



# A councillor's workbook on scrutiny of finance



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# Introduction

This Local Government Association (LGA) workbook has been designed as a distance learning aid for local councillors. It is intended to provide councillors with insight and assistance and develop the key skills which will help you to be most effective in your role. Some of the content may be of most use to more newly elected councillors, but nonetheless if you have been a councillor for some time, the workbook should serve as a useful reminder of some skills, approaches and tactics that make up the key features of financial scrutiny. If you fall into the latter category the workbook should serve as a useful reminder. It may even challenge you to reconsider how you have approached aspects of the role to date. This workbook will provide you with an understanding of the principles and practicalities of scrutinising the financial affairs of your council.

The workbook offers few firm rules for councillors as it is recognised that each individual must decide how best to approach their role in relation to financial scrutiny. This will be influenced by the type of area you represent, any specialist roles you have taken on and the nature of the financial management arrangements in your council.

The workbook can be used as a standalone learning aid or alongside other material you may cover such as training courses, e-learning modules or sessions within your own council. As such, the workbook should serve more as a direction marker rather than a road map.

You do not need to complete it all in one session and may prefer to work through the material at your own pace. In working through the material contained in this workbook you will encounter a number of features designed to help you think about your role in scrutiny of finance.

These features are represented by the symbols shown below:



**Guidance** – this is used to indicate research, quotations, explanations and definitions that you may find helpful.



**Challenges** – these are questions or queries raised in the text which ask you to reflect on your role or approach – in essence, they are designed to be thought-provokers.



**Case studies** – these are ‘pen pictures’ of approaches used by other people or organisations.



**Hints and tips** – these represent a selection of good practices which you may find useful.



**Useful links** – these are signposts to sources of further information and support, outside the workbook, which may help with principles, processes, methods and approaches.

# The importance of financial scrutiny

Financial scrutiny is the term used to describe the process of applying overview and scrutiny (O&S) to the financial management arrangements of a council:

- **Overview** – a proactive policy development and review process. In effect, gathering and using evidence to consider whether the financial plans and strategies of the council are sound and have taken into consideration all relevant factors.
- **Scrutiny** – a reactive challenge to decision-making, budgeting, service delivery or performance issues. In effect, using evidence to hold the council to account for its expenditure or to investigate pertinent financial concerns.

For simplicity, the shorthand term scrutiny is used throughout this workbook to describe both the overview and scrutiny element.

## The legal framework for financial scrutiny

**The Local Government Act 2000** states that it is the responsibility of the full council, on the recommendation of the executive, to approve the budget and related council tax demand. The Act makes it clear that the role of scrutiny in the financial process is to hold the executive to account and to ensure that its decisions are in the best interests of the community. Some scrutiny of budget setting and other financial planning processes is therefore essential.

**The Local Government Act 2003** provides the central legislation surrounding a council's financial planning and budgeting arrangements. Sections 28 and 29 of the Act require members to be involved in budget monitoring throughout the year, although it is not specified whether this is primarily an executive or scrutiny function.

## The council's financial affairs – who's interested?



### Challenge 1

**Write down who you think might wish to know about the financial affairs of your council and why:**

Who has to know?

Why?

Who might need to know?

Why?

Who might want to know?

Why?

# The councillor's role: scrutiny of finance

As a councillor, you have an essential role to play in understanding and scrutinising your council's use of public money. The sums of money involved can often be sizeable and the task can be one of the most challenging elements of the wider scrutiny function.

There are many stakeholders who have a vested interest in the financial affairs of your council, including central government, partner agencies, local public auditors and the various communities you serve. All of these look to you to act with a degree of financial stewardship to help ensure that your council spends its money wisely. This, therefore, is a key task of financial scrutiny.

## Why financial scrutiny is important

From a council perspective, there are many good reasons for undertaking financial scrutiny. For example, to:

- reality check budgets and financial plans prior to their approval
- ensure that there are clear links between budget setting and strategic/operational plans
- assess the value for money provided by local public services or provided by council grant funding programmes
- research and learn best practice in other local authorities
- investigate matters in the public interest or address financial issues raised by constituents or community groups
- oversee how the council is pooling its resources with partner agencies to tackle jointly agreed priorities
- identify evidenced based options for reducing costs, generating income or introducing new models of delivery
- challenge how resources are allocated and used and examining their impact
- provide an additional and transparent challenge to the executive's management of the council's finances.



## Challenge 2 – financial scrutiny in your council

Write down some examples of financial scrutiny in your council. Using the information available to you (members' library, internet/intranet site, committee papers), identify what happened as a result of each scrutiny activity, ie

a) no evidence of action by the executive/council

b) some recommendations accepted by the executive/council, or

c) most or all recommendations accepted by the executive/council.

Having completed the activity, what lessons can you draw from the council's choice of financial scrutiny work?

Being a good financial scrutineer does not require you to be a financial expert. But it does require you to ask questions and challenge when you are not clear about how the council is spending its money and how it is ensuring that there are sufficient financial resources to fund its current and future plans. Similarly, don't be put off by the columns of detailed figures you may be presented with as a member. The same principle applies – if the key messages are not clear to you, ask your cabinet members or financial officers to explain what the information is supposed to tell you. Good financial scrutiny will require you to develop a reasonable knowledge of the council's financial standing, but it will require you to ask pertinent questions even more.



## Guidance

“Understanding local government finance is not just about understanding where the money comes from, but also about understanding how we can make this money work for the local community and meet local needs.”

# Scrutiny of the council's financial affairs

The constitution of your council will make it clear who has the principal responsibility for monitoring important aspects of the organisation's financial health: from issues of budget monitoring and financial probity to long term financial planning and fiscal stability. In most cases, it is not usually an effective use of scrutiny time to duplicate these roles if they are being carried out in a clear, transparent and effective way.

That said, there are some important scrutiny tasks in this area that can add value. For example:

- Reviewing draft financial plans (eg the medium term financial plan) to challenge the forecasts, affordability, risks, clarity and feasibility of what is proposed. In particular, how any financial plans will affect other important corporate or service plans? It is also a good idea not to review these plans only once per year. Scrutiny can follow the budget reporting cycle of the executive/cabinet.
- Monitoring some internal and external audit reports or the council's risk registers to identify areas where further, more detailed, scrutiny may be beneficial in improving financial systems, reporting processes, resource allocation or resource prioritisation.
- Responding to requests from the public for greater clarity on the council's finances and spending plans, eg reviewing the financial plans and financial reports made available to the public, to ensure that they are sufficiently clear and understandable.
- Carrying out periodic 'post implementation reviews' of large revenue or capital projects to determine whether these were delivered on time and within budget, achieved their stated aims and delivered the outcomes and value for money anticipated.

- Challenging decisions relating to new service commitments, investments and previously un-budgeted demands.
- Scrutinising the financial implications of greater partnership working, eg how partnerships are financially managed, the impact of pooled budgets on the council's spending, the financial rationale for entering into partnerships and what impact, if any, spending is having in cross-cutting policy areas.
- Keeping a regular 'watching brief' on important matters affecting general resource management, eg improvements in procurement or programme/project management.



## Guidance

"Members need to get an understanding of how the spending matches against policies, and so must get to grips with the numbers. Don't be mesmerised by the big numbers – as councillors you are here to deliver on programme – you don't need to be a financial expert but understanding the figures is a useful skill for members to have."



## Case study

Bristol City Council's Overview and Scrutiny Management Board reviewed how scrutiny was working to find new and better ways of working. Eleven priority topics were identified and each piece of scrutiny would be conducted in the way that was considered most appropriate for the topic. One of the priority areas identified was the council's medium term financial plan (MTFP). Due to the importance of this work, it was agreed that a scrutiny commission would meet regularly to carry out this ongoing scrutiny.

"For any large organisation a clear financial strategy is essential. The work which is being undertaken will ensure a robust and rigorous framework for the MTFP, which will be reviewed on an annual basis.

It will improve transparency and ensure that all officers, residents, interested parties and members can have a single view of council finances".

**Councillor Graham Morris**, Chair of the Resources Scrutiny Commission



## Hints and tips

Scrutiny checklist – financial planning

- Has the council got an MTFP?
- How well is it integrated with other corporate strategies and plans in the council?
- How is the MTFP used in the annual budget setting process?
- How is the MTFP monitored on an on-going basis by members?

# Budget setting and monitoring – the importance of scrutiny

Just as the budget process in your council is carried out on a cyclical basis throughout the financial year, budget scrutiny must also be carried out on a rolling programme. This work can involve:

- Challenging how the budget has been constructed before it is agreed and before the level of council tax has been set. In particular, probing any assumptions that lie behind the executive's budget strategy, ie is the approach incremental or is it starting from a base budget, what are the main savings proposals, how will any growth be funded, are the financial implications of proposals from departments or committees built into the overall budget and has an appropriate level of reserves been set?
- Carrying out budget monitoring activity, for example in areas where expenditure against budget looks to be well above or below forecasts and where growth/savings targets and revised forecasts are involved. As a scrutiny chair with responsibility for financial scrutiny, a relationship with the chief finance officer and relevant executive member is essential.
- Undertaking some evaluation of performance and value for money.
- Maintaining a 'big picture' view of the financial pressures affecting the council and continuously challenging how these might impact on existing budgets and budget setting in subsequent years.

An important area for members to constantly bear in mind is the format and content of any budget monitoring information. Many councils now use summary information, exception reporting or 'traffic light' style indicators to cut down on detailed financial information and to provide 'early warnings' of potential problems. If this type of information is not available or could be improved to enable better scrutiny, members could suggest it to their executive/ cabinet and/or officer colleagues to make such information available.





### Scrutiny checklist – questions to ask during budget setting

- Do the proposed spending plans fit with the council's overall aims, objectives and priorities?
- Is it clear how outcomes/outputs will be measured?
- What opportunities are there to generate income for the council? (eg from fees, charges etc)?
- Have targets been established? Are these targets acceptable and how will they be monitored by members?
- Has the budget been reviewed thoroughly by members and set in accordance with the medium term financial plan?
- How well does the budget link with expected service demand?



### Scrutiny checklist – questions to ask during budget monitoring

- Did expenditure meet (or help to meet) the performance objectives set by members?
- Are officers aware of the reasons for any under or overspends?
- What impact do under/overspends have on the achievement of the council's plans and policies?
- Has this impact been taken into account for next years' budget and future budgets?
- Have revenue generation targets been reached?
- What are the risks if they are not? How will these be monitored and addressed?



### Challenge 3 – budget scrutiny: getting the full picture

Imagine you are scrutinising the budget performance of a service in your council.

You are presented with the following scenario:

a) performance in the particular service area looks to have fallen short of a key corporate target, and

b) expenditure in the service area concerned is below budget.

**Are the two indicators linked in any way? Why?**

The simple answer to the question posed is 'they might be'. But without further questioning and analysis it would be difficult to draw any conclusions. Analysis of basic budget information and performance indicators can help to flag up areas of concern and matters that need to be further investigated but only further scrutiny can give you a more complete picture of performance.

## Scrutinising performance, efficiency and value for money

Scrutiny can play a major role in improving performance, delivering efficiencies and demonstrating value for money. In examining these issues, members might have questions on the following:

- **Inputs** – the resources used in delivering a service, eg the financial and staffing costs of delivering a housing benefits service each year. In value for money terms, a service that operates to minimise the inputs required is described as economic in its use of resources.
- **Processes** – the approach that an organisation takes in using its available financial and staffing resources to deliver a customer service, eg the method of processing housing benefits claims. In value for money terms, a service which makes best use of the inputs it has available in delivering high quality processes is described as efficient in its use of resources.
- **Outputs** – the services that are delivered as a result of the inputs and processes of the council, eg the number of customers receiving their housing benefits payments as planned each month.
- **Outcomes** – the improvements in the quality of life experienced by those in the community as a result of the outputs delivered by the council, eg the reduction in poverty resulting from the efficient delivery of housing benefits payments to those in need.

In value for money terms, a service which delivers a high volume of quality outputs and/or outcomes is described as effective in its use of resources.

## Planning and structuring financial scrutiny work

Most councils use a variety of approaches in carrying out financial scrutiny. This can include:

- specific financial and budget scrutiny activity as part of the regular work of standing scrutiny committees
- budget scrutiny panels which ‘shadow’ the financial monitoring work carried out by executive members
- service scrutiny panels which take the lead in scrutinising all aspects of individual service performance, including departmental budget performance and value for money issues
- time limited ‘task and finish’ groups which can investigate a particular financial issue or look in more depth at the scope for efficiency savings or value for money improvements.

Whatever structural arrangements are adopted, financial scrutiny work should be programmed and planned as efficiently as all other elements of the scrutiny function and will rely on three essential ingredients:

- robust and effective work planning which is owned and driven by members
- the development of an effective culture of scrutiny, based on consensual politics, robust challenge and accountability (as opposed to party politics, opposition and blame) (see text box)
- a reliance on evidence and reasoned judgement rather than opinions and speculation.



### Financial scrutiny – characteristics of an effective culture of scrutiny

#### New scrutiny culture:

- inquisitorial
- questioning
- cross-examination
- probing the ‘heart of the matter’
- dialogue and debate
- variety of views
- holding to account

As with other scrutiny work, good information is needed for members to form opinions and draw conclusions. In financial scrutiny it is likely that quantitative evidence will be the main source of information, ie numerical data or information that can be converted into numbers, eg financial accounts, budget reports, performance indicators or analyses of user or population statistics. This can provide answers to the essential questions of 'how many?', 'how much?', 'how often?' and 'at what cost?'

However, in budget monitoring and value for money reviews, the importance of qualitative evidence should not be overlooked in helping members to understand the processes and procedures that lie behind any analysis of costs and performance. Much of this can be gathered through the effective questioning of expert witnesses and other relevant stakeholders as illustrated below:



### Effective questioning during financial scrutiny

#### Positive practice

- **Free narratives and open questions** – asking an open question and allowing the respondent to give a free narrative of the situation from their perspective, eg “What are your thoughts regarding the cost overrun...?”
- **Probing** – using a range of techniques to elicit information and deepen understanding:
- **Challenging** – “What exactly did this cost?”
- **Encouraging** – “That is a significant underspend!” (with a pause for a further response).
- **Acknowledging/repeating** – “You said that no overspend was predicted in this area, can you explain more about how these conclusions were reached?”

- **Probing for details** – “Did you do anything else to make savings?”
- **Direct questions** – “How do other authorities manage to stay within budget?”
- **Showing understanding** – “I see” (allowing time for the respondent to elaborate).

#### Unhelpful practice

- **Double bind questions** – impossible to answer without incrimination,
- **Biased question** – which have an inbuilt bias, eg “What do you think about the problems that the lack of budget is causing?”
- **Leading questions** – which unfairly lead the respondent to a particular answer, eg “I think the financial controls are poor – what do you think?”
- **Terminating statements** – which prevent the respondent from answering, and implicitly assume that the person agrees with the point raised, eg “I could ask you what cost controls were in place, but your earlier comments have already confirmed that you believe no financial control was evident”
- **Tag questions** – which are small additions to the end of a statement in order to prompt a response, eg “This is the best course of action, isn't it?”
- **By focusing on good information** – gathering techniques and making best use of a range of questioning approaches, those involved in financial scrutiny should be able to form sound judgements, conclusions and recommendations.

# Overcoming the challenges of financial scrutiny

In earlier sections of this workbook we hinted at some of the inherent challenges presented by financial scrutiny. This includes the fact that it is often seen as a technical pursuit and can be viewed as overly 'political', highlighting financial shortcomings at both a corporate and service level and potentially bringing scrutiny members into conflict with executive members and/or officers.

Many of these problems can be overcome by building an effective culture of scrutiny (see text box on page 10) and by considering the following good practice tips:

- be positive and seek to enhance and influence, not criticise or undermine
- challenge the jargon, technical language and acronyms. If you can't understand the information presented, it is likely that others won't be able to either
- concentrate on adding value, rather than opposing for its own sake
- be clear about the value of different roles at different times, eg challenging the budget setting process at a time when it can make a difference rather than attacking it after the event.
- focus on the big picture – don't scrutinise the budget or financial plans in isolation and don't demand unnecessary detail
- challenge issues of integration within the planning process, eg how the longer term capital strategy is aligned with the annual budgeting process and medium term financial plan.

In overall terms, remember that while financial scrutiny should be critical, it should also be constructive: scrutiny is often deemed the 'critical friend'.

# A final word – summary

Financial scrutiny is an important element of the overall scrutiny armoury. If council services are to be run economically, efficiently and effectively, they must make best use of the scarce resources allocated to them. This requires sensible financial planning, transparent processes for resource allocation, robust fiscal controls and strong budgetary and performance monitoring. In all of these areas, financial scrutiny can add value in challenging how councils make best use of the public money they receive.



## **Challenge 4 – where do you go from here?**

Look back over the material contained in earlier sections of this workbook and consider the following:

a) What key action points can you identify to improve your contribution to financial scrutiny, ie what three or four things might you start doing, keep doing or stop doing?

b) Have you identified any gaps in your knowledge or shortcomings in your personal skills? If so, please set these out below and identify how any further training or development might help you, eg further reading/research, attending courses, coaching, mentoring, work shadowing etc.

# Appendix

## Sources of further information

### Printed publications

#### **LGA Councillors' Guide**

[www.local.gov.uk](http://www.local.gov.uk)

The LGA website has many pages discussing community leadership and a number of publications, a series of case studies, the Knowledge Hub, and development programmes for councillors and council officers.

For more information please go to [www.local.gov.uk/our-support/highlighting-political-leadership](http://www.local.gov.uk/our-support/highlighting-political-leadership)

### Useful websites

The LGA website is an invaluable source of help and advice for all those in local government. [www.local.gov.uk](http://www.local.gov.uk)

#### **Leadership Essentials: Effective Scrutiny**

The LGA delivers a two day programme for new or aspiring scrutiny chairs or task-and-finish group review lead members covering:

- leading and managing a scrutiny review
- chairing scrutiny meetings in all their forms
- increasing participation by members and the public
- ensuring impact of scrutiny recommendations.

Drawing on experts in their field, the programme offers the opportunity to focus in depth on the hot topics that are currently most relevant to your work, whether that is children's safeguarding, welfare reform, changes in health services or pressure on budgets driving major changes in how services are delivered or commissioned.

For further details on how to apply and dates: <https://www.local.gov.uk/our-support/highlighting-political-leadership/leadership-essentials>

**The Centre for Public Scrutiny** website has extensive resources for scrutiny: publications, events, a library of review reports and a discussion forum.

[www.cfps.org.uk](http://www.cfps.org.uk)

The website of the **Chartered Institute of Public Finance and Accountancy**

[www.cipfa.org.uk](http://www.cipfa.org.uk)

#### **Local Government Information Unit (LGIU)**

The Local Government Information Unit website gives information on publications and other scrutiny work.

[www.lgiu.org.uk](http://www.lgiu.org.uk)





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