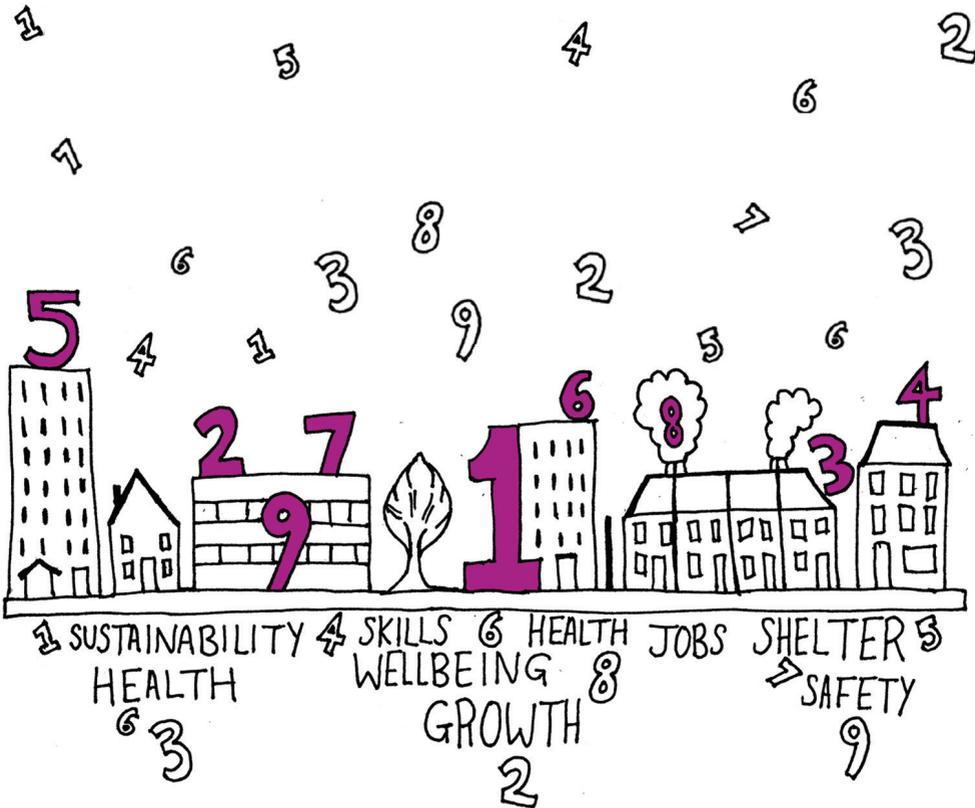


SMART BUDGETING

INTEGRATING FINANCIAL AND
STRATEGIC PLANNING FOR OUTCOMES

Claire Mansfield & Maia Beresford



New Local Government Network (NLGN) is an independent think tank that seeks to transform public services, revitalise local political leadership and empower local communities. NLGN is publishing this report as part of its programme of research and innovative policy projects, which we hope will be of use to policy makers and practitioners. The views expressed are however those of the authors and not necessarily those of NLGN.

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Hub Westminster, 80 Haymarket

1st Floor, New Zealand House

London, SW1Y 4TE

Tel 020 7148 4601 . Email info@nlgn.org.uk . www.nlgn.org.uk

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Claire Mansfield and **Maia Beresford**
NEW LOCAL GOVERNMENT NETWORK

FOREWORD

Donald Rumsfeld famously said that the “unknown unknowns” tend to be the difficult ones, but the course of local government budgeting over the last half-decade tells us instead that it is the “known knowns” that cause the most sleepless nights.

The fear of what we already know – the reductions in budgets over the past four years, the daunting certainty of much worse to follow – has challenged the full capabilities of all councils. It has meant, bluntly, that not only have we had to look behind the sofa for every spare penny, but we have had to stop doing things that in an ideal world we would want to carry on doing.

As a sector, we risked becoming mired in the “jaws of doom”, slowly sinking further into desperate measures just to balance the budget. But that hasn’t happened. As it always seems to do, local government has defied those expectations.

Despite severe cuts to our budgets of around 40 per cent over the past four years, councils have demonstrated their ability to find efficiencies in a way that central government departments have not. Our reputation for effectiveness and efficiency while maintaining high levels of public trust is, under the circumstances, both unprecedented and remarkable.

With imagination, perseverance and innovation, officers and members around the country have forged new partnerships, focused on what matters, eliminated waste and duplication and adopted new strategic approaches to budgeting based on securing the outcomes that matter to local people. But as this timely report shows, there is further to go to link budgets to outcomes across our activity.

Knowing more isn’t something we’re scared of. Rather, we need more perfect knowledge. An autumn statement delivered in winter whose true ramifications for local government aren’t certain until the verge of the spring borders on the perverse.

And we must move beyond a year by year process. A place-based funding settlement agreed for the life of a parliament (or for longer in the case of transport infrastructure and ambitious transformation programmes such as health and social care integration) would provide a platform for local public services partners to plan their activity at the system-level. It would mean partners across the public sector in a place can take a holistic approach to design and deliver, reducing aggregate demand for services and removing any incentive to ‘shunt’ costs from one area of public spending to another. Crucially, it would provide a stronger basis for refocusing resources on the issues that affect our residents and communities, rather than around structures of government.

Navigating through a perfect storm of rising demand-drive costs, demographic change and reducing funding is testing the mettle of us all. But the focus on outcomes and a smarter approach to the totality of the budget-making process should be the beacon that guides us safely to our destination and I commend NLGN for this report on the issue.

Clr David Finch

LEADER, ESSEX COUNTY COUNCIL

INTRODUCTION

It is widely accepted that local government is entering a period in which it will have to fundamentally reshape the way it works in order to cope with heavily reduced budgets. The financial challenge facing the sector as a whole is well-established: it has been estimated that councils will face a £12.4bn spending gap by the end of the decade.¹ Some 89 per cent of chief executives and leaders believe that some local authorities will face financial crisis in the next five years.²

In response to this, councils are reorganising their services to strip out costs and focus on long term financial sustainability through prevention and demand management. But whilst strategic commissioning and planning is becoming more outcome-oriented, our research suggests that there has been relatively little innovation in the crucial practices and processes of financial planning which support this transformation.

To put it simply, local authorities are facing 21st century problems with a 20th century approach to budgeting.

In benign financial environments, incremental budgeting is an efficient way to distribute funds. But in times of austerity, this approach to budgeting is proving inadequate. Traditional budgeting can hamper innovation by trapping local authorities in patterns of past spending and silo working. In doing so, it tends to preserve the status quo rather than questioning whether each marginal pound is helping the council to meet its strategic objectives.

This report argues for a different approach. Instead of sticking with incremental budgeting, councils should increasingly adopt outcome-based approaches to budgeting in which better evidence is used to link spending to strategic goals. This approach can provide a transparent way for politicians

¹ LGA, (2014), *Future Funding Outlook 2014: Future outlook for councils to 2019-20*, available at: <http://www.local.gov.uk/documents/10180/5854661/L14-340+Future+fundings+initial+draft.pdf/1854420d-1ce0-49c5-8515-062dcca2c70>

² PwC, (2014), *The Local State We're In*, available at: <http://www.pwc.co.uk/local-government/publications/the-local-state-we-are-in-2014/index.jhtml>

to target spending at the most cost-effective interventions. Drawing on three case studies, we show what these approaches look like in practice and highlight the real-life benefits that they have brought to local areas.

The shift towards a smarter way of budgeting has already begun. Although only a few authorities have fully moved away from incremental processes, many more are experimenting with elements of outcome-based budgeting. Over 80 per cent of the councils we surveyed for this report are open to experimenting with new approaches, while half thought a different budget process could improve outcomes for their communities.

Local authorities generally understand the improvements in financial and social outcomes that can be achieved through a change in the budgeting process. The challenge is to find ways to overcome a number of barriers and fears relating to staff capacity, defining outcomes and changing organisational culture.

Rather than being a technical manual for finance professionals, this report is intended to be accessible for those with little understanding of budgeting theory and practice. It aims to show how the process of financial planning and budgeting currently relates to the wider council business of improving outcomes for local places, and how we think it should relate in the future.

This project is based on a three stage methodology involving: a survey of local authority finance directors and stakeholders; a roundtable with the same group; and deep dive analyses of three councils.³

The report is structured into five main sections:

CHAPTER 1 – CURRENT PRACTICE: This chapter outlines the traditional budgeting approaches taken by local authorities. In this section we discuss the issues presented by these approaches and argue that local authorities need to adapt their budgeting processes to better reflect and support their council's strategic objectives.

³ See Appendix 3 for a detailed methodology.

CHAPTER 2 – TOWARDS AN ALTERNATIVE VISION: In this chapter we use deep dive analyses of three councils who are starting to change their budgeting models to understand how they are trying to do things differently. We draw the good and innovative practice from these areas together in an alternative vision for budgeting.

CHAPTER 3 – APPETITE FOR CHANGE: This section uses survey data to examine how far the innovative practices noted in our case study areas are being adopted by councils more widely.

CHAPTER 4 – OVERCOMING CHALLENGES: This chapter discusses the challenges and barriers that local authorities can, and have, faced when changing their budgeting processes and presents some examples of how our case study areas have overcome these challenges.

CONCLUSION: The conclusion makes recommendations for central government and for local authorities.

This report has two key recommendations;

- 1. Local government should integrate their strategic and planning process into a ‘smart budgeting cycle’. This cycle comprises of a number of elements including:**
 - a. Focusing on outcomes
 - b. Engaging members, officers and residents
 - c. Utilising and integrating financial and non-financial evidence
 - d. Planning for prevention

- 2. Central government needs to give more certainty about expected levels of funding over the medium to long term.**

The principle barrier to innovation in budgeting that was given by our survey respondents was the uncertainty of central government funding for local government. More certainty from central government would enable local finance officers to plan in the medium to long term. Knowing the parameters that they are working within will enable members and officers to be more creative with both their budgeting process and also with service innovation.

1 CURRENT PRACTICE

Local government budgeting is stuck in a rut. Councils have already suffered massive funding cuts from central government and their long-term financial future remains uncertain. Some areas of local government have been transformed to save money through approaches such as demand management and service redesign. But it appears that, despite massive savings being made, few authorities have fundamentally rethought the way they are distributing these funds between their different functions. The underlying budgeting practices and processes supporting transformation remain largely unchanged.

Traditionally, councils have taken an incremental approach to the annual budget cycle.⁴ Our survey reports that 39 per cent of councils are solely reliant on this method, and many more are using it for the majority, if not all, of their budgeting activity. Whilst this approach has its merits, over the years it has come under increasing scrutiny.

Critics argue that incremental budgeting merely maintains a status quo where the same sorts of solutions are delivered in increasingly hollowed out forms.⁵ As one study puts it: 'incremental budgets reinforce the status quo but do not reflect the fact that most public sector organisations face a complex set of ever changing needs and problems'.⁶

In the current fiscal climate, the case for a departure from traditional approaches to budget setting seems especially strong. We have reached a point where we need to think more about how financial planning can be far more closely integrated with operational and service planning.

⁴ Goddard, A. (2004), 'Budgetary Practices & Accountability Habitus', *Accounting, Auditing and Accountability Journal*, 17:4, pp. 546-577.

⁵ Johnson, S. (2005) 'Beyond Budgeting', *Student Accountant*, 54, March 2005, ACCA, pp. 68-74.

⁶ McCarthy, G. and Lane, A., (2009), 'One Step Beyond: Is the Public Sector Ready to Let Go of Budgeting?', *Journal of Finance and Management in Public Services*, 8:2, p.26.

INCREMENTAL BUDGETING

Incremental budgeting is the process of taking last year's budget as the starting point and adjusting it for known factors such as new legislative requirements, additional or reduced resources, service developments, anticipated price inflation and labour costs. Typically, a council working with a reduced budget will work out the scale of the cut it faces for the coming year, set targets for each directorate to meet, and then invite proposals for efficiencies and transformation. Options for savings are presented to council members who decide the council's priorities, in the words of one local councillor, based on "how much things hurt at the margins".

This approach has several clear benefits. The process of budget setting rarely changes, and is relatively straightforward. As a result, the actual activity of managing budgets incrementally is relatively low-cost in terms of time and labour intensiveness, and does not involve much conflict. For fairly minor financial changes, the process can be an efficient way of testing relative priorities.⁷ Incremental approaches have allowed councils to make significant savings and deliver balanced budgets to date.

If nothing is broken, then what is there to fix? The problem is that incremental budgeting is built for times when income is increasing or relatively stable. It is an effective way to distribute new money, but much weaker at scrutinising the cost and effectiveness of existing spending.⁸

When the assumptions underlying incrementalism are thrown into reverse, the system often leads to salami slicing, where the headline budget for each silo service area is squeezed without fundamentally questioning the impact each cut has on outcomes. In the words of one of our interviewees, there is now "no salami left to slice". This is not to say that local authorities do not care about outcomes. It is simply to observe that their plans for delivering outcomes are often not explicitly linked to their financial processes.

⁷ TIS Online (Technical Information Service), CIPFA's online resource, available at: <http://www.tisonline.net/budgeting/>; and CIPFA (2008), *Improving Budgeting: Modernising the Cycle*.

⁸ Greenwood, R. (1983), 'Changing Patterns of Budgeting in English Local Government', *Public Administration*. 61/Summer, p.167-8.

This can lead to the following drawbacks:

■ **Duplication and silos**

Incremental budgeting can contribute to the entrenchment of departmental silos and duplication. Because each department considers its spending reductions separately, it is easy to overlook efficiencies that could be made across departments. For example, in one council we spoke to, five departments ran separate skills and work schemes which were administered separately, leading to inefficiencies and undoubtedly creating confusion amongst residents. Incremental budgeting, especially over a long period, can hinder joined up thinking about problems and impede an integrated approach to service delivery.

■ **Short termism and prevention**

An incremental approach can hinder local authorities from more detailed planning for the medium and long term. While 'salami slicing' funding from services can enable councils to make the cuts they need, authorities are generally only focused on the budget for next year. This can have a negative effect on preventative solutions. Many solutions will only deliver the desired positive outcomes and savings over a much longer period. The traditional focus on within-year savings therefore does not lend itself to investment in preventative approaches, which realise intended outcomes at a later date. If councils do not focus on prevention, they are not creating a sustainable system for the future which looks to prevent problems arising and prioritises better outcomes for people.

■ **Transparency and member involvement**

An incremental approach is often alienating for councillors. Typically politicians will be presented with a menu of options for cuts which they must decide between. They are deciding what not to spend money on, rather than considering how it could be spent better. This approach can be demoralising for members, who are elected with imagination and zeal but once in power are just presented with options for cutting and given little real input into future plans for services.

If we accept that incremental budgeting is not up to the task of supporting local authority transformation, then we need to consider whether we possess a credible alternative. This is the task we turn to in the next chapter.

2 TOWARDS AN ALTERNATIVE VISION

The idea that better budgeting might support better government is hardly new, but the world of alternative budget approaches is awash with theoretical models and impenetrable jargon. To cut through this conceptual thicket, we sought to learn the key lessons from emerging practice in particular councils. The three areas⁹ we investigated were:

- **East Hampshire District Council**, where each service manager was asked to write a new business plan without any access to historic data, making a return to incremental thinking almost impossible.
- **The London Borough of Lambeth**, which is aligning its budgets to its key priorities. 'Outcome panels' have been established to oversee the planning and budgeting of each outcome.
- **Warrington Metropolitan Borough Council**, which has aligned its budget to key outcomes and introduced flexibility into their planning processes. It has brought staff together to create new solutions which have a longer term focus and cut across departmental silos.

These examples demonstrate that far from being discrete approaches, ideas like zero-based or outcomes-based budgeting are really part of a wider cycle of smarter budgeting that our case studies were all working towards (Figure 1).¹⁰ This cycle is characterised by a relentless focus on outcomes, greater engagement of stakeholders, the use of far better evidence and data to inform decisions and flexible, long term forecasting and planning.

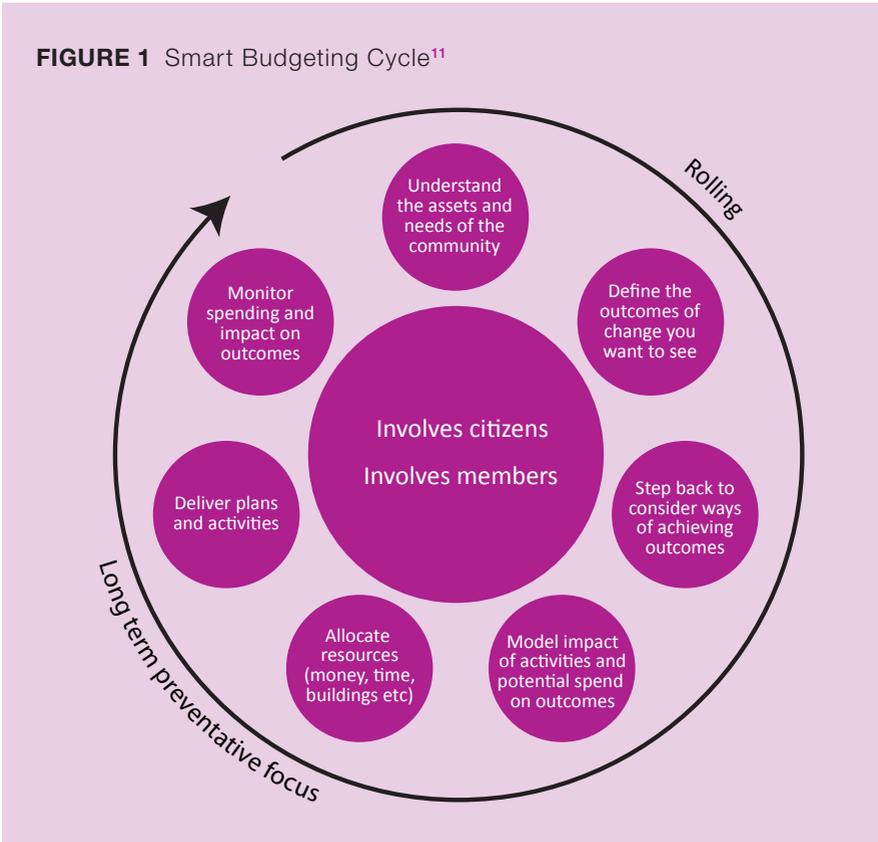
The alternative vision described below has much in common with, and follows naturally from, an outcome based commissioning approach. However, allocating budgets directly per outcome rather than channelling these through departments brings clarity, cuts through silos more easily, and enables

⁹ Full case studies can be found in Appendix 2.

¹⁰ *Zero based budgeting* treats every funding decision as if it were being made as if for the first time – essentially building a new budget from scratch, from a 'zero base'. *Outcomes based budgeting* allocates funds according to a set of pre-defined outcomes or priorities. A full glossary of terms can be found in Appendix 1.

outcomes based commissioning to be fully realised. Each of the key elements are now discussed in more detail, before we look specifically at how funds can be allocated using this method.

FIGURE 1 Smart Budgeting Cycle¹¹



¹¹ Adapted from Lambeth Council's 'Cooperative Commissioning Model' in Blume, T. and Randle, A. (2013), *Social Value: A Commissioning Framework, Part 1: Lessons from Lambeth*, Collaborate and the Transition Institute, p. 13, available at: <http://www.collaboratei.com/media/4098/Social%20Value%20A%20Commissioning%20Framework%20Report.pdf>

BUDGET FOR OUTCOMES

“The question should be ‘how can we achieve the outcomes in a different way?’ not ‘how can we achieve savings?’” (Council Officer)

Our case study areas were all trying to much more closely link their spending to the outcomes that they wanted to achieve for their local areas. This meant defining outcomes in partnership with politicians, and then bringing staff from across the organisation together to come up with new ways of delivering solutions. In our case study areas of Lambeth and Warrington, this was done as a natural extension of their work around commissioning.

Lambeth had previously followed a standard incremental approach, but in 2014 the council decided to reorganise its spending around three outcomes. Each outcome was managed by a panel comprising relevant officers and politicians, which was tasked with generating new approaches to delivery and backing them up with business cases.

Warrington moved towards an outcomes-based approach because of a powerful feeling that incremental budgeting was no longer working. The council felt that its budget was not clearly linked to the council’s key themes and priorities. The old approach encumbered longer term preventative planning and discouraged radical cross-council approaches to delivery. As one officer said: “we never got beyond what we had to do that year, and we didn’t really have a sensible way of looking at the options on the table”.

Now instead of feeling that particular services need to be protected, the aim is to think about how all activities can be directed to ‘protecting people’ in whatever way is best. Commissioning groups were set up which included budget holders, service managers, relevant officers, and some interested external parties who could provide constructive challenge to the process. Instead of specific saving targets being set, these groups were simply asked to try and meet their outcome in a more creative way. Some 170 proposals emerged from the first round of workshops looking at how to save money in the next five years. Proposals which could be easily realised and deliver savings in the next financial year were then prioritised for immediate development, and through these the council will have met £10m of the £17m savings required in the coming year.

The challenge for our case study councils is to extend this alignment of funds to outcomes across wider public sector budgets. Indeed, it's clear that in order to deal with the demographic pressures ahead, particularly around the ageing population, councils must integrate activity with other public sector partners.

Arguably the 'Holy Grail' of integrated financial and strategic planning is therefore an outcomes based approach to zero and performance based budgeting which involves non-council partners. The next step for Warrington, for example, is to widen their outcomes approach to think more about the totality of wider public sector spending, known locally as the 'Warrington Pound'. Similarly Lambeth's next budget hopes to integrate with partner funding to a greater extent. The first step in such integration is to understand what other partners spend on their outcome areas, and then lobbying those partners so that resources are better aligned (although not pooled).

GREATER ENGAGEMENT

MEMBERS

"Members were always engaged, but they were engaged ineffectively"
(Councillor)

Our case studies show that for a truly integrated planning process for outcomes, operational staff and members need to sit in the driving seat of the process. Moving to a more integrated financial and strategic planning cycle offers the opportunity to empower and motivate both of these groups, but only if they are given opportunities for involvement right from the start.

Indeed, Lambeth's new approach to commissioning and budgeting for outcomes was driven alongside a desire to empower members to a greater extent. This has led to a fundamental shift in the way in which members are involved in the council. Directors noted that their old budget process was demoralising for members, who had entered the council to improve the area but were charged with just making decisions about what money would not be spent on. Following a constitutional change in 2012, cabinet members were given more executive powers and are now considered 'commissioners' – sitting

at the heart of their cooperative commissioning cycle. This allows them to 'own' the budgeting decisions and feed in the views of local residents.

Warrington took a slightly different approach. In the past, members were mainly involved through traditional, internally-focused board meetings, where each director would discuss their own portfolio one by one. However, in an effort to confront the 'silo mentality' amongst members as well as staff, options and outcome ideas are now presented to members as a collective. The whole executive board are invited to 'spotlight forums', which are organised by outcome – the focus of discussion is thus much broader and supported by constructive challenge from other members.

STAFF

Similarly, in all case study areas staff from across the organisations were brought together to consider ways that the council could better achieve outcomes. This was beneficial as it meant that useful insights from staff acting on the ground could inform plans.

For instance, when East Hampshire began their zero-based approach, service managers were given a blank piece of paper and asked to write a completely new business plan for their service. These plans were written without any access to historic data, making a return to incremental thinking almost impossible. This process was important as they wanted “the business driving the budget, not the budget driving the business”.

This was enabled by the way in which finance staff were 'embedded' within the rest of the organisation in order to help draw up plans. East Hampshire hired a team of 'business partners' to help the change run smoothly – qualified accountants who assisted service managers in the creation of their new budget proposals. Service managers report that their understanding of the budgeting process has improved greatly, and finance officers have noted that they no longer feel like 'the corporate police', pressing managers to deliver a balanced budget every year.

In a time of austerity, the inclusive and bottom up approaches observed in our case studies give members and staff confidence that cuts are being carried out in a planned way, and start conversations across the council which lead to a better understanding of how the council as a whole works and is financed.

CITIZENS

As well as involving members, our case study councils were also conscious that they needed a ‘new conversation’ with citizens about the way in which public money is spent.¹² For example in Warrington they are hoping to engage in a ‘Big Conversation’ with Warrington residents about budget decisions. The council felt that this is crucial in order to raise awareness amongst residents and discuss the new ‘enabling’ rather than ‘service delivery’ role that the council will have to take in shaping the local area.

In Lambeth their aim is to have citizens at the heart of their cooperative commissioning cycle and to consider their input at many stages of the commissioning process. Whatever the method used to consult, these conversations should not just be about citizens having to rank options for cuts to different services but should fully contextualise decisions and invite residents to think about how outcomes can be best met given the challenges and reduced funding that local government has at its disposal.

As councils are beginning to make savings by cutting services rather than just making efficiencies, it is important that citizens are involved in these decisions and informed about the way in which their behaviour impacts on the services they can expect. For example if libraries and other discretionary services are to be maintained, a conversation must begin about residents’ role in running these, or how residents can reduce demand for other services such as waste services which otherwise absorb significant funding.

INTEGRATING FINANCIAL AND NON-FINANCIAL EVIDENCE

The councils in our deep dive investigations were also seeking to innovate by changing the way they use data and evidence. They felt that at the moment data used when planning and monitoring tends to be about financial inputs or outputs (such as number of CV workshops delivered), but that this is not connected to data on their impact (such as the greater skills, job interviews and jobs that people got as a result of these courses). Whilst this was still a work

¹² Parker, S. (2014), *The Council and Common: Local Government in 2020*, NLGN, available at: <http://www.nlgn.org.uk/public/wp-content/uploads/The-Council-and-the-Commons.pdf>

in progress in all our areas, all were trying to integrate evidence and outcomes and financial spend to a greater extent in order to make sure that spending actually translates into outcomes.

Lambeth and Warrington tried to bring together financial evidence on available funds with non-financial evidence about available community resources or needs to understand their communities and define the outcomes they wanted to focus on. They are also seeking to better integrate data to effectively model the impact of new service plans and decide how to allocate spending.

When making decisions about how to allocate budgets, data on performance helps councils weigh up the benefits of investing in different programmes. This comes from the 'performance based'¹³ model of budgeting, and involves developing budgets based on the relationship between programme funding and the expected results from that programme – i.e. how far a service offer will contribute to a particular outcome.

Once programmes are up and running, places like Lambeth are trying to make sure that the impact of these activities on outcomes is also monitored and presented alongside financial data so that programmes can be re-shaped or stopped short if they are not delivering the outcomes as expected. In Lambeth they are attempting to measure and model the impact of spending to a better extent, and have received funding to carry out some rigorous evaluations involving mini randomised controlled trials of preventative programmes such as the Lambeth Early Action Partnership and new sexual health programmes in conjunction with academic institutions and other public and voluntary sector partners.¹⁴

This can lead to greater transparency for taxpayers or community charge contributors, and the ideal is that better linking of data on spending and impact should flow together throughout the cycle from planning to resource allocation to annual accounts reporting. As the next chapter will show, this is no easy task,

¹³ *Performance based budgeting* allocates finances according to how well a programme is 'performing', which is usually assessed through a mixture of qualitative and quantitative evidence. A full glossary of terms can be found in Appendix 1.

¹⁴ Lambeth Early Action Partnership (LEAP), available at National Children's Bureau: [http://www.ncb.org.uk/get-involved/work-for-us/ncb-jobs/lambeth-early-action-partnership-\(leap\)](http://www.ncb.org.uk/get-involved/work-for-us/ncb-jobs/lambeth-early-action-partnership-(leap)); also see Walls, R (2014). *Public Health in Lambeth and Southwark: Director of Public Health Report*, January-March 2014, Lambeth and Southwark Public Health.

but it is something that councils are aspiring towards. As one council officer mentioned, “we hope to have a better blend of operational key performance indicators (KPIs) about *outputs* with indicators relating to *outcomes*. We know this is difficult, but it feels right”.

MORE FLEXIBLE AND LONGER TERM FORECASTING AND PLANNING

The final way in which our case study areas are trying to change their financial planning is by moving away from the constraints of the annual budgeting cycle to a more flexible and longer term timeframe.

In Warrington, they became frustrated with the annual budget cycle where services were presented with their savings targets in June or July, and ideas for saving reductions were rapidly drawn up by August. These were approved by senior management and implemented by January, with the whole process beginning again six months later in June.

They felt that this strict cycle can lead to rushed reviews and plans, and therefore were attempting to move to a system where planning and re-forecasting is continuous and rolling rather than once yearly, and data on performance is continually populated to inform formal forecasts.

Councils still have a responsibility to create annual balanced budgets, but moving to a more malleable and longer timeframe for planning allows greater flexibility for service reviews and new plans, can help better monitor spend, and inform future planning. As noted in a recent report from CIPFA, in good practice models ‘rather than being a discrete annual exercise from a cold start, budgeting now becomes a continuous process, fully integrated with other aspects of financial management.’¹⁵

The councils examined in our deep dive studies felt that this goes hand in hand with a longer term focus and lends itself to more preventative and ultimately cost-effective solutions to local problems. For example in East Hampshire they are trying to encourage a more cyclical and long term view of council finances, where surpluses and deficits may come and go but where the budget is generally stable over the medium to long-term.

¹⁵ CIPFA, (2008), *Improving Budgeting, Modernising the Cycle*, CIPFA, UK, p.14

Similarly in Lambeth they felt that taking an outcomes approach requires a longer term view, and this is something they are working towards: “it is now much more likely that we will budget successfully within a three or four year period, rather than making savings each year and calling it a strategy”.

FUNDING ALLOCATION

While the previous section described the key elements that need to be considered for a smart budgeting cycles, it is useful to look at how this impacts the practice of allocating funding. Again, we turn to our case studies and look at the methods they have used. None of our three areas would argue that the process was entirely smooth, or that changes will not be made in subsequent years. There is no step by step method for ‘smart budgeting’; rather each of the councils have used methods that they feel are most appropriate to their organisation and desired outcomes.

Lambeth began by agreeing thirteen discrete and three overarching outcomes and calculated how much funding had been allocated to each outcome under the previous system. To do this they asked service leads which outcomes their services fed into, and used this to map service spend onto outcomes. This process was challenging as some services contributed to many different outcomes. Budget lines for services that contributed to more than one outcome were mapped to outcomes both by apportioning them across multiple outcomes, and by applying a pragmatic ‘best fit’. However the process became easier when focus on the thirteen discrete outcomes were abandoned in favour of a broader focus on the three main outcomes areas.

In terms of allocating funding under outcomes-based budgeting, in the first year each outcome area was given the same funding envelope as in the previous year, but with 40 per cent budget reduction. The ‘Outcome Panel’ then considered new ways funding could be better spent to meet the outcome. Ideas which were most feasible and had the best business case were those which were prioritised to receive the funding. In the second year of this approach, rather than asking panels to make a 40 per cent reduction, they were given an upper and lower threshold. This enabled greater flexibility between outcome areas: if one outcome area had a strong business case for an activity but are not able to fund it with their allocated envelope, this activity could be financed by a reallocation of funds from another outcome area.

In Warrington a similar approach was taken, however no spending envelopes were set when coming up with ideas. In the first year, funded solutions were those that it was thought would bring quickest wins. In the next few years they are planning on funding the solutions that are most cost-effective in contributing to outcomes even if these may not deliver within a short timeframe. They are thus attempting to fund solutions which logic and evidence from elsewhere suggests will contribute most to outcomes whilst also taking into consideration other factors such as political appetite and risk. This is not a fully 'performance based' approach as observed in the private sector because at present there is not sufficient quantitative data to fully model the impact of projects on outcomes, and it is arguably unrealistic to fully realise this in a public service context. However the spirit of the approach is being followed, and this is having an impact on spending allocation.

As described previously, when East Hampshire District Council began using the zero-based approach, service managers were given a blank piece of paper that was to be filled with a new business plan for each service. Officers were encouraged to think about exactly what was needed for their service, without being able to refer to previous budgets. There was a worry, as there often is with zero-based budgeting, that service managers would think that they had been given a 'carte blanche' for spending. However, East Hampshire District Council in fact reduced their net expenditure in the first year, generating a £518k budgeted surplus. The surplus has been reinvested in the council to ensure its long term financial stability.

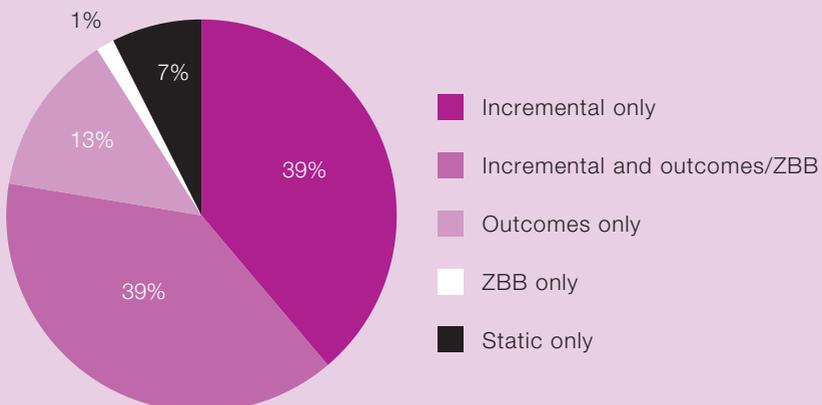
Interviewees in Warrington and East Hampshire noted that the whole process has changed their attitude to spending. In particular finance directors noted being more likely to fund solutions with a longer term preventative or enabling foci, and undertake more creative and longer term accounting to fund these initiatives. Whilst, in many cases these sorts of activities had been 'on their radar' before, changes to the budgeting approach has made finance directors more comfortable and able to commit to them.

3 APPETITE FOR CHANGE

Our case studies have shown how some councils are taking the leap and dispensing with traditional approaches to budgeting. This chapter uses survey data to examine how far the innovative practices noted in our case study areas are being adopted by councils more widely.

Our survey results show that, despite a heavy reliance on incremental budgeting, across the sector there are some encouraging moves to integrate more innovative methods of budgeting alongside incremental methods. Although only 13 per cent reported having adopted a fully outcomes based approach to budget setting, Figure 2 shows that 39 per cent are using what we are terming ‘incremental plus’ – and are undertaking other budgeting methods in tandem with incremental budgeting.

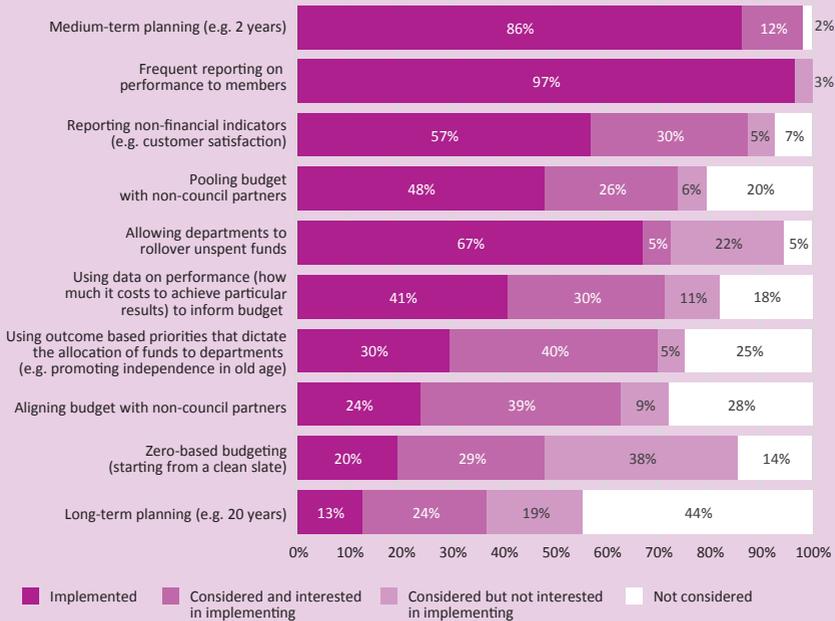
FIGURE 2 Please select the option/s that best describe your council's current overall approach to budgeting. (n=68)



Councils also appear to be *interested* in adopting a range of the other specific budgeting practices that our pathfinder case studies had drawn out. For

example on top of those already implementing specific practices relating to reporting of non-financial indicators, and using outcomes and performance data to dictate spend to a greater extent, Figure 3 shows that a further 30-40 per cent of councils were *interested* in implementing these practices.

FIGURE 3 Has your council implemented or considered implementing any of the following budgeting practices? (n=59)

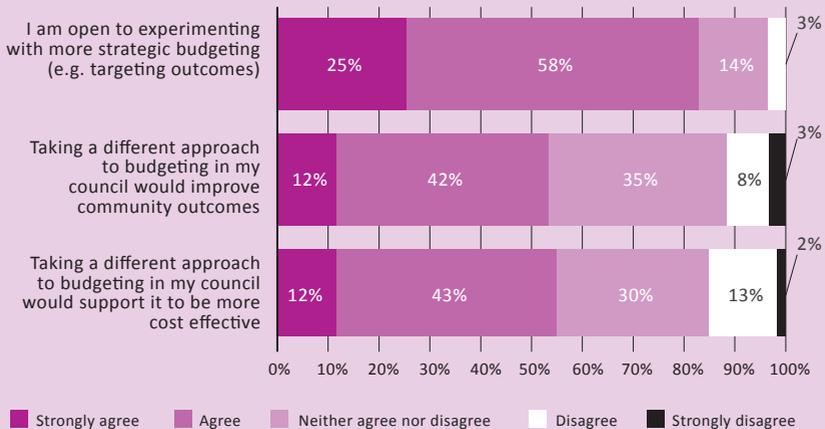


In addition to this, 40 per cent of survey respondents have considered and are interested in implementing outcome-based budgeting and 39 per cent have considered and are interested in aligning their budgets with non-council budgets. Given the need for more genuinely ‘whole place’ budgeting, this is encouraging, and chimes with the findings of other recent work on service integration.¹⁶

¹⁶ Wilkes, L. (2014), *The DIY Ethic: Business Models for Community Integration*, NLGN, available at: http://www.nlgn.org.uk/public/wp-content/uploads/THE-DIY-ETHIC_FINAL.pdf

These results therefore demonstrate that there is a growing transition to new budgeting practices used in tandem with incremental budgeting, and that there is an appetite for fresh approaches. Some 25 per cent of those surveyed strongly agreed and 58 per cent agreed that they were open to experimenting with more strategic budgeting approaches, with only 3 per cent disagreeing with that statement (Figure 4). Furthermore, 54 per cent felt that taking a different approach would improve community outcomes and the same proportion felt that taking a different approach to budgeting would be more cost effective. Clearly, many local authorities can see the advantages of change and not only see the financial benefits but, perhaps more importantly, also the possibility of better outcomes.

FIGURE 4 Attitude to change (n=60)



These results demonstrate that, although local authorities are generally sticking to incremental budgeting, councils are interested in changing their budgeting methods and furthermore see the financial and social advantages in doing so. Given that previous reviews of local government budgeting have found dissatisfaction with the current process but little commitment to change amongst management and finance directors in particular, this is

a significant and reassuring finding.¹⁷ However moving to a new financial planning process is no easy task – and the following section outlines some of the fears that councils have about making this move.

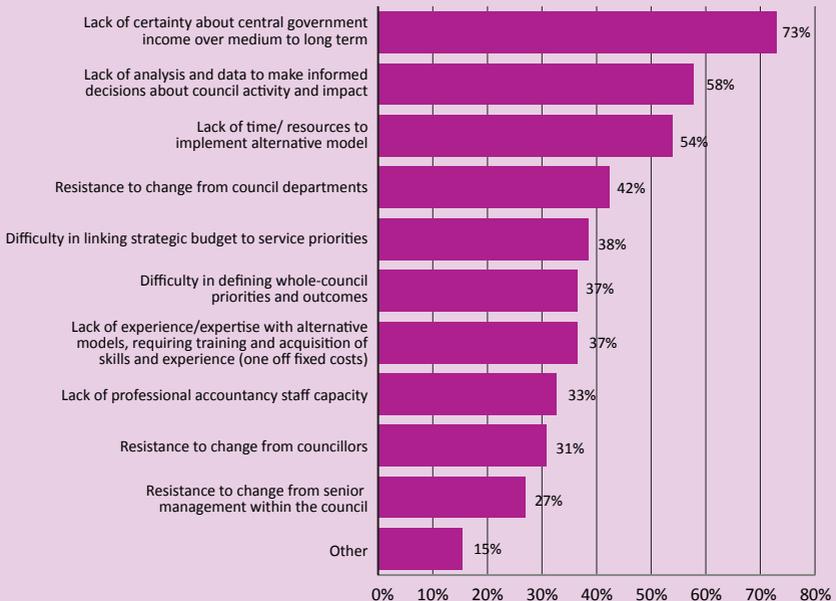
¹⁷ McCarthy and Lane, (2008), *One Step Beyond*, The Journal of Finance and Management in Public Services, Vol. 8, no. 2, p. 40

4 OVERCOMING CHALLENGES

The case for moving away from an incremental budgeting approach is clear – in the current climate it can help councils tackle the challenging cuts ahead while improving the effectiveness of their services. We know there is appetite for change and that local authorities have considered implementing new practices. But despite this, progress in making this change has been slow. The question now is: what barriers are getting in the way of councils innovating in their budgeting processes? This chapter examines these barriers.

Our survey identifies what councils perceive as the top five barriers to innovation in financial planning (Figure 5).

FIGURE 5 Barriers to innovation in budgeting



SPENDING CERTAINTY

The top barrier identified is a lack of certainty about central government funding, which is having an impact on councils' ability to plan for the long term. So while we know that some councils are trying to move towards a longer term approach to financial planning across the board, this is proving highly challenging.

Some 73 per cent of those who responded to the survey felt that a lack of certainty about central government income over the medium to long term was a significant barrier. Importantly, when asked to rank the greatest barriers to change, 47 per cent of respondents selected lack of certainty from central government as the number one barrier to innovation in budgeting.

The government clearly recognises these challenges and has taken steps to remedy this. The introduction of the Comprehensive Spending Review (CSR) has made more information about funding settlements available over a three year period, and councils are required to have Medium Term Financial Strategies (MTFS). However the detail of the information in the CSR tends to be vague and is not long term enough. As one local government officer noted:

“The most difficult element to all this is the fact that we really don't know what local government will look like in ten years time... At a general level, it might be preventing other councils from changing their budgeting approaches at all. As with so many areas, the first thing local government needs is some clarity from central government”.

At present, councils have an unclear picture of their budget for 2016/17, and they probably won't have a clearer idea until late next year, at which point they will have only around four months to allocate spending. This makes it very difficult to create anything more than very broad long-term plans and a series of short-term spending decisions. This uncertainty around funding in the long term does not enable a long term approach to budgeting and spending decisions and does not lend itself to changing the council's approach to budgeting. It makes people feel that decision-making and any change towards a longer term budgeting process is pointless, so they don't do it.

In the short term, overcoming this barrier will be incredibly difficult, and in the longer term what is needed is a change in approach from central government. Councils need more certainty about expected levels of grant funding from government, in addition to clarity about any longer term changes to council tax, business rate retention, and other subsidies or funding streams such as the New Homes Bonus. Knowing the parameters that they are working to will enable members and officers to be more creative both with their budgeting process and service innovation, and crucially will help councils to take a longer term, preventative approach to public services.

DEFINING AND MEASURING OUTCOMES

Changing to outcome-based budgeting can have many advantages, but it is a difficult and time consuming process. Some 37 per cent of respondents cited 'difficulty in defining whole council priorities and outcomes' as one of their top five barriers to change. There are obvious political difficulties here; it can be challenging to reach agreement on a set of priorities, particularly considering the individual concerns of elected members. These priorities must then be translated into outcomes for place and in turn resources must be attached to these outcomes. This puts an obvious emphasis on the evidence and analysis that links particular services to outcomes, yet 38 per cent of respondents cited 'difficulty in linking strategic budget to service priorities' as a specific barrier to changing the budgeting process.

Our interviewees noted that throughout the process many people have found it difficult to talk in terms of outcomes, and not simply in terms of money. There are times when an outcome can be achieved without significant investment (e.g. with a non-council partner), but:

"It is hard to say to people that we are not neglecting your outcome just because we are not spending as much money on it"

(Council Officer)

"A challenge is that quite a lot of activities contribute to more than one outcome, so you need a level of pragmatism in thinking about impact and allocating funding. It's not an exact science, but we are pushing in the right direction"

(Council Officer)

In all our case study areas, interviewees felt that measuring the impact of specific projects on outcomes was crucial for efficient project management and performance based allocation of funding, but that they were not always equipped to do this. Our survey tells the same story – 58 per cent of respondents cited 'lack of analysis and data to make informed decisions about council activity and impact' as a top barrier.

The real difficulty appears to be in connecting an improvement in outcomes with specific projects, even when aggregate data is available. It is especially hard for councils to model the impact on outcomes that occur in the longer term and several council officers mentioned that they “have no real evidence, just a gut feeling” that re-enablement, for example, would reap benefits to the bottom line.

This problem of quantifying and modelling impact is compounded by annual timeframes which mean that business cases and models must generally be 'quick and dirty'. In Warrington it was acknowledged that more complex interventions would take longer time to draw up and may not fit into the traditional financial timetable, and so they accounted for this issue. Finance specialists and service managers worked on plans for longer and even if they did not make it into the first year's budget, because the council had moved to a more rolling budget, plans could be 'dropped in' when they were ready.

Progress on quantifying and modelling impact is being made, but change will take time and resources to deliver. A number of councils noted that the transfer of public health to local government had, in the words of one director, “opened [their] eyes to a new way of working with data”, and brought a more rigorous approach to finding and using local data on outcomes and relating this to specific projects. However it was noted that it was difficult for local government to fund this sort of modelling in the current economic climate.

CAPACITY

Lack of time and capacity is in some areas stifling innovation: 54 per cent of respondents cited 'lack of time or resources to implement alternative models' as one of their top five barriers to innovation in budgeting. Added to this, councils perceive the risk of an unknown way of working and changes

to the budgeting system at a time of limited capacity as too great. Some 37 per cent of respondents reported that they felt the authority had a 'lack of experience and expertise with alternative models' meaning that a new budgeting system would require costly and time consuming training and might not deliver the results expected.

Ensuring that staff have capacity and expertise is essential when changing to a new strategic and financial planning system – our case study areas gave great attention to this. For example, when implementing zero-based budgets in East Hampshire District Council, the authority hired new accountancy staff to enable the process. Similarly in Warrington four finance and project management additional staff were hired on a short term basis to enable the formulation of business cases for new project areas.

CULTURAL CHALLENGES AND CHANGE

Resistance to change from council departments, councillors and senior management are barriers that need to be overcome. Of these, 42 per cent of survey respondents felt that 'council departments' are the most reluctant to change. This is understandable since moving to an outcomes based approach for example, is likely to make departments feel that their autonomy is threatened.

"It is a bit like 'turkeys voting for Christmas' because there is always an element of self-preservation in it"

(Council Officer)

"[In outcomes based budgeting], as a director you have to have a lot of trust. Because you are not directing your bit of the process any more, you have to let go and that is hard; to a degree you are giving control to the wider outcome themes. But you have to learn to give up some control and trust the process"

(Council Officer)

But resistance to change varied considerably between local authorities. Some local authorities seem to be clinging to incremental budgeting as it is the lowest risk process but others, such as our case study areas, have used new demands on the council to completely restructure their authority and redesign their budgeting system.

“Do you lie back and howl, or do you have a rethink about the way you are going to do things?”

(Council Officer)

A move to outcomes based budgeting can be a tool to create cultural change within a council. East Hampshire District Council used zero based budgeting to try and change the mind-set of their staff. When service leads filled out their business plans for the service it made them think of their service with fresh eyes. This budgeting process enabled them to be creative and picture new possibilities for their service.

Whatever the initial culture of the organisation, the fears relating to a move can only be mitigated, and the benefits only realised, with an effective change management process and strong leadership. This is needed to make sure that momentum and drive is maintained, fears are allayed, and the process of staff engagement is phased and proportionate.

Warrington felt that their move to an outcomes based budget was well led by the Cabinet Member for Resources and the Finance Director, and accompanied by a good change management process that structured the move. Whilst initially the senior management team had a significant debate about whether a departure to outcomes based budgeting would be positive, they did decide as a group and were fully committed to it and vocalised this publicly and widely. This, alongside a clear calendar and programme for decision making, was seen as important. Rather than just saying that they were ‘experimenting’ with a new budgeting approach, such a clear commitment left no room for doubt or backsliding. Other councils also mentioned how helpful it was that the process was not just led by the corporate team, and that it was useful to have early buy-in from service directors and particularly directors of children’s services. Since services staff sometimes feel that there is little room for manoeuvre, it is in this department that ‘culture change’ and innovation may be most necessary.

This chapter has shown that, while there is an interest amongst councils to change their budgeting processes, there are significant barriers and challenges local authorities must overcome before they can fully change their approach to budgeting. We make a series of conclusions and recommendations for overcoming these barriers in the final chapter.

CONCLUSIONS & RECOMMENDATIONS

This report argues that local government financial planning needs a radical overhaul. We have reached a point where local government services need to be fundamentally reimagined in order to meet the pressures of reduced funding and rising demand. But councils cannot radically improve their services without simultaneously innovating in their financial planning procedures which allocate resources to deliver these services.

Budgets should be the financial expression of a council's priorities and objectives. But at the moment a rigid and siloed adherence to an annual budget cycle constrains many councils' ability to stand back and create plans which will deliver their strategic aims in the most efficient and effective way. This needs to change. Rather than being one-step-removed from strategic planning and taken as a given, local authority financial planning must now receive the attention it deserves and be revisited and realigned to better meet the overall objectives and priorities of councils.

Encouragingly, our survey suggests that councils are starting to realise this and are open and receptive to changing their approach. Whilst generally incremental and siloed based approaches are still the norm, some councils have led the way in embarking upon new approaches to planning with much better integrated financial and strategic functions, which are structured around meeting outcomes.

By outlining a vision for an alternative form of 'smart budgeting' which brings together good practice from various different budgeting theories, and by outlining the managerial and operational components that are required to make these successful, this report hopes to encourage and enable councils considering making this transition. The challenges ahead for councils are to embrace this vision, opening up a far more transparent and participatory relationship with councillors, staff and citizens as they do so.

This report has two key recommendations:

1. Local government should integrate the budgeting process into a ‘smart budgeting cycle’. This cycle comprises of a number of elements:

a. Focusing on outcomes

Traditional incremental budgeting can often be done in silos and the focus is on ‘services’ not ‘solutions’. As council budgets are reduced, this ‘salami slicing’ approach to cuts can lead to wasted funds on duplicated services, or more worryingly, on some problems being neglected altogether. We recommend that local authorities re-evaluate where their funding is going and ensure that funding decisions are aligned closely with the strategic objectives of the council. This approach is the only way that sustainable solutions to the challenges local councils face will be realised. It is therefore imperative that the considerable number of councils who have not yet started making the move to adopt the approaches and practices outlined in our ‘smart budgeting cycle’ begin to do so.

b. Engaging members, officers and residents

For councils embarking on new approaches to financial and strategic planning, it is crucial that councillors, officers and residents are involved in this process. This provides a fantastic opportunity to engage staff, utilise their insight and lift their morale, and is best realised by involving staff from a range of levels in the development of new service ideas and business plans through collaborative workshops. Similar benefits can be gained from engaging members to a greater extent, and moving from a model where they simply ‘approve’ options to one in which they formulate them.

‘New conversations’ need to be opened up with citizens about how best to meet outcomes. These conversations must go beyond the tick box exercises of traditional budget consultations. And, whatever methods or media are used for this conversation, it is essential that sessions should fully contextualise decisions and invite residents to think about how outcomes can be met best – whether this is by the community, by council staff, or by third parties – given the challenges and reduced funding that local government has at its disposal.

c. Utilising and integrating financial and non-financial evidence

In order to fully realise the benefits of new approaches to budgeting it is essential that planning is evidence based and informed by more accurate and informed predictions about the impact of proposals on outcomes. NLGN has previously recommended the creation of a What Works Centre for Integration¹⁸ and the existing What Works Centres, academic institutions and Public Health England have a role to play in working with councils to measure and disseminate evidence on the impact of specific interventions on outcomes. There is also a need for analytic capacity within councils to be able to digest this learning, and establish systems to measure and model it. Many financial staff may have these skills, but it is vital that they are integrated within service and strategy teams to a far greater extent.

d. Planning for prevention

In order to meet outcomes most cost-effectively there is a need to think over a longer timeframe, as the rewards from the preventative measures, which are more cost-effective than reactionary remedial services, will only arise later down the line. It is important that councils, wherever possible, implement medium and long-term planning. Taking an outcomes approach naturally aligns itself with this focus.

2. Central government needs to give more certainty about expected levels of funding over the medium to long term

The principle barrier to innovation in budgeting that was given by our survey respondents was the uncertainty of central government funding for local government. More certainty from central government would enable local finance officers to plan in the medium to long term. As a result of this, finance officers and members would feel more comfortable in changing their budgeting processes, knowing that there was no 'shock funding' decisions to come. As central government makes its detailed funding decisions on an annual basis it is no surprise that local government maintains the safety net of the less risky incremental budgeting for the status quo.

¹⁸ Wilkes, L. (2014), *Break on Through: Overcoming Barriers to Integration*, NLGN, p. 34, available at: <http://www.nlgn.org.uk/public/wp-content/uploads/BREAK-ON-THROUGH2.pdf>

In a previous report¹⁹ we argued that the government should accelerate progress on the commitment made in the 2013 Autumn Statement to work with departments to give local public services the same long-term indicative budgets as departments from the next spending review. This is important in order to enable councils to plan for prevention over a longer term period, and we call again on the government to urgently outline progress and a timetable for achieving this goal.

¹⁹ Wilkes, L. (2014), *Break on Through: Overcoming Barriers to Integration*, NLGN, p. 34, available at: <http://www.nlgn.org.uk/public/wp-content/uploads/BREAK-ON-THROUGH2.pdf>

APPENDIX 1: GLOSSARY

ALIGNED BUDGETS

Aligned budgets involve two or more partners working together to jointly consider their budgets and align their activities to deliver a set of agreed outcomes, whilst retaining responsibility for their own resources.

INCREMENTAL BUDGETING

A method of budgeting that uses the previous year's budget as a model, and makes small, incremental changes each time.

INCREMENTAL PLUS

As above, but mixed with elements of other models such as outcome-based budgeting or zero-based budgeting.

OUTCOMES-BASED BUDGETING (OBB)

A method of budgeting in which funds are allocated accordingly to a set of pre-defined outcomes or priorities. This model often is part of a more commissioning-based approach to service delivery.

PERFORMANCE BASED BUDGETING

A practice that usually compliments a more general budgeting method, which allocates finances according to how far an activity will contribute to a particular outcome. Performance will usually be assessed by a mixture of qualitative and quantitative evidence.

POOLED BUDGETS

A pooled budget is an arrangement where two or more partners make financial contributions to a single fund to achieve specific and mutually agreed outcomes. It is a single budget, managed by a single host with a formal partnership or joint funding arrangement that sets out aims or responsibilities.

ZERO BASED BUDGETING (ZBB)

ZBB is a method of budgeting that starts completely from scratch – from a 'zero base'. Each budgeting decision is made as if for the first time. This means that each decision must be justified, and services that previously received a certain amount of funding are not guaranteed to receive it again.

APPENDIX 2: CASE STUDIES

EAST HAMPSHIRE DISTRICT COUNCIL

WIPING THE SLATE CLEAN

East Hampshire District Council made the decision to move to a form of zero-based budgeting in 2013. Now in the second year of the process, East Hampshire District Council is utilising the new approach as part of a programme of initiatives aimed at delivering its ambitious corporate strategy. A key aim of the strategy is to be non-reliant on government funding by 2019, instead generating income and/or efficiencies via fresh service delivery models and other commercial projects.

Zero based budgeting (ZBB) takes a radically different approach from incremental budgeting. Although it has existed for a long time, ZBB is in many ways seen as a fresh attempt to reinstate a sense of an organisation's overall objectives, encouraging more strategic thinking about budget allocation and working against budget inertia. Where incremental budgeting starts from the last period's budgets, ZBB rejects this as a starting point, instead beginning with a clean slate or a 'zero base'. Here each budgeting decision is made anew and staff are often encouraged to think about how services might be ideally delivered if none existed previously. As such, in each period each budgeting decision must be justified and activities or services receiving funding are not guaranteed to receive it again just because they have previously.²⁰ ZBB is intended to shift governance, involving operational managers (of different departments and services) and councillors more actively and encouraging the creation of more innovative, preventative and effective solutions to local problems.

As such, when East Hampshire began the zero-based approach, managers were given a blank piece of paper. The empty space was

²⁰ CIPFA (2006), *Zero Based Budgeting*, available at: http://www.tisonline.net/budgeting/content/zero_based_budgeting_briefing.pdf

to be filled with a new business plan, in which managers thought seriously about how they were spending their money. Remarkably, these plans were written without any access to historic data, making a return to incremental thinking almost impossible. In the words of the service manager for finance, “we wanted our business driving our budget, not our budget driving our business”.

This year East Hampshire hired a team of 'business partners' to help the change run smoothly – qualified accountants who assisted service managers in the creation of their new plans. Although there was some resistance to the extra workload demanded by the zero-based method, the response has been generally positive. Service managers say that their understanding of the budgeting process has improved greatly, and the finance officers say that they no longer feel like 'the corporate police', pressing managers to deliver a balanced budget every year. Instead, they are trying to encourage a more cyclical view of council finances, where surpluses and deficits may come and go but where the budget is generally stable over the medium to long-term.

Zero-based budgeting is most successful when it is part of a wider process of change. East Hampshire District Council has used zero-based budgeting in tandem with a complete re-organisation of the structure of their council (for instance, senior management in East Hampshire District Council is shared with Havant Borough Council). East Hampshire District Council used ZBB to change the mind-set of service leads away from 'if I don't spend my budget then I'm doing something wrong'. Importantly ZBB gave service leaders a clear sense of ownership over the direction their service was taking and changed the role of the finance team from gatekeeper to enabler. In addition East Hampshire District Council reduced net expenditure in the first year, generating a £518k budgeted surplus, allaying fears that ZBB would be seen as a 'carte blanche' for spending. The surplus has been reinvested in the council to ensure its long term financial stability.

LONDON BOROUGH OF LAMBETH

ALIGNING BUDGETS WITH OUTCOMES

Since 2010, Lambeth Council has undergone a major transformation in the way it operates. As part of their move to become a co-operative commissioning council, its budgeting process has been reorganised entirely to reflect the council's broader priorities or 'outcomes'. The benefit of an outcomes based approach is that there is a much stronger link between financial and operational planning, so that budgets are clearly tied to operational and strategic priorities. In the current climate these tend to involve demand management, prevention and early intervention. By bringing staff together duplication and silo based solutions are less likely. The way that outcomes and service plans are defined tends to involve more organisational wide challenge and makes some budgeting decisions far more transparent and understandable for staff and councillors.

Previously, Lambeth followed a fairly standard, management-driven model of service and financial planning: a savings target was set by the finance director, options for realising that target were drawn up on a service-by-service basis by service managers, and these were then presented to relevant cabinet members to approve.

However, under the new cooperative framework Lambeth has brought together different parts of the council through a shared focus on outcomes. The council firstly defined thirteen outcomes in their three-year community plan. Following a review of their approach to commissioning and financial planning, in 2014/15 they then embarked on an outcomes based-budgeting approach, and established three outcomes panels under which they grouped the original thirteen outcomes. These panels relate to: 1) more jobs and sustainable growth, 2) communities feel safer and stronger and 3) cleaner, greener streets. They have also undergone significant restructuring, as departments have been dissolved and the council has now been organised under the three 'clusters' which 1) commission 2) deliver and 3) enable these outcomes.

'Outcome panels' or working groups were set up to plan and budget for each outcome. These are led by relevant cabinet members, supported by services' commissioning, delivery and finance managers. The groups were initially asked to find ways of achieving their outcome whilst also making 40 per cent savings. Ideas for new forms of delivery were generated and developed into business cases, and then allocated funding. Since then, these working groups effectively integrated planning and finance. Indeed, in the words of one council officer, "what we've been trying to do is less of a budgeting process, and more of a wider planning process".

However, the council is keen to stress that the shift to an outcomes based approach is a work in progress; it has evolved and will continue to do so. The flat 40 per cent savings target for each overall outcome panel was relaxed, as it was seen to be largely a hangover from incremental thinking. Each group now proposes an upper and lower threshold for making savings, allowing for more flexibility and prioritisation between outcomes, and greater awareness of risk when making decisions. Similarly, whilst outcomes were only aligned with the revenue budget at first, the council now considers outcomes in relation to wider resources, including its capital programme, the spending of key partners, and community assets.

Finally, whilst the budget was originally mapped against all thirteen discrete outcomes, due to the way in which these naturally overlapped the focus is now on the three broader headings. The greater degree of integration encouraged by the approach, as well as its predisposition towards long-term planning, makes it a useful tool in realising the priorities of the council and its partners. By breaking down departmental silos and considering budgets for wider outcomes, more integrated, preventative service offers have been developed than under the previous system.

WARRINGTON METROPOLITAN BOROUGH COUNCIL

STREAMLINING SERVICE PROVISION

In 2014 Warrington Borough Council moved towards zero and outcomes-based approaches to budgeting. This was motivated by a shared sense that existing budgeting strategies – based on annual incremental ‘service challenge’ approaches – were ineffective and were not well aligned to the council’s commissioning approach. Whilst this approach had released £50m savings to date, it was felt that “there [was] no salami left to slice”. The old approach was far too historical and the options review was not clearly linked with strategic objectives and priorities. This model encumbered longer term preventative planning and discouraged radical cross-council approaches to delivery which would enable spending to be deployed in the best way possible: “we never got beyond what we had to do that year, and we didn’t really have a sensible way of looking at the options on the table”. Now instead of feeling that particular services needed to be protected, the aim is to think about how all activities can be directed to serving residents in whatever way is best.

In early 2014 research was conducted into alternative budget approaches, and outcomes-based budgeting was seen to chime most with Warrington’s general move towards becoming a more commissioning-based council. The senior management team then organised a finance review according to their key priorities, and held a series of workshops that aimed to understand not only the procedure itself, but also how to effectively engage the wider organisation in the idea of outcomes-based budgeting.

Directorate budgets were broken down according to the agreed outcomes, and new finance and project managers were hired “to help oil the wheels” (council officer). Commissioning groups were set up including budget holders, service managers, relevant officers, and some interested external parties who could advise during this process. These were based around the themes of: 1) best start in life 2) living well 3) older people 4) sustainability, green and safe 5) enabling and 6)

regeneration and investment – themes which had been developed as part of previous work on commissioning. Instead of a specific savings targets being set, these groups were simply asked to try and meet their outcome in more creative ways.

Some 170 proposals emerged from the first round of workshops looking at how to save money in the next five years. Proposals which could be easily realised and could deliver savings in the next financial year were then prioritised for immediate development. Through these the council could meet £10m of the £17m savings required this year. It is likely that Warrington will employ an incremental method to find the final £7m savings needed. This will also ensure full delivery of previous years savings and potentially involve using reserves.

However the council is taking a longer-term rolling approach to planning, and are developing stronger business cases for ideas which will take longer to implement and which will only deliver savings later on down the line. Once these are developed they will be ‘dropped in’ to future forecasts and plans when they are ready, rather than waiting until the next council meeting in March. It is intended that these projects will start in next five years.

In the past, members were mainly involved through traditional, internally-focused board meetings, where each director would discuss their own portfolio one by one. However, in an effort to confront the ‘silo mentality’ amongst members as well as staff, options are now presented to members as a collective. The whole executive board are invited to ‘spotlight forums’, which are organised by outcome – the focus of discussion is thus much broader and supported by constructive challenge from other councillors. Wider councillor involvement then takes place once proposals are assessed and ready for review. In the future it is hoped that members will be a more integral part the process of idea generation from an early stage.

The impact of the change to outcomes-based budgeting has been to release new savings through a broader overview of council activity, and break up departmental silos – it avoids “the politics with a small ‘p’ that you get with the old directorate model”.

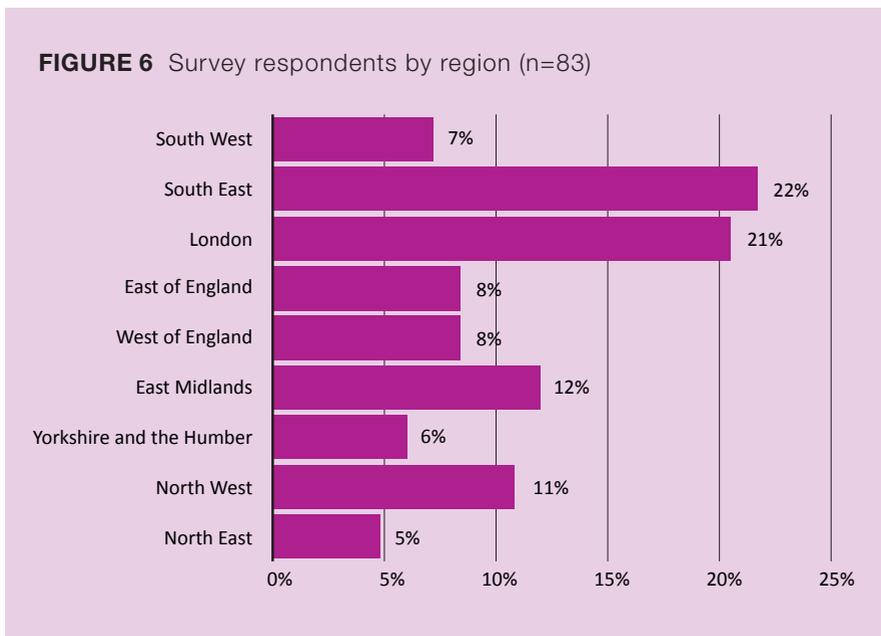
APPENDIX 3: METHODOLOGY

The methodology for this research had four main components:

- 1.** We conducted a literature review of existing academic research, policy reports and other relevant documents in order to better understand the range of budgeting approaches in use.
- 2.** A survey was sent to over a thousand local councillors, chief executives, finance officers and accountants in local authorities in England. A total of 86 people answered the survey, although as shown on each graph included in the report, the response rate varied according to question.
- 3.** At roughly halfway through the research cycle, we organised a seminar where we presented the results of our survey to various heads of finance, directors of corporate strategy, members and business partners from councils across the country. This allowed for a discussion focusing on budgeting approaches, making clear the dividing lines that exist between councils on the issue and guiding future research.
- 4.** We identified and visited three councils to be included in the report as “good practice” case studies: the London Borough of Lambeth, East Hampshire District Council, and Warrington Metropolitan Borough Council. Accordingly, our research was informed by a geographical, political, and socio-economic range, as well as by both two-tier and unitary organisations. Significantly, these areas also differ in the extent to which they are experiencing funding cuts from central government.

APPENDIX 4: ABOUT THE SURVEY

The survey was sent out to senior officers, heads of service, councillors and accountants in July 2014, and was open for just under 8 weeks. There were 86 respondents. The following charts show the region and type of authority that respondents came from, and the final chart shows their role within the local authority.

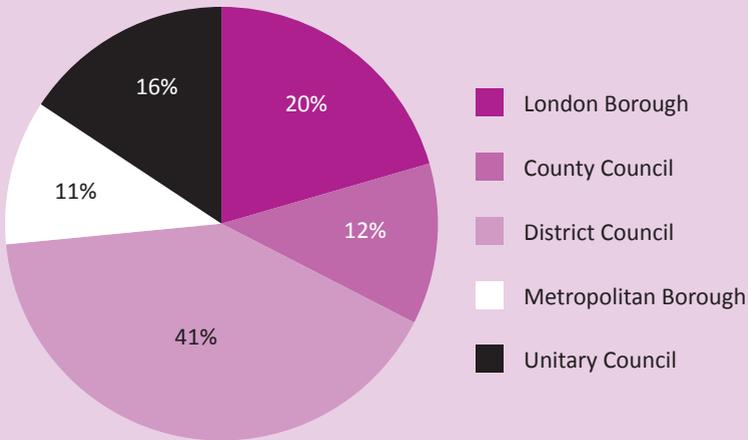


In total, 77 councils responded to the survey. The total number of respondents (86) includes multiple responses from different people within a single council. Duplicate responses were discounted from the data that calculated what form of budgeting a council is using, but were included for questions that measured attitudes and perceived challenges.

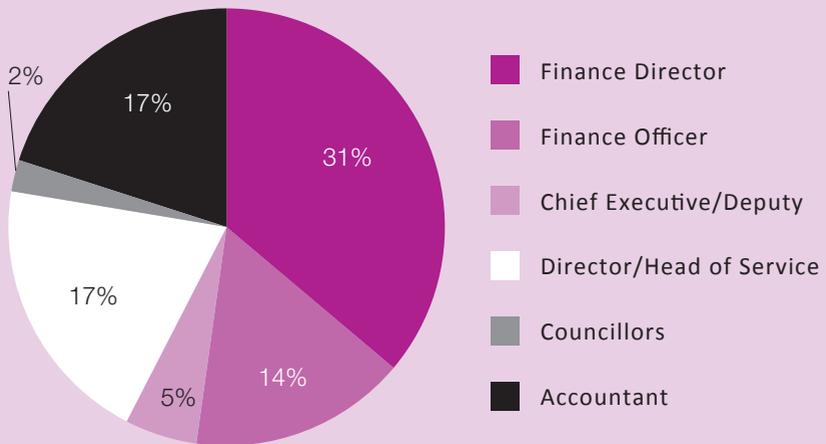
As can be seen in Figure 6, the number of respondents was skewed towards London and the South East. However, this is to be expected as the South

East has a greater number of authorities. The spread of respondents from other regions, though lower, is varied enough to avoid the problem of regional over-representation in the data. Similarly, the percentage of responses by type of authority (Figure 7) roughly follows the make-up of local councils across the country, with a slightly higher proportion of London Boroughs responding to the survey.

FIGURE 7 Survey respondents by type of authority (n=85)



Finally, those who answered our survey represent a variety of council roles (Figure 8). The most common role was that of a finance officer – indeed nearly half of all respondents were either a finance director or a finance officer. This is unsurprising considering the focus of the survey. However, there was also a significant number of responses from accountants and heads of service, giving us a range of opinions at various levels of the organisation. The low number of councillors who responded to the survey may be explained by the generally low level of member involvement in the budget across the country.

FIGURE 8 Survey respondents by role in the authority (n=86)

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Faced with heavily reduced budgets and significant demographic challenges, local authorities are having to radically rethink the way they work. Strategic commissioning and planning is becoming more outcome-oriented. However there has been relatively little innovation in the financial planning processes which support this, and many councils favour an incremental approach to budgeting. Our report argues that this needs to change.

Based on an in depth survey with local government stakeholders and case studies of councils that have adopted new alternatives such as outcome and zero-based budgeting, this report assesses progress across the sector and makes recommendations for change. By drawing together good practice based around 'smart budgeting', it aims to inspire and enable leaders, chief executives and finance directors to embark on new approaches to budget setting.

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