

## **East Ayrshire Council**

Report to the Governance and Scrutiny Committee on the 'audit dimensions and best value' for the year ended 31 March 2020

Issued on 10 September for the meeting on 24 September 2020

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# Introduction

## The key messages in this report

### **Background:**

As set out in our audit plan, 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 was risk based and proportionate, covering the four audit dimensions as follows:

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

It also incorporated the specific area of focus highlighted by Audit Scotland in relation to fraud and corruption in the procurement function.

Our responsibilities in relation to the Accounts Commission's Strategic Audit Priorities, the 2018 Statutory Performance Information Direction and Best Value have all been incorporated into this audit work.

I have pleasure in presenting our report to the Governance and Scrutiny Committee (the Committee) of East Ayrshire Council (the Council) as part of our 2019/20 audit responsibilities. I would like to draw your attention to the key messages from this paper.

### **Financial Management**

The Council has strong financial management arrangements. The General Fund and HRA ended the year with an in-year surplus and savings targets were substantially achieved. The financial position and variances were transparently reported to the Governance and Scrutiny Committee throughout the year.

### **Financial sustainability**

The Council achieved short-term financial balance in 2019/20 and has set a balanced budget for 2020/21. The current reserves held are at an acceptable level. It is also positive to note that the Council is actively assessing the financial impact of COVID-19. There does, however, remain a risk, therefore it is important that the position is closely monitored and this is reflected in the Corporate Risk Register.

The Council has demonstrated a consistent ability to close the budget gap each year through the achievement of in year savings. The publication of the Long-Term Financial Outlook is also a positive step to enable the Council to manage the financial challenges that it faces and to make well-informed decisions which are aligned to Council priorities. As noted on page 11, the impact of COVID-19 is expected to have a significant impact over the medium to longer term, and therefore the estimated financial impact of these challenges is likely to change.

The Council has made good progress during 2019/20 in relation to Transformational Workstreams and is undertaking a review of the performance management framework to monitor progress and benefits arising from the transformation work.

In recognition of the significant impact of COVID-19 on Council services, it is positive to note that a comprehensive report has been considered by the Council in June 2020 setting out the Renewal and Recovery Planning and how this closely aligns with the transformation work. We will continue to monitor this as part of our 2020/21 audit.

### **Governance and Transparency**

The Council continues to have robust governance and scrutiny arrangements in place. Appropriate arrangements have been put in place in response to the COVID-19 pandemic.

The Council continues to have strong leadership in place. This has been particularly evident in the response to COVID-19, the streamlined decision making arrangements and the arrangements for developing the Renewal and Recovery Plan. Both the Chief Executive and the Depute Chief Executive and Chief Financial Officer will retire later in the year and assurance has been provided in relation to recruitment and replacement which will allow progress to be monitored as part of our 2020/21 audit.

# Introduction (continued)

## The key messages in this report (continued)

### **Governance and Transparency (continued)**

The Council continues to be open and transparent. It also continues to embrace the principles of Community Empowerment and has a clear focus on improving equality outcomes.

The IJB has made some good progress during the year, continuing to achieve financial balance, driving forward transformation and reporting improvements in performance in some areas. The risks of COVID-19 on both the financial position and performance of the IJB will remain ongoing, however, we are satisfied that there are plans in place to carry out a comprehensive review of the MTFP and Strategic Plan during 2020/21.

### **Value for money**

The Council continues to have a clear and robust performance management framework in place through the Local Outcome Improvement Plan (LOIP) and in line with best practice, clearly links its performance measures to the National Performance Framework. It also has robust and long-standing arrangements in place to comply with the new SPI Direction including its public performance reporting requirements.

The performance of the Council is showing evidence of improvements in a number of areas, although there has been a reduction in the number in the top and second quartiles between 2017/18 and 2018/19. We recognise that the COVID-19 pandemic has had a significant impact on a number of services. It is important that the Council take any lessons learned as it moves into the recovery phase to consider alternative approaches to service delivery. It is positive to note that a comprehensive report has already been approved by the Council in June 2020 to set out the emerging priorities for Renewal and Recovery Planning.

### **Best Value**

The Council has robust arrangements in place to secure best value and has a clear understanding of areas which require further development. Good progress has been made in implementing the agreed actions arising from the 2018 BVAR Report.

Our detailed findings and conclusions are included on pages 6 to 27 of this report.

### **Emerging issues**

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focusing on the impact of COVID-19. We have provided a summary of those most relevant to the Council as an Appendix on pages 32 and 33 of this report.

In particular, we have provided a high level assessment of where the Council is in its response to the Climate Change Agenda, discussed on page 29 and 30.

### **Next steps**

An agreed Action Plan is included at Appendix on page 36 of this report, including a follow-up of progress against prior year actions. We will consider progress with the agreed actions as part of our 2020/21 audit.

### **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.

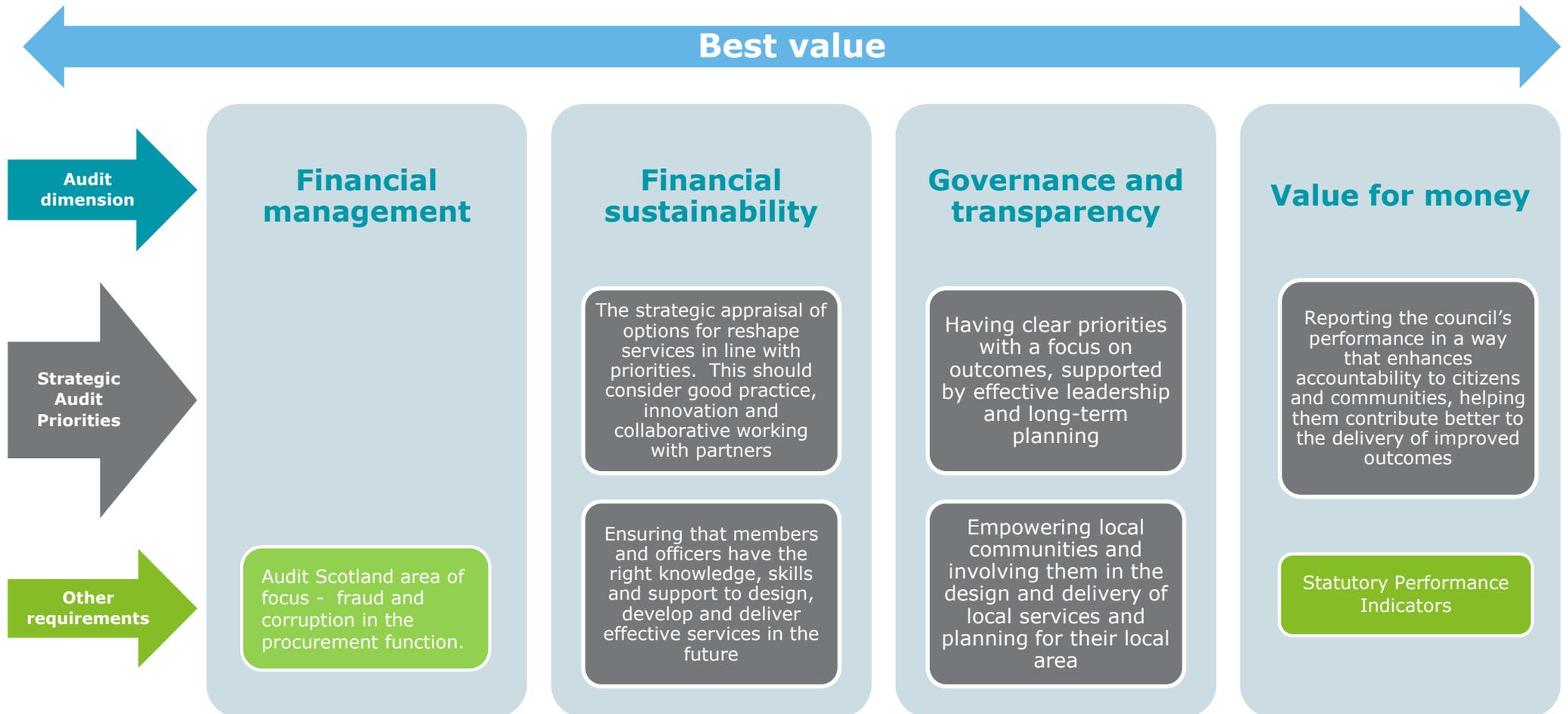
This is provided throughout the report. In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, invites have been issued to our weekly webinar "Responding to COVID-19: Updates and practical steps" which are open to anyone to join.

**Pat Kenny**  
**Audit Director**

# Audit dimensions and best value

## Overview

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audits. This report sets out our findings and conclusions on our audit work covering the following areas. Our report is structured in accordance with the four **audit dimensions**, but also covers our specific audit requirements on best value, the Accounts Commission's **Strategic Audit Priorities** and the 2018 **Statutory Performance Information** Direction.



# Financial management

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



## Areas considered

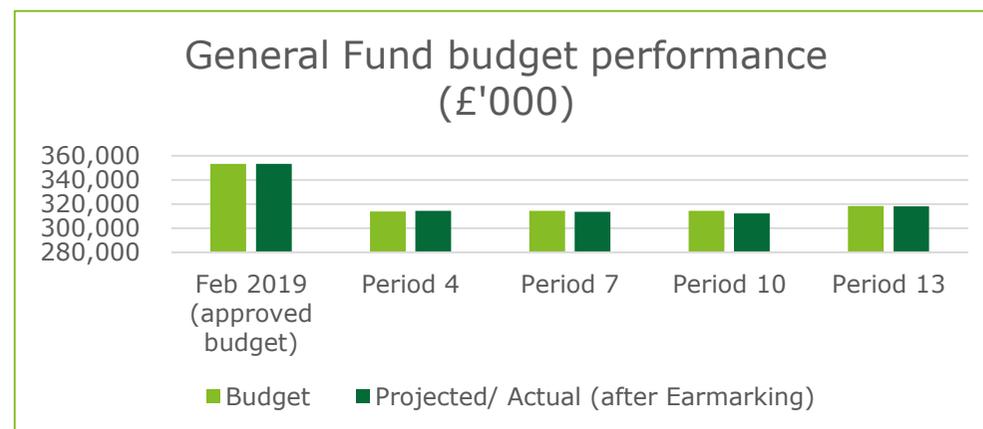
Our approach to the audit dimensions is risk focused. Within our audit plan we confirmed that while there was no specific risk in relation to financial management, we would continue to review the Council's financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans.

## 2019/20 financial performance

**2018/19 conclusion:** The General Fund ended the year in a £0.8m overspend position after earmarking £6.7m within service budgets. The HRA ended the year in a net underspend position of £0.9m. A total of £87.3m capital expenditure was incurred in the year against a budget of £114.0m

## 2019/20 update:

The **General Fund budget** approved by the Council on 28 February 2019 was updated throughout the year to include in-year movements such as additional income received. The net expenditure budgeted at the end of the year was £318.458m. The final outturn reported actual expenditure of £318.215m, representing an underspend of £0.243m. This outturn position was achieved after a utilisation of uncommitted balances of £2.997m and transfers from Renewal and Repairs Fund of £0.286m and to the Capital Fund of £0.140m. Services earmarked balances of £6.752m, with a further £2m set aside to establish a Workforce Planning Fund and £0.4m transferred to the Transformation Fund.



The key reasons for the variances were:

- **Economy and Skills** underspent by £2.625m. This was largely in Education (£1m) where funding for Pupil Equity Funding and Additional Support Needs has been carried forward to 2020/21 as this could be utilised later in the year. The Scottish Government also indicated that the PEF funding could be used flexibly as part of the response to COVID-19. Underspends were also noted in Planning and Economic Development as a result of timing of filling vacancies.
- **Central Services** underspent by £2.438m, largely relating to centrally retained budgets, and the additional £0.964m received from the IJB as repayment of previously advanced loan support funding.

# Financial management (continued)

## 2019/20 financial performance (continued)

The **Housing Revenue Account (HRA)** ended the year with a surplus of £0.120m compared to breakeven budget. This has been consistently reported to members throughout the year.

The most significant variances relate to a reduction in employee costs of £0.753m arising from vacancies, reduced premises costs of £0.922m as a result of the timing and lower cost of demolition related expenditure, and debt charges of £0.897m. This was partly offset by adverse variances in supplies and services costs of £0.728m and a lower than anticipated utilisation of balances and additional Capital from Current Revenue (CFCR) of £0.815m.

The council has ambitious **10 year capital programme**, as discussed further on page 12. Progress against this plan are reported regularly through East Ayrshire Performs reporting to Cabinet.

The final position for 2019/20 reported £103.634m of capital investment incurred during the year (£61.710m General Fund services and £41.924m Housing). The most significant projects included:

- Barony Campus incurred £27m expenditure during 2019/20 from the total project budget of £68m. Construction commenced in May 2019 and was due to be operational from August 2020, but has been impacted by the COVID-19 pandemic restrictions.
- Infrastructure investment amounted to £11m.
- Council House Building continued at a cost of £25m.
- Housing Investment programme continued at a cost of £17m.

**2019/20 Conclusion:** the Council continues to have effective financial planning and management arrangements in place, with the final general fund and HRA reported largely in line with the original budget, with underspends clearly reported throughout the year, along with regular progress on the capital programme.

## Savings Plans

**2018/19 conclusion:** The approved 2018/19 budget required £3.5m in recurring savings which were achieved.

**2019/20:** The approved 2019/20 budget included a need to make savings of £8.983m. Progress against this target was closely monitored and reported to Cabinet through East Ayrshire Performs, applying a Red, Amber, Green (RAG) rating. The final outturn reported that £8.570m (95%) of the targeted savings were achieved, with services identifying compensating savings in other budget lines for the balance remaining.

**Conclusion:** The savings targets set by the Council have increased in comparison with previous years, reflecting the financial challenges faced by the Council and need to continually deliver recurring reductions in costs. It is positive to note that whilst the targets are increasing, these have largely been achieved.

# Financial management (continued)

## Financial reporting

**2018/19 Conclusion:** The Council has effective financial management processes in place.

**2019/20 Update:** The Council approved its 2019/20 budget on 28 February 2019. The Corporate Management Team and Councillors regularly review progress against budget throughout the year, with quarterly reporting to the Cabinet and the Governance and Scrutiny Committee through "East Ayrshire Performs". From review of the reporting throughout the year, variances are clearly reported and explained.

**2019/20 Conclusion:** The Council continues to have strong financial management arrangements in place.

## Financial capacity

**2018/19 Conclusion:** The finance team is led by the Interim Head of Finance and ICT, the Financial Controller and the Acting Corporate Accounting Manager, all of whom have extensive experience in local government finance roles for a number of years.

**2019/20 Update:** The finance team has remained consistent throughout the year. A service review is currently underway to look at the service structure, making a more flexible team and building capacity for succession planning.

**2019/20 Conclusion:** The Council has a sufficiently qualified and experienced finance team to support the financial management of the Council. We will monitor the outcome of the service review as part of our 2020/21 audit work.

## Internal audit

The Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

From our review of the internal audit reports issued during 2019/20, we are satisfied that the conclusions have been considered as part of the disclosures in the Annual Governance Statement.

One attempted fraud was reported as part of internal audit work and appropriate action taken to address this. This has been reported to Audit Scotland.

## 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 to be designed and implemented appropriately.

## National Fraud Initiative (NFI)

All Councils are participating in the most recent NFI exercise which commenced in 2018/19. We have continued to monitor the Council's participation and progress in the NFI during 2019/20 and submitted an assessment of the Council's participation to Audit Scotland in February 2020. The information submitted will be used by Audit Scotland in its next national NFI report which is due to be published in the summer of 2020.

We concluded that the Council was fully engaged in the exercise.

# Financial management (continued)

## Fraud and corruption in respect of the procurement function

As noted in our audit plan, and in accordance with Audit Scotland planning guidance, fraud and corruption in the procurement function (such as illicit rebates, kickbacks and false invoicing) is a risk across the public sector. We have therefore considered the Council's controls and processes as a matter of particular focus and concluded:

- The risk of procurement fraud is acknowledged on the Council's Governance service risk register.
- There are controls in place around the procurement process, including segregation of duties. These were last tested by Internal Audit in 2017/18 and concluded there was "reasonable assurance".
- There is a gift and hospitality policy in place to prevent unacceptable instances taking place and systems in place to ensure all acceptable instances are recorded in a register.
- All staff involved in procurement related decisions are trained on how to identify procurement fraud 'red flags' (e.g. excessive entertaining of procurement staff by suppliers).
- Internal Audit coverage of procurement systems is adequate and proportionate to the risks faced by the Council.
- Arrangements are in place to encourage and protect whistleblowers.

Based on the above, we are satisfied that the arrangements for the prevention and detection of fraud and corruption in the procurement function are effective and appropriate.

## Deloitte view – financial management

The Council has strong financial management arrangements which are robust enough to manage financial activity and capture and address any challenges to the achievement of financial targets. The outturn position on the General Fund for the year was a utilisation of £2.997m of uncommitted balances and £8.752m was earmarked for carry forward to 2020/21. Savings targets of £8.9m were largely achieved and the HRA ended the year with a small surplus. The financial position and variances were transparently reported to the Governance and Scrutiny Committee throughout the year.

The capacity of the finance team has remained consistent during the year and is sufficient to support the Council's financial management arrangements. We will monitor the outcome of the ongoing service review as part of our 2020/21 audit. The arrangements for prevention and detection of fraud also remain robust.

# Financial sustainability

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



## Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we identified the following risk:

*“There is a risk that the detailed service redesign and savings plans are not robust enough to allow the benefits to be realised.”*

## Budget setting

**Prior year conclusion:** 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 was recovered through savings. In setting its budget, the Council recognised that, whilst projecting to achieve short-term financial balance, a number of risks existed.

**Current year update:** The Council approved a budget of £352.594m for 2020/21 on 5 March 2020. This incorporated an initial budget gap of £10.5m of which the majority is planned to be offset through management actions to make efficiency savings. The budget also assumes a 4.84% council tax increase in the year.

Elected members were fully involved in the budget process in advance of the formal budget setting meeting.

To support the budget process, a Vibrant Voices 2020/21 Budget Conversation campaign ran through to 21 February 2020. This year, budget conversations were held online to provide a wider reach and the facility to readily collate comments and feedback. A total of 421 individual responses were received. As a result of the feedback provided, specific comments were provided to elected members as part of the budget papers in relation to parking charges and waste management.

The Council is continually looking at ways of engaging with the wider community as part of the budget process and has utilised social media platforms including Facebook and Twitter.

The 2020/21 budget, incorporated the impact of a number other strands of work, in particular:

1. Transformational Service Review of Parking.
2. Transformational Service Redesign – Waste Management.
3. Ayrshire Growth Deal – proposed staffing structure for Programme Management Office.
4. Asset Management Framework and Capital Investment Plan.

# Financial sustainability

## Budget setting (continued)

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

- The timing of the Scottish and UK Government budget announcements. Any significant adjustments to the block grant could result in the Council having to present a supplementary budget in the new financial year.
- There are risks from deleting vacant posts and redesigning services to deliver corresponding increases in productivity. The progress and impact of this is being closely monitored by Heads of Service.
- There are risks being monitored through the corporate risk register which could have financial implications. The underlying risks and uncertainty currently being experienced globally are likely to continue for the foreseeable future.

## Impact of COVID-19

The 2020/21 budget was set prior to the COVID-19 pandemic. The pandemic has had a significant impact on the operations of the Council and work is ongoing through the Convention of Scottish Local Authorities (COSLA) to identify the additional costs being incurred and what additional funding will then become available to support this.

The Council has recognised that the 2020/21 budget will require to be reviewed and action identified to mitigate in-year budget pressures to re-balance the budget. The need for self-isolation and work restrictions has meant a significant amount of the capital programme will need to be re-profiled.

**2019/20 Conclusion:** The impact of COVID-19 on the ability to achieve short-term financial sustainability presents a risk to the Council. As noted on page 9, the Council has a robust planning and monitoring process in place for achieving savings and has, historically, achieved the majority of savings targets in place. It is also positive to note that the Council is actively assessing the financial impact of COVID-19. There does, however, remain a risk, therefore it is important that the position is closely monitored.

## Reserves

**Prior year conclusion :** The Council had 3.7% of net expenditure held as uncommitted reserves and £24.3m in earmarked balances.

**Current year update :** At the time of approval of the 2020/21 budget, the Council carried out its annual review of its Reserves and Balances Strategy in line with good practice. The key elements of the strategy included:

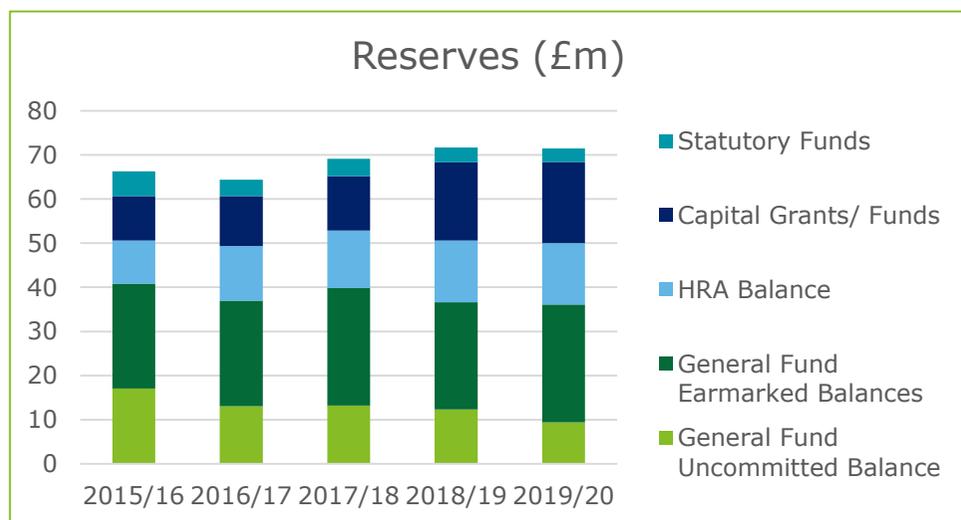
- Minimum level of uncommitted General Fund balances at 2% of net budgeted expenditure.
- A Transformation Fund is set aside for appropriate investment in projects designed to deliver planned change from the Transformation Strategy. The current balance is £3.443m, the majority of which is committed for specific initiatives.
- In view of the anticipated scale of workforce reduction over the next few years, the Council has set aside £2m in a Workforce Reduction Fund.
- An annual review of balances will be carried out on completion of the audit in line with established practice.

No reserves have been required to balance the 2020/21 budget.

# Financial sustainability

## Reserves (continued)

The total reserves position for the Council at 31 March 2020 and movement over the last five years is illustrated below, with the general fund uncommitted balance representing 2.7% of budget, in line with the Strategy.



**2019/20 Conclusion:** The current reserves held are at an acceptable level. As discussed on page 11, the impact of the COVID-19 pandemic is having a significant impact on the Council. We note that the Council is planning to re-assess the 2020/21 budget, and would expect the reserves balances to be considered as part of this review.

## Capital planning and treasury management

**2018/19 Conclusion:** We reported that the significant spend in 2019/20-2020/21 was 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 (as discussed on page 7). Given the scale of this project relative to historic projects, we highlighted that it was imperative that the Council continues to have strong project management and governance arrangements over the project are maintained.

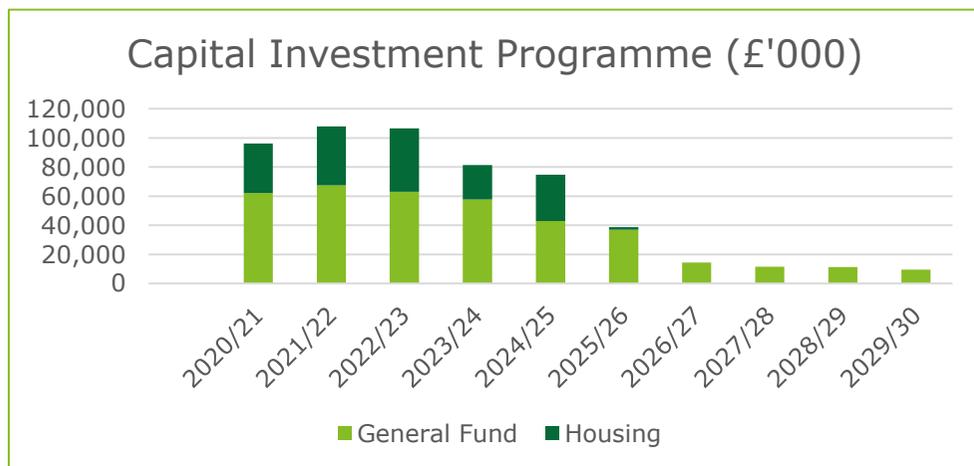
**2019/20 Update:** The Council updates its Capital Investment Plan (CIP) on an annual basis as part of its budget setting process and in line with its Asset Management Framework (AMF). The AMF builds on the success of the CIP over the last 10 years and brings it into an overarching strategic context for the current and future investment priorities, providing the Council with a clear link between its assets, ongoing capital investment and the strategic direction of the Council.

The graph on the next page illustrates the projected CIP over the next 10 years, which again shows that the Council continues to have an ambitious capital programme. As noted on page 7, the Council has demonstrated a history of managing its capital programme. However, also noted on page 11, the Council has recognised that it will need to revisit this programme in light of the impact of COVID-19.

The AMF provides the overarching structure of the Council's approach to the asset management principles with a strong evidence base. In 2019/20, the Council has expanded its programme management to include the Ayrshire Growth Deal, the Health and Social Care Property and Asset Management Group, Town Centre Regeneration, the Leisure Trust Programme Board and the Asset Investment Group.

# Financial sustainability (continued)

## Capital planning and treasury management (continued)



**2019/20 Conclusion:** Given the scale of the programme over the next 10 years, it is imperative that the Council has strong project management and governance arrangements in place over the projects involved. It is positive to note the changes made to the programme management function during 2019/20 to reflect some of the changes occurring including the Ayrshire Growth Deal and Health and Social Care Property and Asset Management Group. It is important that the impact of COVID-19 on future plans is also considered.

## Medium-to long-term financial planning

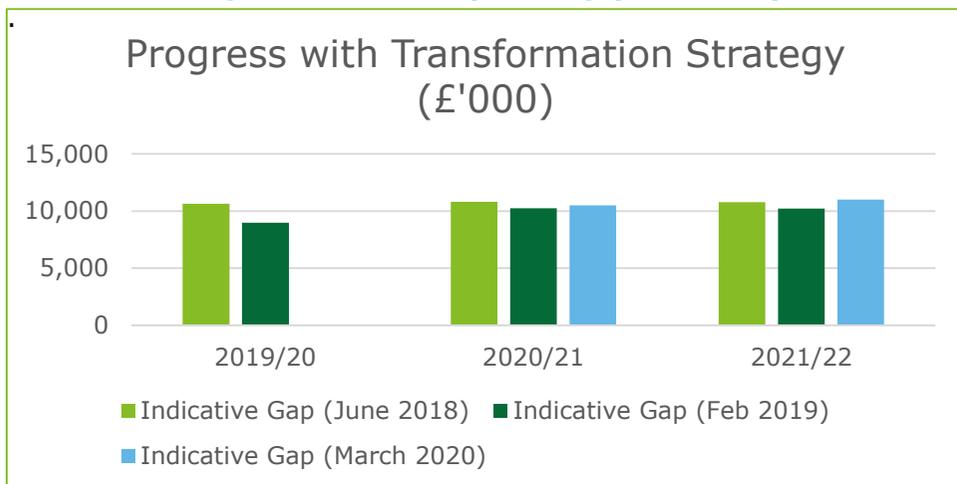
**2018/19 Conclusion:** Management has developed a reasonable forecast of the medium-term funding gap faced, estimated to be £32m. However, we recommended that the Council consider developing a detailed long-term financial plan that looks beyond the period covered by the current transformation strategy. We also recommended that the Council should 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.

**2019/20 Update:** The Transformation Strategy approved in 2018 covered the period 2017-22, as discussed further on page 15. As part of the annual budget process, the Council has revisited the budget gap initially estimated as part of the Transformation Strategy. In both 2019 and 2020, the Council concluded that the figures did not require to be adjustment so are still the estimates that the Council are working towards with its transformation work.

Progress has been made since the approval of the Transformation Strategy, as illustrated on the following page. While the indicative gap has not reduced, the Council achieved the savings required in 2019/20 and has incorporated management action within the 2020/21 budget to make the required savings in year. Further work is required as part of the Transformation Strategy to identify options that will reduce service expenditure in 2021/22.

# Financial sustainability (continued)

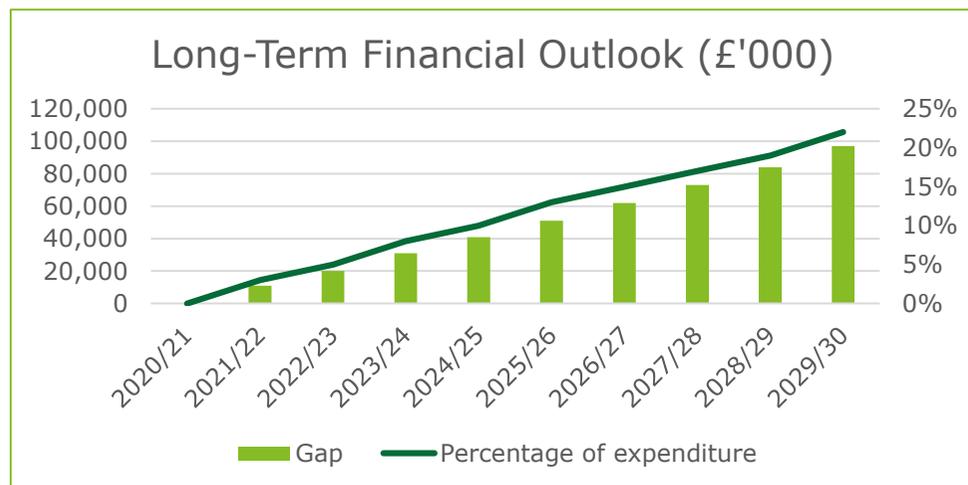
## Medium-to long-term financial planning (continued)



In line with our recommendation in previous years audits, the Council has incorporated a Long-Term Financial Outlook as part of its annual budgeting process. This recognises the importance of looking further ahead in the knowledge that decisions made now will have an impact for some years ahead. It also notes that the pattern of annual real terms reductions in Scottish Government grant to local government is likely to continue and longer-term awareness and planning for that scenario is essential if council services are to remain effective and sustainable.

The Council concluded that the number and impact of known and unknown variables at present precludes any real level of certainty in terms of long term forecasts. It has therefore applied a simplistic view incorporating the following assumptions:

- Grant levels will be -1% per annum
- Council tax will increase by 3% per annum beyond 2020/21
- Payroll will increase by 3.4%
- Inflation will be 2% per annum
- Capital investment will remain as planned
- Demographic changes will add £2m per annum to costs



Based on the above, the Council has estimated a budget gap of £97m by 2029/30, representing 22% of its net expenditure, as illustrated opposite.

# Financial sustainability (continued)

## Medium-to long-term financial planning (continued)

**2019/20 Conclusion:** It is positive to note that the Council revisits the medium-term position as part of its annual budget process. There has also been good progress in reducing the gap each year through the achievement of in-year savings. The publication of the Long-Term Financial Outlook is also a positive step to enable the Council to manage the financial challenges that it faces and to make well-informed decisions which are aligned to Council priorities. As noted on page 11, the impact of COVID-19 is expected to have a significant impact over the medium to longer term, and therefore the estimated financial impact of these challenges is likely to change.

## Transformation Strategy

**2018/19 Conclusion:** The Council has developed a detailed Transformation Strategy for the period 2017-2022 which aligned with the Community Plan 2015-2030 and clearly considered the findings and recommendations raised within the 2018 BVAR (see page 28). Following a recent exercise to identify the workstreams which would be the focus of transformation efforts, management was in the process of outlining detailed service redesign and savings plans and implementing a detailed benefits monitoring system. We recommended that this was implemented as soon as possible to allow the transformation strategy's intended outcomes to be achieved and evidenced effectively.

**2019/20 Update:** Regular updates on progress have been reported to both Cabinet and the Governance and Scrutiny Committee, through the quarterly East Ayrshire Performs report. The revamped Councillor Conversations have provided a further opportunity for Members to consider and discuss topical updates on transformation activities on a regular basis.

The Council recognises that the change in culture and approach to reducing demand for Council services will take a number of years to become fully embedded. Work is currently ongoing, as recommended in our 2018/19 report, to ensure that the Council can measure the early impact of these changes to establish what works well.

A comprehensive review is currently being undertaken of the performance framework currently in place to agree a revised approach which includes a clear plan detailing the activities and associated actions being delivered through the Transformation Strategy, milestones, performance metrics, anticipated outcomes and success measures, including benefits tracking. This will form the basis of a new programme management framework that will be managed within the Transformation Team, and reported regularly to Members. This was planned to be implemented by April 2020, but has been delayed as a result of the COVID-19 pandemic, as discussed further below.

The latest update to Cabinet in March 2020 noted that progress against the workstreams has been strong, with a number of actions agreed and good progress made on others.

As part of the Cabinet's consideration of the "Review of Management Structure" report considered in December 2019, it recognised the need to ensure that transformation at a strategic level is part of normal business. It also noted that significantly more attention should be given to how council transformation fits with, complements and enables transformation with its partner organisations. A full review and reset of the Transformation Strategy is therefore planned to establish the continued direction of travel and ensure that the activities are mainstreamed into normal Council business.

## Impact of COVID-19

The Council has recognised that in a very short space of time, it has had to rapidly transform the way it works in response to the COVID-19 pandemic, in order to maintain essential services, including changing the way that it delivers some services and making difficult decisions in respect of standing down others. Staff have been redeployed to help deliver these essential services, keep communities safe and protect those most in need.

# Financial sustainability (continued)

## Transformation Strategy (continued)

### Impact of COVID-19 (continued)

The Council has also identified that for some groups, the social, economic and health harms caused by both the virus and associated lockdown measures, will be greater and that this could have a profound and long-lasting impact, exacerbating already existing inequalities in its communities. It therefore recognises that its recovery and response must take account of the disproportionate impact of the pandemic.

A comprehensive report was presented to the Council in June 2020 setting out how the Council will map its recovery and re-installment of services against the route map phases set by the Scottish Government and explains how service redesign and wider transformation objectives will be weaved to support its recovery and renewal plan. The report builds upon and accelerates many of the strategic themes already incorporated within its Transformation Strategy.

The Council agreed the following vision for its recovery and renewal:

*"To learn from our response to COVID-19, viewing recovery and renewal through the lenses of our emerging priorities and accelerated transformational aspirations, to re-imagine and positively challenge what and how we deliver safe and sustainable services, ensuring our vibrant communities remain a the heart of everything we do."*

The Council have proposed to provide a series of standalone transformation reports for early consideration by the Council Management Team and thereafter, the Executive Committee or Cabinet, as appropriate. These reports will cover the following areas, and will aim to challenge the Council's existing thinking. The reports are expected to be deliberately intended to push boundaries and encourage positive challenge, creativity and innovation in reimagining the delivery of Council services in the new normal.

### Accelerated transformation themes:

- 1. Smarter working** – re-imagining how and where we work;
- 2. Digital** – Online Service Delivery and enabling employees to work remotely;
- 3. FACE (Flexible, Approachable, Caring, Empowered) Framework** – Leadership and Coaching;
- 4. Vibrant and Empowered Communities** – Place-Based Approaches, Community Empowerment and Volunteering; and
- 5. Workforce Planning** – Accelerate work on Frontline Flexible roles to harness employee willingness and support to work differently. Bring forward workforce reduction opportunities, through ongoing service re-design and continue with the review and implementation of a revised pay and grading model.

**2019/20 Update:** The Council has made good progress during 2019/20 in relation to Transformational Workstreams. It is also positive to note that, in line with our 2018/19 recommendation, a review is being carried out of the performance management framework to monitor progress and benefits arising from the transformation work. In recognition of the significant impact of COVID-19 on Council services, it is positive to note that a comprehensive report has been considered by the Council in June 2020 setting out the Renewal and Recovery Planning and how this closely aligns with the transformation work.

# Financial sustainability (continued)

## Ayrshire Growth Deal

The Ayrshire Growth Deal (AGD) is key component of the Councils long term strategy. The Growth Deal was developed by the Ayrshire Regional Economic Partnership. It represents a £250 million investment across North Ayrshire, East Ayrshire and South Ayrshire and addresses local economic challenges with its strong focus on inclusive growth. The council worked closely with a range of partners to develop the proposal for the Growth Deal.

The Ayrshire Economic Joint Committee is responsible for the governance of the Growth Deal and the Ayrshire Regional Economic Partnership. The committee has 13 members, including three from each council, as well as representatives from the education and business sectors, Scottish Enterprise, and Skills Development Scotland. There is also a subcommittee which has higher levels of representation from the business and education sectors.

The AGD has yet to be signed off, so it is clearly too early to report on the progress of deal projects. There is a strong collaborative ethos, however, within the Ayrshire Regional Economic Partnership, and members from all sectors are committed to the development and delivery of the deal.

East Ayrshire Council, as the Lead Authority, administers the Programme Management Office (PMO). In recognition of the risks highlighted by the Scottish Government where underspending in other deals has been partly due to under-resourcing of PMOs and the Scottish Government's view that the level of resource currently allocated to the AGD PMO was insufficient, the Council has taken the opportunity to review the PMO structure and agreed this in March 2020.

## Deloitte view – Financial sustainability

As discussed on page 9, the Council achieved short-term financial balance in 2019/20 and has set a balanced budget for 2020/21. The current reserves held are at an acceptable level. It is also positive to note that the Council is actively assessing the financial impact of COVID-19. There does, however, remain a risk, therefore it is important that the position is closely monitored and is reflected in the Corporate Risk Register.

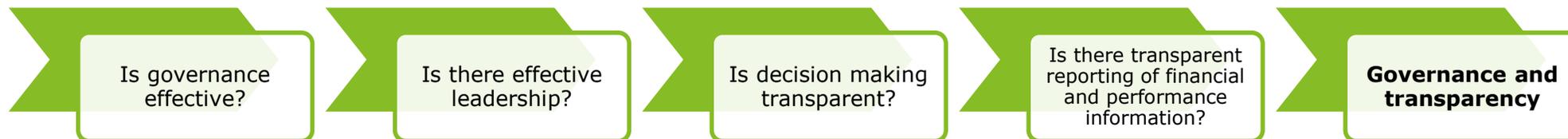
The scale of the CIP over the next 10 years is ambitious and requires strong project management and governance arrangements in place over the projects involved. It is positive to note the changes made to the programme management function during 2019/20 to reflect some of the changes occurring, including the Ayrshire Growth Deal and Health and Social Care Property and Asset Management Group. It is important that the impact of COVID-19 on future plans is also considered.

From the review of the medium-term position as part of its annual budget process, the Council has demonstrated a consistent ability to close the budget gap each year through the achievement of in year savings, The publication of the Long Term Financial Outlook is also a positive step to enable the Council to manage the financial challenges that it faces and to make well-informed decisions which are aligned to Council priorities. As noted on page 11, the impact of COVID-19 is expected to have a significant impact over the medium to longer term, and therefore the estimated financial impact of these challenges is likely to change.

The Council has made good progress during 2019/20 in relation to Transformational Workstreams. It is also positive to note that a review is being carried out of the performance management framework to monitor progress and benefits arising from the transformation work. In recognition of the significant impact of COVID-19 on Council services, it is positive to note that a comprehensive report has been considered by the Council in June 2020 setting out the Renewal and Recovery Planning and how this closely aligns with the transformation work. We will continue to monitor this as part of our 2020/21 audit.

# Governance and transparency

**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



## Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we confirmed that while there was no specific risk in relation to governance and transparency, we have continued to monitor the Council's approach to governance and transparency, specifically focusing on the work around the transformation strategy.

In relation to the IJB, we identified in our audit plan that, in common with all IJBs, there continues to be a risk that the IJB does not achieve the full benefits of integration.

## Leadership

**2018/19 Conclusion:** 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.

**2019/20 Update:** Linking with the work being done as part of the Transformation Strategy, the Cabinet approved an interim management structure at Chief Officer level until the end of March 2021, pending service redesign work and a full review of the Council's Management Structure by 2020/21. Cabinet also noted interim changes to the Chief Officer Structure within the Health and Social Care Partnership which had been previously agreed by the IJB.

Given the impact of COVID-19 and the focus on response, recovery and renewal, the service redesign and future shape of the Council will require to be informed by this work. The Council therefore agreed in June 2020 that the timeframe for the full management review be extended, to be concluded no later than 31 December 2021, for an implementation date of 1 April 2022.

Both the Chief Executive and the Depute Chief Executive and Chief Financial Officer will retire later in the year and assurance has been provided in relation to recruitment and replacement which will allow progress to be monitored as part of our 2020/21 audit.

**2019/20 Conclusion:** The Council continues to have strong leadership in place. This has been particularly evident in the response to COVID-19, the streamlined decision-making arrangements and the arrangements for developing the Renewal and Recovery Plan, as discussed further on page 16. The proposed review of the management structure is a positive step as the Council moves to having transformation at a strategic level as part of normal Council business. The impact of COVID-19 has delayed this, but clear revised timelines are in place. We will monitor progress with the recruitment process for the Chief Executive and Depute Chief Executive posts during our 2020/21 audit.

# Governance and transparency (continued)

## Governance and scrutiny arrangements (continued)

**2018/19 Conclusion:** The Council has effective 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

**2019/20 Update:** The Governance and Scrutiny Committee continues to play a key role in the governance and scrutiny arrangements of the Council. It considers reports from internal audit throughout the year and regulatory reports such as reports on Schools and care establishments. The Chair of the Governance and Scrutiny Committee presents an annual report to the Council. Consideration should be given to extending this to include a self-assessment of the Committee's performance, which would demonstrate continuous improvement.

Risk registers are implemented for each service and are updated on an annual basis. Additionally, internal audit carries out rolling reviews of the services and identifies and documents risks and their significance. These risk registers feed into the corporate risk register and the SMT recommend risks for the strategic risk register as appropriate. Within the strategic risk register, each risk is assigned to a member of the Senior Management Team.

The Council's Committee structures were temporarily suspended during the COVID-19 outbreak, and at the Council meeting on 24 March 2020, it was agreed to suspend all Council, Cabinet, Committee and panel meetings with immediate effect, and to create an East Ayrshire Executive Committee.

Elected members have been provided with a daily COVID-19 briefing via e-mail from the Chief Executive. Additionally, online Members' drop-in sessions for Councillors have been set up on a place-based approach, and are continuing on a regular basis.

Vibrant Communities are also providing Elected Members with a weekly update for all wards.

In June 2020, the Council agreed to continue with the Executive Committee over the summer recess and August and that scheduled Council meetings from 25 June 2020 will now take place. Cabinet and Government and Scrutiny Committees will then be re-introduced from September 2020. All other meetings from September till the end of the year will be reinstated on an ad-hoc basis.

**2019/20 Conclusion:** The Council continues to have robust governance and scrutiny arrangements in place. This could be further enhanced through the Governance and Scrutiny Committee carrying out an annual self-assessment in line with best practice. Appropriate arrangements have been put in place in response to the COVID-19 pandemic.

## Openness and transparency

**2018/19 Conclusion:** We were satisfied that the Council prioritises the principles of openness and transparency, and operated in an open and transparent manner throughout the year.

**2019/20 Update:** The Council has continued to be open and transparent with its decision making. Only reports containing commercially sensitivities are not published, in accordance with the Council's Standing Orders. Council meetings are open to the public and all agendas and minutes are available through the Council website.

**2019/20 Conclusion:** In line with our previous year's conclusions, the Council continues to be open and transparent. In the interest of continuous improvement, the Council should consider if there are any lessons learned from other public bodies or other ways of engaging with wider stakeholders, for example by webcasting Council and Committee meetings to reach a wider audience.

# Governance and transparency (continued)

## Health and social care partnership

**2018/19 Conclusion:** The IJB achieved financial balance in 2018/19 and is progressing its transformation work through the Strategic Commissioning Board (SCB). We noted that it was positive that the Ayrshire partners were reviewing and updating the governance arrangements for the IJBs to take cognizance of the experience from early integration.

**2019/20 Update:** The IJB has again achieved short term financial balance and set a balanced budget for 2020/21. However, while progress is evident from the original Medium Term Financial Plan, it is still faced with significant financial challenges in the medium to longer term, with the impact of COVID-19 increasing this risk.

The IJB continues to have strong leadership and the work of the SCB has continued to be positive, with resources directed towards transformation and change. It also continues to streamline its approach to linking the strategic plans with the resources required, which is recognised good practice. Performance data has shown some areas of improved performance, with other areas still representing a challenge.

**2019/20 Conclusion:** The IJB has made some good progress during the year, continuing to achieve financial balance, drive forward transformation and report improvements in performance in some areas. The risks of COVID-19 on both the financial position and performance of the IJB will remain ongoing, however, we are satisfied that there are plans in place to carry out a comprehensive review of the MTFP and Strategic Plan during 2020/21.

## Community engagement and equalities

**2018/19 Conclusion:** As reported in the 2018 BVAR report, East Ayrshire Council fully supports community empowerment and recognises the importance of building community capacity.

**2019/20 Update:** As part of the ongoing work aligned to the Best Value principles, we have considered equal opportunities as a specific area of focus for 2019/20.

The Council published its "Equality Outcomes and Mainstreaming Progress Report 2018/19". This sets out how equalities are being mainstreamed into the functions and activities of the Council. It also provides information on its schools and employees, and demonstrates ways in which the Council is meeting the general and specific duties as set out in the Equality Act 2010. The report not only sets out the statutory requirements but also how the Council have continued to mainstream equalities into everyday practice.

Through the development of the Community Plan and the delivery Plans, the Council has a clear vision to make East Ayrshire a better place to live and work by having services, better opportunities and better communities. Its strategic priorities for 2018-2021 are:

- **Older People:** adding life to years – tackling social isolation
- **Improving outcomes for children and young people:** with a particular focus on looked after children/ young people and young carers
- **Community Led Regeneration:** empowering communities and building community resilience.

# Governance and transparency (continued)

## Community engagement and equalities (continued)

As referred to on page 15, the Transformation Strategy sets out how the Council will meet the financial challenges that lie ahead, but equally the Strategy confirms the need for a concerted effort towards a fairer, kinder and connected East Ayrshire, putting people and communities at the heart of everything it does. This has been reinforced by the work that is progressing in Renewal and Recovery in response to COVID-19.

The following areas are of particular note in demonstrating the Council's commitment to equalities:

- Joint Cabinet with the Children and Young People's Cabinet – first meeting held in August 2018.
- An Elected Member has responsibility for Equalities, with this role enhanced to incorporate Equalities, Social Inclusion and Poverty.
- The Corporate Equalities Strategic Group is chaired by the Chief Executive and comprises representation at a chief officer level from all departments of the Council.
- An Operational Equalities Group was established in 2016 that links into the CESG.
- An Equalities Forum has been in place since 2008.
- In 2016, the Council developed a new on-line Equality and Impact Assessment (EIA) Toolkit.

In addition to the above, the Council has a long and successful history of partnership working, particularly through its Community Planning Partnership, which incorporate the equalities agenda.

**2019/20 Conclusion:** The Council continues to embrace the principles of Community Empowerment and has a clear focus on improving equality outcomes.

## Following the public pound

The statutory requirements to comply with the Following the Public Pound (FtPP) 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 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.

## Governance and transparency (continued)

### **Deloitte view – governance and transparency**

The Council continues to have robust governance and scrutiny arrangements in place. This could be further enhanced through the Governance and Scrutiny Committee carrying out an annual self assessment which would be in line with best practice. Appropriate arrangements have been put in place in response to the COVID-19 pandemic.

The Council continues to have strong leadership in place. This has been particularly evident in the response to COVID-19, the streamlined decision-making arrangements and the arrangements for developing the Renewal and Recovery Plan, as discussed further on page 16. The proposed review of the management structure is a positive step as the Council moves to having transformation at a strategic level as part of normal Council business. The impact of COVID-19 has delayed this, but clear revised timelines are in place. Both the Chief Executive and the Depute Chief Executive and Chief Financial Officer will retire later in the year and assurance has been provided in relation to recruitment and replacement which will allow progress to be monitored as part of our 2020/21 audit.

The Council continues to be open and transparent. It also continues to embrace the principles of Community Empowerment and has a clear focus on improving equality outcomes. In the interest of continuous improvement, it should consider if there are any lessons learned from other public bodies or other ways of engaging with wider stakeholders, for example by webcasting Council and Panel meetings to reach a wider audience.

The IJB has made some good progress during the year, continuing to achieve financial balance, drive forward transformation and report improvements in performance in some areas. The risks of COVID-19 on both the financial position and performance of the IJB will remain ongoing, however, we are satisfied that there are plans in place to carry out a comprehensive review of the MTFP and Strategic Plan during 2020/21.

# Value for money

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



## Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we confirmed that while there was no specific risk in relation to value for money, we have continued to review the Council's performance against the Performance Management Framework, the Council's reporting and monitoring of these and the actions taken to improve the performance of the Council.

## Performance management framework

**2018/19 Conclusion:** There is a clear framework in place to ensure that Council performance is monitored and reported.

**2019/20 Update:** The Council's approach to performance management has remained consistent during 2019/20. The Local Outcomes Improvement Plan 2018-2021 (LOIP) underpins the Community Plan and provides the performance management framework against which the Council and its partners demonstrate progress and achievement towards improving outcomes for local people and communities. The local outcomes and performance measures identified in the LOIP are linked to the National Performance Framework, where and when appropriate, in line with best practice.

Performance is reported annually to a joint meeting of the Council and the Community Planning Partnership (CPP) Board in September each year. The LOIP Improvement Agenda supports the Council's work to improve performance going forward.

Performance is compared through a range of national benchmark forums, including the Local Government Benchmarking Framework (LGBF), as a means of identifying good practice and supporting continuous improvement. This benchmarking is used to support the Council's work to ensure that local communities receive the best possible services and outcomes.

Following the review of the SPI's and reporting arrangement carried out in 2018/19, the SPI framework was revised and reduced from 66 performance indicators to 55, to ensure there is sufficient focus.

**2019/20 Conclusion:** The Council continues to have a clear and robust performance management framework in place through the LOIP and in line with best practice, its performance measures align to the National Performance Framework.

## Statutory performance indicators (SPIs)

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. This responsibility links with the Commission's Best Value (BV) audit responsibilities. In turn, councils have their own responsibilities, under their BV duty, to report performance to the public. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which applies from 2019/20 and requires a council to report a range of information in the following areas:

# Value for money (continued)

## Statutory performance indicators (SPIs) (continued)

### SPI 1: Improving local services and outcomes

- performance in improving local public services provided by (1) the council itself and (2) by the council in conjunction with its partners and communities; and
- progress against desired outcomes.

### SPI 2: Demonstrating Best Value (BV)

- The Council's assessment of how it is performing against its duty of BV, and how it plans to improve against this assessment;
- audit assessments of how its performance against its Best Value duty, and how it has responded to these assessments; and
- in particular, how it (in conjunction with its partners as appropriate) has engaged with and responded to its diverse communities.

We have evaluated the effectiveness and appropriateness of the arrangements that the Council has in place.

In view of the approach embedded within the Council for a number of years, with performance monitored through the Community Plan and LOIP, the requirement to report on performance for both the Council and with its partner communities was already embedded practice.

In addition, as reported in the BVAR Report in 2018, the Council has a long-established culture of self-assessment and improvement activities at strategic, service and partnership levels. This provides assurance on both systems and approaches, and the quality of services delivered. This has helped the Council to identify and address areas for improvement over a number of years. The Council uses the results of external scrutiny to target improvements. It looks beyond its own boundaries to identify learning and innovative practice.

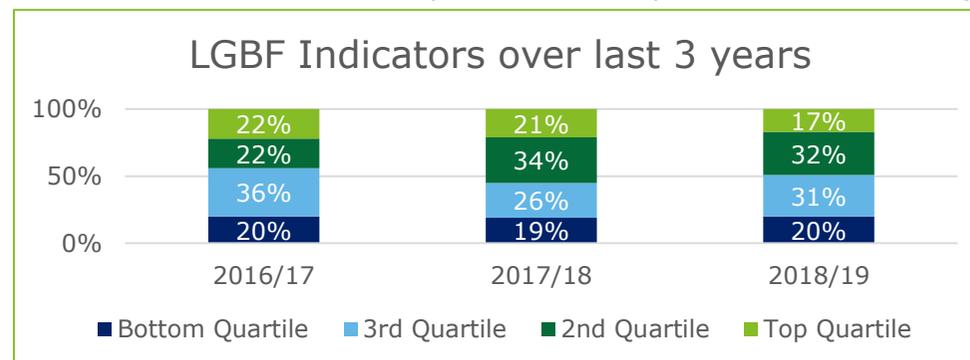
In addition, the BVAR concluded that the Council fully supports community empowerment and recognises the importance of building community capacity.

**2019/20 Conclusion:** The Council has robust and long-standing arrangements in place to comply with the new SPI Direction including its public performance reporting requirements.

## Performance data

**2018/19 Conclusion:** The Council reported strong performance across a number of areas. Actions to address areas for improvement were identified, as appropriate, and were being progressed through the LOIP Improvement Plan. The most recent LGBF data set available indicated 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.

**2019/20 Update:** We have drawn on the LGBF to make a high level assessment of the Council's performance, relative to all Scottish councils, in 2018/19 (the latest data available). The LGBF includes a number of indicators organised under common service areas. Performance is summarised in the following charts. The Council has considered these indicators as part of its wider performance monitoring.



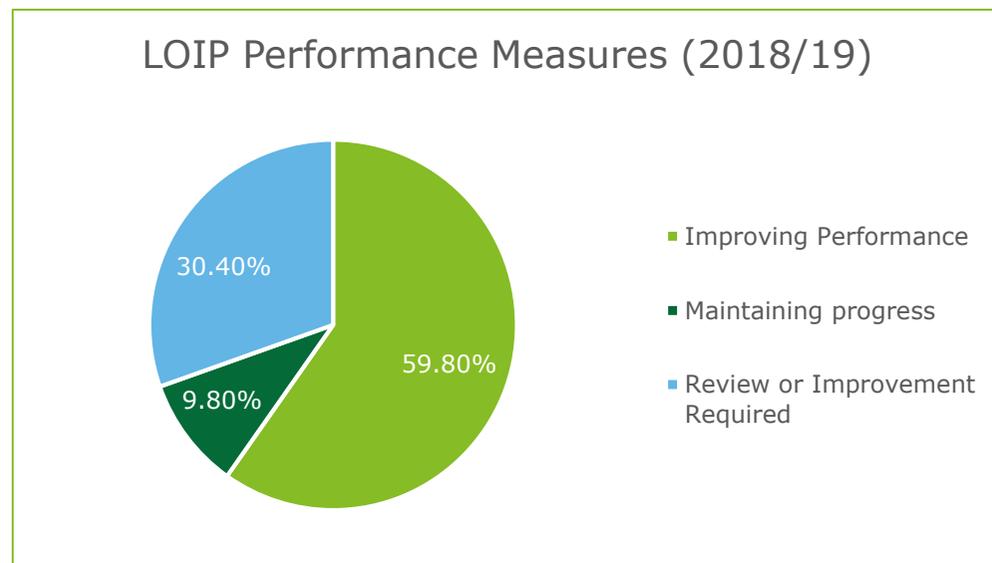
# Value for money (continued)

## Performance data (continued)

49% of indicators in 2018/19 (2017/18: 55%, 2016/17: 44%) 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, albeit a reduction in comparison with 2017/18.

The year-on-year picture from 2017/18 to 2018/19 shows an increase in 24 indicators, decrease in 41 indicators and no change in six indicators.

The LOIP annual performance report for 2018/19 was published in September 2019 and included the full range of performance that is reported by the Council and its partners. A summary of the performance measures is illustrated below. This highlights that 59.8% of indicators are reporting an improvement, with 30.4% highlighted as further review or improvement required.



The Council has seen improving/ maintaining performance in 54.2% of the LGBF indicators between 2017/18 and 2018/19 and an improving longer term trend in 61.4% of performance indicators over 2010/11 to 2018/19.

Performance is reported annually to the Governance and Scrutiny Committee, following review and extensive analysis of the national LGBF datasets. The report to Members, details the Council's position against all other Scottish councils and provides an opportunity to identify where it is performing well and areas for improvement. The Council continue to take a targeted approach to improving performance.

**2019/20 Conclusion:** The performance of the Council is showing evidence of improvements in a number of areas, although there has been a reduction in the number of indicators in the top and second quartiles between 2017/18 and 2018/19. We recognise that the COVID-19 pandemic has had a significant impact on a number of services. It is important that the Council take any lessons learned as it moves into the recovery phase to consider alternative approaches to service delivery and as discussed on page 16, it is positive to note that a comprehensive report has already been approved by the Council in June 2020 to set out the emerging priorities for Renewal and Recovery Planning.

## Value for money (continued)

### Deloitte view – Value for money

The Council continues to have a clear and robust performance management framework in place through the LOIP and in line with best practice, reports clearly and links its performance measures to the National Performance Framework. It also has robust and long-standing arrangements in place to comply with the new SPI Direction including its public performance reporting requirements.

The performance of the Council is showing evidence of improvements in a number of areas, although there has been a reduction in the number of indicators in the top and second quartiles between 2017/18 and 2018/19. We recognise that the COVID-19 pandemic has had a significant impact on a number of services. It is important that the Council take any lessons learned as it moves into the recovery phase to consider alternative approaches to service delivery and as discussed on page 16, it is positive to note that a comprehensive report has already been approved by the Council in June 2020 to set out emerging priorities for Renewal and Recovery Planning.

# Best value

It is the duty of the Council to secure **Best Value (BV)** as prescribed in Part 1 of the Local Government in Scotland Act 2003.

## Duty to secure best value

1. It is the duty of the Council to make arrangements which secure best value
2. Best value is continuous improvement in the performance of the Council's functions
3. In securing best value, the Council shall maintain an appropriate balance among:
  - a) The quality of its performance of its functions
  - b) The cost to the Council of that performance
  - c) The cost to persons of any service provided by the Council for them on a wholly or partly rechargeable basis
4. In maintaining that balance, the Council shall have regard to:
  - a) Efficiency
  - b) Effectiveness
  - c) Economy
  - d) The need to make the equal opportunity requirements
5. The Council shall discharge its duties in a way that contributes to the achievement of sustainable development.
6. In measuring the improvement of the performance of an Council's functions, regard shall be had to the extent to which the outcomes of that performance have improved.

## BV arrangements

The BV framework follows a five-year approach to auditing BV. 2019/20 represents year four of the BV audit plan. The BVAR for East Ayrshire Council was completed in year 2 (i.e. 2017/18) with the report published in May 2018.

As concluded in the BVAR report, the Council has a number of arrangements in place to secure best value. 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 continued to follow-up on the findings and recommendations made in the Accounts Commission report, which is summarised on page 28.

Through our annual audit work, discussed further within this report, the Council continues to have a number of arrangements in place to secure best value, including an established governance framework, strong leadership, and is making good progress with its Transformation Strategy.

The Council recognises that it must deliver services within the financial resources available and, as noted elsewhere in this report, and in common with other councils continued work will be required to deliver long term financial sustainability. It is positive to note that a comprehensive report has been approved by the Council in June 2020 setting out the Renewal and Recovery Planning in response to COVID-19 and how this closely aligns with the transformation work.

## Deloitte view – best value

The Council has robust arrangements in place to secure best value and has a clear understanding of areas which require further development.

# Best value (continued)

## Best Value Assurance Report follow-up

### Best Value Assurance Report

We have assessed the Council's progress against each of the recommendations made, as summarised in the table below.

| Recommendation   | 2019/20 progress update   |
|--|---|
| Transformation Strategy – the Council should put in place appropriate arrangements to support, monitor and deliver the expected outcomes.  | Progress has continued to be made with the Transformation Strategy during 2019/20. Our assessment of this is considered in detail on page 15.   |
| The Council should develop an organisation-wide workforce plan.  | The Council's Workforce Plan was developed over 2018/19 and the final version approved by Cabinet on 1 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.  | The Council, in partnership with the other Ayrshire partners, took part in a pan-Ayrshire review to develop approaches to "Directions", which was supported by the Scottish Government and resulted in guidance being issued to all IJBs by the Scottish Government in January 2020. This was designed to help empower IJBs to use the totality of resources at their disposal to better meet the needs of the population. It also provides greater clarity on the legal mechanism of Directions and the relationship between the three bodies. |
| 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.   | Demand management through prevention and early intervention continues to be a key aim of the current transformation strategy. The "front door" model is the benchmark for successful demand management across other transformation programme workstreams. In 2019/20, this has progressed to outdoor services and children and young people services.   |
| 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, specifically how much work will take place in each relevant service area, and how the Council will coordinate and monitor activity. | The new Ayrshire Regional Economic Partnership includes key members of the business community who lead on workstreams included in the Regional Economic Strategy. The Regional approach has been encouraged by the Scottish Government.   |

# Emerging issues

## Climate change

### Background

As noted in our audit plan, climate change is likely to drive some of the most profound changes to businesses in our lifetime. The global response to the COVID-19 pandemic could inform the fight against climate change and advantages taken of the inevitable response, such as less unnecessary air travel for business meetings, more home working, supported by better videoconferencing facilities. In collaboration with the ICAEW, Deloitte have launched a site to support considering what climate change means for finance professionals. [www.deloitte.co.uk/climatechange](http://www.deloitte.co.uk/climatechange)

### Council preparedness

As part of our audit work in 2019/20, we have carried out a high level assessment of the work that East Ayrshire Council has done in relation to preparing for the impact of Climate Change and concluded as follows:

#### Baseline expectations

**Governance:** Climate change is a strategic issue and should be on the Council agenda. Explain how you assess climate change risk as a strategic issue.

#### East Ayrshire Council position

Climate change is clearly on the Council's agenda, as evidenced from the following examples:

- In October 2019, over 60 young people from across East Ayrshire gathered in the Council Chambers to make their voices heard on a range of environmental concerns as part of the Easy Ayrshire Youth Climate Change Conference, organised by the Children and Young People's Cabinet with support from the Council. Feedback was used to inform the Council's Climate Change Declaration.
- In December 2019, the Council approved the creation of a member-led 'Climate Change Working Group' to consider the Council's ambitions and agreed to the production of a Climate Change Action Plan.
- In approving the 2020/21 budget in March 2020, the Council recognised that the financial impact on the Council of Climate Change is likely to be significant both in terms of improving resilience to extreme weather events, dealing with an increased frequency of emergency episodes and contributing to carbon reduction in the longer term.
- The Transformation Strategy incorporates a number of themes linked to Climate Change, including managing the Property and Estate, improvements in technology with LED lighting, electric vehicle expansion and transformation waste management services.

As the work of the Climate Change Working Group develops, the Council should monitor the impact and revise where required.

# Emerging issues (continued)

## Climate change (continued)

### Council preparedness (continued)

#### Baseline expectations (continued)

**Risks and Strategy:** Articulate clearly whether climate change represents a principal or emerging risk and how it is being managed.

Climate Change was added to the Council's Corporate Risk Register in September 2020 both in terms of the Carbon Reduction Commitment and the local impact.

**Targets and metrics:** If targets and metrics are disclosed, explain how those targets or metrics fit into strategic targets/ approach.

The Climate Change (Scotland) Act 2009 set a long-term target to reduce emissions of greenhouse gases by at least 80% in 2050. Over the past 10 years, the Council's annual Climate Change Declaration has evidenced the Council's progress towards achieving these targets. However, recent scientific evidence, presented to the Committee on Climate Change, has set out that a greater level of change is needed.

The Scottish Government passed the Climate (Scotland) Act which received Royal Assent on 31 October 2019. This Act legislates new, more stringent, targets for Carbon reduction. In November 2019, Cabinet recognised the need for a greater degree of action and to further enhance the Council's role in addressing climate change and reducing its carbon footprint.

The remit of the Climate Change Working Group, set up in December 2019, incorporates consideration of the capacity, targets and financial commitment required to deliver action and change to meet the new level of ambition and need for change as well as focus on opportunities for learning, behavioural change and innovation to support activity that delivers a net zero carbon output. This group is still at an early stage and we will consider this further as part of the 2020/21 audit.

**Reporting/ Financial Statements:** Transparency in the annual report

Narrative included in the 2019/20 Annual Report and Accounts as part of the 2019/20 Highlights to refer to the Youth Climate Change Conference. The Council also submitted its annual Climate Change Public Sector Report for 2018/19 to the Scottish Government in November 2019 in line with the statutory deadline.

The Council may want to consider including more narrative within future Annual Reports to set out what work the Council is doing to address this Climate Change risk.

# Sector developments



# Sector developments

## Responding to COVID-19

As part of our “added value” to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector.

### **An emerging legacy**

#### **How COVID-19 could change the public sector**

While governments and public services continue to respond at scale and pace to the COVID-19 pandemic, its leaders have begun to consider how the crisis might permanently change their agencies – and seven legacies are emerging.

The COVID-19 pandemic has been uncharted territory for governments. Elected representatives, officials and public service leaders around the world are making profound decisions with no precedent to draw upon and little certainty around when the crisis will end. As French President Emmanuel Macron observed, this is a kinetic crisis – in constant motion with little time to make far-reaching decisions.

In the UK and across much of Europe, government responses have been radical and exhaustive. Health services have mobilised at scale, finance ministries have acted fast to support businesses, and the full spectrum of departments have made rapid adjustments to ensure public needs continue to be met.

While leaders across the public sector remain focused on the immediate COVID-19 threat, they are increasingly mindful of its longer-term implications – and for some, the crisis could be an inflection point for their agency. This paper explores the pandemic’s likely legacy on governments, public services and the debates that shape them.

### **Seven emerging legacies:**

1. Our view of resilience has been recast;
2. Governments could be left with higher debt after a shock to the public finances;
3. Debates around inequality and globalisation are renewed;
4. Lines have blurred between organisations and sectors;
5. The lockdown has accelerated collaborative technologies;
6. Civil society has been rebooted and citizen behaviour may change; and
7. The legacy that still needs to be captured.

Read the full article at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/an-emerging-legacy-how-corona-virus-could-change-the-public-sector.html>

# Sector developments (continued)

## Responding to COVID-19 (continued)

### COVID-19: Preparing for the 'next normal'

As the COVID-19 pandemic continues to unfold there is unlikely to be a rapid or decisive transition from crisis to recovery. Organisations are more likely to face a sequence of operational environments that oscillate between restriction and relaxation, before a final end-state of relative normality.

The first phase of COVID-19 response has been characterised by significant and rapid changes in the way people live their lives and how organisations operate. Many of these changes have been government-mandated. The next phase will be an opportunity for organisations to reflect and plan for a period of uncertainty and disruption. During this period businesses will need to maintain their responsibilities to their customers and staff while modifying operations to meet changes in demand and supply as government restrictions change. They will need to ensure that their recovery is sustainable in terms of resource use and flexible enough to meet change.

Copies of this report can be accessed through the following link:

<https://www2.deloitte.com/uk/en/pages/risk/articles/preparing-for-the-next-normal.html>

### COVID-19: Impact on the workforce

It's likely that the way we work will be forever changed as a result of COVID-19. All of us are seeking answers to guide the way forward. That's why Deloitte's Global and UK Human Capital practice have produced a series of articles to inform business leaders on their path to respond, recover and thrive in these uncertain times. These articles explore the impact of COVID-19 on the workforce and are aimed at supporting HR teams as they navigate their organisation's response to the pandemic.

HR leaders, in particular, have been at the centre of their organisation's rapid response to COVID-19, and have been playing a central role in keeping the workforce engaged, productive and resilient. Understandably, recent priorities have been focused almost exclusively on the respond phase. As progress is made against respond efforts, another reality is forming quickly. Now is the time for HR leaders to turn their attention toward recovery to ensure their organisations are prepared to thrive.

The latest thinking from our UK Human Capital practice is "**COVID-19 CHRO Lens: Work, Workforce and Workplace Considerations**". This workbook provides a framework to enable leaders to plan for recovery. It sets out a series of key questions across the dimensions of work, workforce and workplace, enabling organisations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery.

The workbook can be found at the following link, along with links to other articles which we would encourage you to explore.

<https://www2.deloitte.com/uk/en/pages/human-capital/articles/covid-19-impact-on-the-workforce-insight-for-hr-teams.html>

# 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 Governance & Scrutiny Committee and the Council discharge their governance duties. Our report includes our work on the following:

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

### The scope of our work

We described the scope of our work in our audit plan.

### Use of this report

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.

### What we don't report

As you will be aware, our audit was 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.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the procedures performed in fulfilling our audit plan.

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



**Pat Kenny, CPFA**

**For and on behalf of Deloitte LLP**

Glasgow | 10 September 2020

# Action plan

## Recommendations for improvement

| No. | Area   | Recommendation  | Management Response  | Responsible person  | Target Date | Priority |
|-----|--|---|--|---|-------------|----------|
| 1   | <i>Governance and transparency – Governance and Scrutiny Committee</i> | Consideration should be given to extending the Chair of the Governance and Scrutiny Committee’s annual report to the Council to include a self-assessment of the Committee’s performance, which would demonstrate continuous improvement.                               | This will be considered for the next annual report to the Council  | Chair of Governance and Scrutiny Committee and Chief Governance Officer | June 2021   | Medium   |
| 2   | <i>Governance and transparency – Openness and transparency</i>         | In the interest of continuous improvement, the Council should consider if there are any lessons learned from other public bodies or other ways of engaging with wider stakeholders, for example by webcasting Council and Committee meetings to reach a wider audience. | This will be considered and a report on future meeting arrangements, including proposals on webcasting, will be presented to Council by the end of 2020/21 | Chief Governance officer  | June 2021   | Low      |

# Action plan (continued)

## Follow-up 2018/19 action plan

We have followed up the recommendations made in our 2018/19 annual report and are pleased to note that one of the recommendations has been fully implemented and the other partially implemented. The following recommendations have either not been implemented or are only partially implemented. We will continue to monitor these as part of our 2020/21 audit work.

| Area  | Recommendation   | Management Response  | Responsible person    | Target Date | Priority | 2019/20 Update  |
|---|--|--|-----------------------|-------------|----------|---|
| <i>Financial Sustainability: Long-term financial plan</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"> <li>- Funding and cost pressures faced;</li> <li>- Reserves strategies including working capital and borrowing implications;</li> <li>- Demographic and other external factors on service demand;</li> <li>- Links to the transformation strategy and Community Plan;</li> <li>- Business and operating risks faced;</li> <li>- Scenario planning; and</li> <li>- Links to the Scottish Government Medium Term Financial Strategy.</li> </ul> | <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 | 31/3/20     | High     | <p><i>Fully implemented</i></p> <p><i>As discussed on page 14, this was considered as part of the 2020/21 budget process.</i></p> |

# Action plan (continued)

## Follow-up 2018/19 action plan (continued)

| Area                                     | Recommendation  | Management Response   | Responsible person    | Target Date | Priority | 2019/20 Update  |
|--|---|---|-----------------------|-------------|----------|---|
| Financial Sustainability: Transformation | 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. | 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 | Head of Finance & ICT | 28/2/20     | High     | <p><i>Partially implemented:</i> Further work has been completed on transformation themes with ongoing service reviews identifying savings plans. However, the benefit realisation reporting system has not been implemented.</p> <p><b>Updated management response:</b> Updates on transformation and benefit realisation were provided in the March 2020 Transformation Strategy Update report. This set out the scope of the transformation strategy work streams and provided updates on savings / cost reductions associated with specific projects. Benefits realised by services predominantly form part of their budget savings options and these are reported through EAC Performs reports to ensure that savings, including those arising from transformation strategy work streams, are reported to members for information, scrutiny and challenge.</p> |



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