

East Ayrshire Council

Interim Report to the Governance & Scrutiny Committee
on the audit for the year ended 31 March 2019

Issued 15 August 2019 for the meeting on 29 August 2019

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Introduction

The key messages in this report

I have the pleasure of presenting our report to the Governance & Scrutiny Committee (the Committee) of East 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.

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.

In May 2018, the Accounts Commission published the Council's Best Value Assurance Report. We have followed up with management on action taken to address the key findings and recommendations made within this report.

As part of this review we met with key members of the Executive Management Team and the Chair of the Governance & Scrutiny Committee. We also observed a Governance & Scrutiny Committee meeting in March 2019. We then reviewed supporting evidence to support our judgements and conclusions which are contained within this report.



Introduction (continued)

The key messages in this report (continued)

Overall conclusions

Financial sustainability – The Council is on course to achieve financial balance in the short term. Financial balance is projected for 2018/19 and a series of options have been agreed to meet the 2019/20 budget gap.

The Council has forecast savings of £9.0m for 2019/20 and total savings required of between £23m and £53m for 2019/20-2021/22. We have recommended that the Council considers developing a detailed long term financial plan which looks beyond the period covered by the transformation strategy (2017-2022), accepting that the further ahead this is forecast the less reliable are the assumptions. This will be a valuable exercise nonetheless.

Following an effective transformation strategy carried out during 2012-2017, the Council has implemented a new transformation strategy covering the period 2017-2022. Management is currently in the process of implementing a complete benefits monitoring system so that benefits realised through transformation can be effectively measured against intended outcomes. This should be a priority for management to ensure the strategy is achieving its intended outcomes, and to ensure the strategy is sufficient for the Council to achieve financial sustainability in the long term.

Financial management – The Council has effective financial management processes in place. As per the East Ayrshire Performs report presented to Cabinet in June 2019, a £0.8m overspend was incurred for 2018/19. However this is after the approval to earmark budget underspend of £6.7m across all service areas.

We have identified examples of good practice in relation to management's financial reporting to Members and the use of its internal audit function particularly as part of transformation activity. Reporting could be further enhanced by providing more detail on changes to budget figures during the year.

Governance and transparency – The Community Plan 2015-2030 sets out how the Council and its partners are working to realise a shared Vision for East Ayrshire by aligning and combining resources to deliver better outcomes for local people and communities. The Local Outcome Improvement Plan (LOIP) (formerly the Single Outcome Agreement (SOA)) underpins the Community Plan and provides the performance management framework against which the partnership reports progress annually to the Community Planning Partnership (CPP) Board and the Council at a joint performance event in September each year.

The council has effective leadership and governance structures. Regular training is provided to members, with one to one sessions offered as part of the Elected Members Development Strategy to consider new and emerging training needs.

The Council operated in an open and transparent manner throughout the year.

Value for money – based on the Council's most recent Annual Performance Report (2017/18), the Council has recorded strong performance in a number of areas. Actions to address areas for improvement have been identified, as appropriate, and are being progressed through the Single Outcome Agreement Improvement Plan.

The Council reports on its performance primarily through its Annual Performance Report. It also reports on partnership activity through the Single Outcome Agreement Annual Performance Report (up to 2017/18), In 2018/19, partnership activity will be reported through the LOIP.

Our detailed findings and conclusions are included on pages 6-25 of this report.

Introduction (continued)

The key messages in this report (continued)

Next steps

An agreed Action Plan is included on page 30 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.

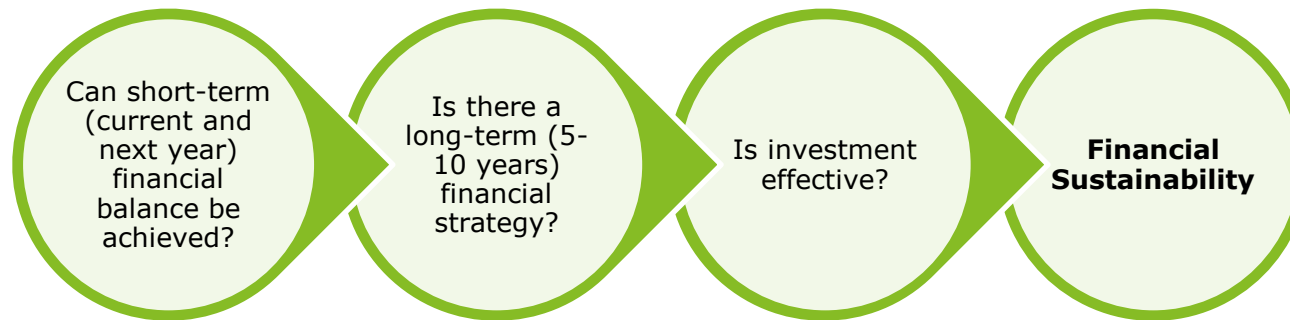
This is provided throughout the report and in particular through our action plan on page 30, which includes findings we have raised that are intended to add value to the Council's overall management and stewardship processes.

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. Council management has also made our Audit Committee effectiveness framework available on the Members Portal.

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 emerging public sector risks which are relevant to the Council as follows:

- financial planning systems in the shorter and longer terms may be inadequate;
- the Council may not achieve financial balance through its transformation strategy if it cannot effectively support and monitor delivery of the strategy's intended outcomes;
- service redesign projects may not deliver sufficient benefits or result in the Council achieving its financial targets; and
- the Council's long term financial planning may not be consistent with the Scottish Government's Medium Term Financial Strategy.

Our work will assess the policies and practices at the Council in this regard.

Financial sustainability (continued)

Short term financial position

2019/20 budget

The Council approved a budget of £353.9m for 2019/20 on 28 February 2019. This incorporated a budget gap of £9m, all of which is forecasted to be recovered through savings. In setting its budget, the Council recognised that, whilst projecting to achieve short term financial balance, a number of risks exist, including:

- A lack of clarity surrounding 'Brexit' which could impact both the Council's income and expenditure. Additionally, the Chancellor of the Exchequer and the Cabinet Secretary for Finance, Economy and Fair Work have indicated that an emergency budget could be announced in the event of a 'no deal' EU withdrawal, adding further to the uncertainty.
- The increasing impact of welfare reform on communities and individuals, resulting in the Council expending significant resources to mitigate this impact.
- Uncertainty regarding the funding of changes made to the teachers' pension scheme and of the proposed teachers pay award.

Participatory budgeting

The Council has incorporated participatory budgeting (PB) within its 2019/20 budget and within its longer term transformation strategy. One such example is the Community Led Regeneration Fund which has been proposed as part of the Council's transformational service review of parking. This fund could be used to support town centre regeneration and to mitigate the impact of parking charges, and would be distributed using a PB approach. The Council is on track to allocate at least 1% of its total estimated expenditure for 2019/20 through PB, in line with the Scottish Government target.

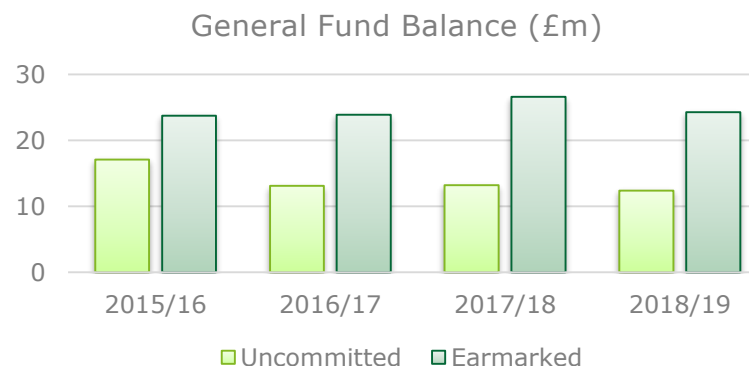
Reserves

The Council's Reserves and Balances Strategy sets the minimum level of uncommitted General Fund reserves at 2% of budgeted net expenditure. The uncommitted reserves were £12.4m at 31 March 2019, representing 3.7% of net expenditure. The Reserves and Balances Strategy states that the Council may build up General Fund reserves in excess of the 2% of budgeted net expenditure to meet predicted financial pressures such as termination costs or reductions in grant funding. The Council should continue to actively implement this policy to ensure reserves carried forward are sufficient from a risk-based perspective.

The General Fund earmarked balance at 31 March 2019 is £24.3m, comprising:

- Service balances - £20.7m;
- Transformation fund - £2.7m;
- IJB transformation fund - £0.7m; and
- Welfare reform fund - £0.2m.

The movement in uncommitted and earmarked reserves over the last four years is illustrated below. The 2018/19 uncommitted reserves balance of £12.4m has reduced by 27.5% from £17.1m in 2015/16 as planned. Uncommitted reserves are still at an acceptable level in line with Council policy.



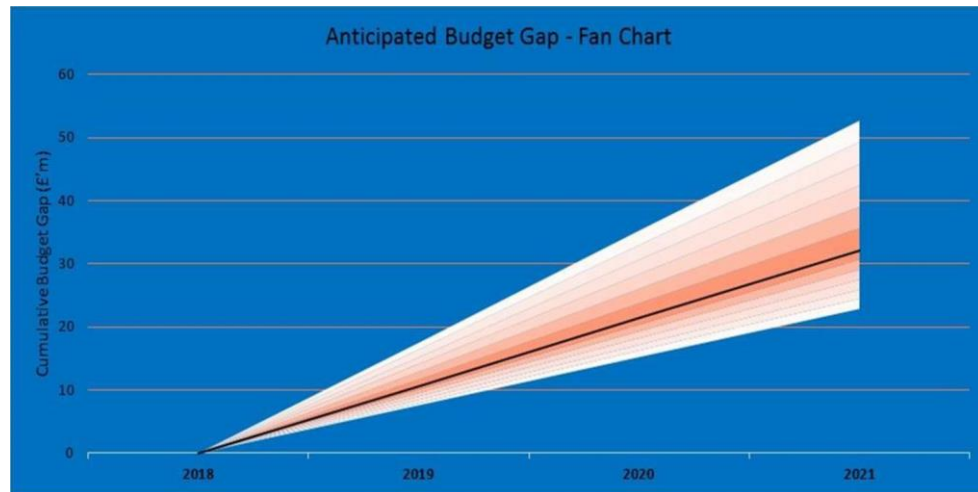
Financial sustainability (continued)

Medium to long term financial sustainability

Medium to long term financial planning

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

In June 2018 a paper was presented to Members regarding its transformation strategy. This paper reported that the Council was facing an estimated funding gap of between £23m and £53m for the three year period covering 2019/20-2021/22. The key differentiator between the best and worst case scenarios was the grant funding assumption – best case assumes flat funding in cash terms, whilst worst case assumes a 3.5% reduction per annum. The midline funding gap assessment was £32m for the period. See below for a graphic of the funding gap taken from the June 2018 paper presented to Members:



The Council has considered the medium term funding gap as part of the transformation strategy. It also has a long term Asset Management Framework and medium term Treasury Management and Investment Strategy in place (see page 9). The Council does not currently have any other long term financial plans in place that look beyond the period covered by the transformation strategy. We recommend that the Council develops a long term financial plan which explicitly considers the following (see Recommendation #2 within our Action Plan on page 30):

- Funding and cost pressures faced
- Reserves strategies including working capital and borrowing implications
- Demographic and other external factors on service demand
- Links to the transformation strategy and Community Plan
- Business and operating risks faced
- Scenario planning
- Links to the Scottish Government Medium Term Financial Strategy

While this will produce a range of outcomes which may be even wider than the Transformation Strategy identifies, this is still considered to be a worthwhile exercise.

Financial sustainability (continued)

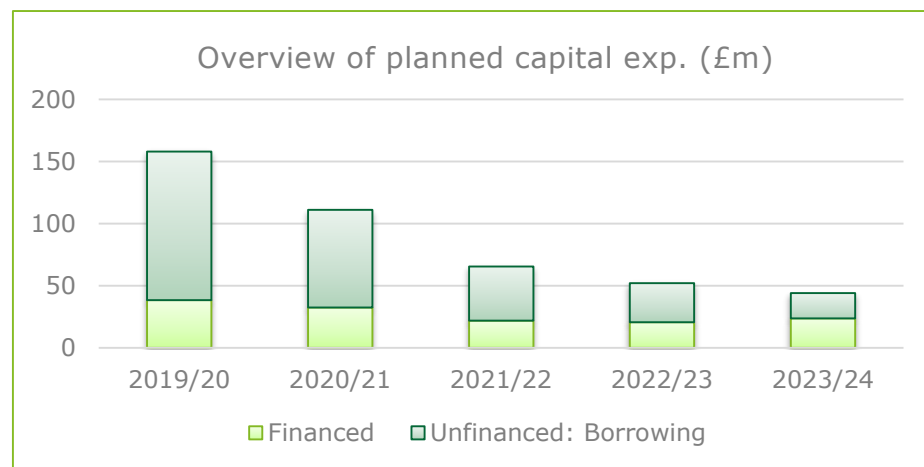
Medium to long term financial sustainability (continued)

Capital planning and treasury management

The Council has an Asset Management Framework which was updated in May 2019 and covers a nine year period (2019/20-2027/28). The Council also has a Treasury Management and Investment Strategy which was updated in March 2019 and covers a four year period (2019/20-2022/23). The Asset Management Framework is closely linked to the Treasury Management and Investment Strategy, and both are clearly linked to the Council's transformation strategy and desired outcomes.

The graph below shows that the Council intends to incur £430.8m in capital expenditure over a five year period (2019/20-2023/24). £293.7m (68.2%) of this is projected to be funded from external borrowings.

The significant spend in 2019/20-2020/21 is largely in relation to the Council's learning estate. This includes the Barony Campus, which is the Council's largest ever capital project valued at £68m. The Campus will incorporate two primary schools and early childhood centres, two academies, one additional support needs school and two supported learning centres, and is projected to be completed in August 2020. Given the scale of this project relative to historic projects, it is imperative that the Council continues to have strong project management and governance arrangements over the project are maintained. Otherwise, the Council faces the risk of the project overrunning with negative implications regarding cost and service provision.



Transformation work

The Council had a transformation strategy (TS1) in place during 2012-2017. This was a successful programme which generated £34m in recurring annual savings. From October 2017, the Council has implemented a new transformation programme (TS2) which covers the period 2017-2022.

In June 2018, management submitted a report to Council Members entitled 'Implementing Our Transformation Strategy 2017-22'. This provided further detail on the workstreams previously outlined by the Council in order to deliver a successful transformation programme. The report linked clearly to the TS2 strategic priorities, as well as to the Community Plan 2015-2030, the Council's Vibrant Voices community engagement campaign, and the Best Value Assurance Report (BVAR) published in May 2018. The Council also agreed to align its strategic priorities for 2018-2021 to those of the Community Planning Partnership, which were developed as part of the Community Planning Review in 2017/18.

The June 2018 report outlined the intended workstreams and the targeted benefits of each workstream. The Council Management Team is now actively engaged in outlining detailed service redesign and savings plans and to implement a detailed benefits monitoring system. Management has identified this as a priority so that benefits realised can be measured appropriately against targeted outcomes. Given the current transformation programme was initially established in October 2017, we recommend that the Council implements detailed plans and processes as soon as possible in order to achieve and evidence the outcomes that are intended through the programme (see Recommendation #1 within our Action Plan on page 30). The Council should also consider the potential for external involvement, including other sector leading councils in the UK, in order to fulfil any aspects of the transformation strategy, particularly around digital.



Financial sustainability (continued)

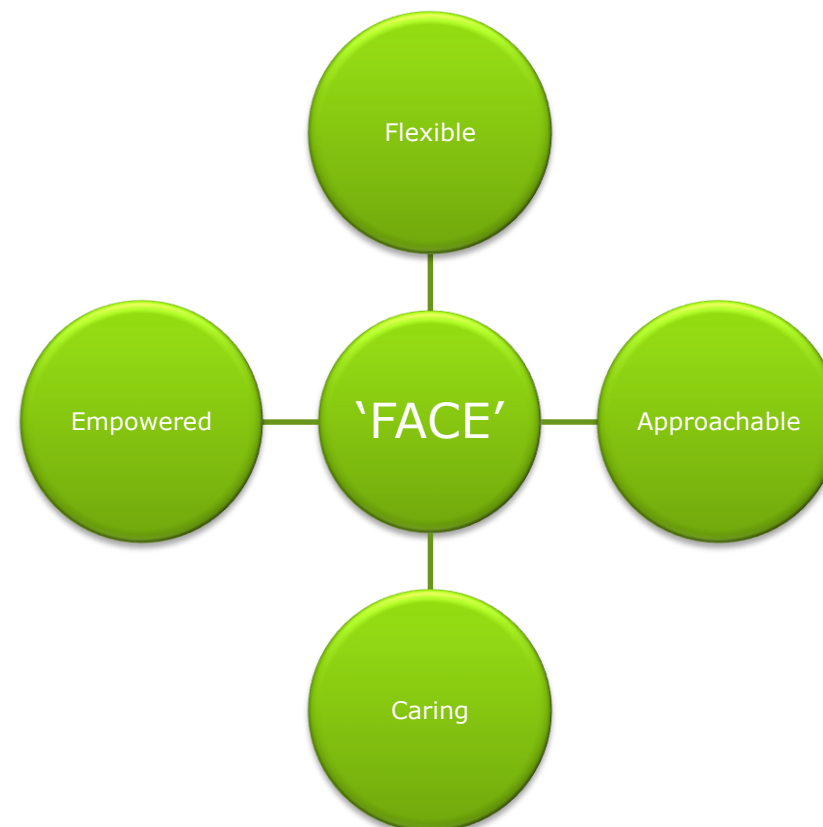
Medium to long term financial sustainability (continued)

In addition to the work the Council is doing around transformation, the Ayrshire Growth Deal also represents further transformation opportunities across the Ayrshire councils as it aims to take forward a number of transformational projects in the region. The Deal will provide an estimated investment of more than £250m in the region across the manufacturing, life sciences, tourism and aerospace sectors. This investment should drive economic development across Ayrshire and encourage further investment in East Ayrshire.

Workforce planning

The Workforce Plan 2019-22 was approved by Cabinet in May 2019. The plan links closely with the transformation strategy and is centred around the Council's service redesign plans.

The plan details the Council's fundamental change in approach to its workforce through arrangements that lead to the development of skills and attributes for council employees, specifically around flexibility, approachability, caring and empowerment. 'FACE' is the new approach which is intended to facilitate a more flexible workforce capable of accommodating service redesign and changing service demand. Amongst other benefits, FACE has allowed council employees to move between services, and allowed the Council to shift its workforce into areas where it is most needed. This has been evident through the recent concerted shift of staff into early learning and childcare services, with a similar approach for teaching and housing services planned. FACE is intended to promote retention and 'buy-in' amongst the workforce, and the Council's HR policies have been amended to incorporate FACE principles as part of staff coaching, appraisals and recruitment in the immediate and long term.



Deloitte view – Financial sustainability

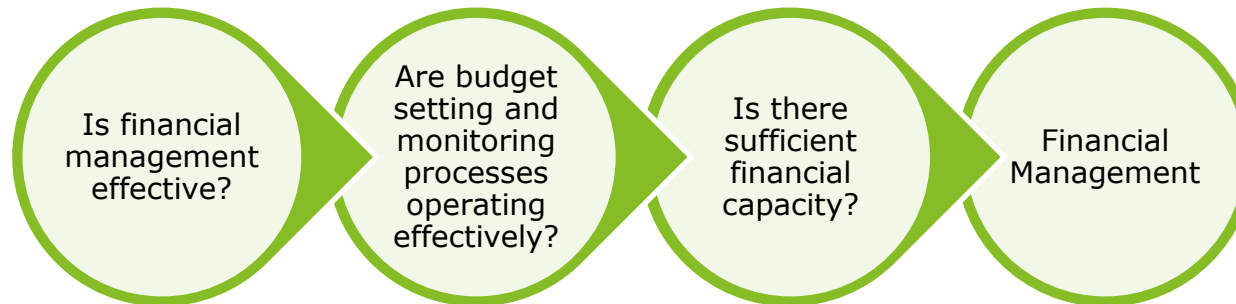
The Council achieved financial balance in 2018/19, and has agreed a savings plan for 2019/20 to deliver a balanced budget. Management has developed a reasonable forecast of the medium term funding gap faced, estimated to be £32m. However, the Council should consider developing a detailed long term financial plan that looks beyond the period covered by the current transformation strategy. The Council should also look to ensure that the Scottish Government's Medium Term Financial Strategy is explicitly considered as part of any medium to long term financial planning.

The Council has developed a detailed transformation strategy for the period 2017-2022 which aligns with the Community Plan 2015-2030 and clearly considers findings and recommendations raised within the 2018 BVAR. Following a recent exercise to identify the workstreams which will be the focus of transformation efforts, management is now in the process of outlining detailed service redesign and savings plans and implementing a detailed benefits monitoring system. We recommend that this is implemented as soon as possible to allow the transformation strategy's intended outcomes to be achieved and evidenced effectively.

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 emerging public sector risks which are relevant to the Council as follows:

- lack of appropriate financial management could result in the Council not achieving its financial targets;
- spending may not be clearly linked to priorities, or the impact of spending on priorities may not be clearly demonstrated; and
- underlying financial performance of the Council may not be transparently reported.

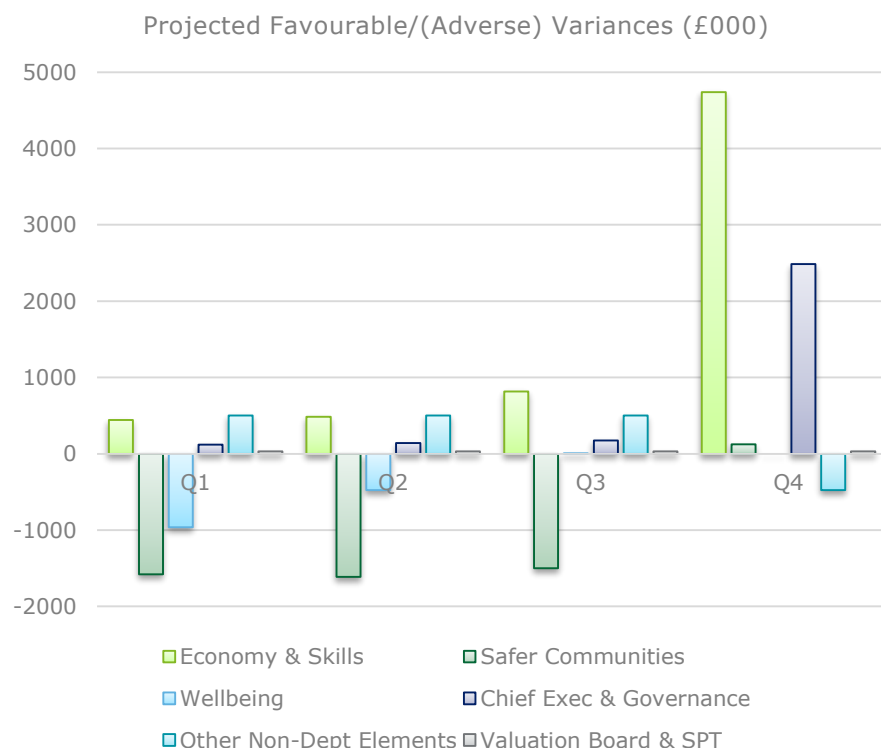
Our work will assess the policies and practices at the Council in this regard.

Financial management (continued)

Financial performance

General Fund

The General Fund ended the year in a £0.8m overspend position after earmarking £6.7m within service budgets. The earmarked amounts are largely as a result of favourable variances as noted below which have been reported by Council management throughout the year as follows:



The largest variances shown above were as follows:

- Creditor to the Integration Joint Board (IJB) (Wellbeing) - £1.6m adverse variance. Additional funding required by the IJB in the year to fund health and social care costs.
- Debt Charges (Chief Exec & Governance) - £1.2m favourable variance. Limited external borrowing required during the year largely due to slippage in the capital programme.

- Central Management Support (Economy & Skills) - £1.0m favourable variance. Underspend in expansion costs incurred to support Early Years Service which has been carried forward.
- Pupil Equity Fund (Economy & Skills) - £0.9m favourable variance. This funding has been carried forward to be spent before the end of the current academic year (which does not align with the end of the financial year).
- Dissolution of West of Scotland Loan Fund (Economy & Skills) - £0.9m favourable variance. The Council's share of balances of the Loan Fund following its dissolution.
- Physical Disabilities (Wellbeing) - £0.9m favourable variance. Reduction in adaptations work as the result of a review undertaken by Housing Services as well as capacity issues with occupational therapists.
- Children and Families (Wellbeing) - £0.8m favourable variance. Savings realised primarily in relation to external placements in adoption and foster care.

A number of variances were due to events which transpired late in the year and hence were not captured in earlier monitoring reports. Going forward, management has identified the aim of improving its forecasting processes so that variances can be identified earlier where possible.

Savings Plans

The approved 2018/19 budget required £3.5m in recurring savings to be achieved. Based on the projected final position, these savings were primarily achieved as follows:

- Health and Social Care Partnership service costs reduction - £1.4m;
- Workforce reduction and reconfigurations - £1.2m;
- Management of services and supplies - £0.4m; and
- Property review savings - £0.3m.

The savings were made in line with the Council's transformation strategy and were therefore planned in a way that did not significantly affect the Council's service provision capabilities.

Financial management (continued)

Budgetary control systems

Housing Revenue Account (HRA)

The HRA ended the year in a net underspend position of £0.9m. This is primarily due to savings related to employee costs and debt charges, and additional rental income received due to the timing of demolitions. The variance and its drivers have been reported to Members throughout the year within the regular EA Performs reports.

Capital programme

The key areas of capital expenditure incurred by the Council in 2018/19 were learning campuses, housing and roads. A total of £87.3m (2017/18: £61.4m) was incurred in the year against a budget of £114.0m, resulting in a total underspend of £26.7m. Key variances were as follows:

- Council House Build Programme, £22.8m underspend – Scottish Environment Protection Agency (SEPA) has objected to the planning application for Newmilns development due to concerns with the flood risk assessment. The Council has performed additional flood modelling in an attempt to alleviate SEPA's concerns.
- Barony Campus, £6.7m overspend – this is due to progress achieved ahead of schedule. The total forecast cost of the Campus (£68m) remains unaffected as at year end.
- Early Years 1140 Hours Programme, £3.5m underspend – projects led by HubCo were delayed but have now commenced on site. Still on target to meet the total budget of £21.6m.

As discussed on page 9, the Council currently has a number of significant learning estate projects ongoing, in particular the Barony Campus project. Effective project management and governance processes are crucial for delivery of these projects, and no issues were identified during the year based on final outturn.

Financial reporting

The Council has effective financial planning and management arrangements in place. Senior management and Council Members regularly review progress. The Executive Management Team reviews financial performance on a monthly basis, and Council Members including the Cabinet and the Governance & Scrutiny Committee review financial performance quarterly.

Council management keeps Council Members informed through quarterly 'EA Performs' reports. These are comprehensive reports which provide updates on a range of topics including workforce, transformation strategy, strategic risks, health and safety and public complaints, as well as detail on financial performance including treasury management and capital investments. Financial information is also presented in line with the Council's key priorities per the Community Plan 2015-2030 (see page 17) to show performance against budget in relation to each priority. Such comprehensive and regular updates given by Council management is an example of good practice in reporting to Members.

The East Ayrshire Performs report is comprehensive but could be further enhanced by including details of in-year budget adjustments (see Recommendation #3 within our Action Plan on page 30).

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 audits presented to the Governance & 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 Council's Internal Audit Annual Report 2018/19, we have noted that the Chief Auditor has given a reasonable assurance opinion over the adequacy and effectiveness of the Council's framework of governance, risk management and control during the year, in line with previous years. Following our review of internal audit reports issued during 2018/19 we have found that management has accepted and acted upon any findings raised.

In addition to the assurance work performed, the Council's internal audit function has also performed consultancy type work during the year. In particular, internal audit has been heavily involved across a number of workstreams included within the transformation strategy. Internal audit has provided challenge and insight on the governance processes in place around redesigned services and service redesign projects. As required by the PSIAS (Public Sector Internal Audit Standards), the Council's internal audit charter has been updated to reflect the consultancy type work performed, and it has been included with the annual internal audit plans. This use of the internal audit function to ensure governance and risk management practices are being considered as part of service redesign is an example of good practice.

Deloitte view – Financial management

The Council has effective financial management processes in place. It has outturned with a General Fund overspend of £0.8m in 2018/19 with very few individually significant variances to budget projected.

We have identified examples of good practice in relation to Council management's financial reporting to Members, and the Council's use of its internal audit function particularly as part of transformation activity. We have recommended improvements in relation to reporting on changes made to budgeted figures during the year.

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.

A summary of the matches reported in the NFI system is provided in the table below which notes that no frauds or errors have been identified from the matches processed to date.

NFI 2018/19	Total
Total matches flagged	4,067
Total matches flagged as high risk	612
Total high risk matches processed	363

We will report on the Council's progress on processing matches identified during the NFI exercise in our final audit report in September 2019.

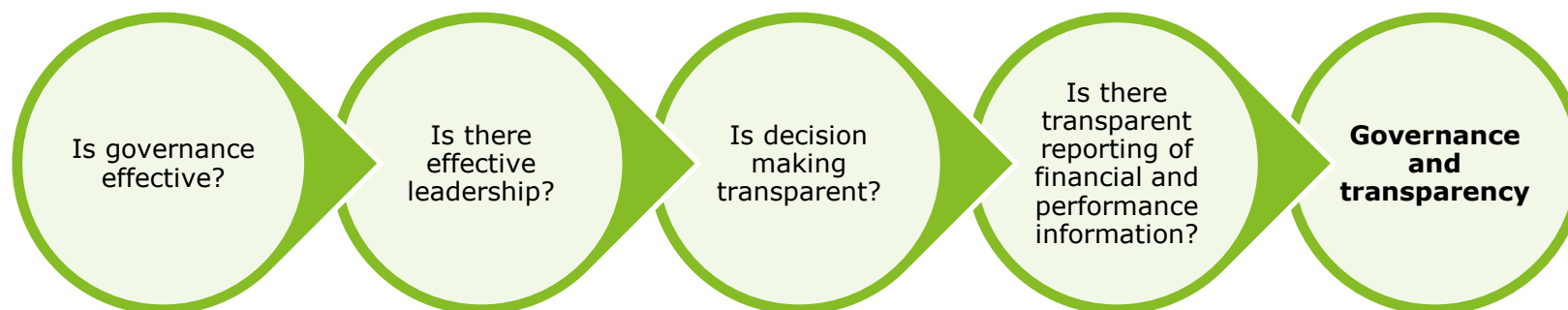
Standards of conduct for prevention and detection of fraud and error

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.

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 emerging public sector risks which are relevant to the Council as follows:

- the Council's governance arrangements may not be effective; and
- the Council's approach to openness and transparency may not be keeping pace with public expectations and good practice.

Our work will assess the policies and practices at the Council in this regard.

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 works. 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 found the following:

- Council management prepares detailed and comprehensive 'EA Performs' reports which are submitted to Council Members on a quarterly basis (see page 13).
- Agenda items submitted to the Cabinet and Governance & Scrutiny Committee are made available for the public through the Council's website. This includes EA Performs reports.
- The Council's senior management maintains an open and communicative relationship with the workforce and public. Members of senior management, including the Chief Executive, hold regular open sessions with workforce members, and a number of consultation processes with the public have been performed as part of implementing the transformation programme.
- Council Members will often visit key workforce and service delivery locations across the Council to engage with the workforce and service users.

Based on the evidence available, including the examples above, we are satisfied that the Council prioritises openness and transparency and operates in an open and transparent manner.



Governance and transparency (continued)

Leadership, vision and governance arrangements

Council Plan

The Community Plan 2015-2030 is the Council's Corporate Plan and the vision is shared by all the partners:

"East Ayrshire is a place with strong, safe and vibrant communities where everyone has a good quality of life and access to opportunities, choices and high quality services which are sustainable, accessible and meet people's needs."

The **guiding principles** outlined per the Community Plan 2015-2030 in order to achieve its vision are:

To promote equality and tackle inequality

To adopt a preventative approach

To ensure effective community engagement in planning and delivery of local services

To utilise strengths and resilience within communities

To drive efficiency and performance improvement

To promote lifelong learning

The commitment to the Community Plan as the sovereign document with clear links to partners' strategic plans ensures that the totality of the Council's and partners' resources are deployed to achieve the agreed outcomes and the shared Vision.

The Local Outcomes Improvement Plan (2018-2021) underpins the Community Plan, providing the formal performance management framework against which progress towards the achievement of outcomes for local people and communities is demonstrated. Performance is reported annually to a joint meeting of the Community Planning Partnership Board and the Council in September each year. In addition, the Council's Annual Performance Report sets out the Council's performance related to the Statutory Performance Indicators and a range of activity taken forward individually by Council services and on a partnership basis.

The Community Plan (the Council's Corporate Plan), covering the period from 2015 to 2030, is the sovereign planning document for the East Ayrshire area, providing the overarching strategic policy framework for the delivery of services by all partners.

The key themes of the Community Plan, each of which has a thematic Delivery Plan, covering a three year period (currently 2018-2021) are as follows:

- Economy and Skills;
- Safer Communities; and
- Wellbeing.

Governance and transparency (continued)

Integration of health and social care

East Ayrshire Integration Joint Board (IJB)

The IJB achieved financial balance in 2018/19 and is progressing its transformation work through its Strategic Commissioning Board.

A report was presented to the Council in June 2018 setting out the findings from a first stage review of the Integration Scheme between East Ayrshire Council and NHS Ayrshire & Arran. The same report also assessed the North Ayrshire Integration Scheme and was presented to NHS Ayrshire & Arran, the three Ayrshire IJBs and three Ayrshire Councils. The review highlighted a number of areas to be addressed in order to improve planning, governance and delivery of Health and Social Care Services in Ayrshire. These included:

- **Collaboration across Ayrshire** – there is strong alignment across all partnership and lead partnership arrangements are in place. These arrangements are, however, complex, human resource intensive and can be slow in decision making.
- **Decision making** – decisions can be made by one IJB which impact on the other two IJBs without due regard or consultation with the other areas. This is exacerbated in lead partnerships.
- **Financial governance** – arrangements for financial accountability between IJBs in relation to Lead Partnership arrangements requires review. There is potential for conflict over budget setting, detrimental impact of decisions by IJBs and overspends.
- **Performance governance** – legislation requires that decisions made by an IJB that have an impact on neighbouring IJBs need to be consulted upon. In the lead partnership model this is even more pertinent as decisions made by a lead partnership IJB have a direct impact on services in other areas. These issues are not limited to lead partnership arrangements and can include strategic service and finance decisions of an IJB that impact adversely on residents of another area.

- **Financial context** – on an annual basis, the IJBs are required to agree that the finance available from NHS/Councils is sufficient to deliver on the Strategic Plan. With increasing demand and restrictions on public sector funding, this is increasingly difficult. This presents a risk to early intervention and preventative services.

As a result of this review, the following changes were made to the governance arrangements of each IJB:

- To consider the potential conflicts in financial governance around the lead partnership model, it was agreed to move to more “fair share” commissioning, based on the National Resource Allocation Committee (NRAC).
- It was agreed to utilize mental health as the initial example of this commissioning model, to bring financial commitments to usage. Unscheduled care and set aside will also require similar considerations but are more complex.
- Some changes were made to how services are devolved, including Allied Health Professionals, Family Nurse Practitioner Services and Telehealth and United for Health and Smartcare European Programme.

In response to the need to improve the financial and performance governance arrangements, the three IJBs are working with the Scottish Government on a pilot project to review the Directions in place. It is recognised that while the Scottish Government Good Practice Note on Directions, issued in April 2016, clearly sets out that in the case of an IJB, a direction must be given in respect of every function that has been delegated to the IJB, there is no consistency on how Directions are implemented. The purpose of this pilot project is to develop an exemplar set of directions to make commissioning more transparent.

It is positive to note that the Ayrshire partners are reviewing and updating the governance arrangements for the IJBs to take cognizance of the experience from early integration.

Governance and transparency (continued)

Following the public pound

Leadership and governance arrangements

The Council has strong leadership and, with its partners, has a clear vision for what it wants to achieve for the people of East Ayrshire. Members, management and partners support the shared Vision for the area.

The Council has a number of Committees in place. Those primarily responsible for the Council's governance are the Governance & Scrutiny Committee and the Cabinet. The Council also has representation on the CPP Board, the Boards of the East Ayrshire IJB and Strathclyde Partnership for Transport and is represented on the joint Committee governing the Ayrshire Roads Alliance and Ayrshire Economic Development.

All members, including those on the Governance & Scrutiny Committee received extensive induction training following the local elections in 2017. As part of the implementation of the Elected Member Development Strategy, all elected members are offered a one to one review and development meeting to consider and address any new and emerging training needs. Four of the eleven members of the Governance and Scrutiny Committee undertook these one to one meetings during 2018.

As part of the 2017 training, the Committee received specific training following CIFPA guidance for Audit Committees which included a self assessment checklist. It is considered best practice to perform an annual self assessment of the effectiveness of the Committee and we have shared the Deloitte Audit Committee effectiveness framework for consideration as part of this.

Following the public pound

The statutory requirements to comply with the Following the Public Pound Code (FtPP), 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. The Council considers FtPP as part of its annual review of Local Code of Corporate Governance, and compliance with FtPP is explicitly referenced within the annual internal audit opinion and annual internal audit plan. We are satisfied that through the use of Council systems and services and joint Committees, the Council has sufficient oversight of money provided to the East Ayrshire Integration Joint Board, East Ayrshire Leisure Trust, Ayrshire Roads Alliance and the Strathclyde Partnership for Transport.

Deloitte view

The Community Plan 2015-2030 sets out how the Council and its partners are working to realise a shared Vision for East Ayrshire by aligning and combining resources to deliver better outcomes for local people and communities. The LOIP (formerly the Single Outcome Agreement) underpins the Community Plan and provides the performance management framework against which the partnership reports progress annually to the CPP Board and the Council at a joint performance event in September each year.

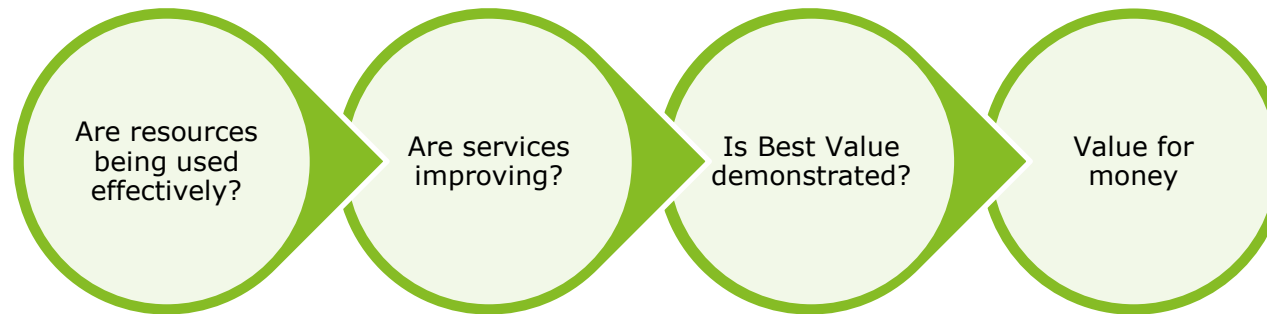
The council has effective leadership and governance structures. Regular training is provided to members, with one to one sessions offered as part of the Elected Members Development Strategy to consider outstanding training needs.

The Council prioritises the principles of openness and transparency, and operated in an open and transparent manner throughout the year.

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 emerging public sector risks which are relevant to the Council as follows:

- the Council may not be meeting its performance targets;
- the Council may not clearly report on its overall performance; and
- the Council may not clearly report on its contribution towards national outcomes.

Our work will assess the policies and practices at the Council in this regard.

Value for money (continued)

Performance management

Performance management

The Council gathers performance information to monitor, track and improve service delivery to the community. The Community Plan 2015-2030 and the Local Outcomes Improvement Plan 2018-2021 (LOIP) are the main strategic tools used by the Council to plan and measure performance. These plans demonstrate progress towards the achievement of agreed local outcomes for communities and show how they align with national strategy and outcomes. The Council produces an Annual Performance Report to report on performance against targets and outcomes.

The Council primarily measures its performance against established performance indicators (PIs). The PIs used by the Council fall under two categories:

- **Statutory performance indicators (SPIs)** – these indicators are outlined by the Accounts Commission and measured and reported on by each Council (see 'Statutory performance indicators (SPIs)' section).
- **Single Outcome Agreement (SOA) core indicators** – these indicators are intended to measure the Council's performance against its agreed local outcomes as set out in the SOA.

The Council has an Electronic Performance Management System (EPMS) in place to measure performance against a wide range of outcome measures and service-specific indicators throughout the year.

The Council's Annual Performance Report clearly links performance to the achievement of local outcomes. Reports are broken down to assess performance in relation to each key priority area ('Economy and Skills', 'Safer Communities' and 'Wellbeing' – see page 17) and a detailed analysis is provided for all SPIs and SOA Core Indicators showing whether they are improving or maintaining progress or if improvement is required.

As part of the Council's Performance Management Framework, the Council has Service Improvement Plans, which were updated in June 2018 for the period 2018-2021.

They set out the key issues for delivering services in support of the Community Plan Vision and priorities, provide a focus on performance improvement aligned to the LOIP (formerly the SOA), and describe the service-specific risks that may impact on the delivery of the Service.

Statutory performance indicators (SPIs)

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 2017/18 and 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 Local Government Benchmarking Framework.

Overall, we concluded that the Council's arrangement for publication are satisfactory. See page 22 for an assessment of the Council's performance results.

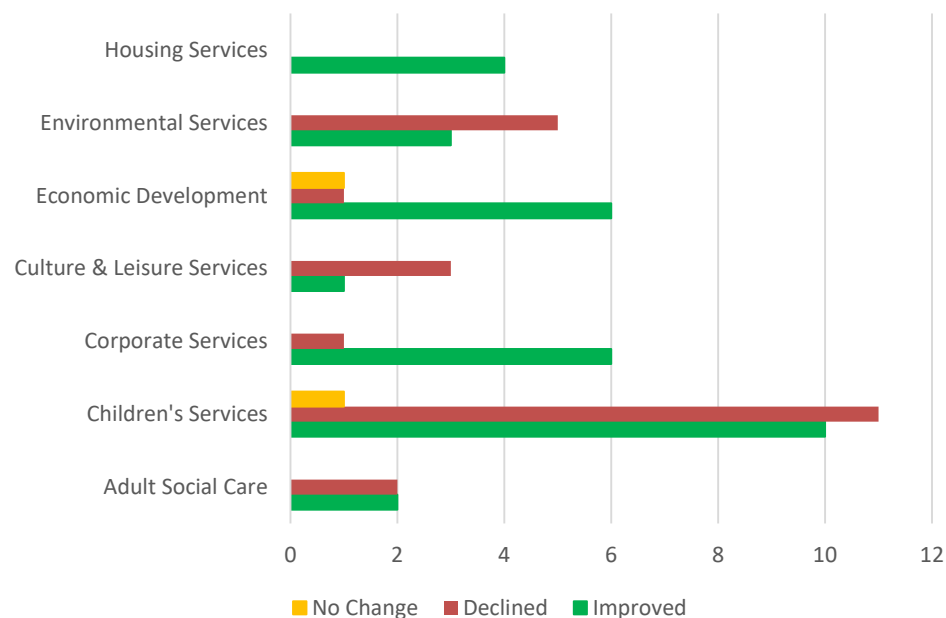
Value for money (continued)

Overview of Performance

Performance Data

We have drawn on the Local Government Benchmarking Framework (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 80 different indicators organised under common service areas. We have assessed the Council's performance in relation to 57 service provision indicators below:

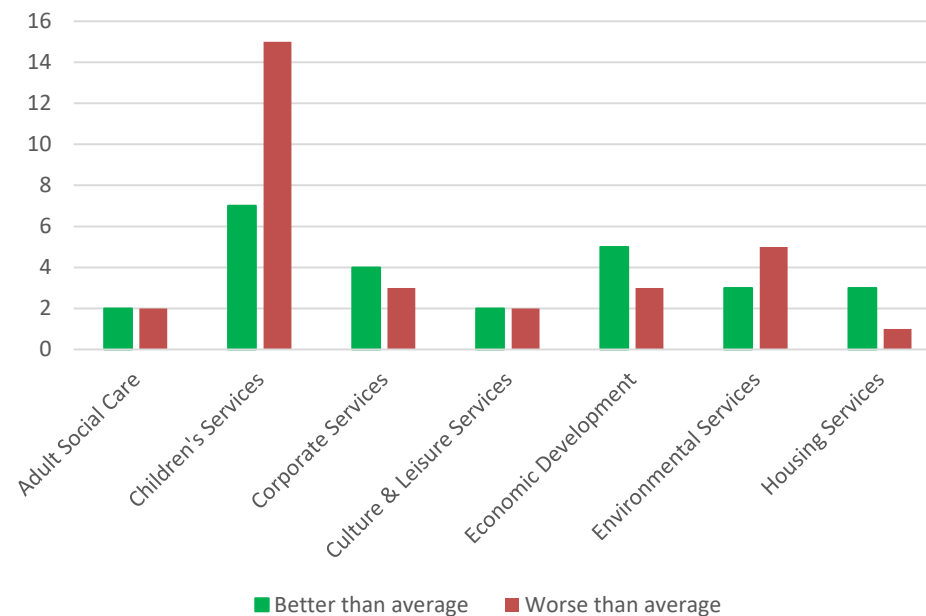
Year-on-year movement in service indicators



In 2017/18, 34 of the 57 indicators (60%) either showed an improvement or no change year-on-year, whilst 23 indicators (40%) showed a decline. Housing Services, Economic Development and Corporate Services were areas of significant improvement in the year.

A comparison of the Council's performance per its service indicators to Scottish averages is shown below:

Service indicator performance (vs Scottish average)



Based on service indicator data, the Council is performing above average against 26 indicators (46%) and below average against 31 indicators (54%). The Council's performance in relation to Housing Services again appears strong, which is in line with the positive reporting from the Scottish Housing Regulator to the Local Area Network (LAN). However, Children's Services indicators suggest improvement is required to meet the standard of services delivered elsewhere.

Value for money (continued)

Overview of Performance (continued)

Performance Data (continued)

The Council, on behalf of the Community Planning Partnership, also produces data illustrating its performance against core indicators within its Annual Performance Report. These indicators are aligned with the local outcomes in the SOA. The 2017/18 Annual Performance Report published in September 2018 shows the following progress against the 2013/14 baseline position. Each indicator is aligned to the agreed local outcomes and then grouped under the three themes of the Community Plan:

Progress with core indicators as at 31 March 2018



Performance against 23 (60%) of the indicators across all three themes showed improving progress, compared to one indicator (3%) showing maintaining progress and 13 indicators (34%) showing improvement required. Data was unavailable for one indicator (3%).

Economy and Skills was a particular area of strong performance with 100% of outcomes showing improving progress.

Under Safer Communities, the areas where improvement is required relate to supply of drugs, people seriously injured in road accidents and reconviction of offenders. Under Wellbeing, improvement is required for children in poverty and rates for general acute and day case stays with a diagnosis of drug misuse.

Areas identified for improvement are included in the SOA Improvement Plan, with remedial action being taken forward to address these areas through the Community Plan thematic Delivery Plans and operational/service plans, as appropriate.

Value for money (continued)

Best Value Assurance Report follow-up

Best Value Assurance Report

The Best Value Assurance Report was published by the Accounts Commission in May 2018. This reported that the Council has maintained the strong performance that was reported in the previous Best Value reports in 2006 and 2010. Such performance has been achieved against substantial socio-economic challenges in East Ayrshire. It is based on a record of effective community planning and partnership working, underlined by a genuine commitment by partners to work and empower local communities.

The report highlighted that the Council faces a substantial budget gap which will test this record. Recommendations were made within the report for the Council to take forward around transformation, workforce planning and its relationship with the IJB. We have assessed the Council's progress against each of the recommendations made, as summarised in the table below. This follows on from a similar progress update included within our 2017/18 audit report:

Recommendation	2017/18 progress update	2018/19 progress update
Transformation Strategy – the Council should put in place appropriate arrangements to support, monitor and deliver the expected outcomes.	A report was presented to the Council in June 2018 setting out specific proposals.	The current transformation strategy has been developed further since 2017/18. Our assessment of the transformation programme is considered at page 9.
The Council should develop an organisation-wide workforce plan.	This is being developed in the context of the Workforce Planning Workstream.	Management submitted the Council-wide Workforce Plan 2019-2022 to Cabinet for approval in May 2019.
Strong relationships between the Council, the IJB and the NHS should be used to help resolve issues around resourcing a shift of relevant hospital care services into a community setting, recognising that this is a national issue.	A separate report was presented to the Council in June 2018 (and the NHS Board in June 2018) outlining proposals for development of future arrangements.	We have assessed the proposals for future governance arrangements at page 18. The Council is working with other Ayrshire partners and Scottish Government to develop and refine the Directions in place regarding functions delegated to the IJB.
The Council should examine how its approach to reducing demand for services, for example the development of its “front door” services, could be extended to other areas of its work.	The “front door” model adopted by Health and Social Care, with an approach designed around early intervention and prevention to manage demand and support service redesign, will be further developed for application across other parts of the Council, in the context of the Transformation Strategy and related workstreams.	Demand management through prevention and early intervention continues to be a key aim of the current transformation strategy. The “front door” model is intended to be the benchmark for successful demand management across other transformation programme workstreams.

Value for money (continued)

Best Value Assurance Report follow-up (continued)

Recommendation	2017/18 progress update	2018/19 progress update
<p>The Council should develop a council-wide plan for working with the business sector. This should build on the CPP's delivery plan for economy and skills and the Council's "Invest in East Ayrshire" initiative, and specifically how much work will take place in each relevant service area, and how the Council will coordinate and monitor activity.</p>	<p>A Business Engagement Strategy will be developed in the context of the current work to support Ayrshire Growth Deal and proposals to establish a single vehicle for the delivery of economic services across Ayrshire.</p>	<p>The Council is working with Scottish Enterprise and the other Ayrshire Councils on a pilot project to develop business support services which is aimed at providing consistent support to local businesses across Ayrshire. Additionally, developments regarding the Ayrshire Growth Deal means the three Ayrshire Councils will now have over £250m to invest in the key sectors of manufacturing, tourism, life sciences and aerospace and space. The Council is determining the detailed business cases for these projects which will be the focus of investment.</p>

Deloitte view – Value for money

Based on the Council's recent reported performance against core indicators, it has recorded strong performance across a number of areas. Actions to address areas for improvement have been identified, as appropriate, and are being progressed through the Single Outcome Agreement Improvement Plan. The most recent LGBF data set available indicates areas where relative performance is strong and where improvements are possible, however, this should be considered relative to the Council's socio-economic challenges faced as highlighted within the 2018 BVAR.

The Council reports on its performance and contribution to national outcomes primarily through its Annual Performance Reporting.

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>We have considered whether the Council is under prepared, partly prepared or well prepared in each area highlighted below:</p> <p>People and skills – The Council has estimated that an extremely small proportion of its workforce is likely to be non-UK EU nationals and therefore directly impacted by Brexit. It has engaged directly with staff who are affected, including those who may be required to apply through the Settlement Scheme to remain in the UK and is providing all necessary support and advice required.</p> <p>The Council has set up a Brexit information page on its website which is publicly accessible and directs people towards information and support made available by Scottish and UK governments, the Home Office and other useful sources.</p> <p>The Council is working with local businesses, the third sector and partner organisations to mitigate the impact of Brexit on the local workforce.</p> <p>Conclusion: <i>Fully prepared</i></p> <p>Finance – The Council is in the process of determining the level of current funding provided directly or indirectly by the EU. It is working with COSLA and Scottish Government to determine the long term impact of resources available. Brexit risks have been explicitly identified in the Council’s medium term financial plans. The Council has established a ‘UK Withdrawal from the EU Preparedness Group’ chaired by the Chief Executive and with the Depute Chief Executive as operational lead. The working group meet weekly to consider implications both locally and nationally and to put local plans in place in the event of a ‘no deal’ Brexit. The Council has reviewed and assessed its preparedness for a ‘no deal’ Brexit using the SOLACE Graduated Readiness Dashboard. As at March 2019 the self-evaluation assessed our readiness at the third and final level with the Council being categorised as ‘ready’. This assessment was required in advance of the original Brexit date of 29 March 2019.</p> <p>Conclusion: <i>Fully prepared</i></p> <p>Rules and regulations – The Council is in the process of fully understanding the legal and regulatory impact of Brexit. It has an understanding of the key goods and services it requires to perform council services and is in the process of updating business continuity plans. It has also considered the potential for a ‘no deal’ scenario to occur, along with various other scenarios.</p> <p>Conclusion: <i>Fully prepared</i></p>

Other specific risks (continued)

Risk	Areas considered	Conclusion
Changing landscape for public financial management	As part of our audit work on financial sustainability we have considered how the Council has reviewed the potential implications of the Scottish Government's Medium Term Financial Strategy for its own finances, including long term planning.	We have recommended that the Council explicitly considers Scottish Government's Medium Term Financial Strategy in its medium and long term financial plans going forward. See page 8 for more detail and related recommendation raised in the action plan at page 30.
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.	The Council has well established arrangements for financial assessment of those requiring care. All care homes in the region are privately owned and none are owned by the Council, hence the financial risk facing the Council is relatively limited. There is currently no significant backlog of care income and we have not identified any risks from our audit work.
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>We have not identified any significant risks to the Council regarding dependency on key suppliers.</p> <p>The Council's largest single supplier in 2018/19 based on expenditure was Galliford Try Building Limited, which is primarily responsible for delivering the Council's Barony Campus learning estates capital project (see page 9). The Council's Head of Facilities and Property Management has actively monitored Galliford Try's going concern position and has sought ongoing reassurances regarding their ability to deliver the project. The Council has arrangements in place, including payments in arrears following completion of work and a 10% performance bond, to try and protect against any potential financial loss should the supplier fail to deliver. The remaining two of the Council's three largest suppliers are other public sector bodies with no foreseeable risk to going concern or service delivery. The Council is significantly less dependent on the remainder of its suppliers.</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.	No issues noted regarding the Council's openness and transparency – see page 16 for more detail.

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; and
- 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.



Pat Kenny

for and on behalf of Deloitte LLP
Glasgow

15 August 2019

Action plan

Recommendations for improvement

Recommendation No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	<i>Transformation work</i>	<p>The Council should prioritise the implementation of detailed service redesign and savings plans and an effective benefits monitoring system based on the transformation workstreams already identified.</p> <p>(see page 9 for more information)</p>	<p>Arrangements for monitoring agreed savings linked to transformation strategy workstreams and service redesign will be reviewed as part of the 2020/21 budget to ensure regular updates are provided to Heads of Service, the Council Management Team and elected members through East Ayrshire Performs</p>	Head of Finance & ICT	February 2020	High
2	<i>Medium to long term financial planning</i>	<p>The Council should review its Transformational Strategy with a view to incorporating some longer term financial information beyond the life of the strategy and this should include:</p> <ul style="list-style-type: none"> • Funding and cost pressures faced; • Reserves strategies including working capital and borrowing implications; • Demographic and other external factors on service demand; • Links to the transformation strategy and Community Plan; • Business and operating risks faced; • Scenario planning; and • Links to the Scottish Government Medium Term Financial Strategy. <p>(see page 8 for more information)</p>	<p>A long term financial strategy will be developed taking account of the elements highlighted. This will be regularly reviewed and updated as circumstances change.</p>	Head of Finance & ICT	March 2020	High
3	<i>Financial reporting</i>	<p>We recommend that the Council should report on the nature of any changes to budget figures during the year to improve transparency for Members.</p> <p>(see page 13 for more information)</p>	<p>Detailed changes to service level budget figures will be made available on the Members portal and signposted with any significant changes being highlighted within East Ayrshire Performs.</p>	Head of Finance & ICT	November 2019	Medium

Action plan (continued)

Follow-up 2017/18 action plan

We have followed up the recommendation made in our 2017/18 annual report in relation to the wider scope areas. This recommendation has not yet been implemented, however, is planned to be implemented during 2019/20. We will continue to monitor this as part of our audit work and provide an update in our Annual Report to the Committee in September 2019.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2018/19 Update
'East Ayrshire Performs' Recommendation	<p>East Ayrshire Performs is the reporting tool the management use to report to Members. It gives Members an update on financial position and other performance indicators on a quarterly basis. From a financial point of view, the position of each service is given. We recommend that in addition to this an overall (total) position is given, rather than net. This could include:</p> <ul style="list-style-type: none"> • expenditure and income YTD; • forecast expenditure and income at year-end; and • forecast year-end over/underspend position. <p>This would also assist with alignment with the budget set at the start of the year and allow for a useful comparison.</p>	The recommendation will be considered as part of a wider review of EAC Performs report format and content.	Corporate Accounting Manager	2019/20	Medium	<p>Updated management response: The target date for this is 2019/20 and any changes will be reflected in the 2019/20 Period 4 EA Performs report presented to the Cabinet in August.</p> <p>Updated target date: August 2019</p>



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