

South Ayrshire Council

Interim Report to the Audit and Governance Panel on
the audit for the year ended 31 March 2019

Issued 17 June 2019 for the meeting on 26 June 2019

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Introduction

The key messages in this report

I have pleasure in presenting our report to the Audit and Governance Panel (AGP) of South 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 Corporate Leadership Team (CLT) and a sample of elected members and council officers. We also observed an AGP 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 achieved short-term financial balance and has set a balanced budget for 2019/20, which includes £1.82m use of reserves and £6.45m of new savings. Going forward, the Council should ensure the level of reserves can continue to be maintained within acceptable levels. Savings targets are ambitious, however, the Council has a robust planning and monitoring process in place for achieving savings and, historically, has achieved the majority of savings targets in place.

It is important that detailed plans are developed for the next phase of the Council's Change Programme, which are clearly linked to the savings targets required so that the Council has a clear understanding of what transformational change is required in order to achieve savings targets. Given the financial challenges the Council faces, a formalised transformation programme should be put in place as a matter of urgency.

The Council should consider putting a long term financial strategy in place covering the next 5 to 10 years, which also considers Scottish Government's Medium Term Financial Strategy.

Financial management – The Council has strong financial management arrangements which are robust enough to sufficiently manage financial activity and address any challenges to the achievement of financial targets. The Council has a Budget Working Group where various savings options are presented and then decided on what approach to take based on the Council plan and priorities. The Council links budgets into these key priorities to ensure that savings targets are met and funding is directed to the areas that need it most.

We are satisfied that underlying financial performance including in-year changes to funding is transparently presented.

Governance and transparency – A restructuring of the Council's management structure was completed in 2018/19 to align with the Council Plan. The Council needs to ensure that the change in structure will not have an adverse impact on capacity to deliver services.

The Council is open and transparent with its residents and relevant stakeholders.

The Council has agreed to fund the IJB's £3.28m deficit on an interim basis, on the assumption that this will be repaid in future years. Due to the risk of the IJB not achieving short term financial balance in 2019/20, this represents a significant recoverability risk to the Council.

Through the South Ayrshire Community Planning Partnership, the Council is committed to engaging with local communities in order to work effectively in partnership to deliver sustained improvements to residents.

Value for money – There is a clear framework in place to ensure that council performance is monitored and reported.

Performance against national outcomes has improved and the the council clearly reports on its contribution towards national outcomes by carrying out comprehensive analysis for each performance area.

Our detailed findings and conclusions are included on pages 5 to 23 of this report.

Next steps

An agreed Action Plan is included at page 29. We will consider progress with the agreed actions and provide an update on any significant changes in our annual audit report to the AGP in September 2019.

Added value

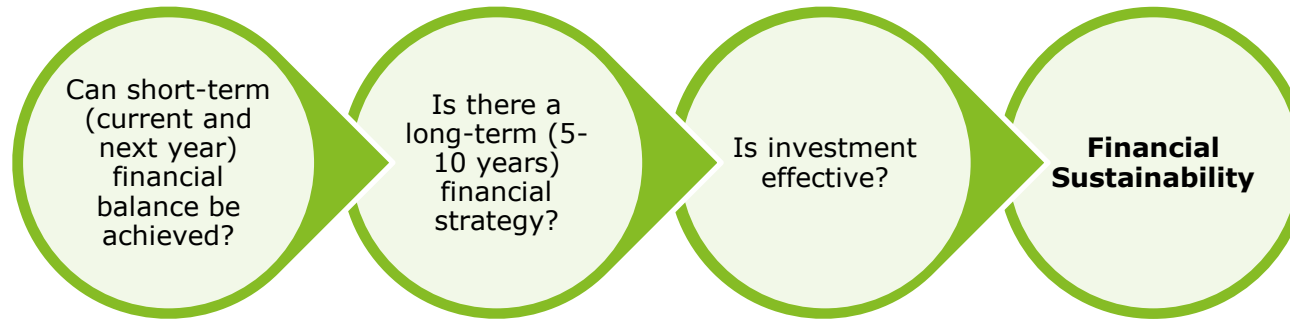
Our aim is to add value to the Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, 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 develops its approach to 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 potential risks as follows:

- The Council's Transformation strategy does not adequately address how to achieve the required transformation to achieve the required savings to address the emerging funding gap and to meet increased demand on Council services; 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 £267.82m for 2019/20 on 28 February 2019. This incorporates £1.20m of previously approved savings and a further £6.45m of new savings to be made and plans to use £1.82m from uncommitted reserves. These targets are ambitious compared to 2018/19 which included £2.31m of previously approved savings and £3.68m of new savings. The Council's use of reserves is discussed in more detail on page 7.

The budget details individual saving targets which are assigned to a responsible service lead. Performance against savings targets will then be monitored by the Leadership Panel through quarterly Budget Management Reports which highlight any shortfalls in achieving targets. The Council has a robust planning and monitoring process in place for achieving savings and, historically, has achieved the majority of savings targets in place. Given the increased level of savings required, it is important that these are closely monitored.

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

- Challenge to produce a balanced budget that protects services and provides investment in infrastructure renewal.
- A reduction in income for the most vulnerable and an aging population has seen a growing demand for services.
- Cost of service delivery exceeding financial provision.
- Financial sustainability of the Health and Social Care Partnership (HSCP).
- Delivery of current and future years transformation.

Participatory budgeting

The Council uses Participatory Budgeting (PB) to engage all sections of the community and involve them in decision making, particularly with regards to discussions around areas of service that should be considered for cuts or where the public may be open to raising fees and charges to ensure the continuation of services.

Since the introduction of PB in South Ayrshire, a number of 'Decision Days' have been held across all 6 localities, with over £180,000 being awarded to 117 different community groups.

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 £2.06m for the 2019/20 budget. The Council is some way short of this target with only £54,000 being set aside in the 2018/19 budget for participatory budgeting.

The Council's focus in relation to participatory budgeting thus far has been on the allocation of small grants, however, consideration is currently being given to options to support enhanced participatory processes in order to achieve the 1% target.

As part of the 2019/20 budget setting process, there was also a public consultation that yielded 2,173 responses. The results found that the residents of South Ayrshire were willing to pay more for services rather than have services removed/limited. This is a positive step as part of the participatory budgeting process, however, we recommend that the Council reviews the current PB arrangements in place and puts a robust plan in place in order to achieve the target set by Scottish Government.

Financial sustainability (continued)

Short term financial position

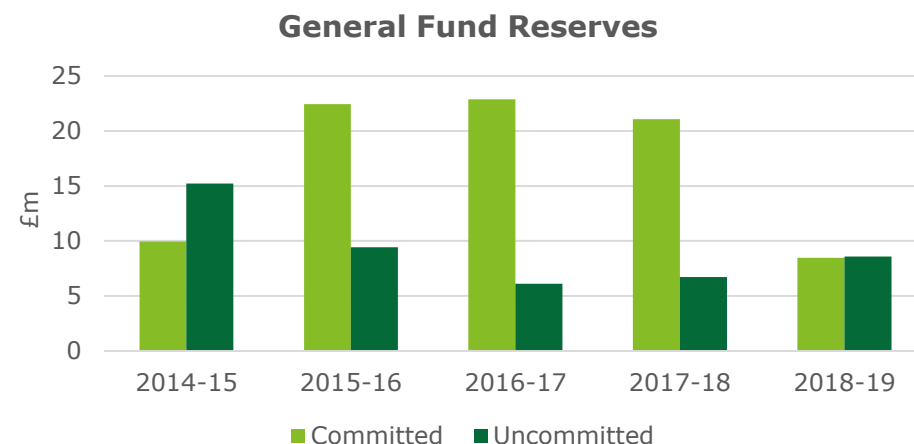
Reserves

The Council has used reserves in setting its budget over the last few years, however, recognises that use of reserves provides only a temporary solution and requires a more sustainable approach to be developed. The Council's Reserve Strategy is to maintain uncommitted reserves at 2% of net expenditure to meet the potential cost of unforeseen liabilities. Based on the latest projected results for 2018/19, the uncommitted reserves are expected to be £10.971m at 31 March 2019, representing 4.1% of net expenditure. This, however, does not take into account the additional funding agreed for the IJB of £3.28m to fund the overspends in year which is expected to be repaid in future years (as discussed further on page 19), which reduces the uncommitted reserves to £7.081m (2.6%) Whilst uncommitted reserves is in line with the Reserves Strategy, the Council should consider if this is sufficient from a risk-based perspective, and should consider whether the policy needs to be amended to increase the minimum reserve level.

The Council's committed reserves at 31 March 2019 are expected to be £8.45m, comprising:

Commitment	Committed as at 31 December 18 (£m)
Workforce Change fund	1.91
Efficiency and Improvement fund	1.34
Affordable Homes fund	1.58
Transform South Ayrshire	0.62
Community Halls fund	0.75
Ayrshire Growth Deal	0.51
European Social Fund	0.60
Other (individually below £0.5m)	1.14
Total	8.45

The movement in committed and uncommitted reserves over the last five years is illustrated below. The current year committed balance of £8.45m has reduced from £21.06m in 2017/18, due to new commitments of £0.28m in year, less specific project expenditure of £10.51m and release to uncommitted reserves of £2.38m.



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 deliver in order to meet citizen needs with reducing budgets.

The Council's latest Financial Strategy was updated in June 2018 to cover the period 2019/20 to 2021/22. The basis for the Financial Strategy is to support the Council's duty to set a prudent, sustainable budget and to maintain appropriate levels of service provision to the public in line with the Council's legal obligations and agreed strategic objectives.

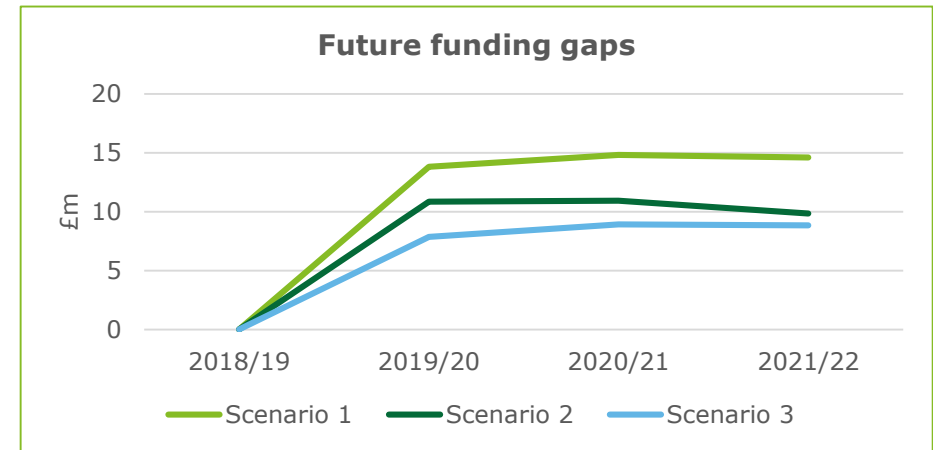
Due to the uncertainty regarding the level of grant funding receivable in future years, a scenario based financial modelling has been undertaken based on a range of different funding scenarios. Three scenarios have been modelled as follows:

- *Scenario 1* – assumes SG grant funding reduced annually by 3.0%.
- *Scenario 2* – assumes SG grant funding reduced by 1.5% in 2019/20 followed by reductions of 1.0%, 0.5%, in the following years.
- *Scenario 3* – assumes SG grant funding is on a flat cash basis for each of the years in the forecast.

This approach will enable the Council to give consideration to forecast pressures in future years and plan and approach to addressing them. It will also allow for the Council to consider how reserves can support planned expenditure and how these will be replenished.

It is estimated that the cumulative funding gap over the next three years could be anywhere between £25.66m and £43.24m, as illustrated in the following graph.

Given that a balanced budget has now been set for 2019/20, a refreshed scenario based financial modelling exercise should be undertaken to reflect this and any other changes. We recommend that the Council incorporates this into an updated Financial Strategy which explicitly considers the Scottish Government's Medium Term Financial Strategy.



Long term financial planning

The Council does not have a longer term financial strategy in place covering the next 5 to 10 years. While the Financial Strategy covers the medium term, this only addresses the next three years up to 2021/22 and does not provide a sufficient time frame to consider the implications of current decision making on the future of the Council.

We note that the Capital Investment Programme (CIP) takes a longer-term view, which looks at the next 10 years to 2028/29 and we recommend that a similar exercise be carried out for the revenue budget with forecasts and scenario analysis being performed. This would allow for a longer term view to identify potential budget gaps in future years so that the significance of identifying sustainable recurring savings and efficiencies can be identified well in advance.

Financial sustainability (continued)

Medium to long term financial sustainability

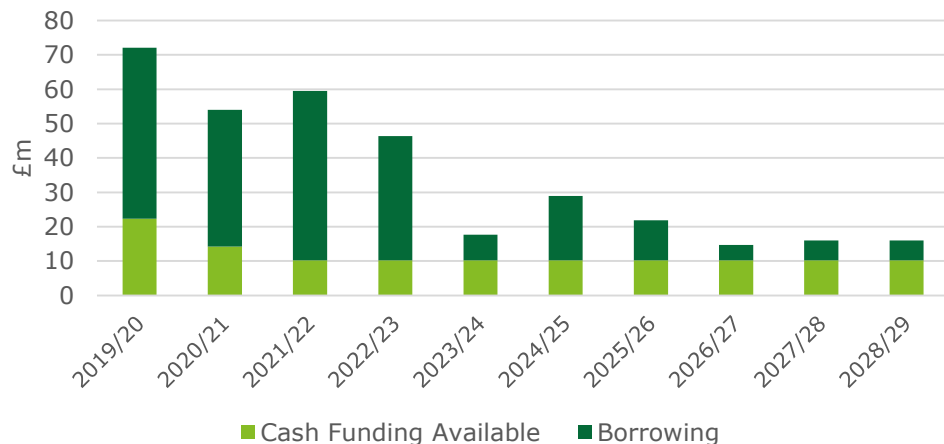
Capital planning

The Council updates its Capital Investment Programme (CIP) on an annual basis as part of the budget setting process. The programme has been refreshed for 10 years to cover the period of 2019/20 to 2028/29 to allow for greater medium to longer term planning to take place. This details the Council's expected borrowing requirement compared to its operational boundaries and debt charge implications.

The graph below illustrates the projected cash funding position against the borrowing requirement with the majority of capital investment activity projected to take place in the earlier years.

The CIP is expected to deliver a total programme of £347.18m to 2028/29 and the balance of funding required to deliver the capital programme will be met through borrowing which is anticipated to be £228.58m over the period. Given the scale of the programme relative to historic programmes, it is imperative that the Council has strong project management and governance arrangements in place over the projects involved. Otherwise, the Council faces the risk of the project overrunning with negative implications regarding cost and service provision.

Capital Investment Programme



Transformation work

The Council's transformation programme, Transforming South Ayrshire (TSA), has historically been more focused on ICT projects rather than real transformation of services. Following the senior management restructure in 2018, the new Executive Directors have been tasked with developing the next stage of transformation for the Council. It is important that detailed plans are developed, which are clearly linked to the savings targets required so that the Council has a clear understanding of what transformation is required.

The senior management restructure was the first phase of the Council's new approach to transformation. A formal plan is currently being developed which will quantify anticipated savings from transformation over the coming years. Going forward, the Council will focus on transformation to achieve required savings rather making further cuts. Given the financial challenges the Council faces, we recommend that a formalised transformation programme be put in place as a matter of urgency. The progress of the programme should be monitored thereafter through detailed plans, benefits realisation tools, dedicated resources and Member input.

As highlighted in our 2017/18 annual report, the Council should consider the following six key requirements to achieve sustained transformational change:

- Strategically driven
- A "Place" leader
- Digital data analytics and insights
- Efficiency, productivity and income generation
- Outcome focused partnership working
- Relationship with the Citizen

The overarching aspect throughout a transformation programme is having strong leadership that believes in and can drive transformational change.

Financial sustainability (continued)

Medium to long term financial sustainability

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.

Workforce Strategy and plan

The Council's Corporate Workforce Plan 2018-22 represents the first attempt to fully align workforce planning with business and people strategies. It will be modified and developed on a continual basis to capture and reflect changes that will impact on service delivery.

It was originally planned that an update of the workforce plan will be published annually. However, the Council has recently undertaken a comprehensive consultation with managers and employees, which will result in an updated People Strategy and refine the corporate vision and values. Publication of the updated Workforce Plan will be timed to coincide with the conclusion of that exercise.

The Council recognises the need for its employees to have the correct skill set and continually learn, develop and enhance the staff's skills, knowledge and behaviour to better meet the demands of their roles. The Council's work around workforce planning is a positive step and needs to be further developed in line with the transformation work discussed on page 9.

Deloitte view – Financial sustainability

The Council has achieved short-term financial balance and has set a balanced budget for 2019/20, which includes £1.82m use of reserves and £6.45m of new savings. The current reserves held is at an acceptable level and the planned use of reserves is sustainable in the short-term, however, the Council should consider if this is sufficient from a risk-based perspective, and should consider whether the Reserves Strategy needs to be amended to increase the minimum reserve level. Savings targets are ambitious, however, the Council has a robust planning and monitoring process in place for achieving savings and, historically, has achieved the majority of savings targets in place.

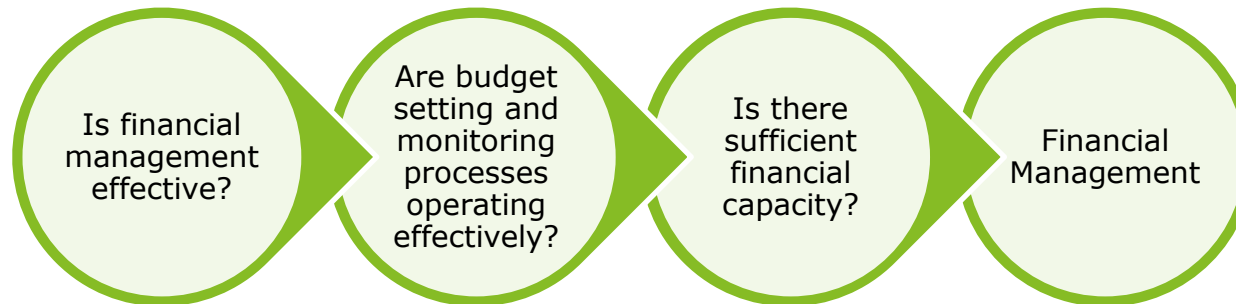
The Council is currently developing its next stage of transformation. It is important that detailed plans are developed, which are clearly linked to the savings targets required so that the Council has a clear understanding of what transformation is required in order to achieve savings targets. Given the financial challenges the Council faces, we recommend that a formalised transformation programme be put in place as a matter of urgency.

The Council does not have a long term financial strategy in place covering the next 5 to 10 years. We note that the Capital Investment Programme takes a longer term view, which looks at the next 10 years to 2028/28 and we recommend that a similar exercise be carried out for the revenue budget which should also consider the Scottish Government's Medium Term Financial Strategy.

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 potential risks as follows:

- Given ongoing demand pressures and decreasing funding, there is a risk that if budgets aren't prioritised, funding is not directed to the areas that need it most; and
- the underlying financial performance of the Council is not transparently reported.

Financial management (continued)

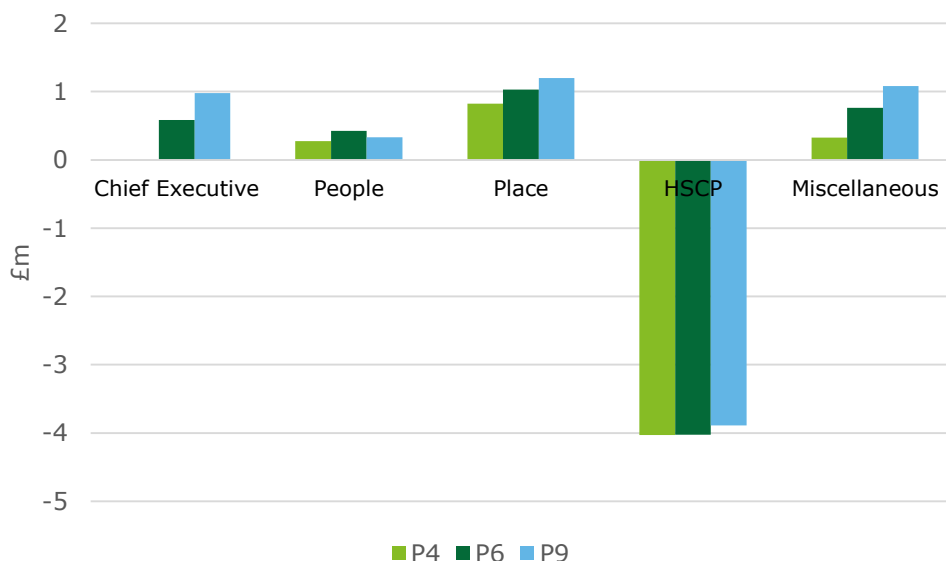
Financial performance

General Fund

The original 2018/19 budget approved by the Council budgeted general fund net expenditure of £256.41m in the year, which includes £70.67m funding contribution to South Ayrshire HSCP. This has been repeatedly revised in the year, to £259.67m in July (P4), £251.93m in September (P6) and £252.09m in December (P9). In order to achieve a balanced budget the Council had to use £5.98m of reserves, this was originally budgeted to be £1.50m. The increase in use of reserves is mainly due to an overspend of £3.28m in the HSCP, which the Council has funded, however, this will be repaid to the Council in future years (as discussed further on page 19).

Budget monitoring has been consistently reported to members throughout the year and is illustrated in the graph below.

Projected Variance by Directorate favourable/(adverse) (£m)



Savings targets

The 2018/19 budget included new savings of £3.68m. Based on the projected final position, new savings of £3.56m were achieved with an anticipated shortfall of £0.12m. The shortfalls were identified in People (£0.05m) and Place (£0.07m). Based on the projected final position, these savings were achieved in the following areas:

Directorate	New Savings Achieved (£m)	Savings Shortfall (£m)
Chief Executive	1.10	-
People	0.64	0.05
Place	0.97	0.07
Miscellaneous	0.85	-
Total	3.56	0.12

In addition, previously approved savings of £2.31m for debt charges (£1.96m) and Chief Officer management restructure (£0.35m) were both fully achieved.

The Council has a Budget Working Group where various savings options are presented and then decided on what approach to take based on the Council plan and priorities. The Council links budgets into these key priorities to ensure that savings targets are met and funding is directed to the areas that need it most.

Housing Revenue Account (HRA)

The HRA is expected to end the year in surplus of £0.67m compared to budget. This has been consistently reported to members throughout the year.

Within the budget 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 were roads, schools, infrastructure and ICT which totalled £33.08m. Funding for this spend came from a number of sources:

- General / Specific Capital Grant (£11.22m)
- Additional Funding (£5.58m)
- Borrowing (£16.28m)

The Council set itself a challenging capital budget across Our Children and Families (£10.22m), Our Adults and Older People (£0.58m), Our Communities (£16.02m) and Other Investment in Buildings, Information Technology & Other (£5.21m), totalling £37.48m.

At 31 March 2019, the final outturn for the capital programme is £31.77m versus an approved budget of £33.08m, representing 96% of budget, which is in line with the past three years whereby spend has exceeded 95% of budget.

In all main categories of capital spend, the Council underspent against its budget. However, it needs to be recognised that this under spend is an in year under spend only, caused by a slippage in commencement dates and other delays in capital programmes. Given that this follows an underspend in 2017/18, the Council need to consider if this is a wider issue with capacity to deliver the CIP.

Financial reporting

The Council has effective financial planning and management arrangements in place. Senior management regularly review progress through the CLT and Councillors have oversight of financial performance through the Leadership Panel which is presented with financial performance every quarter.

From review of the Council's budget monitoring reports to Leadership Panel throughout the year, it is clear the Council have strong financial monitoring arrangements where large variances in budgets are highlighted and fully explained. All variances are highlighted and explained in the reports to Leadership Panel.

Financial monitoring reports are reviewed by management monthly, and are then reviewed by the Leadership Panel every quarter. Due to the timing of the Leadership Panel meetings, this can sometimes mean up to a two month gap between the quarter-end and when the monitoring reports are considered by the Panel. We note that the Council has considered reducing the time in reporting to the Leadership Panel, however, given the timing of the Leadership Panel it is not possible no report to in the same month.

Financial capacity

The finance team is led by the Head of Finance and ICT and the Service Lead – Corporate Accounting, who are both experienced in local government finance roles for a number of years. We have not identified any issues with the financial skills, capacity and capability of the finance team.

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 Audit and Governance Panel and the conclusions have helped inform our audit work, however, no direct reliance has been placed on the internal controls work performed by internal audit.

From our review of the internal audit reports issued during 2018/19, we have noted a number of "High Risk" graded recommendations, including issues identified from internal audit around the lack of processes put in place for the Council's GDPR preparedness, collection and recording of charity income and internal controls around Oracle access. We note that no frauds have 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.

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. Given the challenging future savings targets and expected decrease in funding, we recommend that the Council links future budgeting into key priorities to ensure that savings targets are met and funding is directed to the areas that need it most.

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

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. 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:

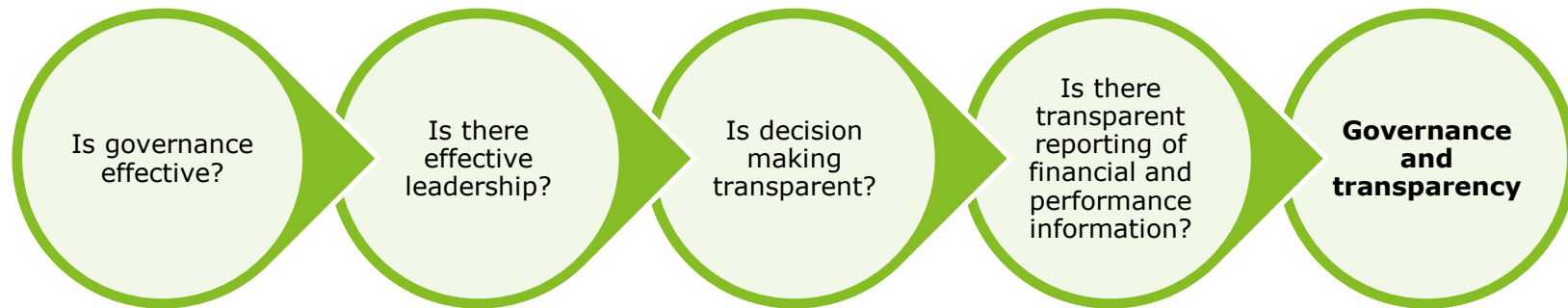
NFI 2018/19	Total
Total matches flagged	4,222
Total matches flagged as high risk	462
Total high risk matches processed	334
Remaining high risk matches to be processed	128

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.

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 potential risks as follows:

- there is a risk that the internal audit plan will fall behind schedule or not be achieved, resulting in insufficient work being completed in the period to provide assurance over the internal control environment of the Council;
- if community empowerment, community takeover and participatory budgeting are not improved, there is a risk of a lack of transparency around decision making; and
- the Council's approach to openness and transparency is not keeping pace with public expectation and good practice.

Governance and transparency (continued)

Leadership, vision and governance arrangements

Council Plan

The Council Plan sets out the vision the Council:

"Our People, Our Place"

The Council Plan has identified 6 strategic priorities to help make this happen:

Health and care systems that meet people's needs

Effective leadership that promotes fairness

Reduce poverty and disadvantage

Make the most of the local economy

Increase the profile and reputation of Council

Enhanced environment through activities

South Ayrshire Community Planning Partnership (CPP)

The CPP Local Outcomes Improvement Plan (LOIP) sets out 2 strategic themes:

"Supporting older people to live in good health"

"Closing the poverty-related outcomes gap for children and young people"

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

Support for people living with dementia and their carers

Reducing social isolation and loneliness

Improving outcomes for care experienced children and care leavers

Providing support for young people who are carers

Leadership

The Council has strong leadership and, with its partners, has a clear vision for what it wants to achieve for the people of South Ayrshire. Councillors and staff support the vision.

A restructuring of the organisation was completed in 2018/19 to align the management structure with the Council Plan. The first phase of the restructuring was focused on Directors and Heads of Service, with the next stage of focussed on third and fourth tier management and below. The purpose of the restructure was to establish a less hierarchical structure, to flatten and simplify span of control and to release currently untapped capacity by empowering professionally proficient service managers.

More recently, there has been a high turnover of staff in Children's Services. The impact of this is being closely monitored by the Care Inspectorate who will maintain regular contact with the Head of Service. We will maintain contact with Care Inspectorate to monitor this.

Governance and scrutiny arrangements

There are 28 appointed elected members in the Council's decision making structure, including Leader and Deputy Leader. There are eight councillors on the Audit and Governance Panel, which is chaired by a member of the opposition party in accordance with best practice. From our observations at these meetings, they are generally well attended and a good level of scrutiny and debate.

The Council's Internal Audit function has responsibility for examining, evaluating and reporting on the adequacy of internal controls. From our review of Internal Audit reports in the year we have not noted any issues with the capacity of Internal Audit to deliver the internal audit plan for 2018/19.

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 satisfied 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 publishes an annual performance report, "South Ayrshire Performs", comparing its performance against the performance objectives included within the Council Plan.
- 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, in accordance with the Council's Standing Orders. In addition, The Council allows members of the public to attend meetings.
- Reports issued by the Council are of a high quality, convey the information transparently and are easily accessible.

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.

The Partnerships Panel, made up of six elected members, provides a scrutiny overview of service delivery through or in partnership with external bodies with regard to "Following the public pound". Additionally, 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. We are therefore satisfied that the Council complies with the Following the Public Pound Code.

Community engagement

The Council has embraced the principles of the Community Empowerment Act through the South Ayrshire Community Planning Partnership which is committed to engaging with local communities in order to work effectively in partnership to deliver sustained improvements to residents of South Ayrshire.

The Council fully supports community empowerment and is committed to providing capacity building support to local communities and has recently developed a programme of support which includes assistance with consultations and community engagement, sourcing funding, how to promote and market local organisations, and how to develop a social enterprise, committee skills and governance and management.

This is delivered through free training which is available for individual volunteers or representatives from community groups and other voluntary sector organisations on a variety of topics. Workshops are delivered at various times and locations throughout South Ayrshire and cover a number of topics, such as:

- Introduction to Participatory Budgeting
- Community Consultation and Engagement
- Team Building
- Committee and Board Skills
- Governance, Structure and Management
- Funding and Fundraising
- Promoting and Marketing Your Group
- Protection of Vulnerable Groups
- Trading
- Health Issues in the Community

We are satisfied that the Council is fully committed to engaging with and strengthening local communities.

Governance and transparency (continued)

Integration of health and social care

South Ayrshire Integration Joint Board (IJB)

As reported in our 2017/18 annual report, the IJB ended 2017/18 with a marginal underspend of £1.0m. No additional funding was required from either the Council or NHS to achieve this final position. For 2018/19, the IJB approved an optimistic balanced budget of £211.73m, including expenditure relating to the Lead Partnership and the set aside budget. During the year, there were amendments to the original budget and the projected outturn position at 31 March 2019 is a £3.28m overspend against a revised budget of £219.42m.

Whilst an agreement has yet to be reached, the Council has agreed to fund this deficit on an interim basis, on the assumption that this will be repaid in future years and a full review performed on roles and responsibilities of the IJB.

Significant savings are required in order to balance the 2019/20 budget, therefore the IJB needs to critically consider these and potential make difficult decisions on service provision.

The IJB's current financial position is extremely challenging, with an overspend in 2018/19, no balanced budget set for 2019/20 and no medium to long term financial plan in place. The IJB is at significant risk of not achieving short term financial balance in 2019/20, presenting recoverability risk to the Council.

We understand that in response to the financial challenges that have arisen in 2018/19, there is a general consensus that a comprehensive review of the roles and responsibilities is required to clarify the inter-relationship with the NHS, Council and IJB and where responsibilities lie. This should be done as part of the review of the Integration Scheme. Once completed, a comprehensive training programme should be developed for all members to ensure that they clearly understand their roles and responsibilities as members of the IJB. The capacity of officers should also be considered as part of this review once roles and responsibilities are clarified.

Deloitte view

A restructuring of the Council's management structure was completed in 2018/19 to align with the Council Plan. This has also allowed the Council to flatten and simplify the management structure and to release currently untapped capacity. The Council needs to ensure that the change in structure will not have an adverse impact on capacity to deliver services.

The Council has agreed to fund the IJB's £3.28m deficit on an interim basis, on the assumption that this will be repaid in future years. The IJB's current financial position is extremely challenging, with an overspend in 2018/19, no balanced budget set for 2019/20 and no medium to long term financial plan in place. The IJB is at significant risk of not achieving short term financial balance in 2019/20, presenting recoverability risk to the Council.

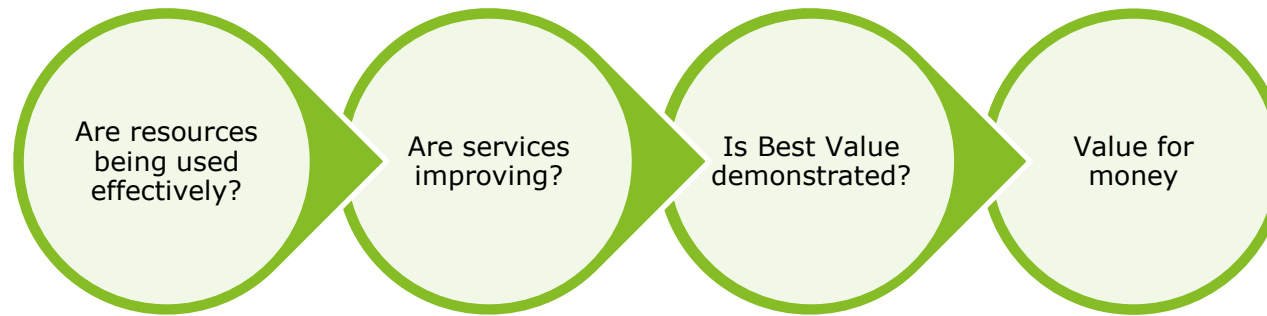
We have considered the Council's approach to openness and transparency, how good the Council's information is; and its commitment to improving openness and transparency and we are satisfied that the Council is open and transparent with its residents and relevant stakeholders.

Through the South Ayrshire Community Planning Partnership, the Council is committed to engaging with local communities in order to work effectively in partnership to deliver sustained improvements to residents. We are satisfied that the Council is fully committed to engaging with local communities.

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 potential risks as follows:

- Services are not performing at the optimal level of efficiency and effectiveness; 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:

- Performance Management Framework;
- 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. The Performance Management Framework sets out the strategic planning arrangements, showing for each level of planning, how progress is reported, how performance is scrutinised and evaluated, how improvements and future direction are identified, which then feeds into the next cycle of planning and budgetary decision making.

The Service and Performance Panel has an important role to play within these arrangements, in terms of scrutinising the proposed plans, performance in delivering them and scrutinising the operation of Council services through the service review process.

The Service and Performance Panel review the arrangements for performance reporting twice-yearly and raise feedback over any concerns it has arising from its review.

Performance tracking is primarily performed through the Council's Pentana tool, which tracks performance against key indicators. Members and Officers can see performance through this platform, however, it is only updated twice-yearly for reporting purposes. The dashboard shows how the Council's SIP actions and key indicators are performing at any time, allowing them to drill down and get the latest reported position against them, so as to help focus and direct scrutiny, support and attention as appropriate. Whilst we note Pentana is a good tool to track performance, we would encourage the Council to increase the frequency in which is updated to quarterly.

The Council publishes an annual performance report, "South Ayrshire Performs", comparing its actual performance against the performance objectives included within the Council Plan. The report sets out the progress that has been achieved over the last 12 months against the strategic objectives of the Council Plan. It reflects the contribution of all services across the Council, identifying the difference that has been made towards the range of outcomes that the Council is pursuing.

In addition to self review through the annual performance report, external peer reviews could be performed on services. This could help to ensure there is constructive challenge to service performance externally. We are aware of other Councils who have derived significant benefit from these reviews. We note service reviews are currently undertaken by Service Leads and going forward the Council will consider if it is appropriate to include an element of external review and the sharing of best practice within the revised service review process.

Value for money (continued)

Performance management (continued)

Statutory performance indicators

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 below.

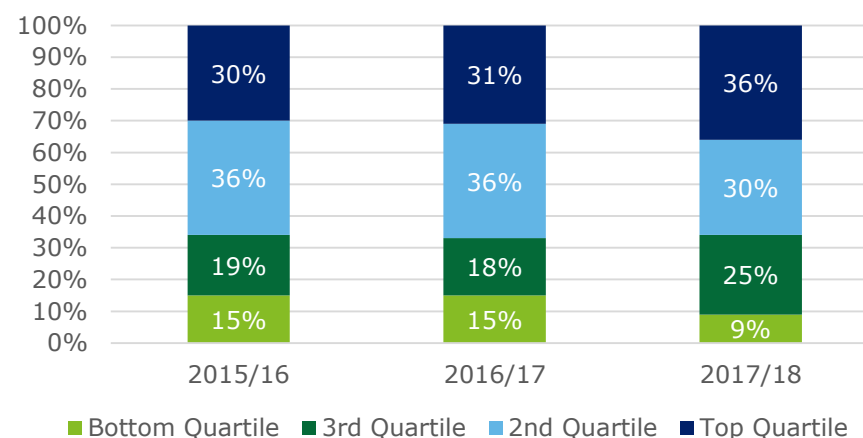
Performance data

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. Performance is summarised in the following charts.

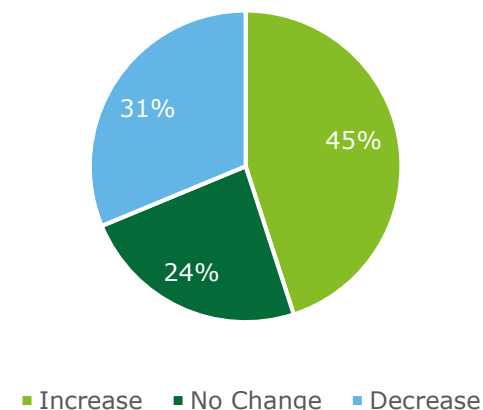
66% of indicators in 2017/18 (2016/17: 67%) were either in the top quartile or second quartile, i.e. performing above the Scottish average, demonstrating that the Council is performing well compared to their peers.

The year-on-year picture from 2016/17 to 2017/18 shows an increase in 36 indicators, decrease in 25 indicators and no change in 19 indicators. It is positive to note that there have been more improving indicators than ones that have declined.

LGBF Indicators over last 3 years



2017/18 Performance compared to previous year



Value for money (continued)

Regulator review and best value

Regulator review

A number of performance issues have been highlighted by the Care Inspectorate in relation to Adult Services, which have since been highlighted in a recent Significant Case Review (SCR) published in April 2019. These include the operation of the duty system, the review of care packages, and the implementation of the Care First recording system. The Partnership has an action plan detailing the improvements that have already been made and those planned to address the issues raised in the SCR. This is being closely monitored by the Care Inspectorate. We will maintain dialogue with the Care Inspectorate to assess progress and any further improvement required.

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 South Ayrshire Council is planned for year 5 in the 5 year programme (i.e. 2020/21).

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

Deloitte view – Value for money

There is a clear framework in place to ensure that council performance is monitored and reported. Performance reports and plans are available for the public to view on the Council website. We are satisfied the Council has an appropriate framework in place to ensure services are performing at the optimal level of efficiency and effectiveness, however, we recommend that the Council increase the frequency in which performance is reported to quarterly.

In the 2017/18 Local Government Benchmarking Framework exercise Council service performance improved in 36 areas, declined in 25 areas, with no change identified in 19 areas. We are pleased to note that the council clearly reports on its contribution towards national outcomes by carrying out comprehensive analysis for each performance area and makes this available to the public. We conclude that the council is fully engaged with its contribution towards national outcomes, evidenced by carrying out comprehensive analysis on LGBF indicators.

Given the performance issues highlighted by the Care Inspectorate in relation to Adult Services, we will maintain dialogue with the Care Inspectorate to assess progress and any further improvement required in this area.

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. On the run up to the original EU withdrawal date, the Council had implemented an EU Exit reporting regime which required Service Leads to report any impact of EU withdrawal to the Chief Executive on a daily basis for a minimum 12 week period from 22 March 2019, however this has been stepped down temporarily following EU withdrawal delay but the CLT are still regularly briefed on the impacts of EU withdrawal. In addition to this, the Council has prepared an EU Withdrawal Preparations report and action plan which are monitored and updated on a regular basis.</p> <p><i>People and skills</i> - Risk of impact is low with 50 nationals employed (44 who need to go through application process) of non-UK EU nationals identified as Council employees.</p> <p><i>Finance</i> - the largest direct impact is likely to be the withdrawal of EU funding, this will be considered further as information becomes available in respect of alternative funds or replacement funding streams, including the proposed UK Shared Prosperity Fund.</p> <p><i>Rules and regulations</i> - The Council is contributing to action being taken at a national level in collaboration with Convention of Scottish Local Authorities (COSLA).</p> <p>From our work performed, we are satisfied that the Council is sufficiently prepared for the impact of EU withdrawal.</p>

Other specific risks (continued)

Risk	Areas considered	Conclusion
<p>Dependency on key suppliers</p>	<p>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>	<p>From our analysis, 10 suppliers made up 32% in 2018/19. The two largest suppliers being East Ayrshire Council (EAC) and Education 4 Ayrshire Ltd. which make up 8% and 6% of the council's expenditure in 2018/19.</p> <p>The transactions with EAC are in relation to the Ayrshire Road Alliance which EAC are the lead partners, therefore this level of expenditure is in line with our expectation. The services offered by Education 4 Ayrshire Ltd. relate to contracts offered under the Governments Public Private Partnership programme.</p> <p>To mitigate the risk of a key supplier failing the Council has a number of controls in place such as a robust Contract Supplier Management process, whereby every key supplier relationship is given a risk rating based on the likelihood and impact of any risks occurring throughout the duration of the contract. The contracts are then monitored accordingly. Additionally, the Council rolled out a programme of Business Continuity 'Supply Chain Failure Testing' across all Service areas. This programme examined the resilience of supplier failure for high level contracts and identified any areas for review or improvement for plans and agreed on any future actions.</p> <p>Education 4 Ayrshire Ltd. was not identified as being a high risk supplier during these exercises, we are therefore satisfied that the council does not have risk of dependency on key suppliers.</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 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 medium term financial planning through its Financial Strategy, however, we note that there is no explicit consideration of the Scottish Government's MTFS within this.</p> <p>We recommend that the Council incorporates this into an updated Financial Strategy which explicitly considers the Scottish Government's MTFS.</p>
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 Council has well established arrangements for financial assessment of those requiring care.</p> <p>The Council 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 (see page 17).	Overall, we are satisfied that the Council is open and transparent with its residents and relevant stakeholders.

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

17 June 2019

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial sustainability – Reserves Strategy	The Council should consider if its current Reserves Strategy is sufficient from a risk-based perspective, and should consider whether the policy needs to be amended to increase the minimum reserve level. (see page 7 for more information)	This will feature in the updated Financial plan due to be considered by Leadership Panel in September 2019.	Head of Finance & ICT	September 2019	Medium
Financial sustainability – Financial strategy	Given that a balanced budget has now been set for 2019/20, a refreshed scenario based financial modelling exercise should be undertaken to reflect this. As recommended in 2017/18, we recommend that the Council incorporates this into an updated Financial Strategy which explicitly considers the Scottish Government’s Medium Term Financial Strategy. (see page 8 for more information)	This will feature in the updated Financial plan due to be considered by Leadership Panel in September 2019.	Head of Finance & ICT	September 2019	High
Financial sustainability – Long-term financial strategy	A longer term financial strategy (5 to 10 years) should be developed. Taking a more long-term view would provide Members with a greater ability to take a 'future focused' approach to decision making. (see page 8 for more information)	This will feature in the updated Financial plan due to be considered by Leadership Panel in September 2019.	Head of Finance & ICT	September 2019	Medium
Financial sustainability – transformation	Given the financial challenges the Council faces, we recommend that a formalised change programme be put in place as a matter of urgency. The progress of the programme should be monitored thereafter through detailed plans, benefits realisation tools, dedicated resources and Member input. (see page 9 for more information)	A change programme is currently in development.	Executive Managers	September 2019	High

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial sustainability – community involvement	<p>The Council's use of Participatory Budgeting it is still some way short of achieving the Scottish Government's 1% target of net expenditure by the end of 2021. We recommend that the Council includes a target budget in future budgets, reviews its current Participatory Budgeting and community engagement arrangements in place and puts a robust plan in place in order to achieve the target set by Scottish Government.</p> <p>(see page 6 for more information)</p>	<p>Participatory Budgeting Report presented to Leader Panel in June 2019. Community engagement report in development at present</p>	<p>Depute Chief Executive and Director - People</p>	<p>September 2019</p>	<p>Medium</p>
Value for money – performance reporting	<p>We are satisfied the Council has an appropriate framework in place to ensure services are performing at the optimal level of efficiency and effectiveness, however, we recommend that the Council increase the frequency in which performance is reported to quarterly.</p> <p>(see page 21 for more information)</p>	<p>Consideration will be given to increasing frequency alongside operational aspects in terms of practicality.</p>	<p>Depute Chief Executive and Director - People</p>	<p>December 2019</p>	<p>Low</p>

Action plan (continued)

Follow-up 2017/18 action plan

We have followed up the recommendations made in our 2017/18 annual report in relation to the wider scope areas and we note that 5 of the total 8 recommendations made have been fully implemented. The following recommendations are either not due to be implemented or are only partially implemented. We will continue to monitor these as part of our audit work over the next year.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2018/19 Update
Long-term financial strategy	We recommend that a longer term financial strategy (five to ten years) be developed. Taking a more long-term view would provide Members with a greater ability to take a 'future focused' approach to decision making.	Consideration will be given to extending the current medium term view to a more longer term approach when the Financial Strategy is next updated in 2019.	Head of Finance & ICT	March 2020	Low	Not due for implementation until 2019/20.
Financial sustainability – transformation plan	We recommend that future transformation plans apply the best practice six key requirements.	Consideration will be given to best practice approaches when developing future transformation plans.	Executive Leadership Team	March 2019	Medium	Change Programme currently in development. See 2018/19 Action Plan for management response and target date for completion.
Governance – community involvement	We recommend that the Council improve community involvement via increased community empowerment, community takeover and participatory budgeting.	Discussions is already underway with consideration of options available to address this requirement. An engagement strategy is currently being developed.	Corporate Leadership Team	March 2019	Medium	Community engagement report in development. See 2018/19 Action Plan for management response and target date for completion.



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