How councils work:
an improvement series for councillors and officers

Using cost information to improve performance: are you getting it right?

AUDIT SCOTLAND

The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, requests local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning

- following up issues of concern identified through the audit, to ensure satisfactory resolutions

- carrying out national performance studies to improve economy, efficiency and effectiveness in local government

- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 45 joint boards and committees (including police and fire and rescue services).

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

🔍 **What do auditors say?**

These boxes appear throughout this report and represent findings from individual councils.
They have been drawn from Audit Scotland audit reports. They are not key findings for all councils.

About our 'how councils work' series

The Accounts Commission, as part of its policy of encouraging improvement, seeks to support developments in best value and resource management, recognising these as two key components vital to the successful delivery of council services.

The purpose of the 'how councils work' series of reports is to stimulate change and improve performance. We select topics based on the recurring themes and issues from our Best Value audit work, the work of local auditors and our annual overview report. We draw mainly on our existing audit work but supplement it with new audit work and other information.

This is the third report in the series. The first report, published in August 2010, examined roles, responsibilities and working relationships of councillors and council officers in achieving best value. The second report, published in June 2011, examined the relationships between councils and their ALEOs (arm's-length external organisations). These two reports are available on Audit Scotland's website: www.audit-scotland.gov.uk

This report highlights the importance of having good-quality cost information to inform policy decisions and scrutinise performance, and identifies some of the guidance and cost measures that already exist.

The report also provides some case studies to illustrate how councils and councillors are currently using cost information. In some instances, the activity in councils covered in the case studies is still developing and we recognise that what works in one council may not be appropriate for another. However, we consider that the case studies provide a useful insight into how some councils are using cost information to inform their work. This can help other councils and councillors think about how they might use cost information at a strategic and operational level more effectively.

We have worked closely with the Improvement Service,[1] the Association of Public Service Excellence (APSE),[2] CIPFA Directors of Finance[3] and the councils covered in the case studies in developing this report and we are grateful for their contributions.

1   www.improvementservice.org.uk
2   www.apse.org.uk
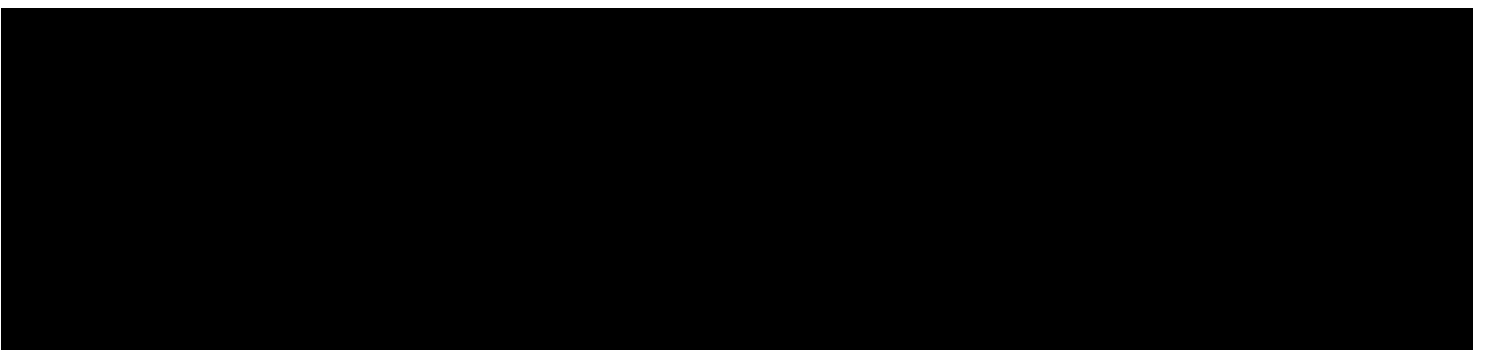3   www.cipfa.org.uk/regions/scotland/directors/

Key messages

A good understanding of both the cost and the quality of services is essential if councils are to demonstrate that they are delivering good value for the public money that they spend.
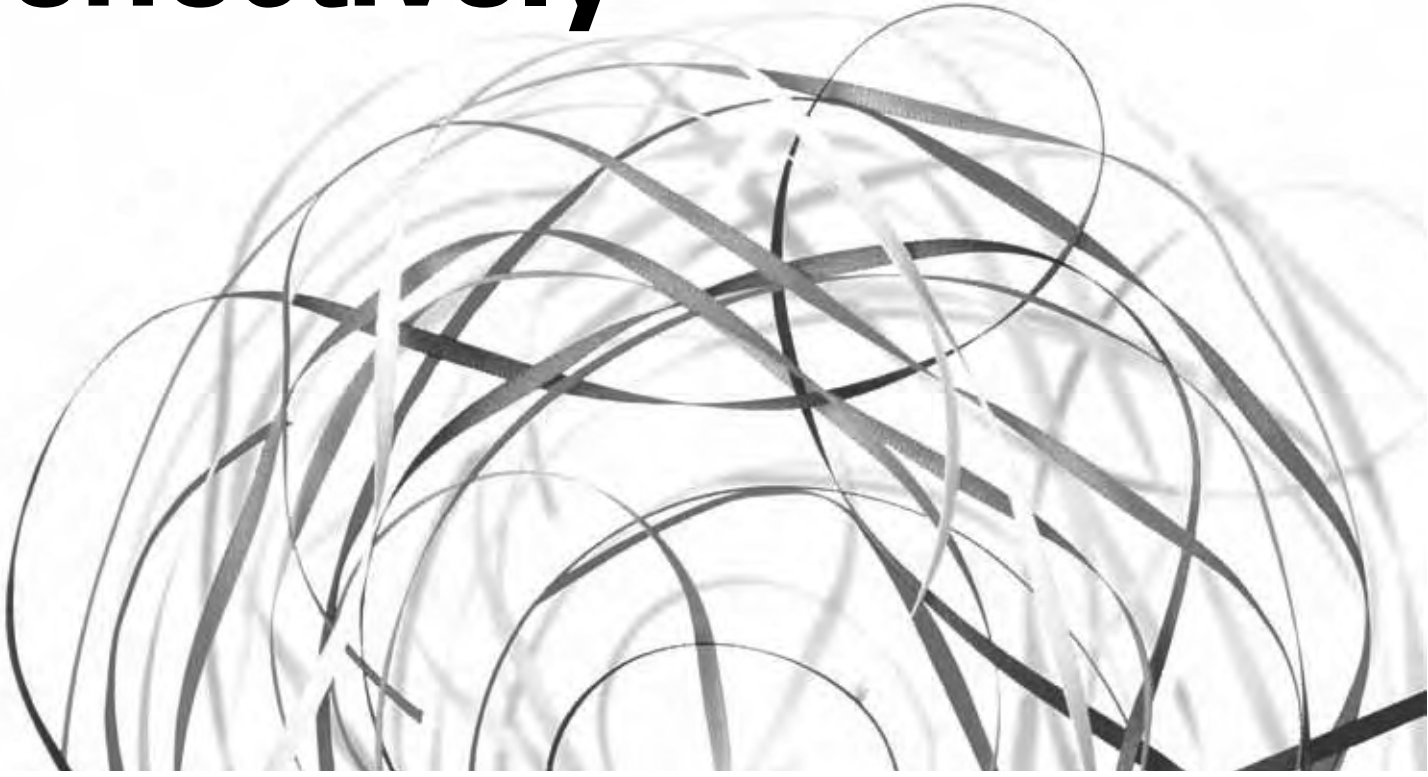
1. Many of our audit reports have found that councils need to make better use of cost information. Using cost information effectively can help councils and councillors make well-informed policy decisions and assess the efficiency and effectiveness of their services. This is all the more important in the current economic climate where public spending is being reduced significantly.

2. Councils have a statutory duty to provide Best Value, set out in the Local Government in Scotland Act 2003. This duty applies to both elected members (councillors) and council employees (council officers). Best Value requires councils to manage their performance and resources effectively and a sound understanding of costs is central to this. A good understanding of both the cost and the quality of services is essential if councils are to demonstrate that they are delivering good value for the public money that they spend.

3. The key messages in this report are:

- councillors need good cost information if they are to make well-informed policy decisions and scrutinise performance effectively

- cost information needs to be presented in an open and accessible way along with policy options and performance information to help councillors carry out their role

- officers need good-quality cost information to help them manage services efficiently, assess performance and demonstrate value for money

- a council's approach to using cost information should be driven by its priorities and objectives, with a focus on outcomes for service users and communities

- tightening public sector budgets and increasing service demands require more effective use of cost information. Being open about costs can help keep communities engaged in the difficult decisions that lie ahead for councillors

- the effective use of cost information can lead to improved corporate and partnership working

- councils can do more to share good practice and learning and could make more effective use of the existing cost measures and guidance available.

Part 1. Councils need to use cost information more effectively

Cost information is an essential element in assessing overall performance. Without good cost information, councillors cannot fully monitor and scrutinise service performance.

4. In August 2010, we published the first report in the 'how councils work' series, *Roles and working relationships: are you getting it right?* The report provided checklists, examples and other information to help councils assess their current working practices and identify how they might better equip themselves to deal with the challenges ahead.

5. In the report we highlighted the importance of all councillors and officers having a clear understanding of their respective roles.

> ### 💬 What do auditors say?
>
> "A councillor's role is to represent constituents, to provide leadership and direction for the council and to scrutinise service performance. Council officers are responsible for operational leadership and management and for providing professional advice to support councillors in their role. In other words, on an issue-by-issue basis, councillors determine policy at the start, officers manage delivery of the policy in the middle and councillors scrutinise delivery at the end. Senior officers have key roles at the transition between these phases, supporting policy development and scrutiny by ensuring the right information is available at the right time."
>
> "Good governance requires that those involved in leadership, management and decision-making are clear about their own roles and responsibilities, and those of others. Training for councillors and officers, as well as tailored guidance, can help them understand roles and responsibilities."
>
> Source: *How councils work: an improvement series for councillors and officers – Roles and working relationships: are you getting it right?,* Accounts Commission, 2010

6. In order to fulfil their respective roles effectively, councillors and officers need good-quality information:

- Councillors need good-quality information to inform policy decisions and set strategic direction.

- Officers need information to help them implement policy decisions and manage service performance.

- Councillors need information to scrutinise performance, to hold officers to account, and assure themselves and the public that the council is delivering its commitments and offering value for money.

- Councillors and officers need information to inform decisions about where improvement is needed.

7. Knowing what things cost is important, but our audit reports often highlight the need for councils to make better use of cost information. Best Value reports on individual councils, performance audit reports into specific themes and service areas, annual reports to members and our local government overview reports have all concluded

---

> ### 💬 What do auditors say?
>
> "Councils urgently need to ensure that they have comprehensive and comparative baseline data on service costs and quality, and integrate this information into their approaches to performance management and options appraisal."
>
> "The council needs to identify more clearly and manage the costs of its activities, and the assets and people needed to deliver them, if it is to generate best value."
>
> Source: Audit reports

that councils are not using cost information effectively.

Cost information is an essential element in assessing overall performance

8. To manage performance effectively a council needs to set clear objectives and then use a combination of measures to track progress and impact. It needs good-quality information on:

- inputs – to understand what resources are being used to deliver the services/objectives

- processes – to know when and where services are being delivered and whether they are being delivered on time

- outputs – to understand what level of service is being delivered and the quality of that service

- outcomes – to assess what impact the services being delivered are having and whether they are achieving the agreed objectives.

9. Knowing what it costs to deliver a service is a key 'input measure'. A council may, for example, find that services are being delivered promptly (a process measure) and that the services are of high quality (an output measure). It may also know that services are having a positive impact in the community and delivering the council's objectives (an outcome measure). However, if the council does not know what it costs to deliver the services, it cannot really assess whether the services truly represent value for money.

10. Would an apparently high-performing service be viewed in the same light if it appeared to be costing twice as much as a similar service in a neighbouring council for example? Without good cost information, councillors cannot fully monitor and scrutinise service performance.

11. Bringing together an understanding of both the cost and quality of service delivery is therefore necessary to assess whether a service is providing value for money. Case study 1 on West Lothian Council illustrates the benefits of incorporating cost information into an assessment framework in order to consider performance in a robust and rounded way. Including cost information in self-assessment helps to embed consideration of costs as a key measure of performance. This kind of self-assessment can provide assurance to councillors and officers on where progress and performance is good and also where improvement is needed.

Case study 1
West Lothian Council – using cost information in self-assessment

The West Lothian Assessment Model (WLAM) is a self-assessment framework used across the council as one of the mechanisms to ensure that it is providing high-quality and value-for-money services. All services report the results of their self-assessment and their improvement actions to the council's performance committee, where elected members monitor and challenge the results and progress.

The assessment model covers nine topics separated into two themes: 'what we do' and 'what we achieve'. Within the 'what we achieve' section there is a subsection on 'efficiency results' which focuses on the indicators and outcomes each service uses to assess its efficiency. This includes indicators such as:

- the unit cost of outputs (for example the cost of dealing with one customer enquiry)

- unit cost per re-work (for example the cost of having to collect a missed bin)

- unit cost per customer engaged (for example the cost of school education per pupil or the cost of street cleaning per head of population)

- units of output per full-time equivalent (FTE) staff (for example the number of active cases per social worker)

- failure demand as a percentage of total demand (for example repeat repairs as a percentage of all repairs)

- percentage of FTE staff resourcing front-line service delivery (for example the ratio of teaching staff to total education services staff).

There is guidance given to services on how to use these measures, the purpose of the measures and how these should link to their other planning tools. Services are encouraged to make the indicators meaningful for their own service, for example by defining who their customer is.

Prompts and guidance for reviewing cost information are also included throughout the assessment model, including in sections such as leadership, strategies, plans and policies and partnerships.

Reviewing these cost measures along with other performance information has helped the council to identify areas for improvement. For example, by measuring the cost of dealing with a customer enquiry at their local offices and through the customer service centre, the council identified that the cost for the customer service centre was almost half that of the local offices (£2.23 per enquiry as opposed to £4.34 per enquiry). As a result, the council has focused on encouraging customers who use local offices to consider using the contact centre or other contact methods such as online or direct debit payments. The council also developed a new customer service strategy to support this improvement, which was approved by elected members in January 2012.

Through this process, all services have to evaluate cost and efficiency measures. All services undertake an assessment at least every three years and more regularly where determined by the assessment results or other risk factors. The inclusion of cost measures throughout their approach to self-assessment encourages the mainstreaming of cost considerations along with service performance and improvement.

The WLAM was the basis from which the now widely used Public Sector Improvement Framework (PSIF) was developed. PSIF includes many of the same suggested indicators and guidance as the WLAM.

Source: West Lothian Council

What does CIPFA say?

"Without an understanding of the starting point, the baseline, and why it costs what it does and how it will change if the various cost drivers are altered, cost cannot be managed and controlled."

Source: Counting Costs: Understanding and Using Cost Information to Make Better Decisions, CIPFA, 2011

Want to know more?

- *Better Benchmarking for High Performance (CIPFA, 2010)* http://www.tisonline.net/ managementoffinance/ content/Better_ Benchmarking.pdf

What others are doing

- In Sweden, an annual report is published jointly by the National Board for Health and Welfare and the Society of Local Authorities and Regions, which provides comparative healthcare quality and efficiency information.

  The report covers 75 set indicators on which the local regions and counties in Sweden have to report. These indicators cover a variety of performance and cost measures.

  The report sets out two main aims from publishing this information. Firstly, it aims to provide transparent and reliable comparative data for service users to be able to judge how well their local healthcare services are performing. Secondly, it aims to promote improvement by publicly reporting on performance and by increasing the sharing of information between the regions and counties.

  Source: Audit Scotland – based on *Quality and Efficiency in Swedish Healthcare: Regional Comparisons 2010*

Effective decision-making relies on good cost information

12. An improved understanding of costs is not an end in itself. Understanding what things cost is an important factor when making policy decisions. Councils face significant financial challenges. Councils recognise that in the current financial climate making efficiency savings will only go so far. More fundamental decisions will have to be taken about the levels of service on offer and whether some services may need to be withdrawn altogether. Councils need to have a clear understanding of the level of service being provided, and at what cost, to be able to identify whether further efficiencies are achievable. Councillors need to be clear about which services are most important.

What do auditors say?

"We encourage the council now to improve its performance management capacity and ensure that it has effective mechanisms to test value for money and provide robust options appraisal. This is essential to allow the most effective decision-making by elected members when budgets are under increasing pressure."

"Councillors need good-quality information to assist them making informed decisions. They are generally aware of the total cost of their services, and budgets are monitored regularly. However, they still do not have sufficient information on service costs and quality, user satisfaction, and performance information which compares performance with that of other service providers."

Source: Audit reports

13. Case study 2 (overleaf) on Dundee City Council illustrates how making decisions on a spend-to-save initiative can reduce costs in the longer term.

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

14. Councillors have a key role in scrutinising performance and need good performance information to fulfil this role effectively. This means that they need information not only about the quality of services, but also the cost. Our audit work tells us that councillors are keen to get better information to help them do this important job. Our 2010 report *Roles and working relationships: are you getting it right?* highlighted that councillors recognised that they need to focus on costs and the financial implications of policy decisions.

15. Councillors need support to feel more confident about challenging what services cost and therefore whether those services represent good value

Case study 2
School vandalism at Dundee City Council – using cost information to proactively target activity and reduce ongoing costs

Dundee City Council identified that vandalism to its schools was resulting in significant repair costs and was affecting the learning environment for pupils. To address this issue, the council's risk management section and education department worked together to adopt a risk-based approach to targeting vandalism of school properties.

Using a centrally collated robust record of all incidents of vandalism and the repair costs, the team identified trends and hotspot areas to target. Having the cost information allowed it to demonstrate that targeted up-front spending could achieve a significant saving on repair costs. Targeted spending was made on measures such as:

- replacing window glass with polycarbonate panels

- increasing CCTV and security coverage

- offering diversionary activities for young persons, particularly during school holidays.

Knowing the baseline costs was key to being able to demonstrate and continue to monitor the value of these proactive measures. Between 2008 and 2010, there was an 18.7 per cent reduction in vandalism incidents at schools. This resulted in a significant 34.8 per cent reduction in repairs expenditure, from just over £280,000 in 2008 to less than £184,000 in 2010. The average cost per repair claim was also reduced by 19.8 per cent. The proactive work is funded by an annual allocation of £35,000 from the council's risk management budget, representing a good spend-to-save return for the council. There have also been non-financial benefits from this activity, such as a reduction in the amount of disruption to teaching time due to repair work and more attractive and welcoming school facilities.

Strong partnership arrangements, through the Dundee Community Safety Partnership, have helped the sharing of information between partners, including cost information. This has supported more effective targeting of joint activity and more coordinated use of resources. For example, this has led to the partnership jointly funding diversionary activities during school holidays, which was identified as a hotspot period for vandalism.

Source: Dundee City Council

Want to know more?

- *Counting Costs: Understanding and Using Cost Information to Make Better Decisions (CIPFA, 2011)* http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/EN/product/PUBFM035H)

- *Improvement Service Notebook: Effective Decision Maker – Using Information to Make Better Decisions (Improvement Service, 2011)* http://www.improvementservice.org.uk/access-to-national-elected-member-portal/

for money. Our observations of committee meetings have shown that councillors frequently ask for more meaningful financial information. Councillors should ask for, and officers should offer, training and support to help members better understand cost information and become more confident at using it to scrutinise policy options and service performance.

16. When considering financial information, councils do not generally bring together the two core elements of value for money: cost and quality. Councillors need to have reports that provide an assessment of what is being delivered and what that is costing in order to assure themselves that the council is providing value for money. This would support councillors to be more involved in the scrutiny of their council's performance.

17. The monitoring of financial information in councils tends to focus on spend against budget. Reporting typically focuses on the budget, the expenditure to date, and the difference between the two. Where there are any significant over or underspends the councillors and officers can then consider the reason for the difference and whether any action needs to be taken. These budget-monitoring reports are an essential element of sound financial

What do councillors say?

"We have to be even more cost conscious. We have to ask ourselves what we can actually do with the resources."

"The council has not properly embraced best value as there are issues where it appears decisions are taken without fully considering the financial consequences."

Source: *How councils work: an improvement series for councillors and officers – Roles and working relationships: are you getting it right?,* Accounts Commission, 2010

management. However, as these reports focus on cost centres which do not necessarily align with defined services or objectives, they do not cover what it actually costs to deliver specific services. In very simple terms, a budget-monitoring report on an education service will highlight how the service is managing its budget, but it will not, for example, tell the reader how much it costs to educate a child.

18. The local government sector still operates a largely traditional financial accounting system. The focus of this financial accounting is to ensure that the annual accounts are accurate and presented in accordance with the range of guidance laid out for their preparation. There is good reason for this, to ensure that public bodies have complied with the range of guidance about the acceptable use of public funds and to standardise the approach to producing annual accounts.

19. There has been less of a focus on management accounting. Management accounting adopts a different perspective and makes clearer links between spend in an area and the service output. Where financial accounting tends to focus on the past, ie accounting for what has been spent, management accounting is more forward looking, aiming to understand cost patterns and therefore what resources will be needed in the future. By looking forward, management accounting techniques can support councils' planning and decision-making processes, more so than by using financial accounting alone. Councils could integrate aspects of management accounting practices to support their strategic planning and decision-making processes.

The use of cost information must be driven by what the council is trying to achieve

20. If councils are to use cost information more effectively it is important that they consider carefully where the information is most needed and where it will add most value. Given that the use of cost information is relatively undeveloped across councils we are not advocating the immediate adoption of a comprehensive and detailed costing measurement system. If councils were to do this, there is a risk that setting up and maintaining a cost measurement system becomes an end in itself rather than a means to an end. The focus should be on putting

---

What do we mean by these accounting terms?

Financial accountancy: accountancy concerned with the preparation of financial statements. The main purpose of financial accounting is to prepare accurate financial reports that provide information about the organisation's financial performance and demonstrate that it is managing its finances appropriately and in accordance with regulations and guidance.

Management accounting: accountancy to support internal decision-making. The main purpose of management accounting is to provide financial and cost information to help managers make decisions and plan and manage their services.

Source: Audit Scotland

What others are doing

- Police forces in England and Wales, supported by the Home Office, have introduced a framework, called Police Objective Analysis, to help provide clear, relevant and comparable cost information across police services. The aim of the framework is to promote reporting of cost information against areas of activity, rather than against cost codes or budget lines. Reporting costs in this way makes it easier to assess the impact of the activity alongside the cost of the activity.

  This framework was endorsed by the Association of Chief Police Officers in Scotland (ACPOS) in January 2010 and has now been developed for use by Scottish police forces. The framework requires reporting of cost information against a number of set headings and subheadings, covering topics such as local policing, roads policing, specialist operations, intelligence, and support functions. Guidance has been developed to help ensure that results are comparable and consistent across the forces.

  In England and Wales, the output of the framework is already being used to challenge value for money within and between forces. Once embedded in Scottish forces, comparisons should be able to be made between all forces, and in future between divisions and services of the single Scottish police force, giving a wide pool of comparators. The Police Objective Analysis framework will help forces to manage, compare and review their costs, therefore promoting improved value for money.

Source: Audit Scotland – based on *Police Objective Analysis Guidance Notes 2,* Scottish Version 0.3

some key measures in place to understand costs in important areas. From that basis, councils can then review their approach to using cost information and refine this as required on an ongoing basis. The value of adopting a pragmatic approach to using cost information is a common theme running through the case studies in this report.

Choosing the right cost measures

21. Councils should establish cost measures at a level that is meaningful for the intended purpose. The important thing is to establish what it is that the council needs to understand about its service delivery, and then identify the best cost measure for that purpose.

22. Setting the council's budget is one of the most important areas of decision-making for councillors in the council's business cycle. Traditionally, council departments set high-level budgets using an incremental approach, adding on percentage increases or decreases to cover inflationary pressures and other cost pressures and savings.

23. Priority-based budgeting is a different approach which uses the council's stated objectives as a starting point.

24. Case study 3 is about Aberdeen City Council's approach to priority-based budgeting. The council carried out a mapping exercise to understand the links between its objectives, the services involved in achieving those objectives and their costs.

Unit costs

25. Unit costs are defined as the calculated costs for a distinct unit of a product or service. Calculating unit costs can be particularly useful because they clearly link resources, ie costs, with a specific output, ie a product or a service. Unit costs can therefore be used to help assess value for money. In addition they can be informative when making comparisons, by benchmarking costs over time or between councils.

Case study 3
Aberdeen City Council – using cost information to support priority-based budgeting

In 2010, Aberdeen City Council decided to adopt a priority-based budgeting approach to help determine its future service demands and related costs. The aim was to develop a five-year business plan to more effectively manage the council's finances and support the achievement of the council's priority outcomes.

This involved extensive work to understand the baseline costs of the council's current service provision. The work showed the council that if it carried on providing the services in the same way as it currently was, the cost of providing these services would increase by almost 19 per cent over the next five years. The council's approach focused on 'building' its budgets based on what it costs to carry out the activities and functions required, rather than focusing on where to make savings in existing budgets.

The core aim in adopting this approach was to allow councillors to make informed decisions about the services the council provides. It allowed them to effectively consider the relationship between cost, value and outcomes.

The basis of the council's priority-based approach was its key strategic documents: the Single Outcome Agreement and the Corporate Plan. These were reviewed and the outcomes which the council considered most important to deliver were identified. The council then assessed which services contributed most to the achievement of these priority outcomes.

Specialist cross-council teams worked together to gain a better understanding of the costs of the services. Dedicated finance staff worked alongside service representatives and managers to cost service provision and produce baseline figures. Options for service changes and new delivery methods were then reviewed and costed. This allowed the council to evaluate the impact both on the council's budget and on achieving its priority outcomes. Using cross-council teams to develop and challenge the budget options helped to foster a corporate approach and collective ownership of the options.

The council saw it as essential to include communities and partners in the thinking and planning of changes to its services. Each directorate held stakeholder consultation events, inviting their key stakeholders to attend briefings with officers and senior elected members. The draft final report was shared with elected members from the administration and opposition parties. Briefings had also been given to elected members at various stages of the process and directorates updated their respective committee convenors and vice-convenors of the draft options throughout the process. There was also a significant investment in engaging with local communities at key stages in the process, for example through questionnaires and public events.

Priority-based budgeting is now recognised in all services as the process by which Aberdeen City Council prepares its draft budget for consideration by elected members and approval by the council. The outcomes of the priority-based budgeting exercise are integrated with the detailed draft five-year business plan, which pinpoints the priorities and essential services which the council seeks to deliver over the next five years.

In February 2011, the council approved £71.5 million of savings options over a five-year period and has delivered the £15.7 million of savings approved for 2011/12. The individual savings options vary in value and impact on services. The five-year rolling business plan is reviewed annually and this review is used to determine the annual draft budget. A further £36 million of potential savings options over the five-year period to 2016/17 was presented to the council in December 2011. From these options, a further £3 million of new savings were approved to be delivered in 2012/13, in addition to previously approved savings of £15 million.

Those options which have been accepted by the council are monitored throughout the year by the Programme Management Office. The change-control procedure includes considerations of the impact of options on future years' budgets. The budget team work closely with the individual directorate finance teams to ensure consistency of reporting.

Source: Aberdeen City Council

26. As with other performance measures, it is important that councils understand the key assumptions on which the unit costs are based to ensure that any comparisons are relevant and that any differences are understood. For example, when comparing costs, councils must be clear about what overheads are included in the make-up of a unit cost. If this is not clear there is a risk that councils are not comparing like with like.

27. This is particularly important when councils are using cost information to inform an options appraisal process. For example, if comparing the costs of an external supplier with an 'in-house bid', councils must ensure that the cost information is comparable to ensure that the bids are being assessed consistently.

28. The Edinburgh Leisure case study (Case study 6, page 21), in Part 2 of this report, illustrates how the organisation made decisions about using unit costs. It illustrates the difficulty of apportioning some costs where there is not a direct link between staff activity and individual service provision.

Want to know more?

- *A Question of Cost – How Costs Behave and How to Control Them: A Practical Guide for All Managers (CIPFA, 1995)* http://secure.cipfa.org.uk/cgi-bin/ CIPFA.storefront/EN/product/ FM008

- *Unit Costs – not exactly child's play: a guide to estimating unit cost of children's social care (Department of Health, Dartington Social Research Unit and The Personal Social Services Research Unit at the University of Kent, 2000)* http://www.pssru.ac.uk/pdf/ B062.pdf

---

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

29. Over recent years there has been an increasing emphasis on an outcomes-based approach to delivering local services. A focus on outcomes has underpinned the relationship between local and central government in Scotland since the 2007 Scottish Parliament election. The Concordat agreement between the Scottish Government and local government gave councils more flexibility in how they spend their budgets. In return for this flexibility, the Scottish Government set out 15 (now revised to 16) national outcomes which councils had to respond to at a local level. Councils and their partners set out how they would deliver against these objectives, through their Single Outcome Agreements.

30. An outcome-focused approach needs to be supported by a sound understanding of costs. Outcomes are often long term and require councils and other public and private sector organisations to work in partnership. Working in partnership with other organisations can present challenges. Bringing together information on resources and costs across partner organisations can be a particular challenge. This is often the case because organisations such as health boards, enterprise agencies or private sector partners have different financial management and accounting arrangements. In addition, outcomes are often interrelated, and staff can be working to fulfil a range of outcomes at the same time. This makes it harder to determine how much is being spent on the delivery of outcomes, particularly where information from different public sector bodies needs to be brought together.

31. There is, however, a strong appetite across public sector organisations to better understand

how resources link to outcomes. Community Planning Partnerships recognise that they need to understand how the collective spend of public bodies affects the delivery of their shared outcomes.[1] Work is currently being undertaken to develop outcome-focused budgeting; this is covered in Part 2 of this report.

32. Case study 4 on North Ayrshire Council's fostering service illustrates how looking at the costs associated with delivering an outcome can influence how a service is provided.

The financial challenges in the public sector are demanding more effective use of cost information

33. The Scottish public sector is currently responding to budget reductions. The Scottish Government published its 2011 spending review and its draft 2012/13 budget in September 2011. The spending review sets out planned spending for the next three years, to 2014/15. The overall local government allocation, in real terms, is set to decrease by £350.2 million in 2012/13, £328.4 million in 2013/14 and by £44.9 million in 2014/15. The most significant year-on-year reduction occurred in the previous spending review period, between 2010/11 and 2011/12, where local government funding dropped by £654 million in real terms.

34. Local government capital allocations, in real terms, are also set to decrease, from £691.8 million in 2011/12 to £549.3 million in 2012/13 and £491.4 million in 2013/14, before rising to £702.7 million in 2014/15. The rise in 2014/15, is due to the re-profiling of capital spend from the first two years of the spending review to the latter year.

35. Councils have been responding to the planned budget reductions, updating their financial plans and savings targets accordingly. Councils have had to move quickly to reduce

---

1   *Context for the Outcome Budgeting Project,* report to Outcome Budgeting Project Board, Improvement Service, April 2011.

Case study 4
North Ayrshire Council's fostering service – using cost information to help inform service delivery options

In 2009/10, North Ayrshire Council undertook a review of its fostering service to inform an options-appraisal process to look at service models for shifting the balance of care provision from residential care to foster placements. The review focused on understanding the service the council was currently providing, the needs of those in the service, and the supply of foster carers. The review identified that:

• demand was increasing and outstripped the supply of council foster carers, exacerbated by the increasing age profile of the council's foster carers

• to meet service demand the council had needed to purchase independent sector placements, which were expensive and often outwith North Ayrshire

• many prospective foster carers in North Ayrshire had applied to foster with independent providers and other local authorities, as these providers paid higher carers' fees and provided increased support packages

• children under the age of 12, who require to be accommodated, achieve the best outcomes if they are placed in foster care rather than residential care

• the fostering budget was projected to overspend and if the current balance of provision continued this overspend would increase sharply.

The review concluded that the current service delivery model was not sustainable in financial terms and was not achieving best value in terms of the outcomes for children.

The service developed three potential service delivery options: maintaining the current model, outsourcing all fostering services, and introducing an internal fee-based scheme. This scheme would involve paying carers a more competitive fee and was aimed at making being a foster carer with the council more attractive compared to other providers.

To support the options-appraisal process the three options were costed. This process involved understanding the different cost elements of the service, for example payments to carers, staff costs and overheads. Understanding these elements was essential to making sure officers knew which costs to include when comparing in-house and external options. Fully understanding the different cost elements also meant that officers could accurately assess the impact that changing the service model would have on the overall service costs.

The costing exercise demonstrated that the current service model was not a sustainable option. It was shown that maintaining this model would lead to a budget overspend of more than £4 million by 2013/14. Option two, to fully outsource the service, was found to not provide value. The costing exercise showed that the internal unit costs of £436, for mainstream placements, and £644, for placements with additional needs, were lower than the average external provider fees of £895 and £1,047. While moving to this model was found to reduce the service's overhead costs, the exercise showed that this would not offset the higher placement costs. This option would also not achieve the best outcomes for children in foster care, for example due to many placements being outwith the local area resulting in children losing community ties. The third option was identified as the preferred option. The appraisal identified that this model would reduce costs – by helping to retain existing foster carers and attract new ones, therefore reducing the need to purchase external placements – while also promoting the best outcomes.

While it was identified that a new service model would reduce costs, the review also found that the current fostering budget would still not be sufficient to meet demand. It was also identified that some up-front investment would be needed, for example for recruitment and training costs.

The options appraisal was presented to the councillors with information on the cost impact of each option along with the impacts on service sustainability and achievement of outcomes. This supported the councillors to be confident that their decision was based on sound evidence.

The service has successfully started to implement this new service delivery model. In 2010/11, the service appointed 16 additional foster carers and has achieved a saving of just over 50 per cent compared to the cost of the equivalent external placements. The service has exceeded its target for reducing the number of external placements and has transferred six children from residential units to foster placements, supporting its service objectives. By adopting this new model, the projected cost per placement per year will reduce by approximately 36 per cent. The council's fostering and adoption services have also received positive feedback from recent inspection activity, noting the developments since the approval of the new approach.

Source: North Ayrshire Council

their spend and of necessity have focused on methods that make an immediate impact, such as voluntary early release schemes and reducing spend in some services. This has often been done without a clear understanding of what the cost of delivering services and functions has been. A freeze on recruitment and the introduction of staff early release schemes have delivered some savings, however these changes have potential impacts on whether the same level and quality of service can be maintained.

36. The effective use of cost information is crucial for identifying policy options and supporting decision-making on those options which would work best for the individual circumstances of councils. For example, accurate cost information is essential to understand whether service levels and quality can be sustained when the workforce is reducing. A clear focus on the effective use of cost information is therefore required to support decisions about how services can best adapt to reducing budgets. However, effective use of cost information to support budget setting processes should not be seen as important only during times of financial constraints. Embedding the use of cost information is a key element of delivering value for money services whatever the financial context.

What does APSE say?

"The need for high-quality performance information on value for money has never been greater. Local government is facing difficult and turbulent times with the prospect of ongoing financial constraints. The need for services to demonstrate their competitiveness, efficiency and cost effectiveness has never been greater."

Source: *Performance Networks Prospectus: Benchmarking for Success,* Association of Public Service Excellence (APSE)

Greater openness about cost implications can help communities engage in the difficult decisions that lie ahead

37. It is clear that the impact of budget reductions is leading to some difficult decisions for councils and some are in the challenging position of having to reduce levels of service provision. This often results in negative reactions from local communities and the media and puts pressure on local councillors.

38. Greater openness about the choices that councils need to make can help communities to understand and appreciate the difficult decisions that councillors are having to take. Having robust information to hand on what it costs to deliver services and how this is becoming increasingly difficult within the context of reducing budgets is essential. Using this information to discuss options with communities can also help to make them feel more involved in decisions about changes to local services.

39. Involving staff in the discussions about the cost implications of budget choices is also important. Involving staff in developing ideas for improvements and efficiencies can help keep them engaged in what can often be difficult and unsettling periods of change. In the Glasgow City Council example (Case study 5, page 20) in Part 2 of this report, staff engagement was crucial. Staff were provided with training on continuous improvement and efficiency and were involved in identifying opportunities for improvement and savings. The council saw positive results from this engagement as staff were more involved in, and supportive of, the changes being made.

Part 2. Councils should use cost measures and share good practice more effectively

Established frameworks and indicators could be brought into councils' performance management arrangements to help inform decision-making and assess performance and value for money.

40. In this part of the report we draw attention to some of the existing guidance, frameworks and performance indicators that have already been established and which councils could use more effectively. These established frameworks and indicators could be brought into councils' performance management arrangements to help inform decision-making and assess performance and value for money.

41. The benefit of using existing frameworks, such as the Statutory Performance Indicators (SPIs), is that these are underpinned by definitions on what should and should not be counted within the cost and expenditure information. This should mean that they provide more robust benchmarking information because all councils should be capturing information in broadly the same way. However, even here, where performance measures and guidance are long established, we are aware that there remain local interpretations and so variations in how costs are apportioned.

There is a range of existing cost measures and guidance that councils could apply more effectively

42. There is a range of cost measures and guidance on using costs information available to councils. Councils could make more effective use of these existing resources to support their own approaches to using cost information. The following sections provide some examples of these existing measures and highlight current work being undertaken to support improvements in the use of cost information.

The Statutory Performance Indicators
43. The Accounts Commission's SPIs have been in place since 1992 and are reviewed on a regular basis to reflect the changing context of the local government sector. As part

---

Exhibit 1
Cost and income SPIs

- The gross cost per case for benefits administration

- The cost per dwelling of collecting Council Tax

- The income due from Council Tax for the year, net of reliefs and rebates, and the percentage of that which was received during the year

- The total annual rent loss due to voids expressed as a percentage of the total amount of rent due in the year

- The net cost per premises for

  – refuse collection

  – refuse disposal

Source: Accounts Commission

---

of this review process the number of SPIs was reduced significantly in 2009. This was to offer flexibility and encourage the local government community to establish its own performance measures to support improvement. Within the SPIs there are a number of measures which use cost information to inform an assessment of performance. Examples of the cost and income-related indicators are shown in Exhibit 1. These indicators help to give councils a picture of their performance compared to other councils and over time.

44. Councillors and officers can use SPIs to explore the reasons why costs may be higher or lower than comparator councils. For example, in 2010/11, the SPIs show that the cost of collecting council tax per dwelling varied significantly between councils, from a low of £4.16 to a high of £26.56. Similarly, the SPIs show a wide range in the cost of benefits administration per case across councils from a low of £28.80 to a high of £77.70.

45. Indicators such as these can help councils to compare their performance with others. Councils with higher costs should use this information to start exploring why

they are spending more than others and look to those with lower costs to identify any learning or good practice that can be shared. Similarly, those with very low costs should be interested in knowing what impact this has on the quality of the service being provided. It would be too simplistic to say that high cost is a bad thing and low cost good. The important question is 'why is the cost so different and does the difference have an impact on the service that customers receive?'.

46. It is also useful to use family or comparator groupings when comparing cost indicators such as these. Using family groupings means that councils compare themselves to others who are 'like them' in terms of size and location. This can help to eliminate or explain factors such as geography or demographics and therefore identify areas where variations in costs or performance are the result of service performance or efficiency.

47. In the introduction to the 2011 SPI Direction,[2] the chair of the Accounts Commission noted: "Councils are making progress in providing comprehensive public reporting in line with the 2008 Direction and their wider duty of Best Value. But

---

2   http://www.audit-scotland.gov.uk/performance/docs/pi_direction_2011.pdf

there remains scope for further improvement in the approach to, and coverage of, public performance reporting, both of which are highly variable in quality across councils. We would like to see further progress in these areas." The chair went on to set out the Accounts Commission's position on the development of performance reporting, Exhibit 2.

48. Further information on the SPIs can be found at www.audit-scotland. gov.uk/performance

Improving local authority benchmarking
49. The Society of Local Authority Chief Officers (SOLACE) in Scotland has been developing a set of indicators to supplement the performance information that is currently available for the local government sector. The aim of this work is to identify indicators which will cover efficiency, process and outcomes and support benchmarking for each of the major service areas provided by councils.

50. In establishing these indicators, SOLACE wanted to ensure that all measures could be collected on a comparable basis across all 32 councils. It also wanted to focus on indicators that would meaningfully add to and improve the cost information of service delivery on a comparative basis for major service areas and corporate functions.

51. SOLACE is taking the financial information used in these measures from the returns councils submit to the Scottish Government called the Local Financial Return (LFR). The SOLACE project team is aware that there are limitations with this information source at present, for example the guidance on completion of the financial information is not always properly adhered to and local interpretations can be applied. However, the project team identified

---

Exhibit 2
2011 SPI Direction

"We want to be able to use our statutory role to underpin performance reporting designed by councils themselves, rather than impose an additional regime. To this end, we intend to undertake in 2012 a more fundamental review of Statutory Performance Indicators to ensure that they remain relevant and fit for purpose. We have also examined developments in scrutiny and auditing, and the Scottish Government's approach to performance measurement. We are encouraged by the initiatives that the local government community is currently engaged in to improve performance information, including the development of local outcome indicators and a suite of benchmarking indicators covering costs and services.

But we expect the local government community to move forward quickly with its own performance information initiatives. It needs to implement and sustain the infrastructure that will be required to deliver an effective set of performance information which enables citizens and service users to understand how their services are performing in terms of quality, cost and impact. It must also enable comparison across councils and over time, as required by the legislation.

We hope that we will see positive progress over coming months. If such progress can be demonstrated, this may enable us in future Directions to consider requiring councils to produce information that draws more heavily on their own local outcome indicators and benchmarking indicators."

Source: Chair's Introduction to 2011 SPI Direction, Accounts Commission

---

the LFR as the best source for comparative financial information and aim to deliver a more consistent approach to LFR reporting through this project.

52. SOLACE has recently approved the initial set of indicators and is now working with its members to test and refine them.

Value-for-money indicators for corporate services
53. The UK public sector audit agencies[3] have undertaken a project to develop a series of indicators to help measure and demonstrate the value for money of corporate function in the public sector. They have produced a range of efficiency and effectiveness indicator sets covering HR, finance, ICT, procurement, estates, legal and communications

functions. The indicator sets are divided into efficiency (cost) and effectiveness measures, with effectiveness being subdivided into measures on impact, satisfaction and modernisation. Exhibit 3 (overleaf) provides examples of the cost-related indicators for each of the functional areas. Using these indicators is voluntary but we encourage councils to consider using them to measure the value for money of their corporate support services.

54. Further guidance on these measures and information on the project can be found on the Audit Scotland website: http://www. audit-scotland.gov.uk/performance/ corporate.php

---

3   The UK audit agencies are Audit Scotland (working on behalf of the Auditor General for Scotland and the Accounts Commission), the National Audit Office, the Audit Commission, the Northern Ireland Audit Office and the Wales Audit Office.

Exhibit 3

UK public sector audit agencies, value-for-money indicators

Human Resources
Cost of the HR function: a) as a percentage of organisational running costs (expenditure) and within this the proportionate cost of (a) learning and development and (b) all other HR costs; and b) the cost of the HR function per employee
Cost of learning and development activity as percentage of the total pay bill
Cost of agency staff as a percentage of the total pay bill
Cost of recruitment per vacancy

Finance
Cost of the finance function: as a percentage of organisational running costs (expenditure) and within this the proportionate cost of a) transaction processing, b) business decision support and c) reporting and control
Cost of customer invoicing function per customer invoice processed
Cost of accounts payable per accounts payable invoice processed
Payroll administration costs per employee paid

ICT
Cost of the ICT function as a percentage of organisational running costs (expenditure)
Cost of providing support: a) per user and b) per workstation
Acquisition costs per workstation

Procurement
Cost of the procurement function: a) as a percentage of organisational running costs (expenditure) and b) as a percentage of third-party spend
Average value of invoices

Estates
Total property costs per FTE employee
Total property costs (occupancy, operational and management) per square metre
Cost of the organisation's estates management function: a) per square metre and b) as a percentage of organisational running costs (expenditure)
Total property occupancy/occupation costs (revenue) per square metre
Total building operation (revenue) costs per square metre

Legal
Total cost of legal function: a) as a percentage of organisational running costs (expenditure) and b) total cost of legal function (net of external income) as percentage of operational running costs (expenditure)
Total cost of a) the in-house legal function and b) externally sourced legal work as a percentage of total legal function costs
Cost of legal function per FTE employee
Cost of learning and development activity as a percentage of the legal unit pay bill
Cost per hour of providing legal work

Communications
Total cost of communications as a percentage of organisational running costs (expenditure)
Cost of central communications function as a percentage of operational running costs (expenditure)
Cost of embedded communications function as a percentage of operational running costs (expenditure)

Source: UK public sector audit agencies, VfM project

Benchmarking through APSE

55. There are a number of cost-related indicators available through the Association of Public Service Excellence (APSE) performance networks. The networks are benchmarking groups which are open to local authorities across the UK. There are currently performance networks in place covering 14 service areas:

- building cleaning

- building maintenance

- civic, cultural and community venues

- culture, leisure and sport

- education catering

- highways and winter maintenance

- other (civic and commercial) catering

- parks, open spaces and horticultural services

- refuse collection

- sports and leisure facility management

- street cleansing

- street lighting

- transport operations and vehicle maintenance

- welfare catering services.

56. Each performance network makes use of a range of measures, including costs indicators along with a variety of other performance indicators. Exhibit 4 provides an example of the cost-related measures for the street cleansing benchmarking group.

57. Similar to the SPIs outlined above, these indicators and benchmarking reports can be used by councils to question why their performance or costs are different from others.

Exhibit 4
APSE street cleansing performance network – cost-related indicators

- Cost of cleansing service per household (including central establishment charges (CEC))
- Cost of cleansing service per household (excluding CEC)
- Total staff costs as percentage of total expenditure
- Transport costs as percentage of total expenditure
- Front-line staff costs as percentage of total staff costs
- CEC as percentage of total expenditure
- Percentage of street cleansing budget allocated to education and publicity of initiatives
- Cost of services per head of population (including CEC)
- Cost of service per head of population (excluding CEC)
- Front-line labour costs as percentage of total costs
- Net cost per site – public conveniences

Source: *Street Cleansing Summary Report 2009/10,* APSE Performance Networks

For example, the 2009/10 report on street cleansing shows that the cost of cleansing services per household (including central establishment costs) ranges across the participating councils from a low of £11.38 to a high of £87.92. The report also shows that the percentage of the total service expenditure accounted for by staff costs ranges across councils from 46.7 per cent to 84.8 per cent. This type of comparative information should prompt those at the edges of the ranges to ask why their costs are significantly higher or lower than others and what they can learn from other councils.

Improving outcome-focused budgeting
58. Part 1 of this report discussed the public sector focus on outcomes. This needs to be accompanied by corresponding focus on having fit-for-purpose performance management arrangements in place so that public sector bodies are monitoring robustly the impact of outcomes for communities.

59. A survey of community planning partners in early 2010 found that partners wanted a better understanding of how the individual and collective spending of public bodies affected the delivery of outcomes.

60. The Improvement Service has been leading work in this area and pilot work in two community planning areas has produced 'funding maps' on two areas of spend: health and social care for older people, and community safety. The pilot has found that it is extremely difficult to accurately map a relationship from spend to outcome.

61. The next stage of the project is focused on developing a methodology to achieve an outcome-focused budgetary process at local level. This will then be supported by appropriate tools, materials and resources to help other community planning partnerships to understand how their budget decisions will affect their agreed priority outcomes and, in turn, the communities they serve.

Using cost information at different levels can help deal with both strategic and front-line service issues

62. The case study examples that we present in this report illustrate the importance of establishing a robust approach to using cost information at different levels of a council.

Using cost information at a corporate level
63. Cost information needs to be incorporated more effectively in corporate performance management systems. Corporate improvement programmes and large-scale projects aimed at redesigning services need to have a good understanding of the current costs of the services being reviewed. Councils also need to have a good understanding of how those costs might change if the council delivers services in different ways. This is needed so that councillors may have meaningful discussions with their electorates, contribute to informed debate in committees and take sound and robust decisions in committees and full council.

64. Case study 5 (overleaf) on Glasgow City Council's shared services shows how cost information featured at key stages of its improvement programme.

Using cost information at a service level
65. A clearer understanding of performance at a service level also requires more effective use of cost information. Case study 6 (page 21) on Edinburgh Leisure illustrates how cost information has been incorporated into the regular monitoring of the service performance.

Case study 5

Glasgow City Council – using cost information to support an improvement programme

In 2009, Glasgow City Council realised there were opportunities for improving the effectiveness and efficiency of its administrative and customer service processes. The council had successful shared services and customer contact centres, now known as customer and business services (CBS). However, the council was not using the service to its full potential and, as a result, was not maximising the benefits. Less than half of the council's finance and HR work and less than a third of customer contact were being carried out by the shared services centre. Across the council, administrative and customer services processes were overly complex and were being carried out in different ways by each department. As a result, the council's administrative and customer contact costs were unnecessarily high and the shared services function was not achieving its full impact.
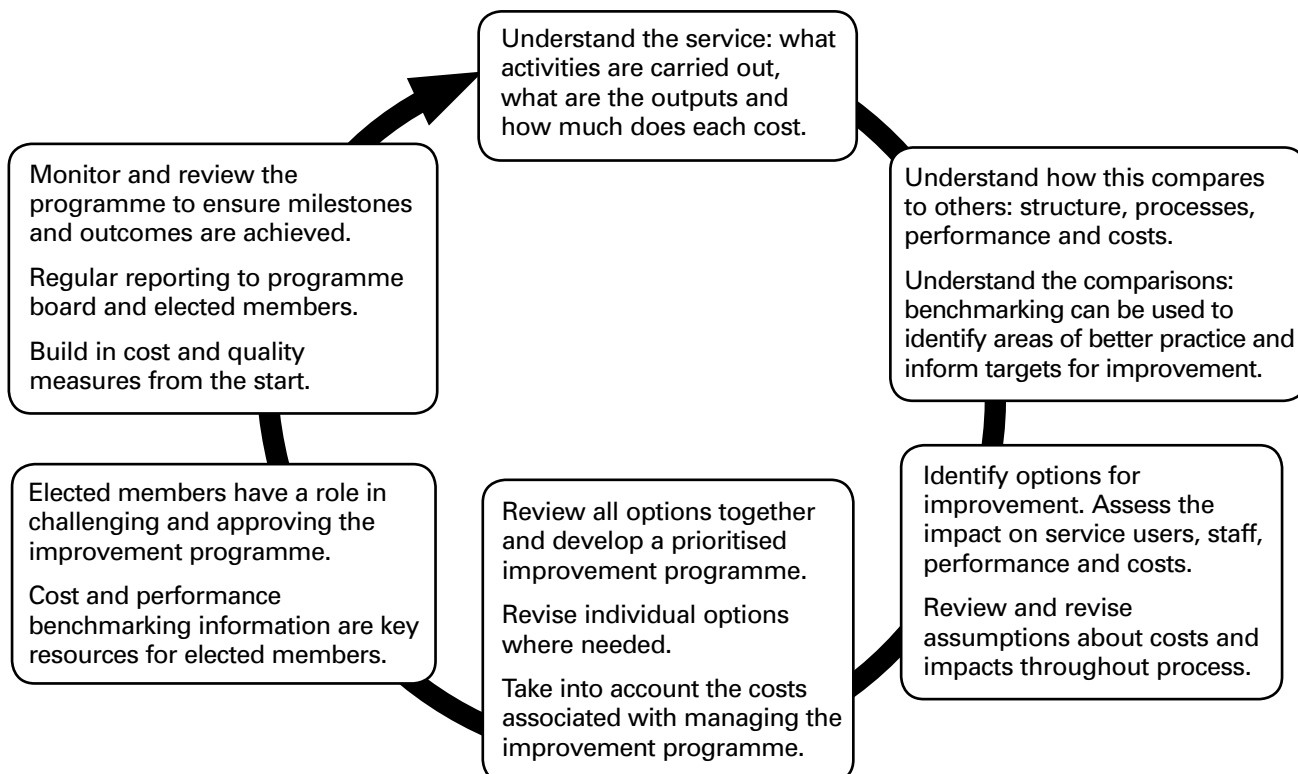
The council decided to undertake a systematic review of its shared services centre and its administrative and customer services activity to develop an improvement plan. The diagram below sets out the key elements of the approach it took.

Having good-quality cost information was essential throughout the review process. By understanding how much current services cost and how this compared to cost and performance elsewhere, the council could robustly identify areas for improvement. Sharing cost

and performance information with councillors helped to demonstrate the impact that could be achieved by undertaking improvement activity. The team presented the cost information in ways that made it more meaningful to councillors, for example by comparing the savings achievable by changing the payroll process to how many social workers this could fund. Regular monitoring and reporting of the cost benefit analysis of the improvement activities was crucial to ensuring the buy-in and continued support of councillors and council officers.

As a result of undertaking the review the council developed a three-year improvement plan, built around three core workstreams covering HR, finance and customer contact. Implementation of the improvement programme is planned to achieve savings of £5.1 million per annum for the three years against a total project cost of £6 million, resulting in an overall saving of £9.3 million.

In the first two years of the programme, gross savings have exceeded £2 million with net savings after project costs of £0.8 million. Monitoring of performance and quality indicators has ensured that service quality has not suffered as a result of the improvement programme. In many cases, the quality of service has improved as the service processes have been made more efficient. For example, the council has achieved a 50 per cent reduction in the time taken to deal with appeals against parking notifications.

Understand the service: what activities are carried out, what are the outputs and how much does each cost.

Understand how this compares to others: structure, processes, performance and costs.

Understand the comparisons: benchmarking can be used to identify areas of better practice and inform targets for improvement.

Identify options for improvement. Assess the impact on service users, staff, performance and costs.

Review and revise assumptions about costs and impacts throughout process.

Review all options together and develop a prioritised improvement programme.

Revise individual options where needed.

Take into account the costs associated with managing the improvement programme.

Elected members have a role in challenging and approving the improvement programme.

Cost and performance benchmarking information are key resources for elected members.

Monitor and review the programme to ensure milestones and outcomes are achieved.

Regular reporting to programme board and elected members.

Build in cost and quality measures from the start.

Source: Glasgow City Council

Case study 6
Edinburgh Leisure – using cost information in a meaningful way for your service

Edinburgh Leisure is the leisure trust that manages and develops sports and recreation services on behalf of the City of Edinburgh Council. The trust has considered its approach to understanding its costs and has taken a pragmatic approach. The trust breaks down its financial information to a level that allows it, and its board members, to make informed decisions.

In particular, the trust has adopted a pragmatic approach to identifying suitable unit costs. The trust identified that it was not easy to allocate whole leisure centre costs to individual activities. For example, costs associated with some staffing roles, such as receptionists and general managers, could not meaningfully be allocated to individual activities such as a game of badminton or a football session. The trust decided it was more useful to concentrate on the income generated by the different activities, through tracking sales and adding only those costs that can be directly linked to that activity, for example lifeguard costs per swimming sessions. This approach allows the trust to compare the income and direct costs for each activity in a way that is meaningful for its service. This approach provides the information needed by the trust to identify areas of stronger financial performance and activities where they could better balance costs and usage levels.

The trust analyses its income by leisure centre as well as by activity, helping it to identify the most appropriate actions to address areas of weaker performance. Having this information helps the trust decide whether to target improvement action at a particular activity or target a specific leisure centre.

The trust also monitors facility costs, such as salaries, property costs, supplies and services. This allows it to benchmark its costs both over time and across its facilities, to help identify good practice and target improvement. Employee costs are by far the biggest area of spend for the trust. In order to effectively monitor costs the trust looks at staffing information, such as staff numbers and skills mix, alongside cost information. There are regular reviews of staffing benchmarks and evaluation across facilities to identify the most effective staffing models. The trust uses this information to identify potential efficiencies for other facilities.

Source: Edinburgh Leisure

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

66. Putting in place a robust process for understanding and analysing cost information can bring added benefits to corporate working within a council. The improvement programme undertaken by Glasgow City Council outlined in Case study 5, involved staff by asking them to help identify areas where improvement could be made. The improvement programme resulted in a number of staff posts being freed up from completing manual tasks as the programme has improved service process and introduced more automated, time-efficient processes. Staff were engaged in this process and volunteered for redeployment to other areas of the council, seeing it as an opportunity to try something new and learn new skills.

67. Several of the case studies have brought finance and service staff together to understand costs and the impact of changing services. This has led to an improved understanding between professional groups. Finance staff have gained a greater understanding of the demands on the service, and how these can impact on costs. In turn, service managers have benefited from the skills of financial professionals to support them in identifying the current cost of service provision and the costs of options for future service delivery. This has helped create a corporate culture which is based on constructive challenge.

68. The Dundee City Council case study (Case study 2) in Part 1 of the report shows how a clear understanding of the cost impact of an issue can help reinforce a partnership response and lead to a more integrated approach to tackling an issue.

69. Case study 7 (overleaf) on East Ayrshire Council shows that there are benefits to be gained when councils work together to analyse costs.

Case study 7
East Ayrshire Council – working with other councils to better understand costs

During 2009/10, East Ayrshire Council developed an efficiency strategy, designed to reduce expenditure across the council to meet its projected budget gap. The strategy was approved by elected members who had recognised that at a time of budget constraints, there was a need for further substantial information to be gathered relating to the cost and performance of key services. A key element of the efficiency strategy was therefore to review service budgets and performance, identifying the cost of providing a service and linking it to performance.

To be able to more effectively and accurately use this cost and performance information, a Cross-Council Budget and Performance Working Group was established. The focus of this group was to identify a consistent basis for calculating the costs of services and comparing these to service performance. The group is coordinated by East Ayrshire Council and consists of officers from East Ayrshire, North Ayrshire, South Ayrshire, Clackmannanshire, East Renfrewshire, South Lanarkshire, Inverclyde and West Dunbartonshire Councils. The aim of the group is to learn from best practice and analyse each service to identify how costs can be reduced without impacting adversely on service delivery and performance. The group also establishes how individual councils can maintain low costs and high performance in certain services.

The basis of the cost information is the Local Financial Returns (LFRs) and the group quickly became aware that there were significant inconsistencies in the data. Work was therefore required to analyse, validate and revise the LFR income and expenditure in order to ensure the information was consistent across the group. Once the councils involved had reached an agreed process to achieve consistency in financial and performance analysis, ongoing reviews and benchmarking of performance, both across councils and over time, were possible.

This review and benchmarking activity allowed the councils to identify where there were additional costs in particular service areas. By also reviewing related performance data, they were able to identify where this additional spending did and did not link to better performance. As a result, councils within the group were able to identify areas of their service spend that could be reduced without affecting their service provision and quality. The willingness to share financial and performance information, and to meet and discuss in detail the issues affecting certain services, was a particular strength of this approach. All councils recognised the benefits that would arise from comparing consistent information on cost and performance, resulting in a real willingness to participate and share information. Good working relationships and a sense of ownership have helped the group to overcome any challenges which arose in the process.

The working group has now progressed into its second year and a workplan for 2012/13 has been agreed. The plan will see the group consider education data and undertake a detailed analysis of the costs and performance across a number of areas within their education services. The group intends to continue beyond the current year.
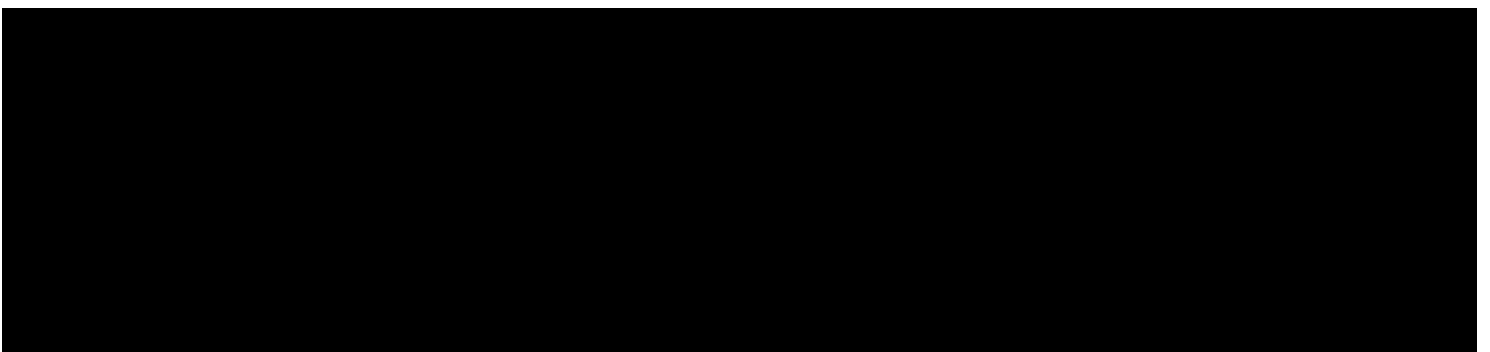
Source: East Ayrshire Council

Part 3. Key points for action

There are a number of issues councillors and officers should consider when developing an effective approach to using cost information.

The table below offers support to councillors and officers in using cost information more effectively.

Characteristics of a cost-aware council

An effective council will:
 	
 • know how much it costs to deliver core services
 	
 • use this information to inform decisions about what services to provide and how best to provide them
 	
 • ensure self-assessment and performance management frameworks include information on costs and assess whether the council is providing value for money
 	
 • understand the different levels of cost information required to support assessments of value for money in terms of:
 	
   – overall council performance
 	
   – service performance
 	
   – delivery of outcomes
 	
 • ensure budgeting arrangements consider the costs of different policy options and do not rely only on incremental budgeting
 	
 • focus on its priorities, and from there identify the most useful and appropriate cost information to use. This will help to ensure a pragmatic approach is adopted which best fits the needs of the council
 	
 • seek out examples of existing good practice in the council and share this information across council departments
 	
 • consider benchmarking performance and costs with other councils (and other organisations) to make value-for-money comparisons
 	
 • promote an awareness and understanding of the importance of costs and make clear that costs are everyone's business, not just the finance officers'
 	
 • use cost information to focus improvement activity.
 	
 An effective council will ensure that:
 	
 • officers provide meaningful cost information to councillors to help ensure that the scrutiny of a council's activities and service provision includes the consideration of costs
 	
 • decision-making arrangements are supported by good-quality information on costs which is provided to councillors in a way that is clear and unambiguous
 	
 • options appraisals have robust costing information to support decision-making
 	
 • councillors have agreed what cost information they need to support their decision-making
 	
 • councillors are provided with the appropriate training on how to understand and use cost information effectively
 	
 • communities are involved in discussions about the cost and service delivery implications of budget choices. This will help ensure communities have a greater understanding of what options are being considered and why, and the implications of those decisions.

Appendix 1.

A tool for checking progress

Questions for councillors	Assessment	Required actions/timescale
• Do I receive the information I need on the cost of my council's activities and services? If not, what information do I need?		
• When scrutinising performance do I get information on both the quality and the cost of services?		
• How well can I currently evaluate whether the cost of my council's service provision demonstrates value for money?		
• Is cost information presented together with relevant performance information?		
• How easy is it to compare my council with others?		
• When I am presented with decisions to make, are policy options supported with adequate information on the cost implications of those options?		
• Do reports include information on current costs?		
• Are the options I am being asked to consider costed?		
• Which priorities/service areas do I most need cost information on?		
• Do officers support me to fully understand and interpret the financial information I receive?		
• What training do I need to better understand cost information and what it means?		

Questions for officers	Assessment	Required actions/timescale
• Can I provide a clear and accurate assessment of what services cost? • Do I know how this compares to other organisations? • Do I use cost information as part of a performance management framework? • Can I give an informed assessment of whether council services provide value for money? • Am I satisfied that we have enough accurate and up-to-date cost monitoring information at the different levels of the organisation? • Am I making effective use of cost measures that already exist (for example SPIs, value-for-money indicators, SOLACE indicators, APSE indicators, etc)? • When I present reports to councillors, do the reports include cost information relating to performance and/or policy options? • Have we given councillors the appropriate training to enable them to understand costs effectively? • Where I use cost indicators, am I clear about how they are calculated and what this means when making comparisons over time or with other organisations? • How can I start to implement a more effective approach to using cost information? • What more can I do to foster a culture of cost awareness across the council? • Do all staff (not just the finance team) understand the importance of cost information and the fact that costs are everyone's business?		

Using cost information to improve performance: are you getting it right?

If you require this publication in an alternative format
and/or language, please contact us to discuss your needs.

You can also download this document in PDF,
black and white PDF or RTF at:
www.audit scotland.gov.uk

AUDIT SCOTLAND