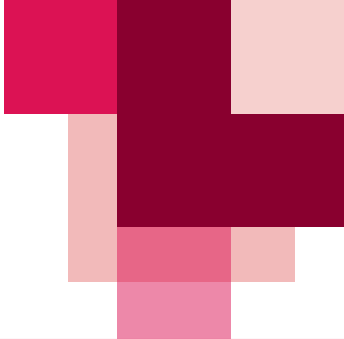


Putting financial and performance management information to good use





This briefing is intended to help those involved in scrutiny to use performance management and financial information to add value to the scrutiny process.

This briefing is based on two previous CfPS policy papers – “Green Light. How non-executives can improve people’s lives by helping to manage the performance of local services”, published in 2010, and “On the money: the scrutiny of local government finance”, originally published in 2007 and revised in 2011.

People who want to know more about the detail of our approach to performance management and financial scrutiny can purchase these policy papers through our website (www.cfps.org.uk).

1. The importance of financial and performance management information

- 1.1 Local councils in England alone spent over £118 billion in 2011-2012¹. Scrutiny of how this money is allocated, managed and spent should be a key priority for all councillors. Yet local government finance is often perceived as opaque and we know that people feel financial scrutiny is least effective². However, financial scrutiny goes beyond audit – it is about challenging how councils make crucial choices about priorities for funding and how well resources are used to achieve policy objectives.
- 1.2 Similarly, performance management may appear full of jargon which frustrates attempts by non-executives to investigate performance properly. Performance management is a method for improving services – it’s about making things better for local people and about ensuring that the way services are planned and delivered provides value for money. Performance monitoring is the role most often undertaken in council scrutiny³.
- 1.3 Developing confidence and ambition to understand financial and performance information, link it to the way people experience services and drive improvements will increase the impact of this aspect of scrutiny.

2. How to handle ‘technical’ information

- 2.1 To use financial and performance management data effectively, your aim should be to integrate it into the all aspects of overview and scrutiny. Understanding performance management and financial information helps you review substantive policy issues in context, helping you focus on the big picture – outcomes not process, future improvement not historic legacy.
- 2.2 **Looking at local finances** First, financial scrutiny should be constructive; scrutiny is not the same as ‘opposition’ and is not about putting forward an alternative budget or council tax rate. It should be focused, but not over-detailed or trying to micro-manage budgets which are the responsibility of the organisation’s financial professionals. Financial scrutiny should, instead,

¹ <http://www.communities.gov.uk/publications/corporate/statistics/revenue201112budget>.

² See The 2010 Annual Survey of overview and scrutiny in England and Wales (CfPS: London, 2010).

³ See The 2010 Annual Survey of overview and scrutiny in England and Wales (CfPS: London, 2010).



address strategic issues underpinning the budget.

2.3 Some simple ways to make financial information more accessible are:

- having specialised local government finance training as part of induction and ongoing training for councillors and scrutiny support officers
- making sure reports contain summary tables or other visual representation rather than just lengthy pages filled with numbers
- ensuring that there is a consistent way of reporting for each cabinet portfolio
- getting plain English summaries of the budget estimates book and financial reports – checked for jargon and technical terms
- having the financial information presented in context; having comments sections in reports explaining the numbers
- making sure financial reports are provided together with performance information to make a comprehensive view of any issue possible – what is spent and what is achieved⁴.

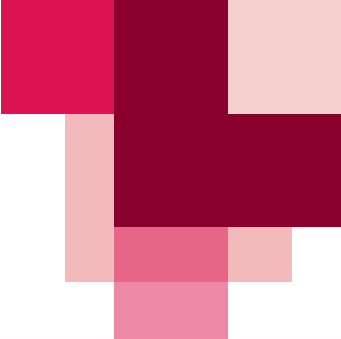
2.4 Financial information may still seem impenetrable, but there are four strategic areas where scrutiny can add value to the council's management of its finances by looking at the big picture:

- scrutiny can challenge whether the processes are effective and accessible: is corporate planning linked with service planning, and is performance management linked with financial management?
- scrutiny can challenge how resources are allocated, monitor how they are used, and examine their impact
- it can test out and make explicit whether the council is using its budget effectively to meet its priorities and show whether the council is achieving value for money
- scrutiny provides an additional and transparent challenge to the executive's management of the council's finances.

2.5 **Looking at performance measurements** Performance management is about planning what you're going to do, reviewing what you've done and revising how you do things in the future. At the moment, you may only look at performance information infrequently or you may also look at it in isolation. To make the most use of it, you should recognise that where you can add most value is not in reviewing existing historic information, but using that information to signpost future improvements.

2.6 Currently, many public organisations use a “balanced scorecard” to portray performance measures across the board, designed to show at a

⁴ For more detail on how to get to grips with financial information and reports, see “On the money” (CIPS: London, 2011) specifically chapter 5 exploring how finance professionals can facilitate effective financial scrutiny.



glance where performance is a cause for concern. It enables you to take clear and balanced view of what you are doing by measuring different aspects of the business together. Hence, it is easier to identify problems, and so, improve what you do. The scorecard has been so successful that it is easy to see it as a standalone tool separated from the other work that the organisation does to deliver services to local people. It is, however, very easy to misuse the scorecard system to measure the wrong things in the wrong way, and to develop an obsession with measurement for its own sake, rather than as a tool for improvement. The aim should be to improve the service as a whole, instead of simply focusing on moving a score from 'red' to 'amber'.

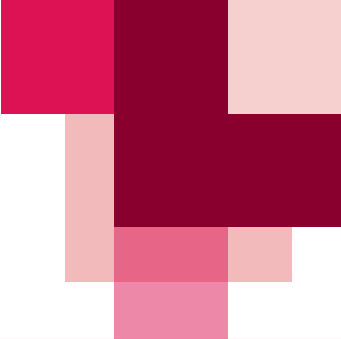
- 2.7 To be effective in improving services, it is crucial that you understand how targets are set, and how they can be used and abused. Without that understanding a lot of performance information can be meaningless. Often you will find that targets, performance indicators, and other tools of the trade can be subject to manipulation – both consciously and unconsciously. They often mask a problematic reality. For instance, targets are sometimes set so low that you know you will succeed in meeting them. The targets may then be met and the scores green, but the service provided to the public is still less than it should be.
- 2.8 Another potential problem are so-called 'process indicators'. They measure the way in which the service is provided, such as how quickly customers are dealt with, rather than the intrinsic quality of the service. This is usually because 'process' is easy to measure and 'quality' is not, since quality will often depend on the subjective judgement of a resident or service-user and different people's opinions of a service may depend on their expectations and demands. Given that the value of services is a vital thing to improve, there is no reason why qualitative or perception data (often regarded as unreliable) cannot also provide valid information for scrutiny.
- 2.9 Finally, to be able to use performance information accurately, you have to be able to rely on the quality of the data gathered. The Audit Commission outlined key requirements for data quality: Accuracy, Validity, Reliability, Timeliness, Relevance and Completeness. However, it is possible to miss something by relying on a single indicator or group of indicators to tell you all you need to know about a given service because it is subject to the requirements of data quality in a way that other information might not be. Yet the importance lies in understanding and defining targets for outputs and outcomes, agreeing how they will be measured and agreeing and managing the process by which the performance data is then captured. Data quality is of crucial importance but it is also vital to think fundamentally about whether you are measuring the right thing in the first place and in the right way⁵.

⁵ For a comprehensive analysis on the benefit and risks of using performance management information, see chapter 2 of "Green Light" (CIPS: London, 2010).



3. Integrating financial and performance management information into the scrutiny process

- 3.1 Performance measurements combined with budget information can be used in all scrutiny reviews to provide insight into whether value is being achieved and whether improvements are necessary, feasible and affordable. In the context of ‘value’, scrutiny should also consider the social value of services not just their financial cost. This isn’t an extra job for you – it is a way to make what you already do more effective by grounding your work in reality.
- 3.2 You should work to ensure that, when you look at a service, you look at it as a whole, not just at the limited picture offered by performance information or finance. So ask yourself, for instance, whether performance and finance information aligns with your own research, particularly the experience of service-users and whether performance management and financial control are meeting the right goals in the right ways so that council priorities are being met.
- 3.3 Another useful way to look at performance and finance information issues is “by exception”. This means that you set out a list of criteria by which you will assess whether to spend further time on a specific matter. Your criteria, should you choose to adopt them, might well be cumulative, which means that unless all criteria are met, you won’t review an issue. Crucially, the list should not become dogmatic. Flexibility is key to ensure you don’t omit important issues for review, for instance because they only meet 5 out of 6 criteria.
- 3.4 Examples of useful criteria for financial scrutiny are: was there a significant over or underspend? Were there issues with demand or supply and what does it tell us about the future? Has spending on this specific project or policy achieved value for money and what social value has it added? Does the overall budget line up with the council’s identified priorities? Finally, are changes to the budget linked to performance management reports? Similarly for performance management, there are some suggestions for criteria to use when reporting by exception: do the number and nature of corporate complaints suggest that there are causes for concern? Furthermore, has performance, according to council’s own measures, been poor for two successive quarters? Does recent work relating to self-regulation or other assessment or inspection activities, suggest that there is cause for common concern? Finally, is this a priority for the organisation at the moment?
- 3.5 **Utilising financial information** – top tips for financial scrutiny:
 - Get involved in medium-term financial, service and corporate planning to ensure this is being done properly and based on the relevant information.

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- Challenge the assumptions behind the budget strategy and question which key considerations are being taken into account.
 - Undertake regular, but not detailed, budget monitoring to be able to challenge the executive's control of the budget. Reporting by exception is a good way to sample the executive's work.
 - Consider financial and performance forecasts together with the current budget and performance reports, as well as undertaking some evaluation of value for money and social value.
 - Have a general view of the council's financial processes for deciding their budget. Scrutiny could assure itself that the processes and responsibilities are both clear and being fulfilled, check that budget monitoring is taking place and conduct ad-hoc reviews as required into, for example, significant over or under spending⁶.

3.6 There are a range of ways to structure financial scrutiny: ongoing budget scrutiny panels which 'shadow' the budget and financial planning process is one way, an overarching budget panel with service scrutiny committees considering the service departmental budget headings another. Financial and budget scrutiny can also be part of the work of standing scrutiny committees, while increasingly, time limited task groups are being established to investigate a particular financial issue. Finally, a council can, of course, have a mixture of different approaches.

3.7 **Committee meetings** Your approach will depend on what you want to get out of meetings and what you see as your role. You want to avoid having performance measurement or financial reports as separate items at the end of meetings, where there is only time for a brief discussion which may not lead to a tangible outcome. To use financial and performance data as a basis for the questions you want to raise about substantive issues, planning and preparation are crucial. Therefore, you should have a clear idea of what the meeting will set out to accomplish, a clear idea of the route you will take to get to this goal and know in advance what you are going to ask, who you will ask and when. This means using evidence gained through research to have a relatively comprehensive understanding of the matters at hand even before the meeting begins. Finally you should be able, at the end of all this, to suggest meaningful improvements based on the evidence you have heard⁷.

⁶ For a more detailed discussion of these six basic components, see chapter 3 of "On the money" (CfPS: London, 2011), and "Aiming for the best" (CfPS, 2011)

⁷ To get a better explanation of how to ensure effective committee meetings, see "Green Light" pages 22-23 (CfPS: London, 2010), "On the money" (CfPS: London, 2011) and "Skills Briefing 1: Questioning Skills" (CfPS: London, 2011).



4. Getting involved in business and financial planning

4.1 Effective scrutiny of performance management and financial planning requires a fresh assessment about when a general look at either “performance” or “finance” across the board is valuable. Scrutiny of the yearly Business Plan and Budget offers a good opportunity. The budget and business plan process in councils is a rolling one – in most councils, it never stops. Scrutiny, therefore, cannot be a one-off event – happening just before final plans are accepted in February or March: there is inevitably too much to take in, too little time, and no real context. Therefore it is crucial to ensure you receive any reports, drafts and proposals on time and in an accessible manner in order to scrutinise them accordingly. This necessitates reaching an agreement with the executive about the timing of papers, potentially set out in a more formal protocol, which could also confirm what kind of information scrutiny should expect to receive.

4.2 A general timeline for scrutiny throughout the financial year include the following: in April the following year’s Budget and Business Plan are approved. Take the opportunity in June/July to look at quarter 1 performance, consider any potential revisions and apply “by exception” criteria to decide any issues that need further investigation. Start researching evidence in September to form a basis for next year’s proposals and start considering the executive’s plans, while also keeping track of quarter 2 results. In November/December look at the initial drafts for next year’s Business Plan and Budget in detail, especially in relation to the information gathered in the first two quarters. Suggest any potential changes at this time. A final review of the proposals for next year including any last-minute amendments should happen in February, before approval in April when the whole cycle starts again⁸. A possible timeline for scrutiny of performance and finance over the year could include the following. This is designed to operate a continuous cycle.

- April – following year’s Budget and Business Plan are approved, review previous year’s performance and finance figures ‘by exception’
- June/July – examining Q1 performance and finance figures
- September – start researching executive plans for next municipal year, along with Q2 figures
- November/December – look at initial Business Plan and Budget drafts in detail, in context of info gathered in first two quarters, plus Q3 figures
- February – final review of proposals before approval at Cabinet.

⁸ See pages 18-19 of “Green Light” (CfPS: London, 2010) for an extensive timeline for scrutiny of the yearly Business Plan and for an extensive timeline for scrutiny of the yearly Budgeting cycle including an example of good practice by Medway Council see pages 14, 17-18 of “On the money” (CfPS: London, 2011).

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