
NORTH AYRSHIRE COUNCIL

18 June 2019

Audit and Scrutiny Committee

Title:	External Audit Interim Report 2018/19
Purpose:	To inform the Committee of the findings from the External Audit Interim report for 2018/19.
Recommendation:	That the Committee (a) notes the audit findings and action plan contained in the External Auditor's Interim report at Appendix 1; (b) notes the sector developments as outlined in the External Auditor's Sector Developments report at Appendix 2; and (c) considers the verbal Interim report by the External Auditor.

1. Executive Summary

- 1.1 Deloitte LLP has been designated as the Council's external auditors for the five year period 2016-2021. 2018/19 is the third year of this appointment.
- 1.2 This Interim report provides the Audit and Scrutiny Committee with the external audit findings across the four audit dimensions within the scope of the 2018/19 audit work, these are noted below. For each dimension the report outlines the audit risks, evidence of North Ayrshire's approach and Deloitte's view of the Council's position.
 - Financial Sustainability;
 - Financial Management;
 - Governance and Transparency;
 - Value for Money
- 1.3 The audit also incorporated specific risks highlighted by Audit Scotland. In particular, the impact of EU withdrawal, the changing landscape for public financial management and dependency on key suppliers.
- 1.4 The unaudited accounts for 2018/19 are due to be presented to Council on 26 June 2019 and to the Council's external auditors, Deloitte LLP, for audit. The external audit Annual Report will be presented to the Audit and Scrutiny Committee in September 2019.
- 1.5 The overall conclusions in the Interim report state that the Council has a clear process for medium and long term financial planning including development of its transformation approach aligned to the refreshed Council Plan. It has strong financial management arrangements in place and has seen changes to its leadership during 2018/19 with a new structure being implemented from 2019/20. In terms of performance, the Council has made improvements through 2018/19 and is fully engaged with its contribution towards national outcomes.
- 1.6 Examples of best practice were identified around the Council's approach to financial planning and community engagement.

- 1.7 The interim report includes an agreed action plan which address areas for improvement across the four audit dimensions.

2. Background

- 2.1 Deloitte LLP has been designated as the Council's external auditors for the five year period 2016-2021. Deloitte LLP has also been appointed as the auditors for the North Ayrshire Integration Joint Board. 2018/19 is the third year of this appointment.
- 2.2 An Interim Audit report for 2018/19 has been prepared by the external auditors and is included in appendix 1. This report provides the Audit and Scrutiny Committee with the external audit findings across the four audit dimensions within the scope of the 2018/19 audit work. They include;
- Financial Sustainability;
 - Financial Management;
 - Governance and Transparency;
 - Value for Money
- 2.3 The Interim audit also incorporated specific risks highlighted by Audit Scotland. In particular, the impact of EU withdrawal, the changing landscape for public financial management and dependency on key suppliers.
- 2.4 An Action Plan has been agreed with the external auditors and this is included in appendix 1. The Action Plan addresses areas for improvement and includes updates on progress across Transformation, Workforce Planning, Governance and Performance. It should be noted that significant process has already been made in addressing each of the areas identified.
- 2.5 Included in appendix 2 is a report on sector developments. This includes added value research across technology transformation and provides examples of best practice case studies. The approaches and developments will be considered as the Council further develops its Transformation programme.
- 2.6 A summary of the key conclusions from the report include;

Financial Sustainability

The Council has a clear process in place for medium and long term financial planning and the current level of reserves held is at an acceptable level. To address the level of funding gap in the next few years, it is important the Council identifies sustainable financial savings, with the requirement to continue to develop the Transformation programme. The Council's approach to priority based budgeting was highlighted as an area of best practice.

Financial Management

The Council has strong financial management arrangements which are robust enough to manage financial activity and address challenges to the achievement of financial targets.

Governance and Transparency

Changes to the senior leadership occurred in 2018/19 and a new Council structure was approved in May 2019 with a need to ensure that this will not have an adverse impact on capacity to deliver services. The Council's approach to community engagement was identified as best practice and sector leading.

Value for Money

Performance improvements have been made between the end of 2017/18 and the mid-year point of 2018/19 against local performance indicators and the Council is fully engaged with its contribution towards national outcomes. The Council's approach to focused performance improvement was noted.

- 2.7 The unaudited accounts for 2018/19 are due to be presented to Council on 26 June 2019 and to the Council's external auditors, Deloitte LLP, for audit. The external audit Annual Report will be presented to the Audit and Scrutiny Committee in September 2019.

3. Proposals

- 3.1 That the Committee;

- (a) Notes the audit findings and Action Plan contained in the external auditor's Interim Audit report.
- (b) Notes the Sector Developments as outlined in the external auditor's Sector Developments report.
- (c) Considers the verbal Interim Report by the external auditor.

4. Implications

Financial:	None.
Human Resources:	None.
Legal:	None.
Equality/Socio-economic Duty:	None.
Children and Young People:	None.
Environmental & Sustainability:	None.
Key Priorities:	A Council for the Future – An Efficient Council that Maximises Resources and Provides Value for Money
Community Benefits:	None.

5. Consultation

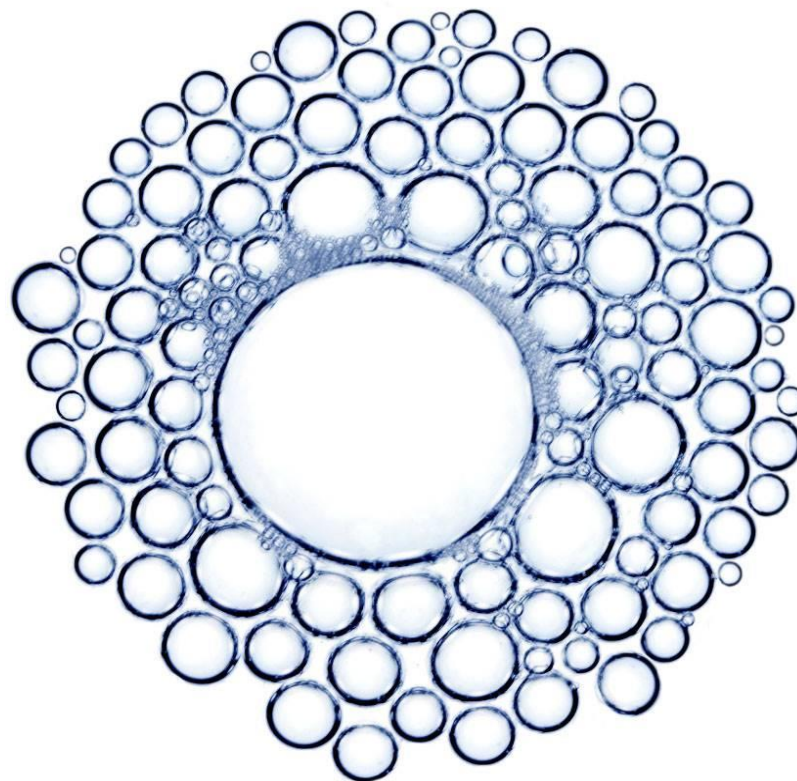
- 5.1 Deloitte LLP consulted with the Executive Director (Finance and Corporate Support) and other Council Chief Officers in preparing their Interim Audit report.

Laura Friel
Executive Director (Finance and Corporate Support)

For further information please contact **Laura Friel, Executive Director (Finance and Corporate Support)** on **01294-324512**.

Background Papers

None



North Ayrshire Council

Interim Report to the Audit and Scrutiny Committee
on the audit for the year ended 31 March 2019

Issued 3 June 2019 for the meeting on 18 June 2019

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Introduction

The key messages in this report

I have pleasure in presenting our report to the Audit and Scrutiny Committee (Committee) of North Ayrshire Council (the Council) as part of our 2018/19 audit responsibilities. I would like to draw your attention to the key messages from this paper:

Background

As set out in our plan which was presented to the Committee in March 2019, the Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland.

Our audit work has considered how the Council is addressing these and our conclusions are set out within this report.

As part of this review we met with key members of the Executive Leadership Team (ELT) and a sample of elected members and council officers. We also observed a Committee meeting in March 2019.

We then reviewed supporting evidence to support our judgements and conclusions which are contained within this report.

Scope of audit

Our audit work covered the four audit dimensions as follows:

- Financial sustainability;
- Financial management;
- Governance and transparency; and
- Value for money.

The audit incorporated the specific risks highlighted by Audit Scotland, in particular, the impact of EU withdrawal, the changing landscape for public financial management, dependency on key suppliers, care income and increased focus on openness and transparency.

Our audit also considered the five Strategic Audit Priorities set by the Accounts Commission, as detailed within our Audit Plan.



Introduction (continued)

The key messages in this report (continued)

Overall conclusions

Financial sustainability – The Council has a clear process in place for medium and long term financial planning and the current level of reserves held is at an acceptable level. Over 2018/19 and 2019/20, £7.38m is needed from reserves to support the core recurring budget, however, the Council has recognised that a sustainable solution is required from 2020/21 onwards.

It is estimated that the cumulative funding gap over the next three years could reach up to £25.41m if savings are not identified. It is therefore becoming more critical for the Council to change the way services are provided and make savings to achieve financial sustainability.

The Council has done a lot of work around transformation planning and has identified an ambitious savings target of £15.42m over the next three financial years from transformation, this represents 33% of the estimated cumulative funding gap over the period. It is vital that the Council identify further savings and efficiencies to close the remaining funding gap.

The Council has integrated the basis of its approach to transformation into the Council Plan and has set-up the Transformation Think Tank. The Transformation Think Tank is developing a framework to ensure appropriate governance and detailed plans are in place to secure delivery. It is important that this is developed with a process in place to monitor the progress of key objectives and outcomes to ensure savings remain on track over these years.

Financial management – The Council has strong financial management arrangements which are robust enough to sufficiently manage financial activity and capture and address any challenges to the achievement of financial targets.

Council financial performance including in-year changes to funding is transparently presented.

Governance and transparency – The Council has seen changes to its leadership in 2018/19 with the early retirement of the previous Chief Executive and a proposed wider Directorate restructure. The new Council structure was approved at Staffing and Recruitment Committee on 8 May 2019 and the Council needs to ensure that the change in structure will not have an adverse impact on capacity to deliver services.

Value for money – Performance improvements have been made between the end of 2017/18 and the mid-year point of 2018/19 against local performance indicators.

The Council is also fully engaged with its contribution towards national outcomes.

Our detailed findings and conclusions are included on pages 5 to 25 of this report.

Next steps

An agreed Action Plan is included on page 31 of this report. We will consider progress with the agreed actions and provide an update on any significant changes in our annual audit report to the Committee in September 2019.

Added value

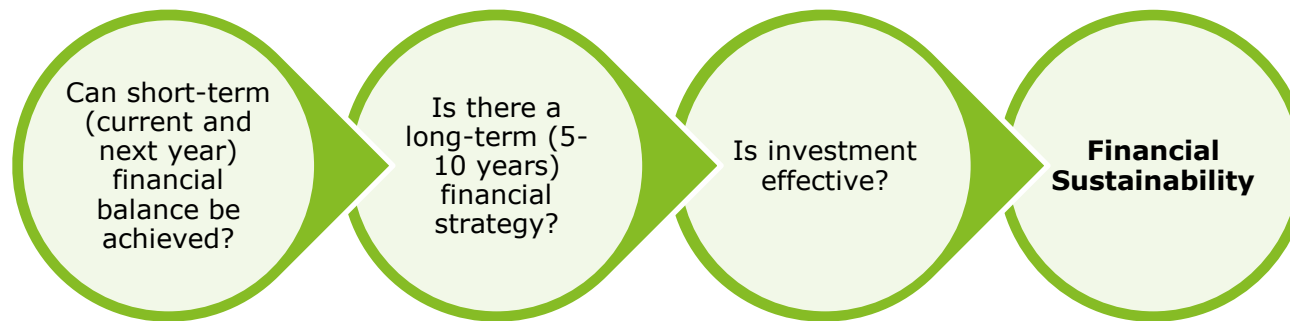
Our aim is to add value to the Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making, and more effective use of resources.

We have provided our separate 'Sector Developments' report, where we have shared our research, informed perspective and best practice from our work across the wider public sector that are specifically relevant to the Council. We would encourage the Council to consider this as it implements its next phase of transformation.

Financial sustainability

Overview

Financial sustainability looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.



Audit risks

Within our audit plan we identified a number of risk as follows:

- The Council's Transformation Plans are not appropriately progressed, resulting in benefits not being realised and financial balance not being achieved; and
- the Council's long-term financial planning is inconsistent with the Scottish Government's five-year plan.

Financial sustainability (continued)

Short term financial position

2019/20 budget

The Council approved a balanced budget of £343.52m for 2019/20 on 27 February 2019. This incorporated £3.49m of previously approved savings and a further £2.88m of new savings to be made and plans to use £3.88m from reserves. The Council's use of reserves is discussed in more detail on page 7.

In setting its budget, the Council recognised that, whilst projecting to achieve short term financial balance, a number of risks exist, including:

- Cost of service delivery exceeding financial provision including;
 - pay, demand led pressure and inflation;
 - not securing in year financial balance;
 - Savings not being delivered on time; and
 - Adequacy of reserves and provisions.
- Financial sustainability of the Health and Social Care Partnership (HSCP).
- Delivery of current and future years transformation.

The Council also takes a priority based approach to budgeting through the use of 'Boston Grid' analysis in which all savings are plotted in terms of high to low community impact. The savings identified are scrutinised and debated to help Members get an understanding of the impact savings will have on the community and the delivery risk attached to each saving.

The approach has been well received and the Council intends to continue this for future budgets. We would like to highlight this approach as an area of best practice.

Participatory budgeting

The Council works closely with its communities and Participatory Budgeting (PB) in North Ayrshire is one of the key focus areas of community empowerment.

The Council has three main methods of PB: digital events where voting is online; a 'dragon's den' style of event where community groups make a pitch to an audience who vote for their favourites; and a 'market place' type of event where the groups have a stall of information and they talk to the audience about their project before voting for their choices.

Locality PB in North Ayrshire has been very successful since its introduction in 2016. As of March 2019, the Council have held events in all six localities, with over £180,000 being awarded to 152 different projects. This was from 788 people voting at events utilising the 'dragon's den' approach and 2413 votes from people at 'market place' events.

Youth PB is also a key area of focus for the Council and has seen high response rates from young people in North Ayrshire. Youth PB has been 100% digital, with projects uploaded onto the Young Scot Website and voting done online. As of March 2019, over £50,000 has been awarded to 58 groups. This was from 6,814 young people voting online.

The Scottish Government has set a target that at least 1% of local government budgets will be subject to participatory budgeting by the end of 2021, this equates to £3.43m for the 2019/20 budget. In order to meet this ambition the Council has been a national pilot for PB, especially in mainstream budgets and has identified £750,000 of grounds maintenance budgets, youth budgets and a range of grants now being allocated via PB. This has enabled local communities to have a say in shaping how part of the ground maintenance budget was allocated. This initiative was piloted in one locality, where over 600 responses were received. Following the success this approach is now being rolled out across the other five localities.

Financial sustainability (continued)

Short term financial position

Reserves

The Council has used reserves in setting its budget over the last few years. This has included a reduction in unearmarked reserves to the current level of 2% of net expenditure. The Council recognises that use of reserves provides a temporary solution but requires a more sustainable approach to be developed. The Council's Reserve Strategy is a risk specific approach and in line with best practice. The Council has taken the position that based on specific risks the minimum reserves should be 2% which is expected to be achieved in 2018/19.

At 31 March 2018, the Council had unearmarked reserves of £6.62m. It is anticipated that the unearmarked reserve will remain at the Council's approved minimum of 2% which will be £6.91m at 31 March 2019.

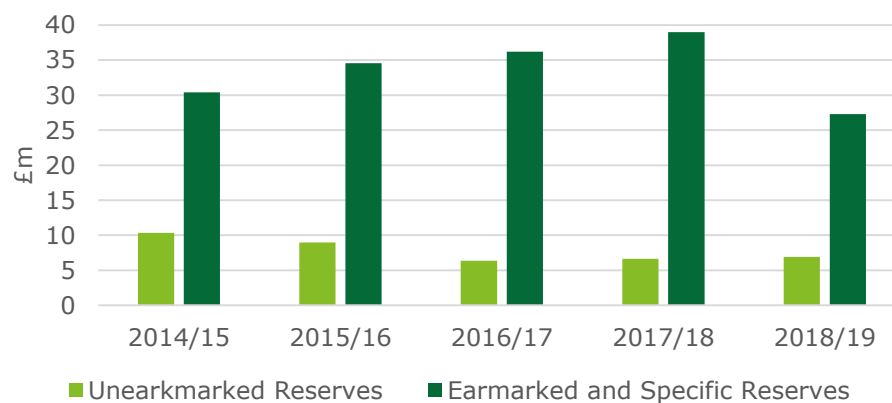
At 31 March 2018 the General Fund earmarked balance was £26.61m and it is anticipated to be £17.63m at 31 March 2019, the decrease being mainly attributed to £1.70m on affordable housing, £6.65m on project specific fund which were carried forward from 2017/18 and £3.19m on change and service redesign fund. The movement in reserves during the year is shown in the table below.

Reserves	At 31 March 2018 (£m)	At 31 March 2019 (£m)	Increase/ (decrease) (£m)
Unearmarked	6.62	6.91	0.29
Earmarked	26.61	17.63	(8.98)
Specific	12.13	9.65	(2.48)
Total	45.36	34.19	(11.17)

As at 31 March 2018, the specific reserves balance was £12.13m and is anticipated to be £9.65m as at 31 March 2019, this comprises insurance fund (£2.61m) and capital fund (£7.04m).

The movement in unearmarked and earmarked reserves over the last five years is illustrated below. The current year unearmarked balance of £6.91m is up slightly from £6.62m in 2017/18 which is positive. The Council should ensure that unearmarked reserves are maintained in line with the agreed reserves strategy.

General Fund Reserves



Financial sustainability (continued)

Medium to long term financial sustainability

Medium term financial planning

The Council recognise that due to increasing demand for services and the continuing restraint in relation to the Council funding settlement, it will have to consider how it can fundamentally transform service delivery in order to meet citizen needs with reducing budgets.

The Council's latest Medium Term Financial Plan (MTFP) was updated in February 2019 to cover the period 2019/20 to 2021/22. The MTFP sets a balanced budget for 2019/20, however, indicates a deficit of £14.67m and £10.74m in 2020/21 and 2021/22 respectively. This includes new savings targets of £2.88m, £1.14m and £0.73m in each of the years.

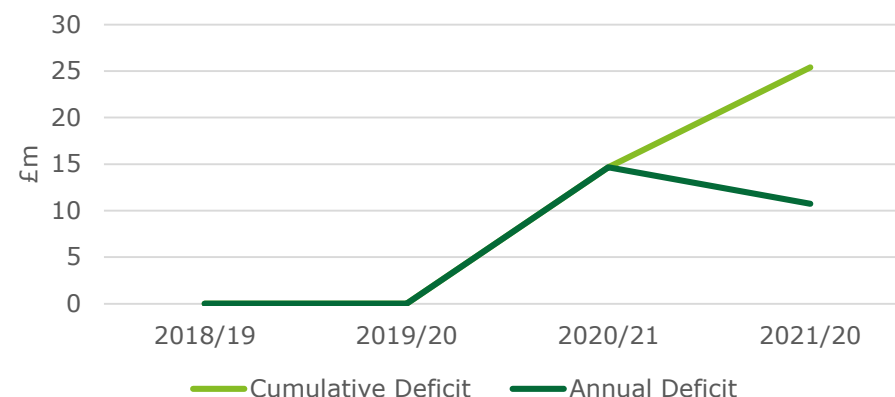
This is based on the following key assumptions:

- For 2020/21 and 2021/22 the assumption is that the level of core grant support will reduce by 2%.
- 79% of the funding for the additional costs of teachers' pension is being met by the Scottish Government, with the remainder being met by the Council.
- An uplift of 4.8% on council tax in 2019/20 and an uplift of 3% in each the following years.

In 2018/19 and 2019/20, £3.50m and £3.88m from reserves are needed to support the core recurring budget. These reserves provide non-recurring funding in 2019/20, however, the Council has recognised that a sustainable solution is required from 2020/21 onwards.

It is estimated that the cumulative funding gap over the next three years could reach up to £25.41m if savings are not identified to reduce the deficit in the coming years, as illustrated in the following graph. It is therefore becoming more and more critical for the Council to change the way services are provided and make savings to achieve financial sustainability.

Future funding gaps



Long term financial planning

The Council has a Long Term Financial Outlook (LTFO) covering the period 2018/19 to 2027/28. The LTFO includes the significant financial challenges the Council faces over the next 10 years and the approach to respond to this. This includes service reviews and associated delivery plans. The LTFO is updated every three to four years.

The current LTFO outlines that the Council plans to undertake a more fundamental review of the services it provides and its partnership with Communities and other stakeholders. This has been done as part of the transformation work as detailed on page 10.

The LTFO identifies cost pressures and areas of concerns over the next 10 years and indicates an estimated funding shortfall of £156.0m assuming nothing changes. The LTFO informs the Council's medium term financial plans where specific savings are set out.

The Council has reviewed and considered the Scottish Government Medium Term Financial Strategy (MTFS) as part of medium to long term planning, however, it recognises that it is a high level strategy which does not give any specific guidance for local government.

Financial sustainability (continued)

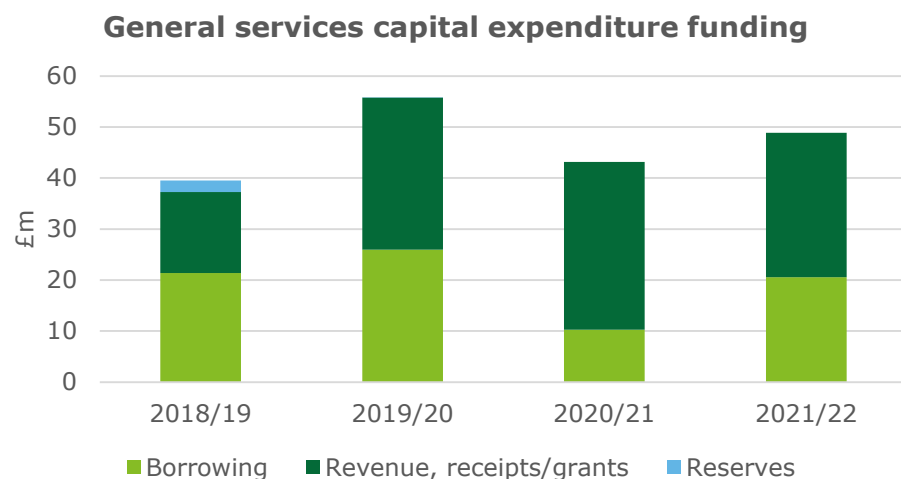
Medium to long term financial sustainability

Capital planning and treasury management

The Council updates its Treasury Management and Investment Strategy (TMIS) on an annual basis. The strategy document provides a detailed assessment of treasury requirements for the period up until 2021/22. This includes assessments of treasury management and investment strategy requirements as well as capital and prudential indicators in line with CIPFA's Prudential Code.

The TMIS considers the Council's future capital funding arrangements. As per the graph below, the Council anticipates £39.52m of capital expenditure for 2018/19 and forecasts £147.88m in total capital expenditure over the next three years.

Cumulative borrowings anticipated for 2018/19 are £282.86m and projected to be at £402.65m by 2021/22. The estimated ratio of debt to net revenue stream across the next three years averages at 5.0%, this is below the Scottish local authority average of 7.75%.



The Council has a Capital Investment Programme (CIP) covering the period 2019/20 to 2027/28. The CIP incorporates all funding sources to 2027/28, including assumed levels of general capital grant, specific grants and a prudent assessment of the level of capital receipts.

The CIP will deliver a total programme of £254.91m to 2027/28 financed through a combination of capital grants, capital receipts and internal funds. The balance of funding required to deliver the capital programme will be met through prudential borrowing and this is anticipated at £85.32m over the period. The CIP aligns to the priorities below:

- *Growing our economy, increasing employment and regenerating towns (£27.42m)* – Includes investment in the Council's contribution to the Ayrshire Growth Deal, Montgomerie Park masterplan, Irvine High Street works and other vacant and derelict land regeneration.
- *Working together to develop stronger communities (£4.50m)* – Includes investment in improvement grants.
- *Helping all of our people stay safe, healthy and active (£21.90m)* – Includes investment in cycling, walking and safer streets investment and property lifecycle investment
- *Ensuring people have the right skills for learning, life and work (£88.12m)* – Includes investment in community campus in Ardrossan, additional support needs campus development and Montgomerie Park and Moorpark primary schools.
- *Protecting and enhancing the environment for future generations (£92.40m)* – Includes investment in roads network, lighting infrastructure investment, bridges and structures.
- *Investment that underpins delivery of the Council's strategic priorities (£20.56m)* – Includes ICT investment and vehicles and plant investment.

Financial sustainability (continued)

Medium to long term financial sustainability

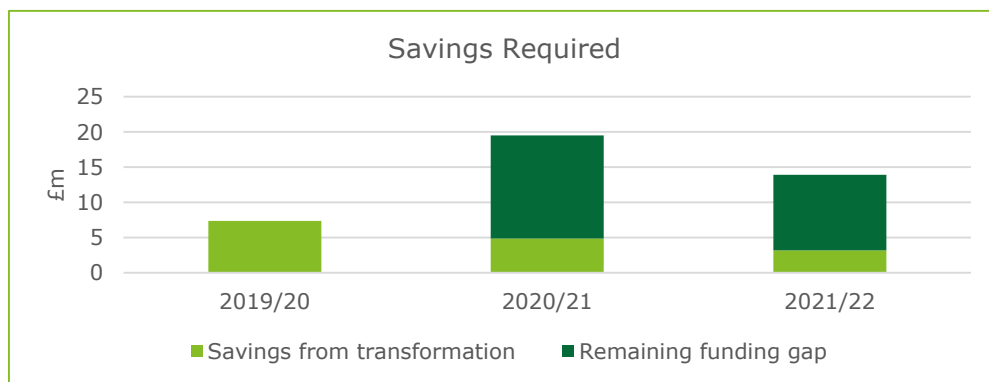
Transformation work

The Council's transformation programme, Transformation 2 (T2) was brought to a close in February 2019 with total savings of £6.70m over the life of T2. A summary report was presented to Cabinet of the main achievements of the programme. The report noted that the next phase of transformation will be embedded in the draft Council Plan which was presented to Council in March 2019.

The draft Council Plan 2019-24 was approved by Council in March 2019, with the next phase of transformation now being included within the Council Plan rather than being standalone document. The draft Plan is constructed around three strategic themes, which are:

- *Aspiring Communities* – building a society where everyone has the same life chances to grow, prosper and have fulfilling and healthy lives.
- *Inspiring Place* – creating an enterprising, vibrant and sustainable environment, appealing to investors, attractive for visitors and a place where residents are proud to live and work in.
- *A Council for the Future* – transforming and improving services for communities through innovation, changing approach and focusing investment in the Council's priorities.

The first two themes are outward looking whilst the third sets out how the Council will work moving forward. This forms the basis of the Council's approach to transformation. Savings from transformation are forecast to be £15.42m as illustrated below which are based on a number of projects across the three strategic themes.



The Transformation Think Tank, led by the Executive Director (Finance and Corporate Support) has been set up to develop a pipeline of transformation projects which will regularly report to the Chief Officer Leadership Team (COLT). The Council is clear that that transformation not only focuses on service redesign but also demand management and digital initiatives which may not have tangible savings specifically assigned but are instead seen as key enablers across all service redesign programmes. The Council have dedicated resource set aside to focus on transformation through the creation of a single Transformation Team which will make it easier to align resource to the right projects, track progress and ensure benefits are delivered.

The proposed savings targets for the next phase of transformation are ambitious, therefore, it is important the Council has the supporting infrastructure in place. We recommend the Council has detailed plans in place to deliver the next phase of transformation and monitors the progress of key objectives and outcomes of these with appropriate benefit realisation tools.

Ayrshire Growth Deal

In addition to the work being done around transformation, the Ayrshire Growth Deal also represents further transformation opportunities for the Council. The deal was signed on 8 March 2019 by the three Ayrshire Councils and the UK and Scottish Governments and it aims to take forward a number of transformational projects across the region.

The Ayrshire Growth Deal will provide an investment of more than £250m across the three Ayrshire Councils in the key sectors of aerospace and space, life sciences, manufacturing and tourism.

The multi-million pound investment is expected to help drive economic development across the region, boosting jobs, creating opportunity and encouraging further inward investment.

Financial sustainability (continued)

Medium to long term financial sustainability

Workforce Strategy and plan

As part of the next phase of transformation, staff development, training and education remains a high priority for the Council. The Council has made a conscious decision not to produce a standalone workforce planning strategy, instead, opting to implement a more dynamic way of workforce planning.

Each service within the Council now has an individual workforce plan which is a live document which is maintained by the head of each service. The document is the same for each service and considers a number of factors including composition and demographics of current workforce, current service reviews and an action plan. This is a live document with quarterly stocktakes on progress and is used to assess overall workforce needs of the Council.

People Services support workforce planning by providing advice, guidance and challenge, where required, and also by ensuring that the key stakeholders are working collaboratively.

As part of the workforce planning process the Council has introduced methodology and tools to aid analysis and review:

- Analysis of current workforce through the use of business analytics tool 'Power BI'.
- PESTLE Analysis for each service which looks at 6 key factors:
 - Political, Economic, Social, Technological, Legal and Environmental (PESTLE).
- Span of control analysis, which looks at the number of direct line reports to manager ratio, identification of career development routes and succession plans, training and development needs and high risk posts.

These tools enable services to drill down to areas of their organisation and understand in greater detail key data that impacts on the workforce plan. They also allow HR and senior management within services to assess risks specific to their area of the organisation.

The Council's new workforce planning has been in place since mid 2018 with the model continuing to evolve, so it is important that the Council monitor this new way of working closely to ensure workforce planning across the whole Council is effective.

Deloitte view – Financial sustainability

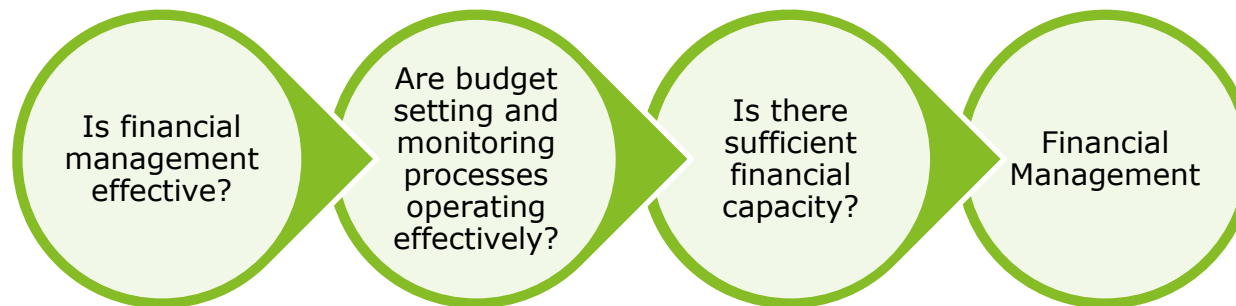
The Council has a clear process in place for medium and long term financial planning and the current level of reserves held is at an acceptable level. In 2018/19 and 2019/20, £3.50m and £3.88m are needed from reserves to support the core recurring budget, however, the Council has recognised that a sustainable solution is required from 2020/21 onwards. It has considered the Scottish Government MTFS as part of its financial planning, however, it does not provide specific guidance for local government.

The Council has done a lot of work around transformation planning, such as creating the Transformation Think Tank and incorporating the next phase of transformation into the Council Plan. It has identified an ambitious savings target of £15.42m over the next three financial years from transformation, however, this does not completely close the estimated cumulative funding gap of £25.41m. It is therefore vital that the Council identify further savings and efficiencies to close the remaining funding gap. It is important the Council has detailed plans in place to deliver these targets and monitors the progress of key objectives and outcomes to ensure savings remain on track over these years. If the next phase is not progressed appropriately this could result in benefits not being realised and financial balance not being achieved.

Financial management

Overview

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.



Audit risks

Within our audit plan we identified a number of risk as follows:

- A lack of appropriate financial management could result in the Council not achieving its financial targets; and
- the underlying financial performance of the Council is not transparently reported.

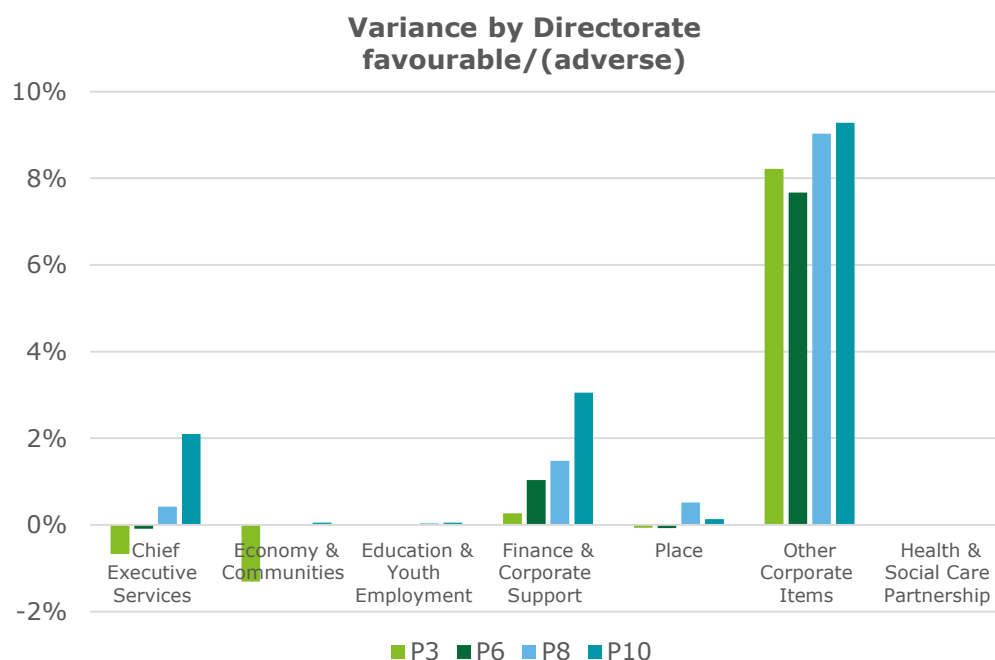
Financial management (continued)

Financial performance

General Fund

The original 2018/19 budget approved by the Council budgeted general fund net expenditure of £331.21m in the year. This has been updated throughout the year, to £333.52m in June (P3), £336.59m in September (P6), £337.02m in November (P8) and £337.83m in January (P10). The overall projected underspend has increased throughout the year, with the Council anticipating an underspend for 2018/19 of £1.11m in P10, prior to the final agreement of the local government pay settlement. To date, budget performance at P12 has not been finalised, however, the Council is anticipating a break even position at year end, once these costs are included.

This has been consistently reported to members throughout the year as illustrated in the graph below, it should be noted that Other Corporate Items includes Other Corporate Services and capital finance costs.



For variances over 2% the key drivers were:

- *Chief Executive Services (P10)* – variance primarily related to vacancy management and funding which has not been fully utilised during 2018/19.
- *Finance & corporate support (P10)* – variance mainly related to higher than anticipated staff turnover across the services.
- *Other Corporate Items (P3, P6, P8, P10)* – variances were mainly attributed to financing charges based on the latest cash flow and interest rate projections. There is a strategy in place to earmark the financing charges underspend to support the 10 year capital programme.

Savings Plans

The 2018/19 General Services Revenue Estimates for 2018/19 included targets for savings of £5.09m across all services. Savings were achieved predominantly through service redesign, however, some savings were made through vacancy management. At P10 the majority of savings were on target for delivery by 31 March 2019, however, the projections include a delay in delivery of £0.70m against current year net savings from the following:

- Sheltered housing savings within Place, with the projected shortfall met from the existing budget;
- Community centre savings within Economy & Communities, offset by the early achievement of savings from the review of Community Learning and Development .

Housing Revenue Account (HRA)

The HRA is expected to end the year at a breakeven position compared to budget. This has been consistently reported to members throughout the year.

Within the performance reports variances in the HRA were highlighted and fully explained, however, such variances were minimal throughout the year.

Financial management (continued)

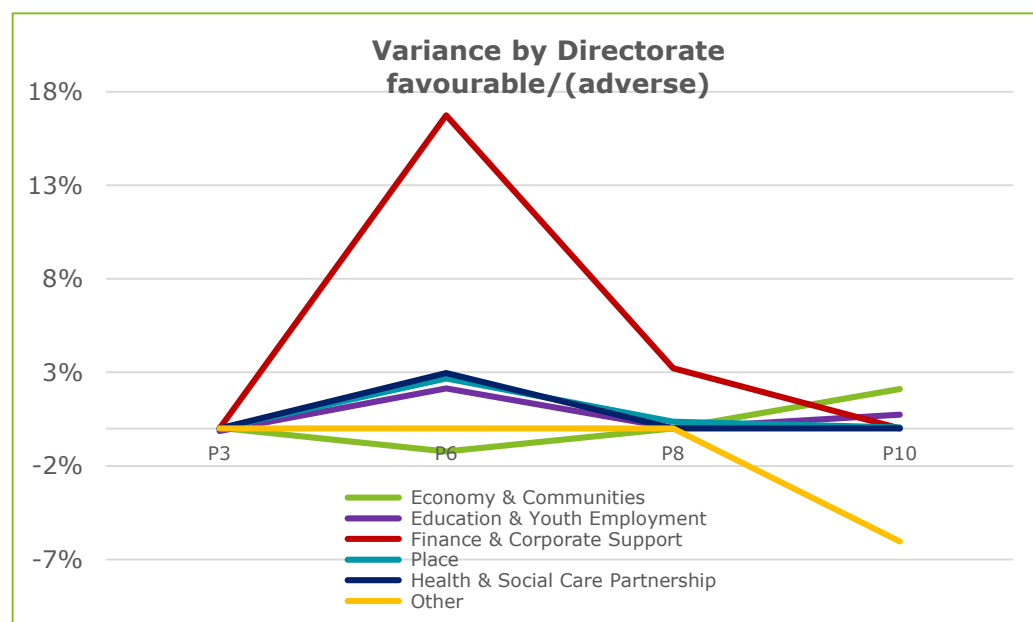
Budgetary control systems

Capital programme

The key areas of capital expenditure for delivering the CIP in 2018/19 by the Council were roads, schools and infrastructure which totalled £36.80m. Funding for this spend came from a number of sources:

Funding source	£m	Funding source	£m
General Capital Grant	3.19	Specific Capital Grant	3.08
Reserves	0.29	Current Revenue	1.06
Other grants & contributions	5.94	Borrowing	23.24

The performance against budget in the year is illustrated in the graph below:



For variances over 5% the key drivers were:

- *Finance & Corporate Support (P6)* – variance related to the Digital Strategy, Agile Working and the PC replacement programme which will not be utilised until 2019/20.
- *Other (P10)* – underspends within other services were transferred into “flexibility” with uncommitted funds used to support future projects.

In addition, capital expenditure on the Council Housing stock is delivered through the HRA Capital Programme which totalled £28.28m at P10.

Funding source	£m	Funding source	£m
Capital Grant	9.61	Current Revenue	13.23
Reserves	4.92	Borrowing	0.52

Financial reporting

The Council has effective financial planning and management arrangements in place. The ELT and Cabinet review financial performance bi-monthly and reporting to senior managers is carried out on a monthly basis.

From review of the Council's performance reports to Cabinet throughout the year, it is clear the Council have strong financial monitoring arrangements where large variances in budgets are highlighted and fully explained. Generally, variances over £0.05m are highlighted and explained in the report to Cabinet.

Financial capacity

The Finance Team is led by the Executive Director (Finance and Corporate Support) and Head of Finance, both of whom are experienced in local government finance roles. We have not identified any issues with the financial skills, capacity and capability of the Finance Team.

It should also be noted that in 2018/19 the North Ayrshire Integration Joint Board appointed a new Head of Finance and Transformation further enhancing resources and capability within the HSCP. Previously, this role had been performed by the Head of Finance of the Council.

Financial management (continued)

Systems of internal financial control

Internal audit

The Council's Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have reviewed all internal audit reports presented to the Audit and Scrutiny Committee and the conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

From our review of the internal audit reports issued during 2018/19, we have noted a number of key findings and action points, including issues identified from internal audit around lack of internal controls. We note that no fraudulent activity has been identified as a result of these issues, and management has either addressed or made plans to address the risks highlighted.

Standards of conduct for prevention and detection of fraud and error

We have reviewed the Council's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Council's arrangements to be operating effectively.

National Fraud Initiative (NFI)

In accordance with Audit Scotland planning guidance, we are required to monitor the Council's participation and progress in the NFI during 2018/19. An NFI audit questionnaire will be completed and submitted to Audit Scotland by 30 June 2019, which will detail the Council's engagement in the exercise. NFI data was received in March 2019 and the process closes in 2020. Overall, we are satisfied the Council is fully engaged with the NFI exercise.

A summary of the matches reported on the NFI system is provided in the table below:

NFI 2018/19	Total
Total matches flagged	3,214
Total matches flagged as high risk	516
Total high risk matches processed	14
Remaining high risk matches to be processed	502

It is important that the Council progress its review of high risk matches to identify whether any are indications of fraud. We will report on the Council's progress on processing matches identified during the NFI exercise in our final audit report in September 2019.

Deloitte view – Financial management

The Council has strong financial management arrangements which are robust enough to sufficiently manage financial activity and capture and address any challenges to the achievement of financial targets.

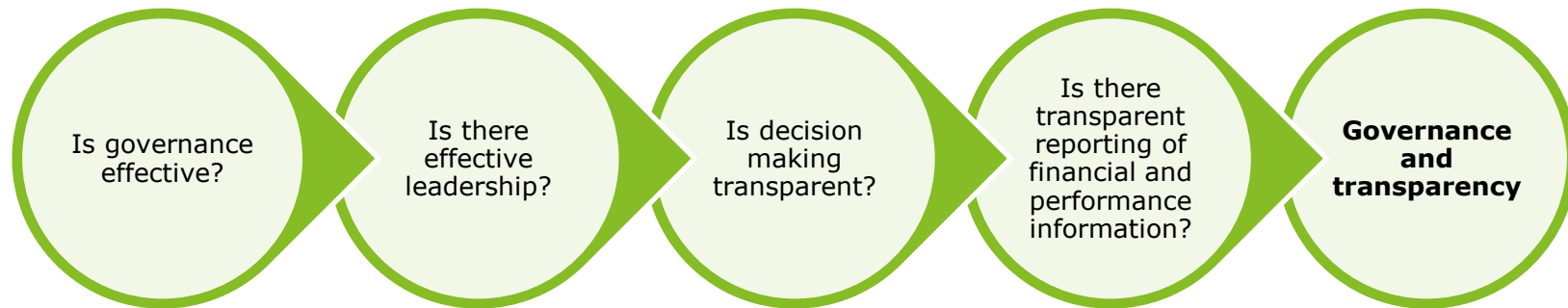
From review of the Council's performance reports to Cabinet throughout the year, it is clear that underlying financial performance including in-year changes to funding is transparently presented. The reports to Cabinet identify any large variances in budgets are highlighted and fully explained.

We have not identified any concern with the financial skills, capacity and capability of the Finance Team. The addition of the Head of Finance and Transformation for the HSCP further enhances resources and capability within the Finance Team as this role was previously performed by the Head of Finance of the Council.

Governance and transparency

Overview

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information



Audit risks

Within our audit plan we identified a number of risk as follows:

- Changes to the management structure may have an adverse impact on service delivery;
- governance arrangements between the Council, NHS Ayrshire and Arran and North Ayrshire Integration Joint Board (IJB) are not effective; and
- the Council's approach to openness and transparency is not keeping pace with public expectations and good practice.

Governance and transparency (continued)

Leadership

Leadership

The Council has had changes to leadership in 2018/19. Former Chief Executive, Elma Murray, retired in October 2018 and was replaced by Craig Hatton, former Executive Director (Place). An internal recruitment process was conducted to support the Council's ethos of "growing our own talent", if this had been unsuccessful a full external recruitment process would have been carried out. This decision was supported by a business case which considered best value implications. We have reviewed the business case which was approved by the Staffing and Recruitment Committee on 24 August 2018 and conclude that the recommendations were reasonable and represent best value to the Council. This is justified by the following:

- Voluntary early retirement costs were £26,000 on the basis that the Chief Executive will take reduction in her pension.
- Internal recruitment costs incurred were approximately £4,000.
- External recruitment costs incurred would have been at least £12,000.

In addition, the Council considered Audit Scotland's 'Bye Now, Pay Later' report which sets out a number of recommendations to be applied when senior management leave. The Council considered these recommendations and concluded that the cost of early retirement was reasonable, and it could result in significant future savings through Directorate restructure as discussed below.

Directorate Restructure

While the Chief Executive post was replaced it also allowed the Council to look at a wider Directorate restructure. It was proposed that the new structure would reduce from four Executive Directors to two Assistant Chief Executive's working together with the Chief Executive. This type of structure has been in place for a number of years in other councils across Scotland.

To allow this structure to be implemented there would need to be a realignment of Heads of Service remit to allow them to fully support the Council Plan, however, the final decision for restructure had been left for the new Chief Executive to take forward.

The new Council structure was approved at Staffing and Recruitment Committee on 8 May 2019 and the restructure is expected to be fully in place by 2020/21. It is important that the Council monitors the restructure closely to ensure that the change in structure will not have an adverse impact on capacity to deliver services.

Governance and transparency (continued)

Vision and governance arrangements

Council Plan

The Council Plan sets out the vision and mission of the Council:

"A North Ayrshire that is 'Fair for All'."

"Working together to improve well-being, prosperity and equity in North Ayrshire."

The Council Plan has identified 3 strategic priorities to help make this happen:

Aspiring Communities

Inspiring Place

A Council for the Future

North Ayrshire Community Planning Partnership (CPP)

The CPP Local Outcomes Improvement Plan (LOIP) sets out the vision:

"North Ayrshire – A Better Life."

"To achieve this we need to make sure that life is 'Fair for All' in North Ayrshire."

The LOIP has identified 4 strategic priorities to help make this happen:

A Working North Ayrshire

A Healthier North Ayrshire

A Safer North Ayrshire

A Thriving North Ayrshire

Governance and scrutiny arrangements

The Council's ELT has seven members, including the Director of the Health & Social Care Partnership. The ELT is responsible for reporting to the Cabinet and Council. We have found reporting in the year to be effective and robust.

This Council is made up of 33 elected Members and there is currently a minority Labour administration. The Cabinet is the main decision making body within the Council and consists of six elected members including the Leader of the Council. The Cabinet reviews financial monitoring reports every two to three months and all Cabinet and Council meeting minutes and agenda items are publicly available.

The Audit and Scrutiny Committee consists of seven elected members and the chairperson is the leader of the main opposition in line with best practice. From our observation at meetings and following review of meeting minutes and agenda items we have concluded that Committee meetings are well attended and effective levels of scrutiny and challenge are provided.

In order to ensure that the governance and scrutiny framework is continually improving, we would encourage the Council to consider annual self-assessment of Committee and Council performance. The results of which should be made publicly available through the publication of an annual report.

Governance and transparency (continued)

Openness and transparency

Openness and transparency

Taking an **open approach** to business can support good governance.

It is about behaviours, centred on a preference for sharing information about how and why decisions are made. In the public sector, this is based on the recognition that public services are delivered for the public good using public money.



Transparency can be seen as a process. Access to information provides insight into decision-making and how the organisation work. Transparency in the public sector is supported by statutory requirements and regulations. These are minimum requirements and it is for individual organisations to decide whether the content and volume (in terms of quantity and amount of detail) of the information that they make available contributes to increased understanding. There are judgements to be made, and an approach designed to increase transparency rather than comply with minimum standards is more likely to satisfy the good governance test.

Openness and transparency are individually important, and working well together they help demonstrate that public organisations are acting in the public interest.

We have considered the Council's approach to openness and transparency, how good the Council's information is and its commitment to improving openness and transparency and concluded:

- The Council complies with CIPFA's 'Delivering Good Governance in Local Government' framework.
- The Council are open in their decision making and make the majority of their reports and committee minutes available on their website. Generally, only reports containing commercial sensitivity are not published.
- The Council allows members of the public to attend meetings and has recently started webcasting allowing members of the public to watch live council meetings and archived council meetings.
- Overall, we are satisfied that the Council is open and transparent with its residents and relevant stakeholders.



Governance and transparency (continued)

Following the public pound and community engagement

Following the public pound

The statutory requirements to comply with the Following the Public Pound Code, in conjunction with the wider statutory duty to ensure Best Value, means that Councils should have appropriate arrangements to approve, monitor and hold third parties accountable for public funding provided to them.

Within the Internal Audit plan there is specific time set aside to review "Following the public pound" during the year as part of the work performed. This includes an annual audit of Community Councils accounts' to ensure Council funding is used in accordance with the Council's Scheme of Administration and an annual audit of the accounts of various Tenants and Residents Associations. Additionally, the Council supports KA Leisure and the Community Investment Fund, where collaborative projects are developed, supported and monitored by the Council within the locality planning framework. We are therefore satisfied that the Council complies with the Following the Public Pound Code.

Community engagement

The Council is proud of its history of working closely with its communities and of how it has subsequently embraced the principles of the Community Empowerment Act.

The Council fully supports community empowerment and recognises the importance of building community capacity, this has been recognised through a number of awards over the last few years including: Consultation Institute Skills Development Award (UK), the COSLA Gold Award for Youth Engagement and Participation, the Herald Award for Community Campaign of the Year and the Herald Award for Young People's Digital Project of the Year.

The Council is currently developing a Community Engagement and Consultation Centre of Excellence which will allow the Council to get feedback from members of the public about the work that the Council is doing in the community. The Council is also piloting a new digital participation tool which allows members of the public to join online debate around specific topics.

As mentioned on page 6, the Council also considers the impact savings will have on the community through 'Boston Grid' analysis in which all savings are plotted in terms of high to low community impact. These were all discussed and debated helping Members to get an understanding of the impact of savings on the community.

This analysis allows members of the public to see how proposed savings will impact on their local community and has largely been welcomed.

We would like to highlight the Council's approach to community engagement as best practice and sector leading.

Governance and transparency (continued)

Integration of health and social care

North Ayrshire IJB

As reported in our 2017/18 annual report, the IJB ended 2017/18 with a carried forward deficit of £5.81m payable to the Council as a result of cumulative overspend in the last two years. This presented a recoverability risk to the Council.

In 2018/19 the Council had set aside £1.49m to support repayment of the IJB deficit. An in year overspend of £0.82m by the IJB was funded from this sum, reducing the deficit repayment to £0.67m. The resultant cumulative deficit is now £5.14m with the remainder due to be repaid over the next three years. A balanced budget has been set for 2019/20, however, this includes significant efficiencies that need to be achieved.

The final financial position for the IJB in 2018/19 is an improvement on the prior year, particularly given the significant historical overspends. Improvements have been made to the quality and frequency of financial monitoring reports and there is now an effective integrated budget monitoring arrangement in place.

Given the importance of the IJB and the significant overspends in previous years, the Council's Audit and Scrutiny Committee has received reports on the IJB's financial performance on a regular basis and we have noted that reporting from the IJB to the Council is effective. The ultimate responsibility for IJB budget being met lies with the IJB and not the Council, however, the Council must recognise the potential impact of any deficits in the IJB and consider this as part of future financial planning.

Deloitte view

The Council has had changes to leadership in 2018/19 with the appointment of a new Chief Executive, this has also allowed the Council to approve a wider Directorate restructure. Whilst the new structure isn't expected to be fully implemented until 2020/21, the Council needs to ensure that the change in structure will not have an adverse impact on capacity to deliver services.

We have noted that reporting from the IJB to the Council is effective. The ultimate responsibility for IJB budgets being met lies with the IJB, however, the Council must recognise the potential impact of any deficits in the IJB and consider this as part of future financial planning.

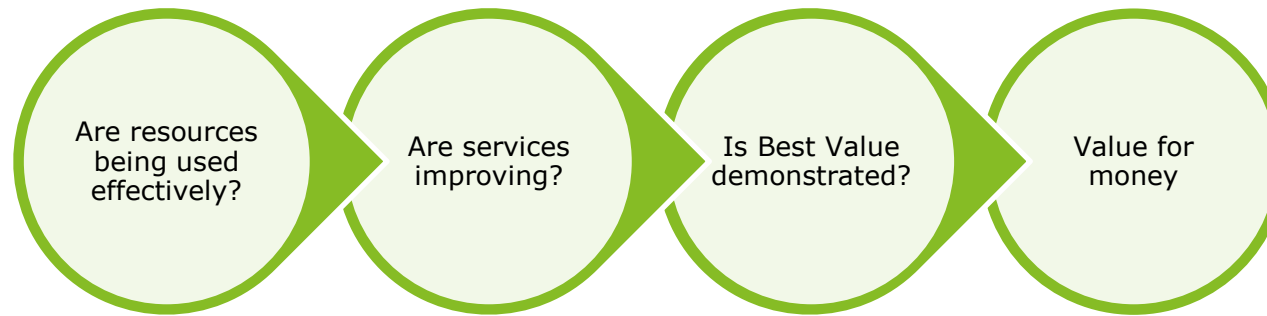
We have considered the Council's approach to openness and transparency, how good the Council's information is; and its commitment to improving openness and transparency and we are satisfied that the Council is open and transparent with its residents and relevant stakeholders.

The Council fully supports community empowerment and recognises the importance of building community capacity, we would like to highlight the Council's approach to community engagement as best practice and sector leading.

Value for money

Overview

Value for money is concerned with using resources effectively and continually improving services.



Audit risks

Within our audit plan we identified a number of risk as follows:

- The Council's approach to focused performance improvement in specific areas is not effective; and
- the Council does not clearly report on its contribution towards the national outcomes.

Value for money (continued)

Performance management

Performance management

The Council gathers performance information to monitor, track and improve service delivery. The Council Plan and the Annual Performance Report are used to plan for and report on the Council's performance. The Council monitors performance using the following measures:

- Local indicators detailed in Directorate and Service Plans;
- Local Government Benchmarking Framework (LGBF); and
- Statutory indicators set by the Accounts Commission.

The Council has established its key priorities and performance indicators through the Council Plan. This outlines key priorities as well as lower level aims to be achieved in order to meet those priorities. The North Ayrshire Performance Management Framework and the LOIP are the main strategic tools which are used to plan for the Council's performance in line with the Council Plan.

Performance tracking is primarily performed through the Council's 'North Ayrshire Performs' tool, which tracks performance against key indicators and allows for comparison with other local authorities.

The Council presents bi-annual performance reports to Cabinet comparing its actual performance against the performance objectives included within Directorate Plans. Detailed reports are produced at directorate level showing how each directorate has performed against the Council's key priorities per the council plan, and performance against relevant performance indicators is reviewed as appropriate for each directorate

Best value

The best value (BV) framework follows a five year approach to auditing BV. 2018/19 represents year three of the BV audit plan. The Best Value Assurance Report (BVAR) report for North Ayrshire Council is planned for year four in the five year programme (i.e. 2019/20).

The BV audit work in 2018/19 was integrated into our audit approach, including our work on the audit dimensions discussed throughout this report.

Statutory performance indicators (SPI)

The Accounts Commission places great emphasis on Councils' responsibility for public performance reporting. The Commission does not prescribe how Councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

For 2018/19, two SPIs were prescribed:

- SPI 1: Covering a range of information relating to service performance and local outcomes
- SPI 2: Relates to reporting of performance information as required by the LGBF.

Overall, we concluded that the Council's arrangement for publication are satisfactory. A summary of the council's performance results is set out on page 24.

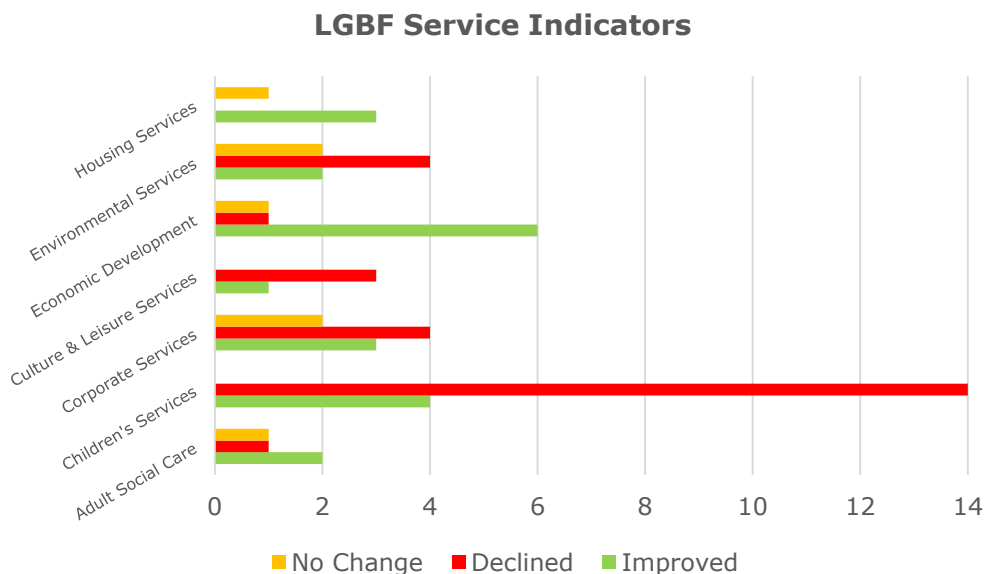
Value for money (continued)

Overview of Performance

Performance data – LGBF

We have drawn on the LGBF to make a high level assessment of the Council's performance, relative to all Scottish councils, in 2017/18 (the latest data available). The LGBF includes a number of indicators organised under common service areas.

The LGBF data was presented to the Cabinet for consideration in 2018/19, the latest data was obtained by Deloitte and the following analysis compared to prior year carried out:

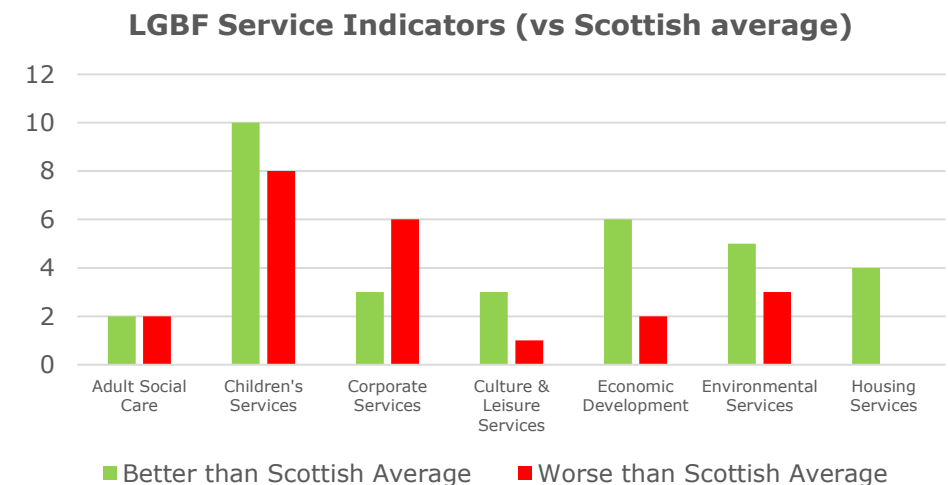


In 2017/18, Council service performance improved in 21 areas, declined in 27 areas, with no change identified in 7 areas. Of note is the decline in Children's Services where performance decreased in 14 service indicators.

Whilst the LGBF data is showing a decline in Children's Services performance in comparison with the prior year, it should be noted that there has been a steady trend of improvement over the past five years in this area.

The decline in Children's Services is not a true reflection of the data as most indicators have only declined slightly and the Council is in the second LGBF quartile. This is considered a good achievement given the Council is one of the local authorities with the highest concentration of deprived areas.

Although overall performance has declined locally, it is important to note that the Council performance is better than the Scottish average in 60% of performance indicators as illustrated below:



We note that the Council carried out comprehensive analysis for each LGBF performance area which was presented to Cabinet on 14 May 2018.

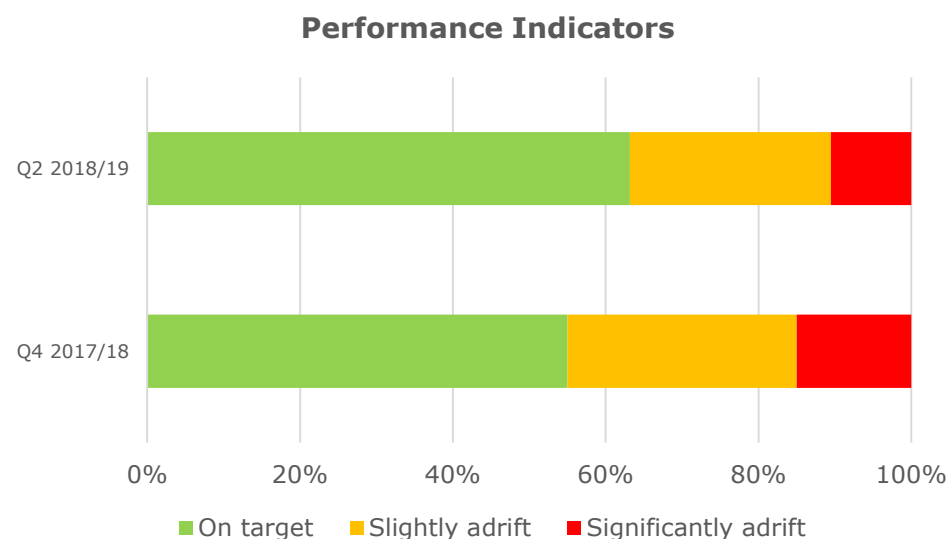
Following publication of the LGBF data, work has been undertaken with Directorates to analyse the Council's performance and plan for improvements in key priority areas.

Value for money (continued)

Overview of Performance

Performance data – local indicators

The graph below illustrates the Council's performance as at September 2018 compared to March 2018.



Performance against indicators which fell significantly adrift of targets reduced from 15% to 11% in 2018/19, whilst performance indicators on target increased from 55% to 63%. Targets which were slightly adrift decreased from 30% to 26%.

This evidences that improvements have been made between the end of 2017/18 and the mid-year point of 2018/19. End of year performance reports for 2018/19 are expected to be presented to the Audit and Scrutiny Committee in September 2019.

Deloitte view – Value for money

Council performance against local indicators which fell significantly adrift of targets reduced from 15% to 11% in 2018/19, whilst performance indicators on target increased from 55% to 63%. This evidences that performance improvements have been made between the end of 2017/18 and the mid-year point of 2018/19. We conclude that the Council's approach to focused performance improvement in specific areas is effective, as evidenced by the improvement in local performance indicators.

In the 2017/18 Local Government Benchmarking Framework exercise Council service performance improved in 21 areas, declined in 27 areas, with no change identified in 7 areas. We conclude that the council is fully engaged with its contribution towards national outcomes, evidenced by carrying out comprehensive analysis on LGBF indicators.

Other specific risks

As set out in our Audit Plan, Audit Scotland identified a number of areas as significant risks faced by the public sector. We have considered these as part of our audit work on the four audit dimensions and summarised our conclusions below.

Risk	Areas considered	Conclusion
EU Withdrawal	We have assessed what work the Council has done to prepare for the impact of EU withdrawal, specifically considering people and skills; finance; and rules and regulations.	<p>The Council is working closely with relevant partners to ensure it is as prepared as possible for the impact of EU withdrawal. The Council has set up a working group which meets regularly and reports into the Committee, in addition detailed risk register tied into national resilience is monitored on a regular basis.</p> <p><i>People and skills</i> - workforce assessment carried out by the Council indicated potential impact as being very low.</p> <p><i>Finance</i> – the largest direct impact is likely to be in relation to EU grant funded employment programmes and economic regeneration projects. Funding for most EU grant programmes is currently guaranteed until 2021, however, the Council’s long term financial planning acknowledges that risks that are still likely to arise as a result of EU withdrawal.</p> <p><i>Rules and regulations</i> – The Council is contributing to action being taken at a national level in collaboration with COSLA.</p> <p>From our work performed, we are satisfied that the Council is sufficiently prepared for the impact of EU withdrawal.</p>
Changing landscape for public financial management	As part of our audit work on financial sustainability we have considered how the Council have reviewed the potential implications of the Scottish Government’s Medium Term Financial Strategy for its own finances, including long term planning.	<p>The Council has a clear process in place for long term and medium term financial planning. The Council has reviewed and considered the MTFS as part of it's medium and long term financial planning, however, it recognises that the MTFS does not give any specific details for local government.</p> <p>In line with the MTFS the Council has considered funding scenarios, public service reform and improving outcomes as part of their LTFO.</p>

Other specific risks (continued)

Risk	Areas considered	Conclusion
Care income, financial assessments and financial guardianship	We have reviewed the arrangement for financial assessment of those requiring care and assessed whether they were subject to a significant backlog.	<p>The North Ayrshire HSCP 'Social Care Charging Policy' details the arrangements for financial assessment of those requiring care. The policy is reviewed annually and any revisions to charges and financial assessment rules are approved by Cabinet as part of the annual budget setting process.</p> <p>There are currently named individuals fulfilling the role of Financial Interveners, they include the Senior Manager Finance of the Council and the Principal Manager – Finance of the HSCP. There are also two Financial Intervention Officer posts.</p> <p>The HSCP has a team dedicated to carrying out financial assessments and focussing on collecting care income. There is currently no significant backlog and we have not identified any risks from our audit work.</p>
Openness and transparency	We have considered the Council's approach to openness and transparency as part of our audit work on governance and transparency.	Overall, we are satisfied that the Council is open and transparent with its residents and relevant stakeholders, as discussed on page 19.

Other specific risks (continued)

Risk	Areas considered	Conclusion
Dependency on key suppliers	We obtained a detailed breakdown of expenditure by supplier and performed an analysis to identify if there were any risks of dependency on key suppliers.	<p>From our analysis, 10 suppliers made up 26% of the council's expenditure in 2017/18 and 32% in 2018/19. The two largest suppliers being Scottish Water and PPP Services (North Ayrshire) Ltd. which make up 8% and 6% of the council's expenditure in 2018/19.</p> <p>The reason that spend levels are so high with Scottish Water is due to the fact that the Council collect council tax payments which include the water element of the charge. This is then passed onto Scottish Water, therefore, Scottish Water is not classed as a key supplier.</p> <p>The services offered by PPP Services (North Ayrshire) Ltd. relate to contracts offered under the Governments Public Private Partnership programme. Specifically this relates to the management of four schools for North Ayrshire Council.</p> <p>To mitigate the risk of a key supplier failing the Council has a number of controls in place:</p> <ul style="list-style-type: none"> • Supplier fitness to undertake a contract is an embedded part of the tender process. • Alerts have been set up to provide notification of any changes to financial strength of companies. This is currently utilised across Health and Social Care contracts. • For recent new contracts suppliers are asked to complete an annual declaration on business continuity. • Completion of an exercise to identify all business critical contracts across the Council. • A review structure currently in place for "at risk" suppliers. <p>PPP Services (North Ayrshire) Ltd. has not been identified as being an "at risk" supplier during these exercises, we are therefore satisfied that the council does not have risk of dependency on key suppliers.</p>

Appendices



Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Council discharge their governance duties.

Our report includes the results of our work on the following:

- Financial sustainability
- Financial management
- Governance and transparency
- Value for money.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents.

We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.



for and on behalf of Deloitte LLP
Glasgow

3 June 2019

Action plan

Recommendations for improvement

We have followed up the recommendations made in our 2017/18 annual report in relation to the wider scope areas and are pleased to note that 2 of the total 2 recommendations made have been fully implemented. The following recommendations have been made for 2018/19 and we will continue to monitor these as part of our audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Financial sustainability – Transformation</i>	<p>The proposed savings targets for the next phase of transformation are ambitious, therefore, it is important the Council has the supporting infrastructure in place. We recommend the Council has detailed plans in place to deliver the next phase of transformation and monitors the progress of key objectives and outcomes of these with appropriate benefit realisation tools.</p> <p>(see page 10 for further details)</p>	The Transformation Think Tank will review the governance that underpins planning and delivery of our transformation programme. This will include benefits realisation.	Chief Executive	December 2019	High
<i>Financial sustainability – Workforce planning</i>	<p>The Council's new approach to workforce planning is still in its early stages, so it is important that the Council monitor this new way of working closely to ensure workforce planning across the whole Council is effective.</p> <p>(see page 11 for further details)</p>	Our workforce planning has been evolving since being established in 2018. This is a key component of our planning framework and regular updates on progress will continue to be provided.	Executive Director (Finance and Corporate Support)	March 2020	High
<i>Governance and transparency – Self evaluation</i>	<p>The Council should consider annual self-assessment of Committee and Council performance. The results of which should be made publicly available through the publication of an annual report.</p> <p>(see page 18 for further details)</p>	CIPFA's "Delivering Good Governance in Local Government" is already adopted and an annual report to Council reviewing core governance documentation is produced. To assess the effectiveness of the current Audit and Scrutiny committee a self-assessment will be undertaken in line with best practice frameworks.	Chief Executive	March 2020	Medium



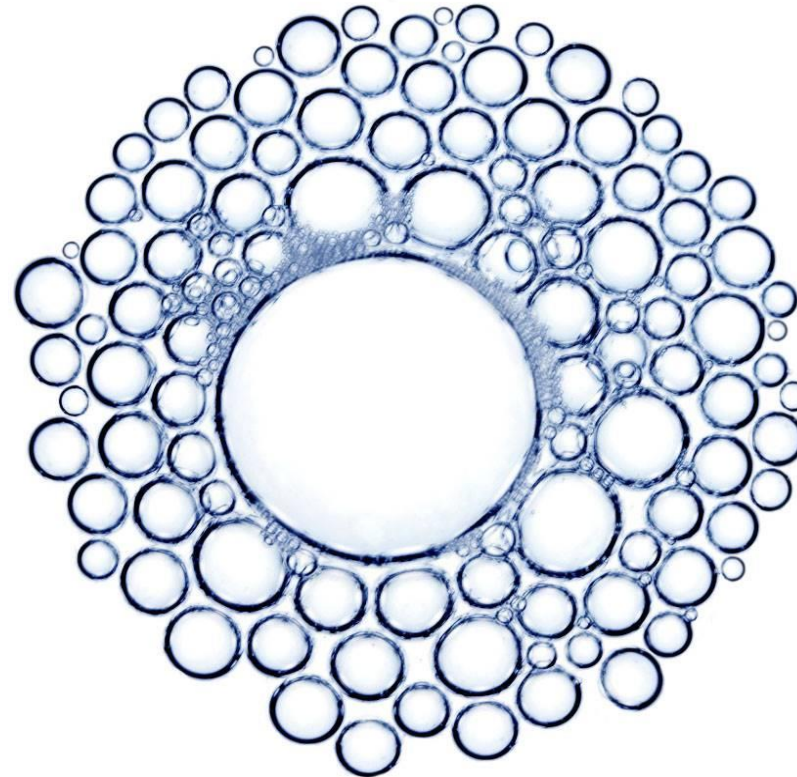
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Introduction

Sharing our research, informed perspective and best practice

As part of our “added value” to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector. In particular, we have included the following within this report:

1. Keeping pace? Government’s technology transformation – Research (pages 4 to 6)

Technology is a key driver for public sector transformation, making government departments more effective and public services accessible for those who rely on them.

Snapshot research with 815 civil servants has identified their views on the role and adoption of technologies, skills and training, as well as confidence levels in dealing with cyber-attacks. Whilst the results tell us that there is an appreciation of the impact and risks of technology developments, and progress is underway, the public sector appears to be struggling to keep pace.

3. Best practice case studies (pages 7 to 12)

We have provided some case study data where Deloitte have been involved in transformational work with Councils in England.

4. Deloitte Perspective (page 13)

We have shared our perspectives and insights which are informed through our daily engagement with companies large and small, across all industries and in the private and public section.

Keeping Pace?

Government's technology transformation

Technology is a key driver for public sector transformation, making government departments more effective and public services accessible for those who rely on them.

Snapshot research with 815 civil servants has identified their views on the role and adoption of technologies, skills and training, as well as confidence levels in dealing with cyber-attacks. Whilst the results tell us that there is an appreciation of the impact and risks of technology developments, and progress is underway, the public sector appears to be struggling to keep pace.

Area	Survey results	Action
Role of technology in government	<p>Respondents were asked which technologies have the most potential to impact on their department and on service delivery. Transformation of existing IT (88 per cent), cyber security (81 per cent) and data analytics (73 per cent) were the top three for greatest effect on the department. For service delivery, online interaction with citizens and cyber security were joint first (72 per cent), followed by transformation of existing IT (63 per cent) and mobile technology (60 per cent).</p> <p>On the other hand, digital currencies, blockchain, Internet of things and augmented reality are viewed as the least likely to impact either department operations or service delivery. These new technologies may have the power to revolutionise how we do things, however our survey suggests that while IT professionals in the public sector are aware of them, they perceive them to be well down the list of priorities.</p> <p>But is there a need for the public sector to be at the 'leading edge' or at least be 'faster followers'? Transforming existing IT, the clear priority for survey respondents, and a focus of existing investment is arguably more likely to generate service improvements for citizens and drive savings internally.</p> <p>Equally the use of advanced data analytics to drive better insights for example, is now well established and delivering real benefits for many public sector organisations.</p>	<p>It will be important of course for public sector Chief Information Officers (CIOs) to keep a "watching brief" on new technology. Technology that was new one year can become mainstream the next as functionality matures and the price point reduces.</p>

Keeping Pace? (continued)

Government's technology transformation (continued)

Area	Survey results	Action
Adoption of technology	<p>When asked which technologies they had explored for adoption, respondents highlighted those which might be considered more 'mainstream': transformation of IT (78 per cent), cyber security (64 per cent), cloud computing (59 per cent), mobile technology (56 per cent) and data analytics (54 per cent).</p> <p>Interestingly, while 72 per cent felt that online interaction with citizens had potential for the greatest impact on service delivery, only 46 per cent have explored the area for adoption.</p> <p>It's a well-worn stereotype that people working within the public sector believe they are behind the private sector in many areas. Our survey backs up this perception in relation to the adoption of new technologies; whilst 35 per cent felt they were behind others in the public sector, 64 per cent felt they were behind private sector organisations.</p> <p>Barriers highlighted include lack of budget (82 per cent), perceived cost (74 per cent) and 'fear of failure' culture (42 per cent).</p>	<p>The key lessons from our experience that help accelerate technology adoption:</p> <ul style="list-style-type: none"> • Develop a coherent business case that clearly describes the benefits from the investment. This can help achieve buy-in and ensure the project is appropriately prioritised. • Have a clear Digital Strategy that supports the delivery of the business strategy: leadership and direction are at the core of driving successful technology adoption. • Involve citizens and service users in the design and delivery of new technology. This is critical for realising benefits and delivering 'fit for purpose' solutions. • Work closely with procurement teams to encourage technology innovation and accelerate the procurement process.
Cyber	<p>The survey was conducted approximately one month after one of the biggest cyber-attacks ever within the UK public sector with the WannaCry attack on the NHS.</p> <p>The survey presents a conflicting message in the response to questions of cyber security.</p> <p>When asked which technology developments have the greatest potential to impact on the department and service delivery, cyber security was flagged by 81 per cent and 71 per cent respectively. This shows a significant realisation of the real and present threat and potential for impact.</p> <p>However almost half (44 per cent) are not sure or do not have confidence in their organisation's ability to withstand a cyber-attack. Interestingly the more senior civil servants are, the more likely they are to express confidence. This could be due to the senior group having more visibility of what the department is doing organisation-wide to reduce the risk of cyber-attack, or it could be down to this group having less awareness of the risks and exposure that exists.</p> <p>The survey showed that 56 per cent were confident which could be attributed to an increased awareness amongst users, strengthening of cyber security policy across government and more stringent compliance requirements e.g. GDPR and NIS Directive.</p>	<p>It is clear that the public sector understands the importance of strong and robust cyber security technology.</p> <p>We would encourage organisations to adopt a holistic approach to cyber security including people, processes and technology, and use the clear interest in cyber to promote awareness amongst staff.</p>

Keeping Pace? (continued)

Government's technology transformation (continued)

Area	Survey results	Action
Skills and training	<p>Skills Digital skills gaps provide a barrier to adoption according to 68 per cent of respondents. For many CIOs, figuring out the answer as to where to invest in skills can be challenging. The IT industry is constantly morphing with skills that were readily available a month ago being in short supply today. There is a clear move within the public sector towards user-centred design, Agile and data analytics, and it is perhaps not surprising that these figure large in terms of skills gaps in the survey.</p> <p>In our experience an added complication is the disparity in salaries between IT staff in the public and private sector. There is a fear factor of training people up only for them to get a better paid job elsewhere.</p> <p>Beyond the IT team, digital skills for the entire workforce need to be considered and addressed. One respondent suggested that there is a need for a standardised set of digital skills for all staff while another pointed to the need for more structured programmes to support upskilling.</p> <p>Investment in skills, for both the IT team and wider workforce, needs to be linked to the organisation's IT Strategy. Once an organisation has established what it wants to achieve, it can then establish a plan, including the volume and type of skills required. This will typically be a mix of in-house and outsourced resource dependent upon the nature of the project. Many public sector clients we work with are training staff up as scrum masters and in Agile more generally due to the volume of projects using this approach.</p> <p>Training 'On the job' training continues to be the most important means through which civil servants acquire the digital skills they need to perform their job effectively (64 per cent).</p> <p>Given the pervasiveness of technology in the workplace and at home, a potential working assumption is that all staff have, or will acquire on the job, the digital skills they need. This a potentially dangerous assumption. There are still many people within the workplace who are uncomfortable with technology. If they have not been given the right support and training, the risk is that they will become less effective in the workplace and the benefits of the organisation's investment in technology will not be fully realised.</p>	<ul style="list-style-type: none"> • Involve HR professionals in skills analysis, including the digital skills required for the entire workforce as well as the more specific skills for the IT team. The principles behind training needs analysis are still as relevant as they ever were: identifying people's current skill levels and any gaps is crucial to IT benefits delivery. • Embed a structured training programme based on the skills analysis. • Consider partnerships with universities, local employers and trusted suppliers. Some of the skills needed in the public sector can be accessed in small bites. For example, skills necessary with particular new technologies do not require long-term continuity of resource. External resources can deliver pace, capability and, with larger suppliers, an element of risk transfer that justifies the higher cost in the short and medium term. • In-house academies and training programmes can be used to upskill the existing workforce. Well-designed programmes can have a big impact on culture and levels of buy-in. Delivering programmes or partial programmes via e-learning will be time efficient and help to keep skills up-to-date

Best practice case studies

Our team have worked with an English Council to support it through its transformation programme. The following page gives a high level view of the full transformation programme and the activities undertaken as well as the key learning on its success.

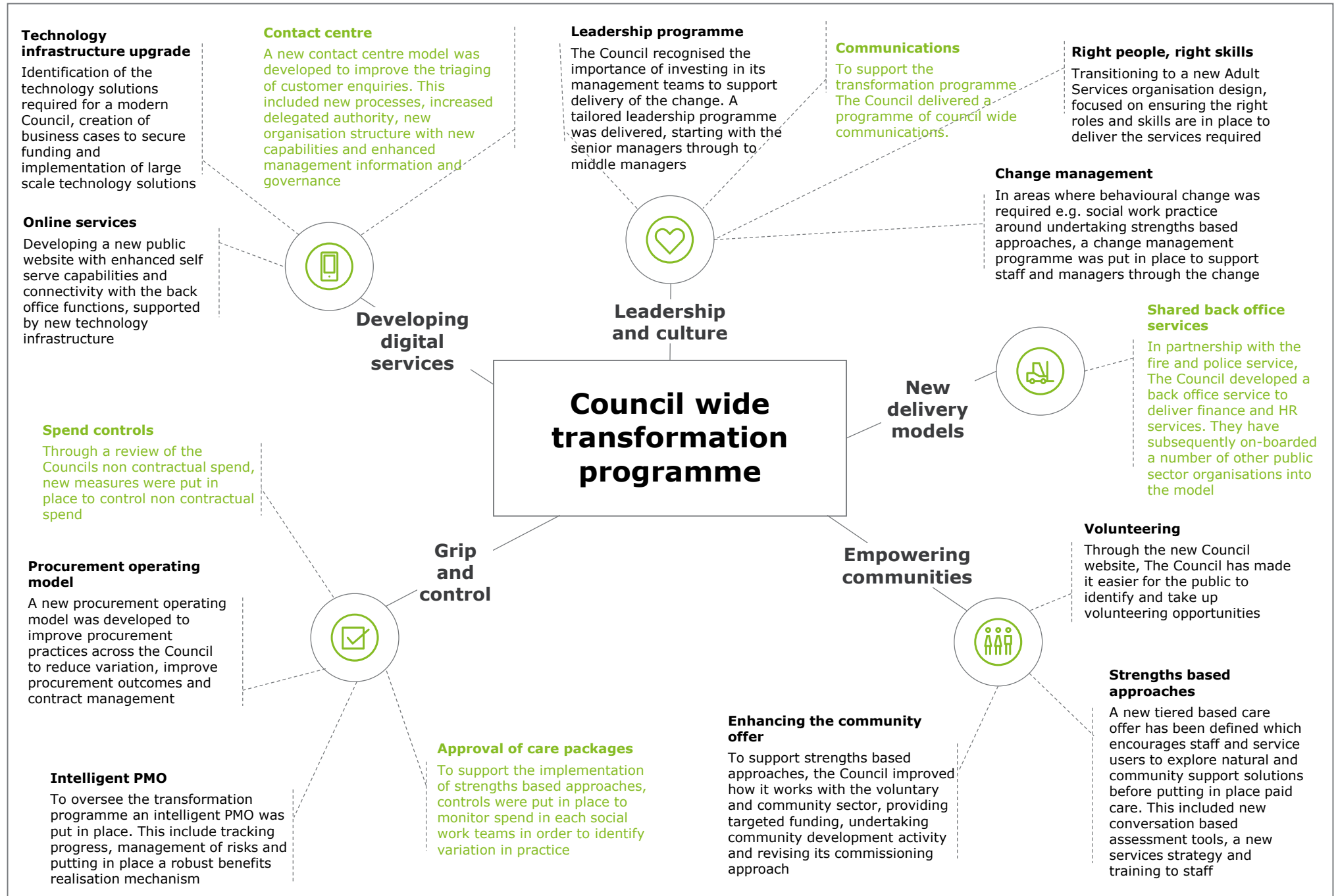
The subsequent pages then give further detail on specific examples of how they have applied demand management to transform services, including:

- **New Adult Services front door** – this increased contact centre capabilities and resolution at the first point of contact.
- **Digital services** – this enhanced online self service and automated reporting capabilities and improved digital infrastructure and digital capacity and capability.

We have also been involved in work with another English Council , in helping them achieve significant savings targets. We have set out on pages 11 and 12 two specific case studies that formed part of this work and the outcomes achieved:

- **Re-defining the care offer within its Social Care service** - this included planning and delivering targeted reviews of care packages, re-defining the care offer and rolling out strength based approaches as well as a new contact model.
- **Procurement and contract management** – here we created a whole view of third party spend, adopted a category approach to prioritise focus and addressing spend errors, policy compliance contract control and re-negotiation of contracts. We then developed a procurement service operating model to improve capabilities and model to provide enhanced procurement support council wide.

Best practice case studies (continued)



Best practice case studies (continued)

Council– New Adult Services front door

Overview

In 2015, an English Council embarked on a £100m efficiency programme. Adult Social Care directorate was expected to contribute £43.1m to this target, approximately 15% of their operating budget. This is in the context of an ageing population with increasing social care needs, workforce pressures and a complex provider marketplace.

The challenge

To improve demand management at the 'front door' in order to reduce pressures on front line operational teams through an enhanced contact centre function and a new digital service.

What we did

We set up a project team that combined experienced operating model practitioners from Deloitte with Adult Services staff to bring deep operational expertise:

- As part of a department wide operating model the team defined a channel strategy that described how Adult Services would interact with customers and professionals.
- We worked with the leadership team to agree an agile approach to developing a new contact and assessment team to shift operational activity to the phone channel.
- Starting with a high level design of the contact centre, the team worked through three test cycles to design and implement: new processes; changes to internal policy around information management and financial delegation; an organisation structure with new capabilities; enhanced management information; and a transparent governance structure.
- The team collaborated with digital developers to design a new digital service to improve customers' access to information and advice and transform the processes that describe how they interact with Adult Services.

Outcomes

The bespoke digital service and contact centre:

- Increased the contact centre resolution rate from 30% to 70%; and
- Reduced the cost to serve customers by 25%.

Adult Services have been able to make a compelling business case for investing in the contact centre to deliver longer term savings across their front line teams.

Best practice case studies (continued)

Council– Digital services

Overview

An English Council had set out their vision to continue delivering great services to its citizens, while responding to the challenge of reducing costs, through the use of digital capabilities.

The challenge

Three main objectives were set as part of the Council's digital vision:

- To be digital by default
- To be cost effective in delivery of services
- To increase the productivity of the Council

What we did

Deloitte supported the Council in the development of a digital strategy and seconded an individual as Digital Director for an agreed period. We identified the technology solutions required to deliver the large scale change required and supported the procurement of multiple technology components for the platform.

We provided the core design to support the implementation phase which included:

- Creating a new Customer Service Model.
- Designing a new transactional website with personalisation and 25 new online services for use by the public, ranging from map-based pothole reporting to secure access to care information for the elderly.
- Designing a new multi-channel customer platform to handle queries from phone, email and social media.
- Designing a tiered security model that allows members of the public to register for secure online services that handle sensitive information.

Outcomes

The online services for customers have made services simpler and more accessible and shifting transactions to cheaper channels.

The scope contributed towards directly realising and enabling approximately £45m of recurring savings, and built the capability to identify further reductions.

Best practice case studies (continued)

Council – Re-defining the care offer

Overview

The Council was facing a significant funding gap, which was challenging the future sustainability of the Council. This was in the context of an aging population and increased demand for adult social care services.

The challenge

To identify and deliver a number of change initiatives across Adult Services to reduce spend and better manage projected increased demand. As part of this there was a need to address inconsistency in social work practice and inequity of care packages.

What we did

Re-defined the care offer: jointly with staff we developed a strengths based, tiered model was developed to promote a consistent approach among social care practitioners. The approach promotes reablement and considers alternative creative approaches to meeting need which draws on a person's natural support.

A framework was developed to guide staff in their practice and we then delivered training and communications to upskill staff and promote the new approach. This was supported by a benefits tracking system to monitor progress across the service and to address variance between teams.

Targeted reviews: through a diagnostic of the social care data, we prioritised a number of service user reviews (adults and children with disabilities). We worked with the Council to put in place a dedicated team and support them to undertake strengths based reviews which included preparing and delivering an induction programme; putting in place a benefits tracking system; and undertaking regular reporting and team meetings to discuss progress and unblock issues.

New front door: We supported the Council to put in place a new approach for managing demand at the front door, redesigning the customer journey including the promotion of digital channels. We redesigned processes and increased the skills and delegated authorities of call handlers in the contact centre to improve resolution at the first point of contact.

Outcomes

The Council had a savings target for the whole council that they asked us to help them jointly achieved of £10.5m over 2 years. We helped them deliver £15.5m over 3 years. £9m of this was from adult and children with disabilities services and the remaining on procurement initiatives (see other case study).

Best practice case studies (continued)

Council – Procurement transformation

Overview

An English Council was facing significant financial pressures which if they continued it was projected that the Council would run out of money in three years time. The Council spends a large proportion of its budget with third party suppliers so visibility and grip of this spend was critical to addressing the financial pressures.

The challenge

The Council did not have visibility of its third party spend in one single place. Council staff were often not using agreed frameworks and were spot purchasing. The small central procurement team had limited influence over spending across the Council, with many procurement activities taking place in a devolved manner.

What we did

Category savings identification and delivery: we aggregated all the data from across the whole Council on third party spend providing the Council with visibility of spend for the first time. This enabled us to identify invoicing errors to clawback over payments and develop categories of spend to prioritise areas of focus. The categories identified included spend on temporary staff and transport. Working in partnership with procurement staff, we put in place better controls around spend in these areas and supported the Council to undertake work to rationalise its spending and utilise contractual levers to deliver savings.

Procurement operating model: to facilitate longer term change, we worked hand in hand with the Council to develop and implement a new procurement operating model and to carry out stakeholder engagement with business owners across the Council to gain their buy in. We assisted the procurement team in navigating the necessary governance processes, creating new job descriptions and delivering training to upskill staff and increase their confidence to support the different business areas.

Outcomes

Our support helped the Council to unlock savings of over £6.5m on third party spend with a year. We also enabled the procurement team to boost their influence across the organisation, gain better rigour over their external spend and increase value-for-money from their contracts.

Deloitte perspectives

Talking Public Sector: Our podcast series on government and public services

Our podcast explores the big challenges facing the public sector, how citizens want the public services to be run and what the future holds by drawing on expert opinion and exclusive research. Aimed at anyone who works in or with the public sector, this podcast brings together leaders from government and the public services, industry experts and commentators to provide an insights on the big issues facing public bodies in the UK and around the world.

Listen and subscribe to Talking Public Sector:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/talking-public-sector.html>

Tech Trend 2019: A Government and Public Services Perspective

Our recently published 10th edition of the Tech Trends report reflects on a decade of disruptive change and demystifies the future of digital transformation. The story of technology trends is inseparable from the story of the public sector.

Technology can help make government more effective by protecting and maintaining infrastructure, creating more personalised and secure citizen interactions, or automating tasks so workers can focus on more value-added jobs.

As leaders work to reshape their organisations and realise these possibilities, they rely on fresh, relevant insights. We are delighted to share [our perspective](#) which provides a UK Government and Public Services lens on Deloitte's *Technology Trends 2019: Beyond the digital frontier*.

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-tech-trends.html>

Digital government: It's all about the people *a view from Government and Public Sector Lead Partner, Rebecca George*

Deloitte has published our third Digital Disruption Index. Based on a survey of the UK's most senior digital leaders from both private and public sectors, the index explores levels of digital maturity in their organisations. The results reinforce my belief that the defining factor in getting digital right is not the technology – which of course needs to deliver – but is people: the people who lead digital transformation and the people with the skills to make it happen.

Read Rebecca's full view at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/digital-government-all-about-people.html>

The Digital Disruption Index is available online:

<https://www2.deloitte.com/content/campaigns/uk/digital-disruption/digital-disruption/digital-disruption-index.html>

One of the key insights is around Artificial Intelligence (AI) which is increasingly a strategic priority. After Cloud, Cyber-security and Data analytics – three foundational digital pillars – respondents to our survey rated AI as the most important technology to their digital strategy.

The use of advanced data science, whether explicitly AI or a combination of AI, Robotic & cognitive automation (RCA) and Data analytics, is at the centre of much current debate about ethics and the societal impact of digital technology. A significant number of senior leaders seem unaware of these ethical considerations. We believe that what is unethical in the real world is unethical in the digital world, and we explore how organisations are able to make AI decision-making as transparent as human decision-making.

We have recently been engaged with NHS Lothian where we have gone live, as part of a data gathering and piloting phase, with two unattended and six attended robots. These are helping clinicians to triage referrals quicker and are also automating the invoice raising process in the finance department.



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