



# September 2008

## Overview and Scrutiny Committee

### Interim Report of the Scrutiny Standing Review of the Budget

#### Members of the Standing Review

##### **Councillors**

Cllr Stanley Sheinwald (Chairman)

Cllr Brian Gate

Cllr Thayya Idaikkadar

Cllr Manji Kara

Cllr Eileen Kinear

Cllr Anthony Seymour

Cllr Dinesh Solanki

Cllr Jeremy Zeid

Cllr Yogesh Teli

##### **Co-optees from the Open Budget Panel**

Elizabeth Hugo

Cliff Lichfield

Philip Morrish



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## **CHAIRMAN'S INTRODUCTION & ACKNOWLEDGEMENTS**

This is the first report from the Standing Scrutiny Review of the Budget which has been meeting now for almost a year. The review has been set up to support the council in the development of its longer-term financial plans, the scope for the review is attached as Appendix One. The group has sought information and advice from a range of sources in an attempt to support the council to develop a more robust approach to budget setting. We have received excellent input from a range of other boroughs and from various technical experts. A full list of acknowledgements is given at the end of this introduction.

It is proposed that this review will run for the length of the current Medium Term Financial Strategy, that is for 3 years. As such this initial report identifies a number of the group's early findings, there is still much to consider and a further work plan for the group is attached as Appendix Two [to be attached]

On behalf of the group, I would like to express our thanks to the following people who have supported our deliberations:

- Cllr David Ashton, Leader of the Council
- Myfanwy Barrett, Director of Finance
- Andrea Durn, Service Manager Corporate Performance
- Barry Evans, Group Manager , Corporate Finance (no longer with the council)
- Mala Kripalani, Service Manager, Council Improvement Programme
- Stephen Lord, Director of Local Government Finance, London Councils
- Michael Lockwood, Chief Executive

Cllr Stanley Sheinwald  
Chairman Standing Scrutiny Review of the Budget

## **BACKGROUND**

The Standing Scrutiny Review of the Budget was established at the end of 2007 to enable scrutiny to take a longer-term view of the budget setting process in Harrow. For many years, scrutiny's engagement in the process was to receive information from the portfolio holder and Director of Finance at a set meeting of the committee. This did not provide a real opportunity to contribute to the budget or indeed to offer a robust challenge to the assumptions behind it.

In 2006/7, the Overview and Scrutiny committee commissioned a challenge panel to consider the budget preparations. The allocation of 3 hours specifically to the consideration of the budget, was a considerable step forward in terms of financial scrutiny but it was still lacking in real understanding and challenge from which the budget setting process would benefit.

Thus, in October 2007, the Standing Review of the Budget came into being with a specific remit to:

*'support the council to develop a robust budget that is prepared in the full understanding of the changing local government financial environment and the changing policy environment for service delivery'*

The original scope for the review is attached as Appendix One.

The group has been meeting since October 2007. The membership comprises:

*Councillors:*

Cllr Stanley Sheinwald, (Chairman)

Cllr Brian Gate

Cllr Thayya Idaikkadar

Cllr Manji Kara

Cllr Eileen Kinnear

Cllr Anthony Seymour

Cllr Dinesh Solanki

Cllr Yogesh Teli

Cllr Jeremy Zeid

*Open Budget Panel members:*

Elizabeth Hugo

Cliff Lichfield

Philip Morrish

At its inaugural meeting the group decided to shadow the phasing of the budget setting process and to take a longer-term perspective on the process, perhaps supporting the council to address issues such as demographic changes, partnership working and fees and charges. The group also agreed that its early considerations would focus on the processes that the council uses to determine the budget. In order to do this meetings were planned to consider:

- The council's budget and service planning process
- The council's service review processes
- Shared services

In order to learn from the experience of other boroughs, it was agreed that members of the review group would visit other boroughs to discuss with councillors and officers, the process by which their budgets are set. Boroughs that appear to have overcome similarly difficult budget positions. have similar characteristics to Harrow or which have a perceived excellent financial reputation were specifically targeted.

## **Standing Scrutiny Review of the Budget Interim report September 2008**

Ealing, Hillingdon, Hounslow and Wandsworth Councils were selected and have been visited by members of the review group. A visit to Hackney is planned for later this year.

Specific case studies are also planned to ascertain how effectively services are able to analyse their budget performance and construct effective budgets. Special Educational Needs Transport has been identified as an appropriate service to consider. This work will be undertaken in the next phase of the review.

## **OBSERVATIONS**

One of the critical elements of the review group's work in its initial phase has been the comparison with other boroughs. The visits resulted in the identification of best practice from which the review group felt that the council might learn. The following were identified as key components of a robust budget setting process:

- Clear political priorities
- Clear political leadership and control
- Political stability
- Clear process for service and budget planning
- Clear process for monitoring
- Regular monitoring
- Robust challenge to budget assumptions – star chambers, zero-base budgeting
- Capacity to analyse performance
- Management responsibility for budget performance
- Centralised and accountable finance department – dangers of 'going native'
- Skilled finance staff
- Constant process of budget setting
- Robust challenge to the facilities portfolio

Full details of the visits to other boroughs is included in Appendix Three.

These findings were discussed with the Leader, Chief Executive and Corporate Director of Finance. From these discussions, and the other evidence received in the first phase of the review, the group offers the observations outlined in the paragraphs below.

The Chief Executive's commitment to the improvement of the organisation is clear and his analysis of the organisation's weaknesses is welcome. During his first year with the organisation he has been able to identify a number of barriers to improvement and his '9-point plan' promises to address these barriers. The plan focuses on;

- Determining priorities
- Sorting the finances out
- Getting the right organisational structure
- Getting the right people
- Skilling up the people
- Improving communications
- Improving performance management
- Developing a culture of innovation
- Improved first impressions

The Council Improvement Programme, which has evolved from this 9-point plan and a range of subsequent inspections which the council has undergone, has been championed by the Chief Executive as a major vehicle for cultural change across the council.

The group however, remains concerned at progress towards the achievement of the change and the subsequent delivery of improvements for local people. A significant and swift change in the culture of the organisation is absolutely essential if the ambition to be one of the best in London by 2012 is to be achieved

## **Recommendations**

1. *The review group recommends that progress towards the achievement of the '9-point plan' (and subsequent Council Improvement Programme) is monitored by the scrutiny function.*

### **Clear Political Priorities**

The Chief Executive (CE) observed on arrival at the authority the need for the organisation to identify its priorities. He had observed that the council was trying to do too many things, and consequently, not doing any of them very well. One of the cornerstones of the CE's 9-point plan is the need for the council to be clear on its priorities. The review group was advised that the council has consequently agreed a vision, key priorities flowing from this vision, reviewed on an annual basis, and a number of highly visible flagship actions. .

Councillors and officers are now much more collectively engaged in discussions on the council's priorities with regular 'awaydays' held at which these are discussed.

## **Recommendations**

2. *The review group welcomes this clarity of purpose and direction and in accordance with recommendations relating to service and budget planning will seek to contribute to the determination and monitoring of these objectives.*

### **Clear Political Leadership and Control/Political stability**

Whilst recognising the importance of leadership and political stability, this is not an area in which the standing review wishes to comment given the importance of scrutiny's political independence.

### **Clear processes for service and budget planning**

The group received evidence that over the last 18 months, the council has established a highly co-ordinated service and budget planning process and has aligned the service and budget planning processes for the first time. This process, alluded to above ensures that there is a clear context within which the council's services and budgets are developed and clear points of accountability within this process exist. However, the process is still bedding in and the review group would like to undertake further work with services to understand how closely the process is being followed and how accurately it is able to analyse needs and plan services and budgets. In this context, and referred to in more detail below, the group would welcome further consideration of a zero-based budgeting process.

The group is also concerned to ensure that there is an opportunity for scrutiny to consider both the corporate plan and Directorate service plans at the same time as contributing to the consideration of the budget. At one of its early meetings, the group agreed a process for scrutiny's engagement which will hopefully ensure more integrated engagement. The proposal proposed by the group is outlined below.

The establishment of the Performance and Finance scrutiny sub committee and this standing review of the budget are enabling scrutiny councillors to develop much greater knowledge of the council's in-year financial performance and the processes used to address any difficulties in-year and also to consider the council's longer-term approach to budget and service planning. The intelligence generated through these processes should be used to provide the context for consideration of the annual budget at a 'special' meeting of the Overview and Scrutiny committee, which will consider the 'single' item of the corporate plan and the budget. A brief should be prepared by the Service Manager, Scrutiny, in consultation with the Chairman and



Vice Chairman of the Performance and Finance sub committee and with members of the standing review of the budget to outline:

- those specific areas where there appear to have been significant issues in terms of in-year financial performance
- the findings of the standing review in terms of the budget and service planning process and any concerns relating to the capacity of the authority to develop longer-term financial solutions to emerging issues.

This briefing paper should also include information from the Lead Scrutiny councillors regarding any emerging issues of financial concern yet to be considered by the P&F sub committee.

This information could in this way provide a contextual basis for preparation of challenge to the executive's annual budget at this special O&S meeting and thus generate lines of enquiry, hotspot issues to be raised with the Deputy Leader and Corporate Director Corporate Finance. Having analysed this information, scrutiny councillors may also wish to consider inviting additional portfolio holders and corporate directors where there issues have arisen during the year that they would like to investigate.

It is anticipated that adoption of this process will ensure a much more strategic and robust contribution from scrutiny to the council's budget setting process.

### **Recommendations**

3. *Further work is undertaken to examine the robustness of the service and budget planning process, using case studies in particular service areas*
4. *The process for scrutiny's engagement in the service and budget planning as outlined is agreed and referred to the Executive for comment*
5. *That the opportunity for Overview and Scrutiny to contribute to / comment on the development of Directorate service plans be identified and built into the Overview and Scrutiny work programme*

### **Clear process for monitoring/Regular monitoring**

The group received evidence from the Leader, Chief Executive and Director of Finance that the council has improved its budget monitoring processes, though it is still felt that further improvements can be made. Improvements have included the introduction of quarterly improvement boards for each area of the council's business and Corporate Strategy Board performance mornings

These processes have all raised the profile of management information and the importance of the council collecting, analysing and acting upon this information in order to improve performance. However, the processes are still bedding in and, whilst the review welcomes their introduction, members would seek reassurances regarding the robustness of the process and will monitor this via the Performance and Finance sub committee and the annual service and budget planning process at Overview and Scrutiny committee

Both the Chief Executive and the Leader provided the group with evidence of their view of the importance of the accountability of individual officers and portfolio holders and both outlined the processes by which they now hold their respective colleagues to account for the delivery of agreed targets. The group welcome this significant improvement to managerial – both officer and political – control.

### **Recommendation**

6. *The group recommends that both the Performance and Finance sub committee and the Overview and Scrutiny committee contribute to the monitoring process and that particular attention is paid to the quality of information being presented through the management information system and how it is being acted upon. In this context the possible investigation of the performance management process being considered as part of the Performance and Finance sub committee work programme for the forthcoming year might support the monitoring process.*

### **Robust challenge to budget assumptions – star chambers, zero-base budgeting**

During visits to neighbouring boroughs, it became clear that robust, political and managerial challenge to assumptions behind individual budgets is an excellent way to provide greater budgetary control. The process whereby budgets are simply inflated on an annual basis to cover inflation means that the purpose of services being provided, their relevance and efficiency and the value for money they provide remain unchallenged. Some of the process that have been identified as outlined above are a step in the right direction in terms of challenging purpose and ensuring local need is being reflected in service delivery. However, the group was interested in the process of zero-based budgeting that has been adopted in a number of other boroughs. Until the organisation is able to assess need, prioritise this need and identify effective means of meeting these needs, the council's budget and service provision will remain unchallenged and unchallenging. In this context the group will be paying further attention to the shared services agenda and subsequent reports will include recommendations in relation to how the council can meet local need in partnership with other authorities, other public sector partners and with the 3<sup>rd</sup> sector.

### **Recommendation**

7. *The council should investigate the potential of introducing a zero-based budgeting process to ensure that the council's limited funds are being effectively targeted at real need and that the most effective means of meeting these needs are adopted.*
8. *Further work to investigate the potential offered via shared services is undertaken by the review group in its second phase*
9. *Learning from this review and the review 'Delivering A Strengthened Voluntary and Community Sector' is shared to ensure that the council makes the most effective use of its budgets and partnerships*

### **Capacity to analyse performance**

At a fairly early stage in its deliberations, the group concluded that the options available to the council to address its financial difficulties were limited: the likelihood of securing higher settlement is negligible and increasing the council tax is politically unacceptable. In these circumstances the group determined that one of the most effective ways for the council to improve its financial performance would be through a detailed analysis of service performance to investigate how effectively and efficiently services are being delivered. In this context the group received evidence from the Service manager, Improvement Programme. She was able to outline the rationale behind the council's programme of fundamental service reviews and the methodology to be utilised in carrying them out. The key drivers for the reviews are:

- The need to compare value for money
- The need for the reviews to deliver cost reductions
- The need to improve performance

The group was provided with evidence of the savings that the review programme had been able to deliver so far and also of the improvements that had been made to the process since its inception to improve the outcomes of each review.

The group welcomed the establishment of the fundamental review process as potentially a major contributor to the council's improvement process and felt that there is a clear need for co-ordination between the scrutiny review process and the fundamental service review process to ensure there is maximum benefit from investment in these improvement processes.

The group however, expressed concern that in the pursuit of improvement and 'quick wins' through the fundamental review process must take care to investigate the implications of proposals for savings – the council had made mistakes in the past in the pursuit of savings which had both damaged the council's reputation and resulted in costs rather than the anticipated savings. As such it was suggested that proposals would benefit from challenge from outside of the fundamental review process.

### **Recommendations**

10. *The council must ensure that the most appropriate areas are selected for inclusion in the fundamental service review programme and that the methodology followed is robust enough to deliver a root and branch analysis of the effectiveness of the service*
11. *Selection of reviews for either fundamental service review or for scrutiny consideration should follow a similar rationale and the two programmes should not duplicate each other.*
12. *Whilst the delivery of 'quick wins' is an attractive element of the fundamental service review process, there could be potential pitfalls in this. As such, it is recommended that scrutiny is engaged in determining the programme of reviews, their scoping and in the consideration of the proposals made. Lead members should also participate in the process either as members of reviews or by being invited to provide evidence to a project group*

### **Management responsibility for budget performance**

The group received evidence that devolution of financial responsibility to service managers is underway. The SAP system, to which all managers now have access means that managers can access information about their financial performance instantly. The budget forecasting process is clearly being integrated into management processes, though the accuracy of information and familiarity with and competence of staff to use the SAP system is unclear. The importance of clear lines of accountability and regular and effective monitoring mean that there should be fewer surprises in the financial performance of the council in future.

The Director of Finance made it clear to the group that responsibility for balancing the budget rests with the manager of that budget and, in the event of budget overspend, only if there were no alternative sources of funding **and** if the cause of the overspend could not have been anticipated would corporate resources be utilised to resolve the difficulties. This position emphasises the importance of all services understanding the needs they are addressing, how these needs should be addressed and the most efficient and effective means of providing agreed services. This detailed analysis can only help to ensure that service budgets are constructed in such a way that they will not overspend.

The group also received evidence that there is no contingency fund to address such overspends as this will contribute to the assumption that services will be 'bailed out'. The review group endorses this approach.

**Recommendation**

13. *The group recommends that every effort is made to ensure that use of financial management information becomes a cornerstone of the management competencies of the council. In particular the council must ensure that managers become expert in the use of the SAP financial reporting systems*

**Centralised and accountable finance department – dangers of 'going native'/skilled finance staff**

One of the key issues raised with the group during discussions with neighbouring boroughs was the importance of an independent corporate finance function and appropriately skilled staff to provide an effective financial system for the council. The review is satisfied that there is an appropriate separation between the corporate finance function and the services themselves but also recognises that support is available as required.

With regard to the skill base of the council's financial staff, the group received evidence that a separate investigation of the strengths and weaknesses of the corporate finance function was commissioned by the Corporate Director of Finance and this review has identified a number of issues which need to be addressed in order to improve the council's financial monitoring capacity:

- Further strengthening of the boundaries between finance staff and service managers and ensuring that service managers are responsible for their financial performance.
- Improved financial guidance
- Improved financial processes
- Greater emphasis on financial performance to date

An action plan is being developed to address all of these weaknesses and the review group noted that this is being presented to the Performance and Finance sub committee.

**Recommendation**

14. *The review group recommends that progress toward the delivery of the action plan derived from the financial effectiveness review is monitored by the Performance and Finance sub committee*

**Constant process of budget setting**

Another characteristic of the budget setting process in those boroughs visited is the constant cycle of the financial planning process. The group did not have the opportunity to discuss the council's own approach to this but would none the less recommend that if not already the case, the council ensures that the budget setting process is a continuous cycle.

**Recommendation**

15. *The group recommends that the council ensure that the budget setting process is ongoing.*

**Robust challenge to the facilities portfolio**

One of the key areas of opportunity for the generation of capital is in the disposal of facilities and the use of these to fund a wide range of capital projects and relieve pressure on the revenue budget from interest payments. The group heard from the boroughs visited of the

effectiveness of an aggressive approach to facilities management with appropriate recharges for rent, effective and shared use of facilities and where necessary/appropriate disposals. This is clearly an area for exploration by the council and indeed a number of significant opportunities have been exploited. The group was advised that the council's policy on facilities disposal has three key components:

- Is it in use?
- Can it be sold?
- Should it be disposed of with the voluntary sector.?

The group would seek assurances that there is a full assessment of these criteria before decisions for disposal are taken, particularly in the pursuit of short term gain. The group is also concerned that the council takes full account of the changing economic environment before either disposing of assets at below their value or using revenue generated to fund other developments.

**Recommendation**

16. *The group seeks assurances from the Executive that a formal strategy for the disposal of assets is in place and that this safeguards the value of the council's assets and is cognisant of the change economic context for development.*

## **RECOMMENDATIONS**

1. *The review group recommends that progress towards the achievement of the '9-point plan' (and subsequent Council Improvement Programme) is monitored by the scrutiny function.*
2. *The review group welcomes this [political direction] clarity of purpose and direction and in accordance with recommendations relating to service and budget planning will seek to contribute to the determination and monitoring of these objectives.*
3. *Further work is undertaken to examine the robustness of the service and budget planning process, using case studies in particular service areas*
4. *The process for scrutiny's engagement in the service and budget planning as outlined is agreed and referred to the Executive for comment*
5. *That the opportunity for Overview and Scrutiny to contribute to / comment on the development of Directorate service plans be identified and built into the Overview and Scrutiny work programme*
6. *The group recommends that both the Performance and Finance sub committee and the Overview and Scrutiny committee contribute to the monitoring process and that particular attention is paid to the quality of information being presented through the management information system and how it is being acted upon. In this context it is noted that the possible investigation of the performance management process being considered as part of the Performance and Finance sub committee work programme for the forthcoming year might support the monitoring process.*
7. *The council should investigate the potential of introducing a zero-based budgeting process to ensure that the council's limited funds are being effectively targeted at real need and that the most effective means of meeting these needs are adopted.*
8. *Further work to investigate the potential offered via shared services is undertaken by the review group in its second phase*
9. *Learning from this review and the review 'Delivering A Strengthened Voluntary and Community Sector' is shared to ensure that the council makes the most effective use of its budgets and partnerships*
10. *The council must ensure that the most appropriate areas are selected for inclusion in the fundamental service review programme and that the methodology followed is robust enough to deliver a root and branch analysis of the effectiveness of the service*
11. *Selection of reviews for either fundamental service review or for scrutiny consideration should follow a similar rationale and the two programmes should not duplicate each other.*
12. *Whilst the delivery of 'quick wins' is an attractive element of the fundamental service review process, there could be potential pitfalls in this. As such, it is recommended that scrutiny is engaged in determining the programme of reviews, their scoping and in the consideration of the proposals made. Lead members should also participate in the process either as members of reviews or by being invited to provide evidence to a project group*

13. *The group recommends that every effort is made to ensure that use of financial management information becomes a cornerstone of the management competencies of the council. In particular the council must ensure that managers become expert in the use of the SAP financial reporting systems*
14. *The review group recommends that progress toward the delivery of the action plan derived from the financial effectiveness review is monitored by the Performance and Finance sub committee*
15. *The group recommends that the council ensure that the budget setting process is ongoing.*
16. *The group seeks assurances from the Executive that a formal strategy for the disposal of assets is in place and that this safeguards the value of the council's assets and is cognisant of the change economic context for development.*

## **CONCLUSION**

This is the review group's first report. The group has been able to highlight a range of good practice which it commends to the Executive as a means of improving the council's financial performance.

The group is heartened to hear of the many improvements in the budget and service planning process which will make a significant contribution to the council's performance. However it is early days and the group is not convinced that all of the processes have been effectively implemented and will spend further time investigating how effectively change is being implemented.

There is a significant amount of work for the group to undertake during the next 2 and half years. We hope that our investigations will support the council to achieve its ambition of being one of the best councils in London by 2012.

**Stanley Sheinwald**

**On behalf of members of the Standing Review of the Budget**



## APPENDIX ONE

### STANDING SCRUTINY REVIEW OF BUDGET - DRAFT SCOPE

1	<b>SUBJECT</b>	Standing Scrutiny Review of Council Budget
2	<b>COMMITTEE</b>	Overview and Scrutiny Committee
3	<b>REVIEW GROUP</b>	Cllr Noyce – Chairman (has been invited) Cllr Gate Cllr Green Cllr Idaikkadar Cllr Kinnear Cllr McLeod Cullinane Cllr Stephenson Cllr Teli Cllr Weiss Cllr Mudhar
4	<b>AIMS/ OBJECTIVES/ OUTCOMES</b>	To support the council to develop a robust budget that is prepared in the full understanding of the changing local government financial environment and the changing policy environment for service delivery
5	<b>MEASURES OF SUCCESS OF REVIEW</b>	<ul style="list-style-type: none"><li>• Budget setting process is informed of impending policy changes</li><li>• Long term budgetary implications are flagged up and risks mitigated</li><li>• Cabinet acknowledge the support of the standing review</li></ul>
6	<b>SCOPE</b>	<ul style="list-style-type: none"><li>• To consider the long term policy and financial framework within which the budget is being prepared</li><li>• To consider the long term implications of the decisions made in-year</li></ul>
7	<b>SERVICE PRIORITIES (Corporate/Dept)</b>	Deliver Value for Money
8	<b>REVIEW SPONSOR</b>	Chief Executive
9	<b>ACCOUNTABLE MANAGER</b>	Corporate Director of Finance
10	<b>SUPPORT OFFICER</b>	Service Manager Scrutiny
11	<b>ADMINISTRATIVE SUPPORT</b>	TBC
12	<b>EXTERNAL INPUT</b>	Deloitte & Touche Audit Commission

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13	<b>METHODOLOGY</b>	<p>To meet as a standing review group on a regular (possibly quarterly) basis to consider the council's budget preparation process and assess:</p> <ul style="list-style-type: none"> <li>• how effectively the council is addressing changes to the local government financial regime and policy changes in other areas of service delivery that will have a consequence for the borough and</li> <li>• the long term implications of budget decisions and how risks associated with these decisions have been addressed.</li> </ul> <p><b>Phase One</b></p> <ul style="list-style-type: none"> <li>• Desktop analysis to clarify the regime within which the council's budget is set</li> <li>• Desktop analysis of potential changes to this regime</li> <li>• Desktop analysis to identify other potential changes to policy which may have significant impact on council's financial standing</li> </ul> <p><b>Phase Two</b></p> <p>Roundtable discussion with officers to confirm the assessment of impact of change</p> <p><b>Phase Three</b></p> <p>Round table consideration of budget proposals in the light of the impact of change identified in phases one and two to assess how well the council is addressing these changes</p> <p><b>Phase Four</b></p> <p>Consideration of budget proposals to assess how effectively the council is anticipating the impact of current funding decisions in the longer-term.</p>
14	<b>EQUALITY IMPLICATIONS</b>	A longer-term approach to the scrutiny of the budget will mean that all of the implications of change, and their potential adverse impact on specific communities within the borough can be identified and addressed as appropriate.
15	<b>ASSUMPTIONS/ CONSTRAINTS</b>	<ul style="list-style-type: none"> <li>• The review assumes the availability of financial information at appropriate times in the budget making process</li> <li>• The project will be constrained by the finances available to the scrutiny team</li> </ul>
16	<b>SECTION 17 IMPLICATIONS</b>	There are none specific to this report
17	<b>TIMESCALE</b>	Ongoing
18	<b>RESOURCE COMMITMENTS</b>	Service Manager Scrutiny
19	<b>REPORT AUTHOR</b>	<ul style="list-style-type: none"> <li>• Lynne McAdam</li> <li>• Chairman of the review</li> </ul>

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20	<b>REPORTING ARRANGEMENTS</b>	Outline of formal reporting process: To Service Director           [ ]    When..... To Portfolio Holder           [ ]    When..... To CMT                           [ ]    When..... To Cabinet                     [ ]    When.....
21	<b>FOLLOW UP ARRANGEMENTS (proposals)</b>	

## **APPENDIX TWO**

### **STANDING SCRUTINY REVIEW OF THE BUDGET**

#### **Work Programme for Phase Two – Draft Proposals**

The paragraphs below identify potential projects for inclusion in phase two of the standing review of the budget. More detailed project plans will be developed if the projects are agreed by the review.

#### **Preparation for challenging the development of the budget for 2009/10**

As proposed in the initial report, issues arising from the work undertaken during the first phase of the review should be highlighted for discussion in consideration of the budget for 2009/10. The review group might also like to engage with the Chairman and Vice Chairman of the Performance and Finance sub committee to identify any in-year financial issues to be considered. The review group should develop specific lines of enquiry from this evidence to put to the Leader, Chief Executive and Director of Finance at a designated Overview and Scrutiny committee which will consider the budget and corporate plan.

#### **Shared services**

Evidence gathered from Capital Ambition and West London Alliance to be used to help develop proposals regarding the feasibility and relevance of the shared services agenda for the council. The initial evidence gathering meeting may need to be supplemented with further desk-based research. A round table discussion on these findings might usefully be used to discuss these proposals with the Leader, Chief Executive and the Director of Finance.

#### **Detailed consideration of the service and budget planning process in service areas**

The initial report received evidence of the processes that the council wishes to see in place with regard to budget and service planning. The review group expressed a wish to consider how effectively these processes have been embedded across the council and how effectively, in reality, services are able to analyse their performance and thus construct realistic budgets. As a result it was suggested that a number of case studies might be considered. The first of these was proposed as Special Educational Needs Transport.

#### **Revenue maximisation**

As the initial report pointed out, there are limited opportunities for the council to receive additional grant or to increase the council tax. The council has commissioned work to consider the options available to increase the amount of revenue at its disposal, specifically through levying fees and charges. There is a growing body of best practice in this area which should inform any activity in this area and the review might like to receive information on the council's strategic approach to fees and charges. This might be undertaken by means of a specific challenge panel.

*Findings from all of these streams to be included in the report from phase two of the review which should report to the Overview and Scrutiny committee by summer 2009.*

**Lynne Margetts**  
**Service Manager Scrutiny**

## **APPENDIX THREE**

### **Summary of Evidence From Other Boroughs**

The following boroughs have been visited:

- Ealing
- Hillingdon
- Hounslow
- Wandsworth

It is also hoped to visit Hackney during the autumn months.

Reports from each of the visits are given below.

### **General Findings**

The following are the common themes that seem to run through all of the processes observed

- Clear political priorities – Hillingdon, Wandsworth, Hounslow (specific council tax ambitions)
- Clear political leadership and control
- Political stability – Wandsworth and Hillingdon
- Clear processes for service and budget planning
- Clear process for monitoring
- Regular monitoring
- Robust challenge to budget assumptions – star chambers, zero-base budgeting
- Capacity to analyse performance
- Management responsibility for budget performance
- Centralised and accountable finance department – dangers of ‘going native’
- Skilled finance staff
- Constant process of budget setting
- Robust challenge to the facilities portfolio

There were also some interesting differences between authorities: Whilst Wandsworth believe in charging as much as possible for services (and providing the highest quality services), Hillingdon do not believe that their residents should pay additionally to their council tax and thus non-residents are penalised. Similarly, whilst a number of those spoken to are exploring innovative contractual/partnership arrangements, Wandsworth pursues very tight traditional contractual arrangements and drives the hardest bargain in terms of contract performance. Partnership such as that with AccordMP would be of no interest to Wandsworth. .

## **Meeting With Leader of Ealing Council and Executive Director of Corporate Resources**

### **Present**

Harrow: Cllrs Gate, Macleod-Cullinane and Solanki, Philip Morrish, Lynne McAdam  
Ealing: Cllr Jason Stacey, Leader of Ealing Council, Richard Ennis, Executive Director of Corporate Resources

### **Key Learning Points**

- Clear political direction from executive
- Strong collective, corporate management leadership
- Clear financial processes
- Ongoing budget setting/management process
- Clear responsibility for officers
- Robust challenge to services
- Effective monitoring processes

### **Detail**

#### **Historic Situation**

4 years ago the council was experiencing significant financial difficulties.

- The Response Programme had been introduced to try to deliver organisational change – significantly through the introduction of IT. This was not working and was consuming significant levels of resources
- Reserves were down to £2m
- There was insufficient budget management – the budget was set ‘on the hoof’ with sums required to balance the budget unidentified
- Accruals were made to accounts which would never be realised – e.g. the parking fund was expected to accrue £6m

#### **Current performance**

##### **Budget management**

In 2005 Richard Ennis was appointed as Executive Director corporate Resources (along with a number of other senior management appointments) and introduced a straightforward budget setting process based on the Westminster model. This is a continuous process that sees investigation of the subsequent year’s budget commences immediately after the current year’s has been set. Confidential star chambers which challenge officers on their expenditure proposals, meeting during June and July play a crucial role in the process and scrutiny is engaged in the New Year.

The cabinet considers the budget at three meetings:

- In December savings to be delivered
- In January remaining savings/initial growth
- In March remaining growth/capital

Officers receive clear political guidance – the council has 3 key priorities:

- Cleaner Street
- Safer communities
- Value for money

These issues are consistently identified as the highest priority for residents. The council thus focuses its resources on the delivery of these 3 areas and on its statutory duties. Things that fall outside of this are not a priority – the council effectively considers what it wants to do, what it has to do, the resources available to deliver this and how any gap might be bridged. If

### **Standing Scrutiny Review of the Budget Interim report September 2008**

something isn't important to the residents then officers are expected to justify why it is being done. This clear focus has enabled the council to make some tough decisions and e.g. facilitated the end of the Response programme, which was consuming resources disproportionately to the benefit being derived.

Departments are responsible for developing their own budgets

There is a clearer understanding of the importance of aligning budgets to service delivery – which is driven by focus on specific priorities and statutory duties. Budget performance is also regularly monitored. The budget and service planning priorities are strenuously challenged via the star chamber process

Officers are clear that they don't need to wait for the budget and that they are free to manage their budgets to deliver value for money as necessary – complete change of culture.

A programme of VFM reviews of problematic areas is also run and these also feed into the star chamber process

### **Changed culture**

It was comparatively easy to engage managers in this new culture as there was an appetite for change – it was clear that something was not working – there is also general political agreement in the need for change. The potential impact on future significant change programmes following a very poor experience was acknowledged. Having said this, it is also acknowledged that it is important to approach different parts of the organisation with different change programmes which acknowledge that there are different issues in different places – effective and clear leadership is critical – the new chief executive has been key. As a team the management group is comparatively integrated – the physical arrangements of the civic space have facilitated this.

A 20% performance related pay premium has been introduced 5% of the sum available relates to the services improvement in residents' satisfaction levels, 5% is dependent upon the delivery of effective financial management and use of resources, 10% is related to personal objectives – payment of the premium is dependent upon the delivery of financial performance across the senior 3 tiers of management i.e. chief executive's payment is dependent upon the performance of the executive directors and for the executive directors it is dependent upon the performance of the directors in the delivery of financial targets.

### **Procurement issues**

Contracting arrangements in the council were also very poor – officers leaving contract negotiations to a very late stage and also not considering the inclusion of performance and sanction in the contract arrangements. A Contract Review Board for contracts of more than £1/2 million and departmental boards for smaller contracts have now been established.

Experience in contract negotiation is also important to the authority – they have been able to drive £2m from the renegotiated contract price. There is no preferred way of provision – i.e. not simply a move to outsource services – the importance is day-to-day control and high quality contract management the cheapest isn't always the best

Project management and clear accountability via capital review board – incorporating leader and portfolio holders and directors ensures there are clear sponsorship arrangements and project plans in place for all capital projects

There is interest in the potential for shared services – in particular Ealing would welcome discussions around the joint delivery of HR services which they feel might give local authorities greater control of the market, at present all councils are competing for the same staff which is increasing the cost of staff

### **Funding base**

Ealing does not feel its government grant is sufficient - £458 per head compared to Hammersmith and Fulham which receives £680 per head. The tax base is 120000 people and the council is clear that it needs to balance the impact of council tax demands against the impact on services of low council tax.

Like Harrow, Ealing has pockets of deprivation and it is important that funding decisions do not adversely affect particular populations. Equalities impact assessments are undertaken of changes in service delivery and because of the ongoing and challenging nature of the budget setting process there are always opportunities for consultation on change proposals – there is a good LSP which enables discussion to take place at an early stage

Longer term stability has been supported with the introduction of 3-year settlements

Mantra – ‘Keep it simple and give yourself enough time; simple, clear, consistent processes will mean that problems can be identified in time and sufficient time will mean that they can be effectively addressed.

Outcome? The council has increased its reserves to £18 million



## **Meeting with Leader of Hillingdon Council and Director of Corporate Resources**

### **Present**

Harrow: Cllrs Sheinwald, Teli, Solanki, Lynne McAdam

Ealing: Cllr Ray Puddifoot, Leader of Hillingdon Council, Cllrs Jonathan Bianco and Douglas Mills, Paul Whaymand, Head of Accounting

### **Key Learning Points**

- Important to be clear what the specific issue is that is being addressed and target activity – the budget itself may not be the problem, could be the culture of the organisation
- Councillors must be driving the process
- Need to have the right staff in post – an external challenge to competency of senior staff is crucial
- The focus should be on improving outcomes for residents not on achieving government performance ratings
- Accountability for budget management should rest in a central/corporate finance function
- Process should start early

### **Detail**

In 2000 the then Director of Finance served a S114 notice on the council. At this point councillors took direct control of the budget and began a process of reconstructing the organisation using external consultants to assess the competence of senior managers and to ensure that the structure and officers within it were fit for purpose, - the point was made that it is crucial that the organisation is clear about what it is trying to fix in order to address the right problem by developing relevant solutions. Through the implementation of the Hillingdon Improvement Programme, the council has delivered £15 million savings in 07/08 without cutting services and it is their ambition to save £40m over 3 years through more efficient management of services. The council has increased its level of reserves from 0 - £12m in 3 years. This level will be maintained and any additional resources will be used either to develop services or to cut taxes.

The council does not think that charges should be used to improve the financial position as residents should not be expected to pay additionally to their council tax – this is generally fixed at about 3%.

Councillors warned about the importance of ensuring that borrowing requirements do not create pressures on the revenue budget.

The budget cycle is continuous with no real break in the planning cycle. The corporate plan encapsulates members' vision for the borough and all of service plans are drafted in order to facilitate the delivery of this vision. The budget aligns with the delivery of these plans. The council's improvement programme has been designed to deliver culture change through a fundamental examination of how the council operates. Councillors emphasised that the budget process must be understood by all staff – right down to the front line. Staff must be able to manage budgets and it is a core competency for managers

Councillors advised that the assumptions around inflation should be closely challenged.

The council holds a particularly tough line on staff absence – low morale is not considered an illness and is not an acceptable excuse for absence. They stressed the need to make the sickness procedures work – this reflects the high rates of sickness absence the borough had experienced – the council offers free health insurance if sickness can be reduced.

In addition to reserves and the base budget, the council has a contingency fund for emergencies (£6m) and a members' priority growth fund – which can be used to fund particular priority projects.

There are a number of additional processes that Hillingdon councillors feel have contributed to the improved financial performance of the council:

- They offer serious challenge to departmental budgets and for the first time used the 'zero-based' budgeting process to challenge the fundamental purpose and performance of each service.
- Centralised purchasing is in place
- The procurement process is expected to deliver excellent value for money
- Capital projects of more than £50k are signed off by cabinet members.
- Good governance processes – senior officers and members meet monthly to determine the direction and prioritisation of the council
- Confident councillors are key to challenging complacency of officers
- Specific time-limited funding projects are avoided unless the revenue implications and the longer term implications are clear
- Savings in the area-based grant pot are being sought to fund other projects
- Increases in charges are limited to inflation – charging is not income generation, efficiencies are the preferred means of delivering savings. In general the council does not support the imposition of further charges on residents – for example they have offered the 'residents' privilege card' and the 'stop and shop' campaign, which allows residents to park free for the first half hour of their shopping.

One of the key principles that drives Hillingdon is the need to meet residents' needs not central government targets

There are a number of specific projects that support their aims:

- Street champions – the eyes and ears of the council in the community
- Review of assets- the council owns 4,400 sites in the borough
- Better use of premises – there are proposals to move the PCT into the Civic Centre – partnership is key to their delivery of services.
- Council Tax frozen for 3 years for the over 65s
- Concentrating on affordable housing with the emphasis on shared ownership

## **Meeting with Leader of Hounslow Council and Director of Corporate Resources**

### **Present**

Harrow: Cllrs Sheinwald, Philip Morrish, Elizabeth Hugo, Lynne McAdam

Ealing: Cllr Peter Thompson, Leader of Hounslow Council, Stephen Fitzgerald, Acting Director of Finance

### **Key Learning Points**

- The council has a clear policy to achieve zero % council tax increases and this is driving the budget setting process.
- The council has a clear ambition to reduce waste and duplication
- The council is moving away from 'salami slicing' savings to a more strategic approach to service planning and budget setting.
- There is strong financial and service planning monitoring – weekly
- Although time intensive (for members and officers) this has been seen as a priority for the organisation.
- This monitoring involves both members and officers

### **Detail**

Up until 2 years ago it was extremely difficult to unpick the budgets and councillors were dependent upon information from officers which meant they could not adequately challenge. This has now changed and councillors meet weekly to go through departmental budgets, unpick and refer issues back.

There has been a 0% increase in the council tax in the last 2 years which has introduced a discipline into the authority – departments have been expected to find 8% saving per year.

There is clear political ambition to ensure 0% council tax increases

The council also employs a star chamber process through which aggressive budget challenge is provided – the council's ambition is to give as much taxation money back to the council as possible

The acting Director of Finance has been central to this and has provided a number of options for councillors to deliver services

Officers and members meet on a weekly basis (Members' Working Group) to monitor the budget and savings and discuss change proposals. The group comprises leader, deputy leader, lead member for finance, lead member for environment, leader of the Isleworth Community Group, Chief Executive, borough solicitor, head of human resources, director of finance performance improvement programme support officer. The budget performance improvement programme is the main focus for this meeting. Below this strategic group is an officer working group which drives the budget and savings strategy. Though this is obviously time intensive for members it does mean that they are able to engage and bring political will to the development and monitoring of the budget performance.

They have introduced a performance improvement process to deliver a savings programme – anticipating £62m over 3 years. Moved away from the annual target setting to look more strategically. They have designed 9 workstreams to remodel the organisation Initial proposals include:

- 300 redundancies
- Pooled admin
- Improved procurement
- Improved transport

They anticipate that these projects combined with a 0% CT increase will mean there will be between £16 – 22m additional funding to spend. Priorities are also being set for the spend of surpluses.

They also include ‘fast cash targets’ – constraints on vacancies, IT and furniture purchase and office moves.

A tough leadership assumes that not everyone is doing things of use to the community

The process of planning services has also been improved. There had previously been no real challenge to services, the process was led by officers in the services themselves. Now officers are expected to demonstrate the importance of the service they deliver to members and how it meets the political priorities of the council. The aim is to challenge traditional ways of delivering services and ‘the vested interests of bureaucrats’

Staffing levels are being challenged and waste and duplication being identified. The ambition is to have a leaner, smaller, more efficient council.

Scrutiny is engaged in the process of setting the budget and it is moving towards more strategic consideration of the budget and looking at the political assumptions behind the budget rather than ‘line by line’ consideration.

They now have the right people in the finance department with departmental heads of finance. They operate as a cohesive group on a corporate model. Departments remain responsible for their budgets.

The council feels that the CPA star ratings don’t matter if you’re good but do if you’re not.

## **Meeting with Leader of Wandsworth Council and Director of Finance**

### **Present**

Harrow: Cllr Macleod-Cullinane, Philip Morrish, Lynne McAdam  
Wandsworth :Cllr Edward Lister, Leader of Wandsworth Council, Cllr Adrian Knowles,  
Chris Buss, Director of Finance

### **Key Learning Points**

- Clear political direction from executive and high level of confidence in this political direction
- Long term stability – the council has been Conservative controlled for 30 years
- Clear financial processes – the council sticks to what it knows and does best
- Ongoing budget setting/management process
- Clear financial accountability for officers
- Very robust challenge to services – no assumptions regarding future budget provision
- Effective monitoring processes

### **Process**

The council has established clear rules for budget setting over time. They do not engage in 'fancy funding' regimes e.g. PFIs – the council's ambition is to reduce revenue exposure as much as possible.

The council now knows its level of grant and is able to make a number of assumptions regarding expenditure each year.

Through a robust star chamber process, departments are expected to identify how they will meet expenditure targets for the year

Departments present their options for delivering these targets and these are judged as politically acceptable or not

Departments are expected to justify their expenditure and are expected to do so in the context of general comparisons with other boroughs and also through an examination of statistical information from other boroughs e.g of library fines – if Wandsworth is charging less officers will be expected to have analysed why.

The same process operates for capital expenditure

A 'Leader's meeting is held every 2 weeks at which all additional requests for expenditure or staffing, any requests for transfer of finance and every policy change is considered in detail. Performance information is also considered at this meeting

The budget setting/management process is ongoing and enables issues to be identified and difficult decisions made early. This allows an continuing discussion of problem areas and resolution in a 'blame free' environment

There is a financial incentive for officers to pay close attention to their asset base as rental charged can be taken as a financial benefit to the service if the need for assets can be reduced. The disposal of capital assets is a key issue for the council and has supported housing developments over the years – the council has only minimal (£9m) debt

The Director of Finance describes the context of decision making as 'prudent pessimism' – he does not take risks with the budget e.g. he will overstate rather than understate the impact of inflation

Each service department is responsible for its budget and directors are held accountable for effective budget management – if additional resources are required, services are expected to find them from within their own budgets. There is a team of financial controllers who support the service directors but these officers are managed via the Director of Finances office and not by the service directors

The financial decision making process is challenging – Leaders group, scrutiny, cabinet, full council. It is a very centralised process with the executive exerting significant levels of control. Targets for service delivery are set in July, proposals are worked up over the summer and are challenged in the star chambers in autumn – the Director of Finance commented that planning is usually 18 months in advance. There are 7 levels of 'scrutiny' of the budget

In general the star chamber process considers:

- Target setting
- Base budgeting
- Energy savings

How directors meet the specifics identified in the process is up to them however, it is not acceptable for easy targets to be put up as part of savings packages – there must be clear justification

The star chamber comprises the Leader, Deputy Leader and Executive member

The council also undertakes service audits to identify residents' needs and what is being provided to meet these needs and who should provide them – there are a number of examples where the organisation has decided that it is not the council's responsibility to be providing particular services – launderettes, zoo, museum.

No unidentified/unallocated savings are permitted in the budget. Any gaps will be resolved via the council tax or contingency.

It is not assumed that government grant will go to specific services. The introduction of Area Based Grants has meant that the directors who would previously have received ring fenced grant must demonstrate that they still require the funding and the outcomes that they will deliver with the funding – this is closely monitored.

No agreement is given to short-term funding projects without a clear exit strategy

### **Fees and charges**

With regard to fees and charges the principle that drives the council's decisions is that users of services should pay for them and charges will be set at the upper quartile or at full cost recovery – as identified above, pricing reviews are also part of the budget setting process. A decision not to charge for a service must be justified – the council has the highest rents in London and highest decent homes standard performance.

The council consistently searches out opportunities to charge, however the decision to charge must be cost effective – i.e. must not cost more to levy a charge than the charge will generate.

## **Contracting**

The council is cautious with regard to the shared services agenda – their ambition is to provide services well for Wandsworth residents and not to be distracted by managing contracts for services delivered in other boroughs

The council prefers to operate hard-headed contracts rather than partnerships – clear lines of accountability are key in the management of contracts

Whilst the authority will enter into joint contracts with other boroughs it is not keen to sell its services to other boroughs.

The council also points out that it will not simply privatise services for the sake of it, the method of service delivery chosen is that which is most appropriate to the need being met, bearing in mind the principles of keeping costs down

## **Staffing**

Salaries for senior managers are paid at the highest level – the council is not ashamed of paying for good staff. It does this at the same time as having lowest council tax in London

## **Culture**

The council's ambition is to reduce revenue exposure as much as possible.

The authority is supremely confident in its priorities and its processes and is thus happy to make tough decisions regarding service delivery. It has the benefit of long term political stability that contribute to this confidence – the borough has returned a Conservative administration for the last 30 years, though there is still a clear 'ballot box focus' for the council

The budget is in the Leader's portfolio

There is significant stability at both officer and member level – the 'Work Back, Pay Back' scheme sees officers pay for their sick leave

The span of responsibility for each directorate is fairly narrow – the organisation does not like unwieldy responsibilities – there are 7 departments

There are clear aims and objectives and all officers are clear what is expected of them

There is a clear demarcation between policy (members) and implementation (officer)