Director of Housing & Social Work, used the metaphor of a journey to describe his assessment of where Aberdeenshire was, and where it was heading, in terms of linking all the strands of strategy and resource. “It is a journey we are on and we are not perfect. Our budget is still based on incremental budgeting to provide no more, or no less, than what we are providing, we then look at linking them to priorities within the fixed budget. We don’t work on a pro rata basis even when making efficiencies, we do look at budget pressures of the Council priorities and how we can square the circle.”
- 6.1.1.10 The Head of Policy made reference to a financial strategy document which he had observed in looking at some English authorities. He suggested that it might be useful for Aberdeenshire to have such a document as an overarching statement of how the other plans and budgets fitted together and were considered in tandem by the Council as demonstrating where policy led budgeting did, or would, occur. Mr. White believed that it would not be hard to establish such a document as he suspected that many of the elements were already in place across a range of existing documents. Such a document would allow another voice of the Council’s risk analysis of critical issues affecting funding.
- 6.1.1.11 From senior elected members, assurance was given that the processes of linking strategic priorities to resource allocation, and the monitoring and challenge of budget and service level provision, was open to all 68 of Aberdeenshire’s Councillors. As a non-executive authority, (i.e. not operating a cabinet system of delegated authority, where only a small percentage of Councillors were actively involved in decision making,) all members had been involved in agreeing the Single Outcome Agreement and the re-voicing of the Council’s own strategic priorities which had been informed by this. These decisions had been taken at full Council. Each member had also input, through their area committees and policy committee membership, to the formulation of service strategies and resourcing decisions. This meant that the committee structure of Aberdeenshire Council supported wide ownership which it was believed had informed, and would continue to inform, robust, well-rounded outcomes. This also demonstrated that there was already some infrastructure in place to enable strategic financial planning.
- 6.1.1.12 The Committee heard from elected members of all political parties of their high degree of confidence in the quality both of the finance staff, and the information provided to members. Cllr. Humphrey endorsed the view that all members were involved with the setting of strategic priorities and decisions on allocating funds to meet them: “We don’t always get our own way, but even when we were in opposition, we could still be involved”. He felt that members were well briefed to assist in their evaluation of current service provision against priorities, service level agreements and levels of service provision: “There is a horrendous amount of detail and we are provide with it so that we have the opportunity to study it to ensure that the service is up to scratch”.
- 6.1.1.13 Cllr. Cox was also very confident that the Council’s financial plan linked to the Council’s Vision and strategic priorities. The monitoring process and reports

provided, in the main, a robust system, even if at times the reports were fairly lengthy and some lines could be clearer. “There is nothing that has come out that we haven’t been able to understand when explained”. He did suggest that councillors be allowed greater opportunity to directly input to option appraisal in funding decisions, or looking at the different ways of providing services. “A lot of the reports we get tend to ask “yes” or “no” questions, rather than give options for discussion.” As a member of the former Banff & Buchan District Council, (one of Aberdeenshire’s predecessor authorities,) Cllr. Cox had experienced being given more options to discuss and greater opportunity to look at best practice and outputs.

- 6.1.1.14 Members from the Administration commended the joint exploration by members supported by senior officers in the Policy and Budget Steering Group (PBSG). Cllr. Robertson, Leader of the Administration, spoke of the detailed work which could be undertaken in this forum, acknowledging that the focus, in part, was about the delivery of the political parties’ election manifestos. She stressed that at a more fundamental level the process was about working together to best deliver services to the people of Aberdeenshire, within finite resources, and responsive to the changing needs of the population. It was awareness of these pressures which had encouraged the move away from incremental budgeting, with inflationary increases, to the more dynamic assessment of what was needed now and in the future, and how could that be addressed best, what outcomes were to be sought. Cllr. Robertson emphasized the role of all elected members to ensure that best value was obtained. In pursuit of this, the Leader spoke of the linked requirement to have a strong and valid performance monitoring and management framework – “It’s up to all of us to challenge and question to make sure that we get best value and that performance indicators are giving us the information we require”.
- 6.1.1.15 Cllr. Robertson stressed that any member could question officers as Aberdeenshire had a very open system. Each political group was afforded the opportunity to meet with officers when developing their budgets. In addition, each service had a finance team which was happy to provide individual councillors with specific information when asked. There was no barrier to a member being provided with any information they sought and this was helpful in allowing each councillor to gain additional information when scrutinising budget allocation and service provision.
- 6.1.1.16 Asked whether the Council could be seen to be demonstrating a robust financial plan, Cllr. Robertson was confident that the three-year rolling budget for revenue and a fifteen year capital plan, with a 30 year business plan for housing revenue, (currently in its eighth year,) demonstrated a good sound basis. She felt these elements, combined with an increase in the reserve funds held by the Council, had moved the authority to a much more rigorous and forward looking plan. The length of future projections exceeded the term of political office, and so could not be guaranteed, but Cllr. Robertson felt that consideration of the future resource requirements was robust yet retained the capacity to react, either to unforeseen crises, or in response to opportunities which may arise.

- 6.1.1.17 Mr. Armstrong spoke of his service's commitment to extend the three year rolling revenue plan in the near future to have a 15 year programme and strategy. He acknowledged that, for the later years, there would be an element of crystal ball gazing, although revenue commitments could be projected to reflect known demographic changes, for which information for 30 years was available. This allowed some things to be planned ahead – for example, a projected decline in school pupils would be assumed to impact on the Education, Learning and Leisure budget. In the same timescale, care of the elderly would impact on social work requirements and this would also impact on the level of Council Tax income which could be expected.
- 6.1.1.18 The Director of Finance advised the Committee that whilst he felt the Council was better placed now, compared to the early days of reorganisation, to have robust future financial plans, there were still external factors which could have a catastrophic effect on any financial management. For example, if the GAE to be announced in December 2008 were not as expected, such as a cut of £10-20M, there would be an unavoidable financial crisis. This type of external factor was impossible to factor in, unlike amendments which could be made to revenue funding where increasing fuel costs, for example, were being experienced and assessed as likely to continue. However, Mr. Armstrong was sure that, given that councillors had better knowledge of what the priorities were, and these were known by officers, the authority would be better placed to identify reductions in those areas. Mr. Armstrong believed that this contrasted strongly with the early experience where cuts focused strongly on issues such as public toilet closures and reduction in school transport provision. In the current system of financial and strategic management, any reductions, across a whole range of services, would spread the pain more widely and not result in press headlines as had been in the past.
- 6.1.1.19 The Director of Finance reported his ambition to see Aberdeenshire Council in the position of knowing the order of priority, not necessarily having to make hard choices because of financial pressures. The Council should still strive to address all, albeit more thoroughly or comprehensively at the top, but not at the cost of losing lower priorities. Mr. Armstrong did not believe an inflexible ranked priority such as operated in America's Health Service, would be beneficial.
- 6.1.2 Strategic objectives
- 6.1.2.1 From Roger White, Head of Policy and Vivienne Tegg, Corporate Policy Manager, the Committee heard of the current and planned processes to manage and report the Council's performance. Mr. White spoke of the three main tiers of strategic objectives; the Council's Vision as voiced in the Community Plan, the Council's Strategic Priorities and the Single Outcome Agreement.
- 6.1.2.2 It was reported to the Committee that the language often used in high level strategic documents was couched in general terms which were not readily

capable of being measured. This was a particular issue with the current community plan, and also had a resonance with the strategic priorities, based on the previous strategic plan which again, by including long-term measures on a big scale, made it difficult to assess the application of resources to its delivery. These issues were being addressed, in part, with work being undertaken in pursuit of the Single Outcome Agreement, working on shared, nationally agreed outcomes with specific community partners. Dr. Tegg emphasized that it was not an exact science and should be seen as distinct from routine performance management. The approach adopted was to define each overarching outcome as a series of distinct steps, which were both “do-able” and understandable, and then to measure the achievement of the outcomes linked to each step. In order to do this, a longer, measured timescale had been agreed for each step and both quantitative and qualitative information sought from sources such as the Residents Survey.

- 6.1.2.3 Mr. White and Dr. Tegg agreed that currently the linkages between the strategic objectives and the financial plan were not always obvious in presentational terms. They were aware of the work being undertaken by the Director of Finance and his staff to advance the demonstration of links, cited in the Council’s Best Value Audit as an area for improvement. Dr. Tegg spoke of work undertaken in the preparation of reports on strategic priorities which was aiming to introduce more efficiency information such as “cost per.” This was to be applied to workforce and resources, to augment and amplify any budget figures.
- 6.1.2.4 Councillors had been involved in the agreement of what performance information would be relevant to support monitoring of delivery, from an agreement of set definitions from which a set of measurements had been developed. A deliberate choice had been made to identify the different monitoring roles, between strategic monitoring and the detailed monitoring undertaken by the policy committees, with service specific responsibility to overview service provision and resource utilisation.
- 6.1.2.5 Dr. Tegg also suggested to the Committee that there was a need to balance the cost of providing information against the value of what that information actually informed. It may be that in some cases, the only measurement which could be made was that work was progressing in the right direction.
- 6.1.2.6 Mr. White drew the Committee’s attention to a difference in measurement and information between strategy and day-to-day services. On the day-to-day provision measurement of service performance, the Council had agreed that this should have a dual role – to allow the Council to be held accountable, but also as a basis to drive improvement.
- 6.1.2.7 Cllr... Humphrey had reported to the Committee an instance where the regular reporting of performance indicators (PIs) had led to the creation of three new posts in development control planning. This had had its financial implications assessed in terms of (a) provision of better service and (b) providing a career structure for staff. The latter was intended to address issues with staff

recruitment and retention as frequent vacancies had a clear pressure on dealing with planning applications in an acceptable timescale.

- 6.1.2.8 The Committee heard from the Chief Executive, Mr. Campbell, his assessment that one of the benefits of monitoring was to allow the identification of areas where the allocated funding was greater than demand. This would allow that resource to be deflected to services which were under greater pressure. He was also confident that the move to examine “outcomes” for the people and communities of Aberdeenshire was more useful than a traditional measurement of inputs.
- 6.1.3 Where next?
- 6.1.3.1 The Committee heard from the Director of Finance that having piloted in a couple of services dummy runs of how a policy led budget may look, work was continuing to be examined by both the Corporate Management Team and through the aegis of the Policy and Budget Steering Group, itself a manifestation of members and officers working together to consider budget and policies in a linked context. Mr. Armstrong felt that the strategic priorities were already very broadly expressed and that their remit would cover most council activities. The next step was the translation of strategic priorities, though a broad statement of intent, to key objectives, and then to join these together while providing more detail. This would allow actions to be determined which were SMART (specific, measurable, agreed, realistic and timed) and for which resources could then be allocated. He suggested that this would not immediately generate a whole-scale change of priorities, but agreed that over time the strategic priorities of today may need to be changed to suit the needs of tomorrow. Constant monitoring of intention and best way to resource the delivery of that intention would be required.
- 6.1.3.2 All the officers who gave evidence to the Committee spoke of the work already undertaken to align the Council’s service delivery priorities in assessing and supporting its property portfolio, and reported further developmental work to assess personnel requirements on the same basis of being a resource to deliver services to a chosen level. Several initiatives were looking at this and it was intended that, in due course, a fully developed expression linking property, people and pounds to specific outcomes of strategic priorities would be possible. This would better inform and support members in allocation decisions.
- 6.2 The Orkney Council
- 6.2.1 From Albert Tait, Director of Finance, the Committee heard of work undertaken in Orkney to make more robust strategic financial management, which had led to that Council’s identification of 6 priority areas for revenue funding, under which all resources were to be directed. These areas were (1) care for older and other vulnerable people, (2) sustainable communities, (3) planning and affordable housing, (4) transport networks, (5) school and community facilities, and (6) improved services and facilities through

increased joint working. This had greatly reduced the number of priorities from the previous 49, but had not sought to give the 6 overarching priorities ranking against each other. These areas identified were in addition to statutory obligations. The areas were widely defined but had already informed resource allocation consideration by the authority's 21 independent members. Extensive work had been undertaken to work from base budget level to link the costs of provision to choices about what was provided and to make those linkages clear – both to the public and also to inform the Councillors in making decisions about resource allocations.

- 6.2.2 Mr. Tait explained that the six identified priorities were all of equal ranking. At present there had been no impetus to attempt to rank the six as the Council currently had resources to accommodate them all. He acknowledged that in the future this may need to be reconsidered. Mr. Tait stressed that the Council's capital appraisal system did rank projects, with a scoring system based on priorities and other criteria. Much of this work was progressed by officers, with the elected members considering reports on those projects with the highest scores. Councillors then had the option to re-rank the projects to reflect their understanding of what should be the priorities for delivery.
- 6.2.3 Mr. Tait advised the Committee that the specific driver for the work was confusion faced by members as to what they should do to advance the previous 49 priorities. There had also been an element of confusion over what constituted statutory responsibilities and the feeling that all of these needed to be funded. Consultants had been employed to undertake a base budget review, detailing the statutory and non-statutory requirements and identifying where there were grey areas which needed to be considered in terms of level of service to be provided to fulfil any obligations. Members had been able to challenge whether services being provided were set at an appropriate level. Where this work had identified shortages of resources, members were now able to challenge the level of service and consider the implications of any change to this service level.
- 6.2.4 Current practice now ensured that Orkney's Corporate Management Team had an involvement before any resource allocation proposals were considered by the Councillors. This involved discussion as to whether services match priorities and also whether they were at an acceptable level. Any bids for budget increase need to be justified by the Chair of the Service Committee and the relevant Director, again to ensure that all options were being properly considered. As part of the collective budget preparation, in-house seminars were held in October, December and January to tease out budget projections, identify pressures and seek alternative consideration. This meant that when budget setting was formally agreed, it was a very short process.
- 6.2.5 Mr. Tait acknowledged that the Best Value Audit process had encouraged consideration of improvement in the budget consideration process, and commended the joint working of his authority's members in this area. He advised the Committee that work would continue to further develop Orkney's financial strategy, changing it to a wider allocation policy encompassing all three elements of resource – personnel, property and pounds.

- 6.2.6 In tandem with improvement to financial management, the Orkney Council had undertaken a review of its Corporate Plan, now aligned with its Community Plan and the source of service plans. Previous practice had worked from departmental plans up to the Corporate Plan. The revamped Service plans detailed how the Service was to deliver the Council priorities. Mr. Tait admitted that the documents were not yet refined enough to have pound notes beside each action, but work to make that connection was underway to turn the financial strategy into a Resource Allocation Strategy. Before this could happen, the Human Resource Strategy had to be developed to encompass a full evaluation of ensuring that the workforce had the right skills and capacity to deliver. This consideration would be partnered by a review of the Council's organisational set up, including issues of the retention of Directors with responsibilities for particular services, or create "Super Directors" with wider remits.
- 6.2.7 A third strand of the work focused on the development of an Asset Management Strategy, to confirm that these are being put to a useful purpose. If that proved not to be the case, disposal would be considered.
- 6.2.8 As an overall framework, tying together all the work already reported to the Committee, Mr. Tait emphasised the need to improve performance management reporting. Measurements should now be concerned with the outcome rather than the policy development, and appropriate systems needed to be established to enable this. Since the Best Value Review of Orkney a service improvement plan had been created. This allowed the development of a balanced score card for budget management and the most effective route for elected member involvement. It was crucial that members not only knew that money was being spent, but could be assured that spending money, or allocation of other resources, was meeting the objectives set. Mr. Tait stressed that while these were the key documents, in his opinion the key personnel were the elected members who had bought into the process. He believed that the budget process was no longer done to them, but by them – a significant change.
- 6.2.9 In terms of monitoring the application of budget allocated resources, Mr. Tait spoke of service committees' responsibility to come in on budget, accountable to the Policy & Resources Committee. Previously, if a committee were to overspend, the money was taken off its next year's budget allocation, which could lead to repeated overspends which were never addressed. Pleas for additional resources could be made in response in unforeseen pressures. This had led to an improvement from the previous system where budget process flexibility had led to underspends always being used, but overspends accumulating. The revised process to date had removed all overspends, including by stopping the flexibility to carry over. There had been no overspends in the current year.

- 6.2.10 The funds allocation towards the priority work had come in part from recycling £1M of “efficiency gains<sup>1</sup>”, equating to 2%. The success of reining budgets back in line, and the ability to operate without using reserves had also helped the balancing of books without the need to slash services. Mr. Tait acknowledged that it may not be practical to continue looking for efficiency gains. Future consideration may be needed of reconfiguring service delivery, i.e. looking at how services might be provided, or who could provide them. To date, any reconfiguration had been undertaken without public outcry.
- 6.2.11 The process could be seen as interlinked actions from the initial baseline assessment, through evaluation to challenging and testing the initial baseline to the confirmation of a new base budget. Only then had the new budget been calculated through prioritisation. Mr. Tait reported that the Orkney Islands Council could now, for the first time, show resources and outcome achieved. The system was not yet perfect, lacking a mechanism to show cost to provide outcome although the cost information had been established.
- 6.2.12 There would be future challenges for the authority in the year ahead, relating to ongoing development work on the Single Outcome Agreement (SOA). Mr. Tait reported that Orkney’s initial Single Outcome Agreement for the Community Planning Partnership had focused on the Council alone, concentrating on how the Council was going to deliver the SOA. Further work would look at developing shared aims and objectives with the Community Planning Partnership. Councillors and senior council officials planned to look to develop improving reporting between the elected members and community planning partners. Mr. Tait stressed that despite the need for better connections between the Council and community planning partners, the authority already had good working relationships with the voluntary sector and the Health Board, with a number of established joint projects. Good work was already going on at grass roots level which would underpin the community planning process of involvement and discussion. These had been particularly noted in the Best Value Audit, published in June 2008, which referred to innovative response to the challenges of an island authority using working with the Health Board and joint working with Community Councils.
- 6.2.13 Mr. Tait advised the Committee that Orkney’s budget was set up to plan for a three year period, and had included in its calculations a significant contingency fund to cover pressures such as pay awards, pension increases, and energy costs. There would always be calls for additional obligations to be met which may not have been foreseen in budget projections and therefore an ongoing need to review the contingency fund to see if it were able to deal with these pressures. As an example of this, Mr. Tait spoke of the implications of the Council’s agreement to provide free school meals, in tandem with the Council Tax freeze nationally agreed.

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<sup>1</sup> garnered from services improving service provision at a lower cost, with services being rewarded by retaining a percentage of the saving made.

6.2.14 Information was provided to the Committee of the future strategic considerations of the Orkney Islands Council. Mr. Tait advised the Committee that the capital plan still included items which the authority would like to do if resources became available. It was important to acknowledge demand and aspiration in addition to those future projects which were agreed with indicative resource allocations made against them.

### 6.3 Other Scottish local authorities

6.3.1 It proved unusually hard to identify witnesses from other local authorities to give evidence to the Committee. Most contacted suggested that as it was not a term they had used, or a philosophy which had been discussed with their own elected members, it would not be appropriate to give evidence to the Committee. Had the topic chosen been more clearly focused on sound strategic and financial management, this would have been less controversial. Documentary evidence was seen from North Lanarkshire Council which made more evident links between financial planning linked to the delivery of strategic objectives of that Council.

### 6.4 English authorities

6.4.1 The Committee heard from its external expert, Paul McMenemy, of work which IPF had undertaken with several Councils. It was explained that some English authorities were further down the road in demonstrating policy led budgeting, often prompted by a reduction of resources, (people, pounds and property,) to deliver all services.

6.4.2 Correspondence with the Director of Finance at Harrow illustrated this very clearly – showing that for each area of service delivery, given a prioritised ranking, an explicit funding allocation had been linked. Teignbridge Council also had developed a list of main priorities and could demonstrate precisely and publicly the audit trail of allocation of resources, from initial funding decision, linked to costed outcome to fulfil the strategic priority.

## **7 HOW EFFECTIVE IS ABERDEENSHIRE IN POLICY LED BUDGETING?**

- 7.1 Although this question formed part of the original terms of reference for the Investigation, it soon became obvious that there was no clear definition of what policy led budgeting should be. This meant that the Committee instead heard detailed evidence about current procedure, which may be policy led budgeting, was, and of plans for this to develop.
- 7.1.1 The Committee heard from representatives of Audit Scotland an assessment of how Aberdeenshire's "building blocks" of policy led budgeting components were currently perceived.
- 7.1.2 Ms. Mitchell-Knight suggested that it was often not practical for councils working to achieve effective policy led budgeting to start with a blank sheet – this would be a large exercise. As an initial step, she thought that councils should review existing budgets to establish the costs attributed to service activities. This would ensure that when changes to services were considered, the resource implications then need to be understood and budgets revised accordingly. Progress need not be slow; Audit Scotland believed that with its current three year budgets already under annual review, Aberdeenshire had the opportunity to make changes to the budget formulation process as early as the 2010/2011 budget. Regardless of when the first policy led budget was in place, its establishment would then allow it to be revised on an incremental basis, if to apply it in a single step was not possible.
- 7.1.3 The representatives of Audit Scotland suggested that initial steps may include work to make councils' strategic plans encompass both the statutory requirements and the other, more policy led, services. All priorities would be expected to be linked to outcomes and then linked to the financial plans, and submitted to elected members for decisions to be taken on at least an annual basis.
- 7.1.4 In terms of Aberdeenshire Council's current performance, Ms. Mitchell-Knight acknowledged that a framework and strategic priorities were in place, but stressed that the link to the service plans and budgets needed to be developed. Good work had already been done to link the corporate priorities and this work had identified some issues that need to be resolved. Aberdeenshire now needed to identify its core activities and where these sat in the structure of the budget. The focus should now be on bringing forward improvements in linkage. Ms. McGiffen suggested that performance management was one of the building blocks for policy led budgeting which had been identified in Aberdeenshire Council's Best Value Audit as a matter requiring attention. As the Council moved forwards, Audit Scotland would look to see a planning framework demonstrated which linked performance management with financial aspects of decision making.
- 7.1.5 Ms. Mitchell-Knight advised the Committee that the second round of Best Value Audits would consider financial management and strategy an essential part of corporate governance. Financial planning for the medium to long term and the budget process to back this up would be required. Ms. McGiffen

stressed that the audit would review information available to elected members in order to facilitate their decision making. It would also review the process used to take decisions and how this process was communicated, before considering how policy decisions were implemented. The process of audit would not question the policy decisions themselves but the structures which supported their making.

- 7.1.6 From Paul McMenamain, External Expert, the Committee heard of his assessment of the Council's current strategic financial management and operation, and also of his appraisal of future work planned to develop this further.
- 7.1.7 Mr. McMenamain spoke of being impressed at the current way in which Aberdeenshire approached its financial management, and the methods by which members were involved fully in setting the budget and agreeing strategic priorities. It was felt that more should be done to provide linkages between these different considerations, to make more obvious the golden thread allocating resources to the delivery of service outcomes. "Many features exist, but they are not under one umbrella". In determining the budget, it was still a "product taken to the table" and it could be more difficult to challenge at that point. The work of the Policy and Budget Steering Group was seen as an evolving tool which allowed administration members to have more input into the earlier stages of the process. The availability of finance staff to work with non-administration members on any alternative budget allowed all members access to the budget considerations. "As an elected member you have a duty to scrutinise and challenge the use of Council finances... there is a strong basis for this in Aberdeenshire and there are plans in place to address the weaknesses." Member competency, he felt, was evidently "fit for purpose", but some additional training would be required, particularly for those Councillors who were members of the Policy and Resources Committee, the Scrutiny and Audit Committee and the Policy and Budget Steering Group. This should concentrate on the role of members in financial planning and management processes and the challenge they exercise over budgets, services and service levels.
- 7.1.8 The role of the Council's Strategic Management Team in ensuring that budgeting was corporate was commended by Mr. McMenamain who believed that the Management Team also appeared to work and plan corporately. Evidence heard clearly demonstrated that there had been a clear reduction in "silo" thinking over the last couple of years.
- 7.1.9 Mr McMenamain stressed that part of the purpose of any strategic financial planning and strategy would be to enable a resourced plan for Aberdeenshire Council's objectives and priorities. The real work, he believed, in relation to priority led budgeting would relate to robust option appraisal, where all existing and potential options for service and budget realignment would be appraised against robust and fully informed success criteria. Again, from the evidence heard, Mr McMenamain was confident that processes had already been established, and were to be amplified, to meet this need for option appraisal.

- 7.1.10 Mr McMenamain felt that in assessing sound strategic financial management, there should be clear evidence of (a) linkage between financial and strategic planning and (b) that there were adequate controls in place. This was an area where witnesses spoke of work in progress to develop better expression of the links. Linkage between financial planning and service / directorate planning required greater emphasis than at present, focusing on the next level down below strategic priorities.
- 7.1.11 The Council needed to work harder to link its plans, (including its financial plan,) to wider community outcomes, including the Single Outcome Agreement and national priorities, such as the Scottish Government concordat. There also needed to be more demonstrable partnership financial planning, for example between Social Work and Health, in the delivery of Single Outcome Agreement outcomes.
- 7.1.12 Mr. McMenamain felt that the lack of a comprehensive and cohesive financial strategy document did not do the Council justice in regard to the work it had already undertaken in its long-term strategic financial planning. Many processes appeared to be in place and work undertaken, but there was no demonstrable evidence of this. Audit Scotland had emphasised that they would seek such evidence as a "Financial Strategy as a key element of corporate governance". Beyond this "tick box" requirement, a financial strategy would enable the redirection of resources to follow policies which may change in light of the work undertaken in preparing it. It was felt that long-term financial modelling would undoubtedly highlight declining Education and increasing Social Work demographic trends. While the Council's Policy and Resources Committee had already realigned some resources in this respect, a more structured and transparent model should be established.
- 7.1.13 Revenue Budgeting in Aberdeenshire was assessed as being still heavily incremental. Mr. McMenamain thought that greater resource realignment would be a challenge for the Council to achieve, but was required. At present, any challenge of budget provision tended to be on items of growth, savings and budget pressures. Challenge and review of budgets, consideration of alternative delivery models and a push to a leaner, fitter delivery of services would be required to address future financial pressures. The Council's approach to Kaizen and Kaizen for Daily Improvement had laid the foundation for an initial infrastructure of corporate performance management, but this needed to be more fully developed. This would also allow linkage between financial management and performance management to be improved. The budget book, for instance, currently contained no reference to outcomes and strategic priorities made little reference to finance and other resources. Mr. McMenamain felt that performance management could not adequately reflect financial management performance with accountability being mainly for qualitative outcomes. These improvements were essential if the Council were to be able to provide evidence that not only does it budget on a policy-led basis, but that it finances and manages the delivery of outcomes which support the achievement of its strategic priorities.

- 7.1.14 The funding of policies over the medium to long-term was a concern to Mr. McMenemy. The Council's strategic priorities were self-admittedly ambitious and at present unaffordable, even in the next few years. Whilst a 15 year capital plan and a 30 year Housing Revenue Account business plan were admirable, to provide assurance over policy led budgeting they needed to be demonstrably affordable and sustainable. In relation to the capital plan, this was simply not the case as there was a large funding gap beyond year 4.
- 7.1.15 In summary, Mr McMenemy felt that Aberdeenshire seemed to be on a journey where it had come a long way, but still had some way to go. "By fully involving elected members in the process along the way and incorporating their views into the definition and appraisal process, then ownership, acceptance and even motivation in regard to the new priority-led delivery should hopefully ensue".

## **8. CONCLUSIONS AND RECOMMENDATIONS**

In considering all the evidence presented in background papers and through witness evidence, the Committee is assured that although the term “policy led budgeting” appears in multiple Best Value Audit reviews, there is no single clearly understood definition of what it is, and how it should be demonstrated in a Council’s strategic financial management.

Evidence of what sound financial management might look like and examples of how the building blocks of this were already in place in Aberdeenshire was reported by several witnesses – internal to the Council and external. The witnesses expressed great confidence in the current and proposed procedures of sound financial management. The Committee heard in detail of the works towards sound and forward thinking, linking resource allocations to the Council’s vision for delivering services in Aberdeenshire to be the best they could be, within funding available, for the people of Aberdeenshire.

It is understood that a black and white correlation between funds available and a pre-determined ranged order of spend priorities might need to be applied in times of harsh financial pressure. The Committee feel that credit should be paid to both the officers and elected members of the Council that, despite limiting funds, great efforts have been made to provide and maintain services to the communities of Aberdeenshire. If policy led budgeting is to make real sense for the Council, it should not be the case of stopping what the authority is currently doing, but rather that informed choices are made to redirect any additional resources to clear top priorities, having decided levels of relative importance.

Witnesses spoke of the direction of travel in pursuit of service delivery and said funding challenges should only impact on the speed of travel and not alter the end destination. This was reflected in the Council’s future financial plans, repeatedly labelled as “aspirational”, and echoed in the response from senior officers that it was better to aim high and not fully achieve all, than set lower targets which were easier to accomplish but delivered less. The Committee is keen that the aspirations of Aberdeenshire continue to be built into forward planning for the delivery of strategic priorities as expressed in the Council’s capital plan, and not merely voice known deliverables. This should not be seen as unrealistic in any assessment by Audit Scotland.

In terms of revenue planning, the Committee commend the intention to extend the current three year projection to a 15 year revenue budget. It is acknowledged that the use of future demographic projections does necessitate a degree of crystal ball gazing, and any plans must have built in flexibility to be able to respond to changes in demand, or changes in the means of providing for that demand. The Committee feel that the recent work linking the Council’s capital commitments to its asset management plan should be commended, as it has afforded the exploration of closer expressed links between desired outcome and resource allocation. More should be done to encourage cross linkages, whether this means the creation of a single document which expresses all budget features as a channel for delivery of identified priorities, or an expression of the priorities with indicative costs, (as was seen in the documents produced by North Lanarkshire Council,) or merely more work to ensure

that the complementary information is provided on both budget and strategic priority at times of decision making or performance monitoring. If a single document were produced, it may be inaccessible by volume alone and so not be effective. If this is not possible, it may be helpful to consider the creation of an overarching financial strategy document which identifies where each type of information may be found within existing documents.

During the last wrap up session, the Committee was shown an example of a budget report where the headings were presented and linked to themes of strategic priority. Whilst the example was a working document and not fully developed, the Committee is clear that this is the way forward to clarify linkages between resource allocation and priority of service delivery and would commend the use of this proforma for presentation.

The Committee feel that to pursue informed decision making and the pursuit of strategic priorities, there is a need for qualitative as well as quantitative measures to be considered. Although well aware that elements of subjectivity may intrude, it is felt that this is necessary in a performance management framework which seeks to link resource allocation to priorities. It is felt that a review of currently reported Performance Indicators (PIs) may focus overmuch on measuring what can be counted, mainly because it can be counted. The move to better evaluation would also be progressed with increased benchmarking of "unit costs", both within and outwith Aberdeenshire Council. Performance indicators, at their best, are acknowledged as a good discipline to focus attention on the application of resources to deliver targets. They should be used to look at trends or areas of concern, where even a traffic light system of progress, delay or halted would be a trigger to looking at issues. Some current PIs may appear irrelevant, for example, the monitoring and reporting of grants awarded by Area Committees, but they are generally support evidence which may lead to an alteration of current practice, for example the poor performance in dealing with development control planning applications highlighted and supported a request for additional staff resources to be applied. It should be stressed that any additional information should not be provided at a cost greater than its value – in some areas, an assurance of direction of travel would be enough.

The Committee is assured that the current structures of Aberdeenshire Council provide robust financial scrutiny by all members. The entire Council was involved in the agreement of the Single Outcome Agreement, and members are afforded opportunity to input to resourcing decisions at area and policy committee level. This wide ownership is seen to inform a robust, well rounded outcome, part of the required infrastructure and processes to enable the further development of strategic financial planning. The Council has a real strength in this political maturity.

It is accepted that the political make-up of the authority will shape the ultimate process, and that some groups will have pre-determined policies on which they were elected which will impact on the decisions made – this is a factor of democratic accountability. However there is clear evidence, when looking at the huge areas of broad agreement on budget decisions, that the prime focus of all members is on providing for the communities of Aberdeenshire – opposition challenges, when they occur, relate to a very small percentage of the overall budget.

It is apparent from the evidence heard that members are already able to demonstrate sufficient understanding and knowledge to make decisions, asking questions about commitment of resources to fund policies and repeated involvement with decision making at various stages. It is also apparent that members of each political party feel that information is available to them all, equally. While the Policy and Budget Steering Group's prime function is to support the translation of the administrative groups into service delivery, there may be limited value in extending its membership to involve all members. Individual members already have free access to any information and may not wish to align themselves too closely to the delivery of another party's manifesto promises.

There was discussion of the freedom afforded to local authorities to spend on particular outcomes, some of related to the limited discretion allowed to councils which are required by statute to provide services, but there the Committee would urge that there are variables which should be routinely considered even within the definition of "statutory". There may be 32 different interpretations of what this may mean, and it may alter for each council, depending on local options and the level of provision which had been agreed to be provided. This makes increasing use of benchmarking and the determination of unit costs crucial.

In terms of challenge by officers of the budget bids, there appears to be an effective Corporate Management Team in place – and little "silo" thinking which would be a barrier to self challenge in bids for resources. The Committee believe that the Capital Plan Group ensures an additional and appropriate challenge, across services and on a criteria scored assessment of new projects proposed – which are then reported to the Council's Policy and Resources Committee as an officer assessment for consideration by elected members.

The Committee believe that the Council's budget is robust; processes allow ongoing challenge at various levels/ stages; regular budget monitoring counter balances inherited budget areas and that stewardship is strong. This provides a base to achieve good strategic financial planning. A matter for debate is whether the costs involved in providing a zero base budget could be justified and provide real benefits, or whether the current provision, assured and benchmarked where possible, should just roll forward. It could be that the process would merely confirm current stances. This is an area where the view of the Management Team and Finance Officers may be worthy of consideration. As part of the progression towards any ultimate position, the Committee feel that costed service plans should be established as a matter of priority, with the costs including all resource requirements – pounds, property and people – needed to deliver the expressed outcomes.

Although the Council does not voice its financial strategy in a single document, the Committee is assured that there is sound financial management, and a great awareness of future requirements. The Council has considered its reserve position, and extended advance planning from a base line period, to try and estimate what resources would be required to sustain that level of service provision in future years. This should be considered another building brick towards even more robust strategic financial management. The Committee is very clear that the implementation of desired policy has been achieved to a significant and noteworthy extent in Aberdeenshire, in spite of a substantial degree of under-funding: this is largely due to

the budgetary control and sound treasury management of the Finance Service, working with senior officers of all services.

The Committee would echo the assessment of the Director of Finance on the route to pursue more obvious policy led budgeting and the prioritisation of objectives. It believes that all the major building blocks are already in place, or being pursued, but may need alignment. To tie all the existing processes and, in particular, documentary expressions, together needs a commitment of senior managers across every service of the Council – and to do this would require the political will of the Council. The work would need to include tying the strategic priorities to core activities, then tying these to existing budget lines. The process would also require an analysis of any anomalies, gaps and overlaps, which may not express misdirected spend but rather identify a need to adjust the core activities as they are voiced. The Committee accepts officers' view that the process is not new and has already been established in skeleton form – all that is required is the setting aside of time to implement what would undoubtedly be a huge piece of work. The Committee would urge that the time allocation be made to allow these pieces of work to be brought forward, to make clearer the linkages which they believe are already being made. These would then be more publicly challengeable and demonstrate how effective and efficient Aberdeenshire Council is in delivering its vision of the best services, within finite resources, to the people and communities of Aberdeenshire.

In summary, the Committee would recommend the undernoted:-

- that clear links between the stated outcomes of the Single Outcome Agreement and the Council's strategic priorities be expressed in all policy and budget documents to enable demonstrably policy led budgeting in action for the 2010/2013 budget process;
- that a financial strategy document be established, in early course, as an overarching statement of how the other plans and budgets fit together and should be considered in tandem;
- that no immediate work be done to review all service budgets on a zero base budget format, as this will not be of any great value;
- that actions arising from the agreed strategic priorities be confirmed and resources allocated to them as the next stage;
- that officers consider and report to councillors a method for comparing priorities across the strategic outcomes, to better inform allocation of resources, acknowledging that this is ultimately a political decision to be taken by members, to help establish an awareness of order of priorities and assist with the making of hard decisions in times of financial pressures;
- that the work on workforce strategy and infrastructure resource tracking to delivery of strategic priorities be pursued and resourced to allow a fully developed expression linking property, people and pounds to specific outcomes of strategic priorities which would better inform and support members in allocation decisions;

- that the strategic priorities be reassessed regularly to ensure that every service delivery is aligned within the Council's voiced objectives;
- that the regular review of strategic priorities inform and improve understanding of the financial management of Aberdeenshire Council by establishing the links between strategic priorities and resource planning, including greater awareness of benchmarking and performance management;
- that appropriate action be taken to support the further training for elected members in financial management and the challenge they exercise over budgets, services and service levels; and
- that the Council refute Audit Scotland's stance that an authority's budget will inform its policy decisions, as the application of policy led budgeting will rather demonstrate a budget led by policy decisions.

**9. THANKS AND INVITATION FOR FEEDBACK**

- 9.1 The Scrutiny and Audit Committee would like to record its appreciation of the co-operation and assistance it received from internal and external witnesses, the contribution made by the independent external expert, Paul McMenamin, of the Institute of Public Finance (IPF). The Committee would also wish to acknowledge with grateful thanks the additional support and guidance provided by Alan Wood, Corporate Finance Manager, in this investigation.
- 9.2 Each investigation that is undertaken is part of a learning experience for the Committee and it would welcome any feedback or comments from participants or interested individuals on the investigation process and this report.

**Cllr. Peter Bellarby**  
**Chair**  
**Scrutiny and Audit**  
**Committee**

**Cllr. Amanda Allan**  
**Vice-Chair**  
**Scrutiny and Audit Committee**

**APPENDIX A – INVESTIGATION BRIEF**

<b>Subject to be reviewed – Policy-led budgeting.</b>	<b>Investigation No</b>	<b>17</b>
<b>Scrutiny and Audit Committee – Investigation Brief</b>		
<b>Purpose and objectives of investigation</b>		
<p>1). To consider the approach adopted by Aberdeenshire Council in terms of policy led budgeting;                  2). To assess the amount of discretion allowed to local authorities in responsiveness to changes in prioritisation of spending;                  3). To determine how meaningful policy led budgeting can be, given the Council’s statutory obligations;                  4). To compare Aberdeenshire’s approach to policy led budgeting to that of other Scottish authorities; and                  5). To examine the effectiveness of current policy led budgeting.</p>		
<b>Background documents/ evidence/ research</b>	<p>Budget monitoring reports to Policy &amp; Resources Committee;                  Reports to Scrutiny &amp; Audit Committee 2007/08 on policy led budgeting;                  Capital and revenue budgets 2008/09;                  Finance Service Plan;                  2006/07 Annual Accounts;                  2007/08 Annual Audit Plan (Audit Scotland);                  Strategic Priorities documents;                  Single Outcome Agreement;                  Council vision;                  Discussion papers on policy led budgeting models;                  National documents – including Audit Scotland reports;                  Policy Budget Steering Group papers/ briefings;                  Extract Best Value Review of Aberdeenshire;                  Asset Management Plan;                  Performance Framework documents.</p>	
Witnesses to be invited to provide evidence	<p>External – Other local authorities/ Audit Scotland.                  Chief Officers – Chief Executive; Director of Finance; Directors of Housing &amp; Social Work and Transportation &amp; Infrastructure; Head of Corporate Policy and Improvement; Corporate Policy Manager; Chair of Capital Plan Group.                  Councillors – Cllr. Anne Robertson; Cllr.s John Cox, Marcus Humphrey and Joanna Strathdee.</p>	
<b>Site Visits</b>	n/a.	
<b>Consultation process</b>	n/a.	
<b>Trade Union Contrib.</b>	n/a.	
<b>Project Team (officers)</b>	Jan McRobbie, Chief Executive Service and Alison Cumming, Law and Administration.	
<b>Other estimated costs</b>	.	
<b>External expert</b>	Paul McMenamin, IPF.	
<b>Investigation Timetable</b>	October - November, 2008.	

**APPENDIX B – INVESTIGATION PROGRAMME AND WITNESSES HEARD**

<b>Date</b>	<b>Witness</b>
Wednesday 1 October	<b>Lead Service Briefing/ information provision</b> Charles Armstrong, Director of Finance; Alex Stephen, Principal Accountant (Policy and Performance)
	<b>External Expert Briefing</b> Paul McMenamin, Institute of Public Finance.
Wednesday 8 October	<b>Evidence Gathering Session</b> Ian Fowell, Garioch Area Manager/ Capital Plan Group Chair.
	<b>Evidence Gathering Session</b> Cllr. Joanna Strathdee, Leader, SNP Group; Cllr. John Cox, Independent Group.
Friday 31 October	<b>Evidence Gathering Session</b> Anne Robertson, Leader, Aberdeenshire Council.
	<b>Evidence Gathering Session</b> Colin Mackenzie, Director of Housing & Social Work.
	<b>Evidence Gathering Session</b> Roger White, Head of Corporate Improvement and Policy; Vivienne Tegg, Corporate Policy Manager.
	<b>Evidence Gathering Session</b> Alan Campbell, Chief Executive.
Friday 7 November	<b>Evidence Gathering Session</b> Iain Gabriel, Director of Transportation & Infrastructure.
	<b>Evidence Gathering Session</b> Fiona Mitchell-Knight, Assistant Director of Audit Services; Lesley McGiffen, Best Value Portfolio Manager; Colin Morrison, Senior Auditor, Audit Scotland.
	<b>Evidence Gathering Session</b> Albert Tait, Director of Finance, Orkney Council.
Wednesday 12 November	<b>Evidence Gathering Session</b> Charles Armstrong, Director of Finance.
	<b>Evidence Gathering Session</b> Cllr. Marcus Humphrey, Leader, Conservative Group.
	<b>Initial Wrap Up 1.</b>
Friday 21 November	<b>Wrap Up 2.</b>
Wednesday 3 December	<b>Wrap Up 3 – with external expert</b>

Thursday 29 January	<b>Wrap Up 4.</b>
Friday 1 May	<b>Wrap Up 5.</b>
Thursday 14 May	<b>Wrap Up 6.</b>
Friday 29 May	<b>Wrap Up 7.</b>

## **APPENDIX C – KEY LINES OF ENQUIRY (KLOE)**

### **LEAD SERVICE:**

1 Finance

### **WITNESS GROUPS:**

2 Other Local Authorities  
3 Audit Scotland (Best Value Audit / Public Reporting)  
4 Chief Executive  
Service Directors (Transportation & Infrastructure / Housing & Social Work)  
6 Head of Policy  
7 Chair of Capital Planning Group  
8 Members

### **SUGGESTED KEY LINES OF ENQUIRY:**

A Outline of Strategic Financial Planning in Aberdeenshire / Your Council  
B Extent of cohesion between Financial and Strategic Planning  
Robustness of Financial Baseline analysis assuring the Council's Financial  
C Standing  
D Adequacy of Arrangements for Review and Challenge of Budgets  
Appropriateness of Degree of Member Involvement in Strategic Financial  
E Planning  
F Robustness of Process to Identify and Measure Savings  
Definition of Policy-Led Budgeting and its Component Process Features /  
G Outcomes

### **ALLOCATION OF KLOEs to WITNESS GROUPS:**

Group 1 A B C D E F  
Group 2 A B C D E F  
Group 3 G  
Group 4 A B E  
Group 5 A B D E F  
Group 6 A B E  
Group 7 B C D E  
Group 8 A B C D E

## **APPENDIX D – GLOSSARY OF ABBREVIATIONS USED**

IPF	The Institute of Public Finance
CIPFA	The Chartered Institute for Public Finance and Accountancy
PBSG	Policy Budget Steering Group
SOA	Single Outcome Agreement
SCOTS	Society for the Chief Officers of Transportation in Scotland
GAE	Grant Aided Expenditure
CPG	Capital Plan Group
SMART	Specific, Measurable, Agreed, Realistic and Time