

Shetland Islands Council

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

Issued on 11 September for the meeting on 23 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 Audit Committee (the Committee) of Shetland Islands 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 drew on £21.72m of reserves in 2019/20 (up from £15.31m in 2018/19). The Council has strong financial management arrangements in place. We welcome improvements noted in financial reporting and the accuracy of budgeting and encourage the Council to address our outstanding recommendations in relation to budget setting, review of the finance function and engagement in the NFI exercise.

The inadequate interaction with internal audit, highlighted by the Chief Internal Auditor, is a significant matter of concern, potentially impacting on the Council's ability to ensure it has an effective governance and control environment in place.

While the Council has arrangements in place to prevent and detect fraud and corruption in the procurement function, further work is needed to ensure that these are sufficient.

Financial sustainability

The Council achieved short-term financial balance in 2019/20 and has set a balanced budget for 2020/21, utilising an unsustainable draw on reserves. 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.

The Council recognises that it is not financially sustainable. It's medium-term outlook is optimistic and has not been reviewed in the year. The Business Transformation and Service Redesign Programmes have suffered delays – which are likely to be made worse by COVID-19 – and it is not clear that they can deliver the savings required.

In a significant number of areas, we have not noted any improvement in the year.

Governance and Transparency

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 Council's recovery plan. Appropriate governance arrangements have been put in place in response to the COVID-19 pandemic.

The Council continues to be open and transparent, although it remained non-compliant with the Community Empowerment Act until September 2020 and is now non-compliant with the Public Bodies Act requirement to review the Integration Scheme with the NHS and IJB.

Introduction (continued)

The key messages in this report (continued)

Governance and Transparency (continued)

The IJB has made good progress during the year, achieving financial balance and setting a balanced budget for the first time in 2020/21. 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 during 2020/21.

There remain a number of areas where we have not identified improvements and where we would encourage the Council to focus as it demonstrates its commitment to continuous improvement, for example its approach to self-assessment and community consultations.

Value for money

The Council has revised its Performance Management Framework in the year. Reporting on performance in the year was curtailed as a result of the new framework and the outbreak of COVID-19. There has been insufficient reporting for us to conclude on the Council's performance in the year.

The performance of the Council is showing evidence of improvements in a number of areas in the Local Government Benchmarking Framework (LGBF), although there has been a decline in performance in more areas. It is important that the Council take any lessons learned as it moves into the recovery phase from COVID-19 to consider alternative approaches to service delivery.

The Scottish Housing Regulator has preliminarily concluded that the Council's performance in relation to housing and homelessness had not improved in 2019/20, except for a slight increase in tenant satisfaction scores. The Council has confirmed that it is prioritising improvement in this area and has reported that improvements have been made in the year and is satisfied that this improvement will be reflected in future engagement with the regulator.

While we have identified issues with the implementation of the acquisition of Shetland Leasing and Property Developments Limited (SLAP) and the College Merger, we are satisfied that these projects continue to represent value for money.

Best Value

The Council has a number of arrangements in place to secure Best Value. While the Council continues to demonstrate improvements in a number of areas and is committed to improvement, further improvements are needed in key areas and the Council needs to ensure that the pace of change is appropriate.

Our detailed findings and conclusions are included on pages 7 to 28 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 focussing 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 pages 29 and 30.

Next steps

An agreed Action Plan is included at pages 36 – 47 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.

In a number of cases, due to staff focusing on the COVID-19 response, we have not been provided with requested evidence to provide an update to our conclusions in the audit dimensions. We understand this and are satisfied that our report remains sufficiently comprehensive. We have made this clear where relevant throughout the report and will follow up these areas again in 2020/21.

Introduction (continued)

The key messages in this report (continued)

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.

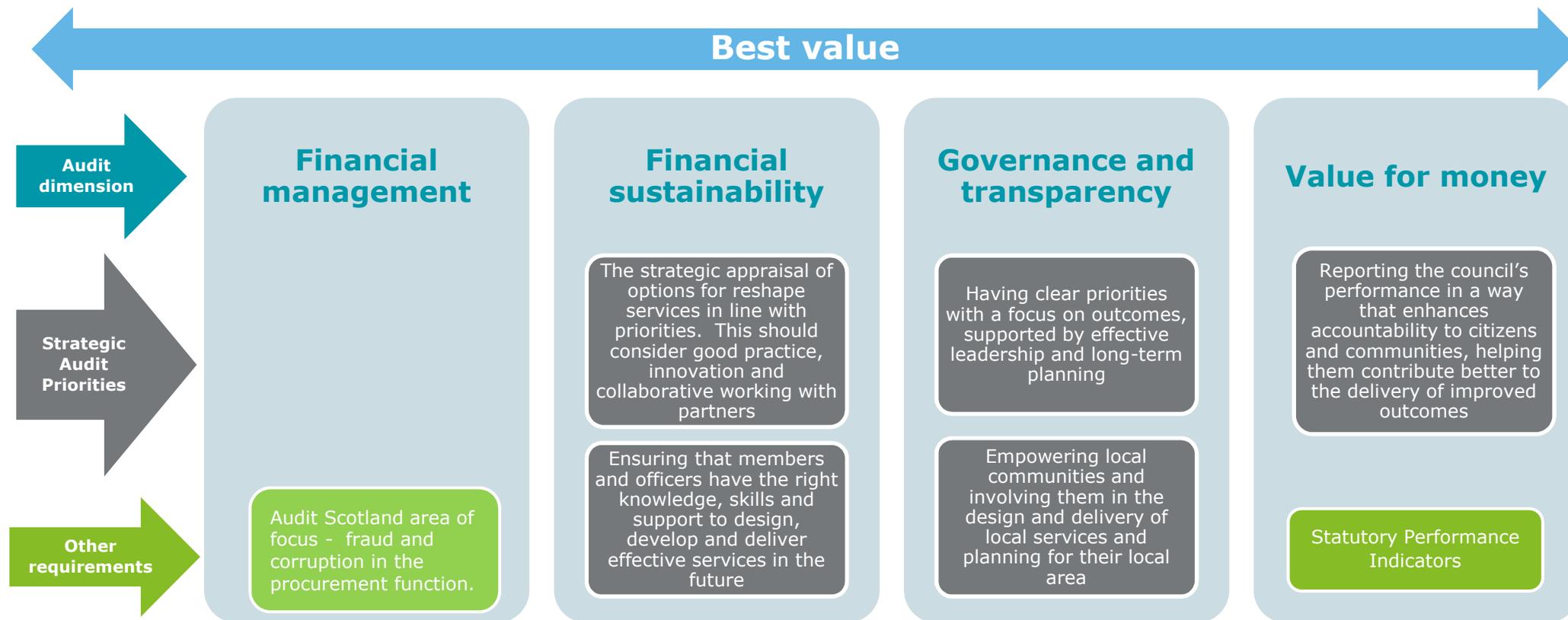
This is provided throughout the report. In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, invites have been issued to our weekly webinar “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.



The Islands (Scotland) Act 2018 received royal assent in July 2018. The Islands (Scotland) Act 2018 places a duty on 'relevant authorities' to have regard to island communities in exercising their functions. Relevant authorities must prepare an island communities impact assessment for any policy, strategy or service likely to have an effect on an island community which significantly differs from that on other communities. This is known as "island-proofing". The Act requires relevant authorities to publish information at least once annually detailing steps taken to comply with their duty of having regard to island communities. We have considered the implications of the Act as part of our consideration of Best Value arrangements (discussed further on page 28).

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. We have provided an update for the Council on all areas considered in the prior year audit report. We identified the following risks in our audit plan:

"There remains a risk in relation to the delivery of the capital programme. We will review the updated Property and Asset Management Strategy and assess how this links to the MTFP, Business Transformation Programme and Service Redesign Programme."

"There is a risk that controls around the procurement process are insufficient to prevent and detect fraud and corruption."

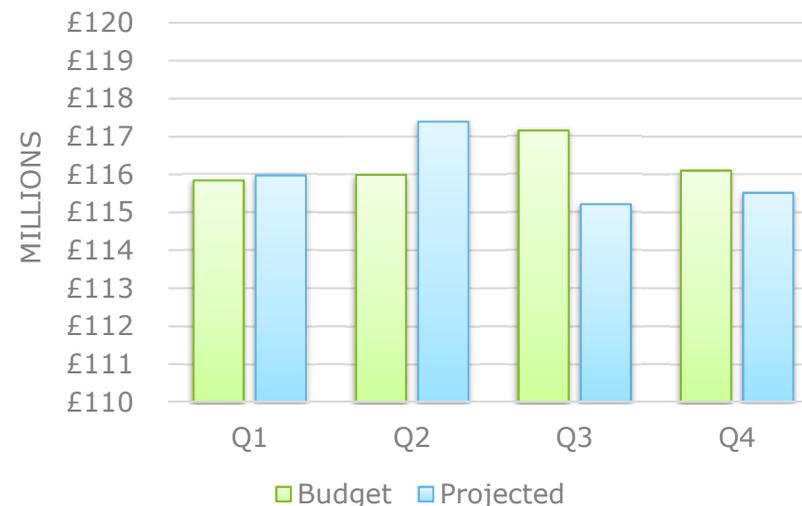
Assessing financial performance

2018/19 conclusion: The 2018/19 budget approved net expenditure of £107.71m, with this increasing in the year to £109.93m, funded by reserves. It is difficult to assess financial performance given that Financial Monitoring Reports ('FMRs') only refer to forecast spend, with no information provided on actual spend incurred in any given period. Although FMRs were projecting overspends throughout the year, the Council had incurred underspends in each period. Narrative on budget variances needs to be improved to enable improved scrutiny of why they have occurred.

2019/20 update:

The General Fund budget of £113.725m was approved by the Council in February 2019. Some changes were made to this during the year as a result of additional unforeseen costs, and the final outturn reported actual expenditure of £115.516m, representing an underspend of £0.588m against the revised budget of £116.104m. After earmarking £3.775m to be carried forward to 2020/21, the final variance is an overspend against the budget of £3.187m.

Financial Monitoring



The key reasons for the variances were:

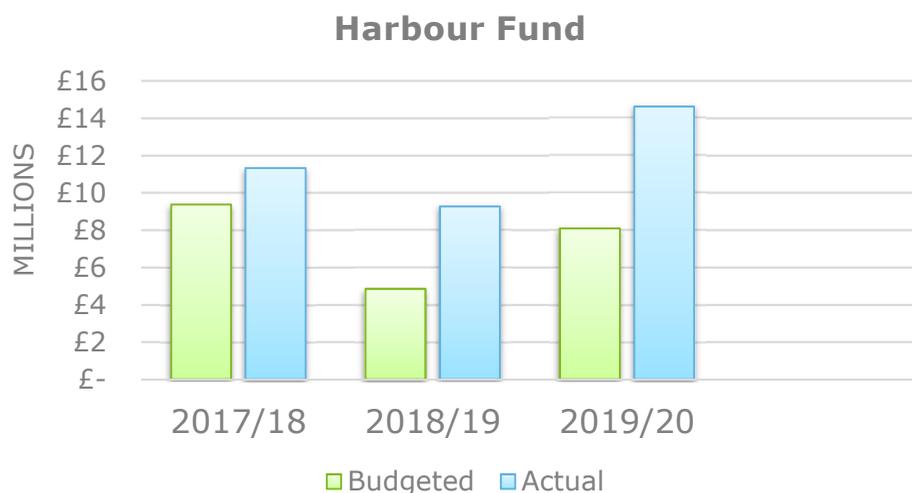
- Delays in progressing the Shetland College merger and a deterioration in the performance of pension fund assets has required the Council to increase its provision to meet the pension scheme cessation costs by £1.8m;
- There were a number of additional ferry vessel maintenance costs, for example on the Yell and Bressay services, which added further cost pressures.

Financial management (continued)

Assessing financial performance (continued)

In 2019/20, the Council FMRs were amended to include narrative on the level of actual spend to date. Additionally, an appendix to the FMR is now provided setting out revisions to the budget, with narrative provided to explain why major revisions occurred.

The Harbour Fund generated a surplus of £14.622m against a revised budget of £8.089m. There were significant variances noted in 2017/18 and 2018/19, also.



The Housing Revenue Account noted a deficit of £1.518m, being an overspend of £0.644m (following carry forwards). This was reported throughout the year, with the main reason for the overspend being additional costs in relation to repairs and maintenance.

The Council's capital programme is discussed in more detail on page 15. The final position was expenditure of £34.863m, an underspend of £4.197, being 11% of forecast spend (reduced to £2.367 when carry forwards are factored in). This is a significant change from 2018/19, when an underspend of £14.769m (39%) was reported.

2019/20 Conclusion: We welcome improvements made to the FMRs in the year and consider that they now enable improved scrutiny and understanding of performance during the year. We are similarly pleased to note a significant improvement in the Council's capital budgeting in the year.

The final General Fund and Housing Revenue Account reported mainly in line with the original budget, with variances largely unforeseeable and reported throughout the year. The Harbour Fund continues to vary significantly from the budget and further work is needed to understand if the Council can improve the accuracy of its budgeting in this area, although we accept that variances in this area are largely outwith the Council's control.

Financial reporting

2018/19 Conclusion: The Council has effective financial monitoring and reporting arrangements in place. Amendments to the budget are made throughout the year, although narrative is at a high level and does not explain the rationale for them. A number of amendments are annually recurring, which has consequences for the accuracy of budgeting across the Council.

2019/20 Update: As discussed above, the Council made a number of amendments to the budget in the year, revising the budgeted General Fund expenditure from £113.725m to £116.104m in the year. As with 2018/19, amendments were immaterial (representing 2% of budgeted expenditure, totalling £2.378m). Movements within directorates are also much lower than in 2018/19, with the maximum revision (being in infrastructure services) declining from 27% in 2018/19 to 13% in 2019/20.

2019/20 Conclusion: The Council continues to have effective financial monitoring and reporting arrangements in place. Amendments to the budget are transparently reported and understood, and we welcome improvements at the directorate level whereby annually recurring amendments have been substantially addressed in 2019/20.

Financial management (continued)

Budget setting

2018/19 Conclusion: The Council's budget makes clear links to the MTFP and the impact the budget has on the short-term MTFP calculations. The budget should quantify the impact of current year decisions on the longer-term funding gap identified in the MTFP. The budget should make better links to the Council's Corporate Plan, and outcomes should be explicitly considered within the budget setting exercise. A central database of queries received from Members on the budget, along with answers provided, should be maintained and made publicly available.

2019/20 Update: The Council approved its 2019/20 budget on 26 February 2019. The Corporate Management Team and Councillors regularly review progress against budget throughout the year, with quarterly reporting to the Council. As discussed earlier, from review of the reporting throughout the year, variances are clearly reported and explained.

The 2020/21 budget was approved by the Council on 11 March 2020. The budget has not been amended to improve links to the Council's Corporate Plan or set out which outcomes the Council aims to progress, and to what extent, through its budget. As the revision of the Council's MTFP has been delayed, references within the budget to the MTFP have also not been improved.

We are not aware of a centrally maintained, publicly available database of questions on the budget.

2019/20 Conclusion: We have not noted improvements in the year. Our conclusions from 2018/19 therefore remain relevant and appropriate in 2019/20.

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 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.

The impact of COVID-19 on the ability to achieve financial sustainability presents a risk to the Council. It is 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.

Financial capacity

2018/19 Conclusion: The finance team is led by the Executive Manager – Finance and Team Leader – Accountancy. We noted changes in the Executive Manager – Finance and Financial Accountant positions in 2018/19. The Council has not carried out a review of the finance structure and such a review was recommended.

2019/20 Update: The finance team has remained consistent throughout the year. We have not been provided with evidence of a review of the finance team structure in the year, and have not noted any changes that have been implemented.

2019/20 Conclusion: The Council continues to have a sufficiently qualified and experienced finance team to support the financial management of the Council, with changes occurring in 2018/19 effectively embedding throughout the year. We reiterate our recommendation regarding a review of the finance function and will monitor progress in this area in 2020/21.

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 have noted that internal audit has "experienced inadequate interaction from certain areas of the Council, which has adversely impacted the completion of some planned work." Key areas impacted relate to risk management, treasury management and procurement. The Council has taken action in 2020/21 to prevent a recurrence of these issues.

Financial management (continued)

Internal audit (continued)

Internal audit has provided an 'unsatisfactory' opinion in relation to one audit, being arrangements to ensure EU funding compliance, which is disclosed in the annual accounts as a significant governance issue. Appropriate remedial actions are being discussed with internal audit.

The Chief Internal Audit has provided an opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the governance and control environment of the Council, excluding the significant issues noted above.

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 issues identified in 2018/19 – Audit Committee involvement in the NFI exercise, internal audit engagement, and appropriate key contacts – have not been addressed in 2019/20. These issues have been highlighted in every audit since 2016/17 and we have not noted any improvement in that time.

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 noted:

- The risk of procurement fraud is not acknowledged on the Council's risk register. Consequently, there is no risk owner with overall responsibility for this area.
- There are controls in place around the procurement process, including segregation of duties. In 2019/20, Scotland Excel carried out a 'Procurement and Commercial Improvement Programme' assessment of the Council, scoring 53% (an improvement from 48% previously). These were last tested by internal audit in 2017/18, which identified 4 high priority recommendations, 9 medium priority and 2 low priority. As set out on page 9, internal audit were due to consider this area in 2019/20, but due to insufficient interaction from the Council, were unable to do so.
- 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). Training was also provided by Scotland Excel in February 2020.
- Arrangements are in place to encourage and protect whistleblowers. However, the policy is outdated and needs to be reviewed.

While we welcome the improvement in the Scotland Excel rating received by the Council in the year, given the high number of recommendations arising from the most recent internal audit covering procurement in 2017/18 and the fact that such work was planned for 2019/20 but not able to be carried out, we are unable to conclude that the Council has appropriate arrangements in place to prevent or detect fraud and corruption in respect of the procurement function (although we have not noted any direct frauds or corruption from our work).

The Council should ensure that internal audit has the ability to carry out such a review in 2020/21. At the same time, the Council should consider whether procurement should be included as a risk on the Council's risk register, and ensure that it reviews relevant policies.

Financial management (continued)

Deloitte view – Financial management

The Council drew on £21.72m of reserves in 2019/20 (up from £15.31m in 2018/19). 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. We are pleased to note that the Council continues to improve in this area, with improvements noted in financial reporting and accuracy of budgeting.

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 COSLA to identify the additional costs being incurred and what additional funding will then become available to support this.

There has been no improvement in the Council's approach to budget setting, use of the finance function or engagement in the NFI exercise. While internal audit is distinct from external audit, we highlight the inadequate interaction with internal audit as a significant matter of concern, potentially impacting on the Council's ability to ensure it has an effective governance and control environment in place.

While the Council has arrangements in place to prevent and detect fraud and corruption in the procurement function, it is not clear from the evidence that these arrangements are sufficient.

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. We have provided an update for the Council on all areas considered in the prior year audit report. We identified the following risk in our audit plan:

"There is a risk that the Business Transformation Programme and Service Redesign Programme are not robust enough to allow the benefits to be realised."

Short-term financial balance

2018/19 Conclusion: The Council achieved financial balance, with a sustainable draw of £15.31m (6.1% of carried forward usable reserves), being £4.83m less than budgeted and in line with the MTFP. The Council needs to improve its focus on the identification of savings rather than accepting an unsustainable draw on reserves. In 2018/19, the Council identified £1.94m of savings and achieved £0.65m.

2019/20 Update: The Council initially approved a budgeted draw on reserves of £17.57m in 2019/20, of which £3.54m is an unsustainable draw on the general fund. Revisions were made throughout the year, with the Council subsequently budgeting for a £33.11m draw on reserves, against which an actual draw of £21.72m was made (5.9% of carried forward usable reserves). This includes the unsustainable draw on the general fund of £3.5m.

In 2019/20, the Council's budget did not specifically identify savings which needed to be achieved, which we noted as a backward step in our 2018/19 audit. Despite this, the Council's 2020/21 budget similarly does not identify savings requirements.

In 2018/19, we noted that the Council had made a positive step in reporting savings achieved to Committees during the year. This ceased in 2019/20. We did not see evidence of savings plans and updates being presented to relevant committees – such as the Development Committee, Education and Families Committee and Environment and Transport Committee – in the year.

2019/20 Conclusion: The Council has achieved financial balance in 2019/20, through the unsustainable use of reserves. The Council continues to budget for an unsustainable draw on reserves and the budget setting process continues to place insufficient emphasis on the identification and achievement of savings.

We have not noted any improvements in relation to the identification of savings in the budget or moving away from an unsustainable reliance on reserves. Our conclusions from 2018/19 remain relevant and appropriate in these area. In addressing these recommendations, we would encourage the Council to reverse the decision it has taken not to present information on savings plans to the relevant Committees.

Reserves

2018/19 Conclusion: In 2017/18, the Council had £39.81m of non-earmarked usable reserves (32.3% of net expenditure). It had a further £209.99m of earmarked usable reserves (171% of net expenditure). The Council does not consider the nature, extent and timing of plans to use earmarked reserves to ensure they remain valid, appropriate and reasonable. The Council has an Investment Strategy which is aligned to its MTFP, setting out the Council's reserves strategy. The Council needs to also have a plan in place for remedial actions which will be taken if reserves fall below a certain level or are not used appropriately.

Financial sustainability

Reserves (continued)

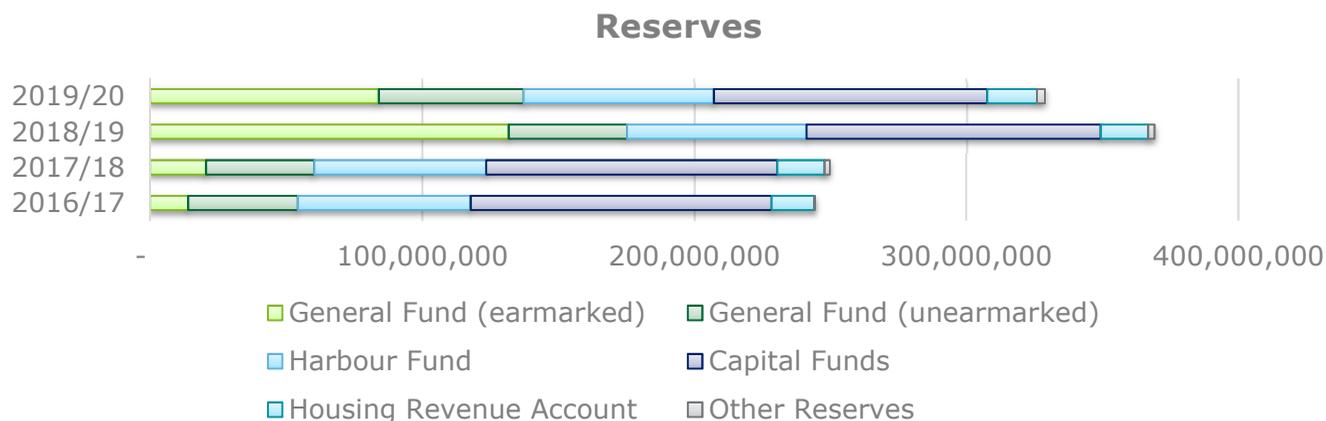
2019/20 Update: The Council started 2019/20 with £43.462m of non-earmarked usable reserves. This increased to £53.224m at the end of 2019/20, representing 45.4% of the Council's annual net cost of services. The increase is primarily as a result of the adoption of IFRS 9 in 2018/19, which changed the treatment of reserves arising from gains on investments.

The Council's earmarked reserves have declined from £325.705m at the start of 2019/20 to £275.645m by its close. The movement is again driven primarily by variances in investment values.

We have not received any evidence that the Council has carried out a review of the nature, extent and timing of plans to use earmarked reserves, or to assess whether they remain valid, appropriate and reasonable.

As the Council does not have a standalone Reserves Policy, it is not set out anywhere what the Council considers to be an acceptable level of reserves. This is important, particularly given that the Council has forecast that by the end of the decade, without effective action, it will have drawn down all of its reserves.

2019/20 Conclusion: The Council continues to have a healthy level of reserves. However, we have not noted any improvement in relation to consideration of the reserves held by the Council or any progress in setting out minimum acceptable levels of reserves and remedial action where that is breached. Our conclusions from 2018/19 therefore remain relevant and appropriate in 2019/20.



Medium-term financial sustainability

2018/19 Conclusion: The Council's MTFP understates the Council's probable funding gap by 2023/24 by over 40%. This is primarily because the Council assumes it will receive additional ferry funding from the Scottish Government in its MTFP. It is also driven by the fact that the Council assumes a 7.3% return on investments, higher than its historical average. There is no evidence that the Council's Business Transformation and Service Redesign Programmes are sufficiently robust and advanced to deliver the savings required. The Council acknowledges that it is in a financially unsustainable position.

2019/20 Update: The Council did not revise its MTFP in the year. This occurred in the first instance due to delays in the UK and Scottish Government budget setting process and was subsequently delayed further due to COVID-19. The Council intends to refresh its MTFP in 2020/21.

In 2019/20, the Council continued its discussions with the Scottish Government regarding ferry funding. The Council's MTFP assumed it would receive £7.94m in 2019/20 and £8.16m in 2020/21. The Council received £5.2m from the Scottish Government in relation to ferries in 2019/20 and will receive £5.2m in 2020/21.

The Council's investments continue to underperform the assumed rate in the MTFP. The MTFP assumes 7.3% growth, higher than the historical average of 5.2%. In 2019/20, the rate of return was negative 6.2%.

There has been limited reporting to the Council on savings achieved through the Business Transformation and Service Redesign Programmes. In November 2019, the Council noted that over the life of the programmes, it had achieved £2.2m of recurring savings. It is not clear what the target is, or how much has been achieved in 2019/20.

Financial sustainability

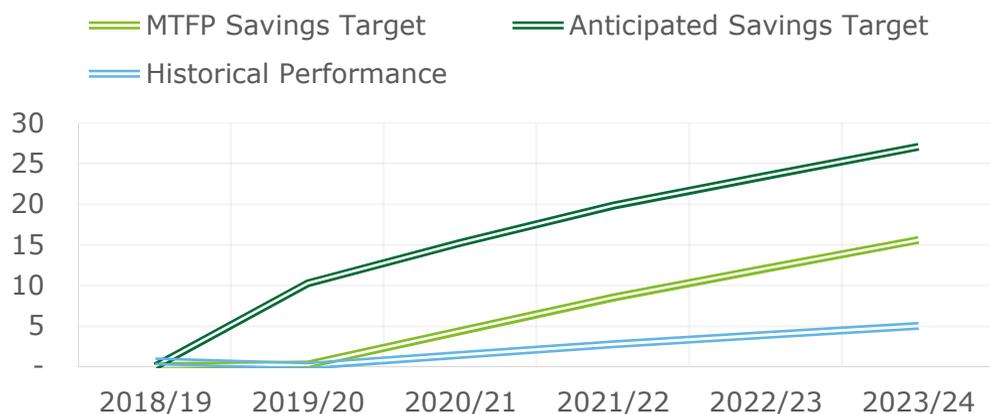
Medium-term financial sustainability (continued)

2019/20 Conclusion: The Council continues to draw an unsustainable amount from reserves, has optimistic medium-term plans and has not identified all the savings needed to address its identified funding gap. While the Council has a healthy level of reserves (page 12), it remains in a financially unsustainable position, with its forecast position by 2023/24 (a £15.6m annual funding gap) understated by an estimated 74%.

Recommended improvements in the MTFP, Business Transformation Programme and Service Redesign Programme were not implemented in the year.

With regards to ferry funding, we are satisfied that the funding requested by the Council (£8.1m in 2019/20, £9.49m in 2020/21) is reasonable, given that it is based on audited historical spend adjusted for known changes (e.g. pay uplifts) and is the output of a joint working group with the Scottish Government. We are satisfied that the Council has acted in good faith, demonstrated good collaboration and engagement at both an official and political level, and worked closely with the Scottish Government in order to progress this issue. The Council has made significant effort to keep ferry funding on the agenda both locally and nationally. However, given these conclusions and the reality that the Council continues to receive approximately £5m for ferries, it is unreasonable for the Council to continue to assume that it will receive the full amounts requested when drafting future budgets and MTFPs.

ANTICIPATED FUNDING GAP (£M)



Effectiveness of investment

2019/20 Conclusion: The Council considers affordability of investment through the development of business cases and the completion of options appraisals. The Council needs to carefully monitor progress against approved actions to ensure that benefits are realised and a post-implementation benefits realisation analysis should be performed to ensure any areas of good practice and lessons learned are appropriately used.

2019/20 Update: The Council continues to underpin its decision making process through the appropriate use of business cases and options appraisals. These are supported by staff from various departments within the Council, including appropriate finance support.

We have not been provided with evidence of post-implementation analysis being carried out in the year.

2019/20 Conclusion: We welcome the continued use of business cases by the Council, with these now a regular item in Council reporting. Given the issues identified with key elements of the Business Transformation and Service Redesign Programmes – such as delays in reviewing the bus network, difficulties in funding ferries, slow progress of the Shetland College merger – the Council needs to ensure it has appropriate mechanisms in place to report on and action any lessons learned.

Business Transformation Programme

2018/19 Conclusion: The Council needs to move from the planning stage of projects to implementation to achieve the savings required. The Council also needs to ensure it has clear plans in place for monitoring progress throughout implementation. We commended the Council's approach to programmes of demand management, including prevention and early intervention in Children's Services and Social Care, and welcomed the Council's stakeholder engagement, particularly in relation to the Shetland College project. We recommended that the Council consider having a dedicated team to support change and transformation.

Financial sustainability

Business Transformation Programme (continued)

2019/20 Update: The most recent reporting to the Council on progress with the Business Transformation and Service Redesign Programme was in November 2019.

In 2019/20, the Council made significant progress in a number of areas, for example in relation to its bus network and internal air services, which are anticipated to deliver annual savings of £0.38m.

There have been delays in a number of areas, for example in relation to rationalisation of the Council's property portfolio, broadband and connectivity, workforce planning and the Shetland College merger.

The Council has noted that it has achieved £2.2m of recurring savings from these programmes to date. The Council has also noted that "at this stage, it is difficult to quantify further savings that will be made from Business Transformation Programme projects."

The Council has established a Project Management Office in the year, providing support to key projects.

2019/20 Conclusion: We welcome the establishment of a Project Management Office to provide support for the Business Transformation and Service Redesign Programmes. However, there have been significant delays to numerous strands of the programmes, with consequential impacts on savings achieved. COVID-19 is likely to result in further delays to implementation of these projects.

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.

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.

The Council needs to map its recovery and re-installment of services against the route map phases set by the Scottish Government and explain how service redesign and wider transformation objectives will be weaved to support its recovery and renewal plan.

Long-term financial planning

2018/19 Conclusion: In September 2018, we recommended that the Council refresh its Long-Term Financial Plan (LTFP), which was not completed by the target date of August 2019.

2019/20 Update: There has been no revision to the LTFP in the year. The Council intends to review its MTFP in 2020/21 and subsequently review the LTFP.

2019/20 Conclusion: There has been no improvement in the year. Our conclusions from 2018/19 remain relevant and appropriate in 2019/20.

Capital planning

2018/19 Conclusion: Recommendations made in 2017/18 were not addressed in the year. The Council should link its capital plan with its Corporate Plan. The Council's budgeting for capital projects needs to be improved, with an average underspend of 30% per year between 2012/13 and 2018/19. The Council does not include due dates for projects, dates of completion, budgeted and actual cost, making it difficult to monitor whether the Council is delivering projects on time and on budget.

2019/20 Update: The underspend against the asset investment plan in 2019/20 declined from the average 30% per year to 11% in 2019/20.

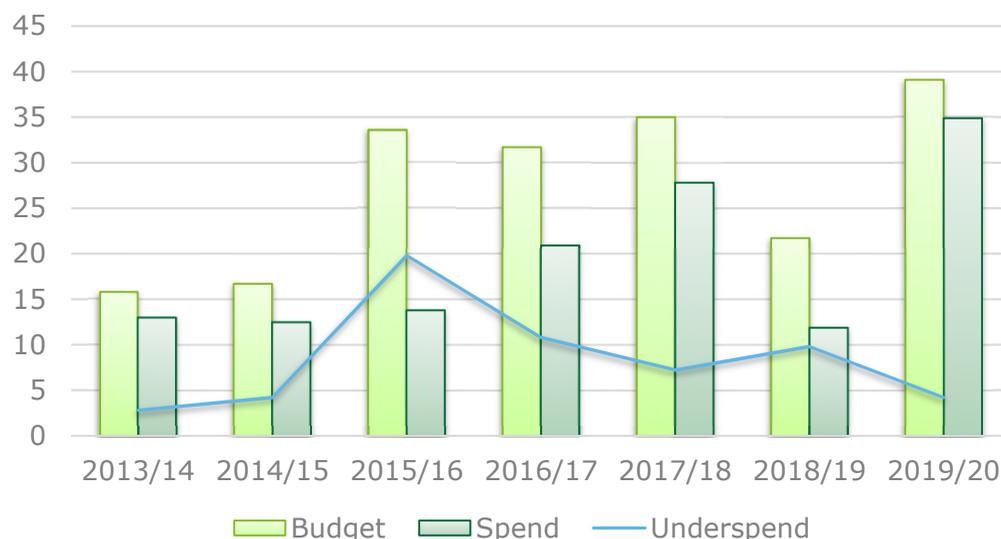
There has been no progress in addressing the recommendation made in 2017/18, which encouraged the Council to identify its current asset base, anticipated additional assets to be acquired in the medium to longer term, assets which currently could be classified as unneeded, what the Council considers to be an affordable asset base and the difference between this base and the anticipated medium-term base, with appropriate plans developed to bridge this gap in the longer term.

Financial sustainability

Capital planning (continued)

There has been an improvement in reporting on progress against the Asset Investment Plan in the year, with the Council now reporting expected completion dates of capital projects and the budgeted over or underspend. The position at January 2020 was a projected underspend of 0.7%. The reporting enables an understanding of whether capital projects are being delivered on budget but it remains unclear whether they are being delivered on time, as original target dates for completion against actual (or expected) completion dates are not disclosed.

Capital Expenditure: Budget vs Spend (£m)



2019/20 Conclusion: We welcome the improved delivery and reporting of the Asset Investment Plan in the year. The projected underspend of 0.7% across the Asset Investment Plan (which runs until 2023/24) indicates a high accuracy of budgeting, although we note this is in contrast to the budget and spend in each individual year. We will monitor whether reporting on the Asset Investment Plan position is accurate in 2020/21 by reviewing actual performance to that point, which has not been possible previously. We are aware that the Council is revising its Property Asset Management Strategy and would encourage it to address the recommendations made in both 2017/18 and 2018/19 as part of this review.

Workforce planning

2018/19 Conclusion: The Council confirmed it was preparing a workforce plan, including succession planning, which will be informed by individual directorate plans.

2019/20 Update: We have been provided with a draft of the Council's Workforce Plan, although we note that this is still to be updated and subject to approval by the Council in 2020/21. The Workforce Plan sets out the vision of the Council, priorities and challenges to achieving that vision, solutions and opportunities.

The draft Workforce Plan does not include targets, dates, or measurable outcomes or outputs.

2019/20 Conclusion: We welcome the continued progress in developing a workforce plan, but note that the plan is now significantly overdue. Substantial additional work will need to be completed to ensure that the plan is achievable, by having supporting delivery plans in place which are capable of being measured and monitored.

Deloitte view – Financial sustainability

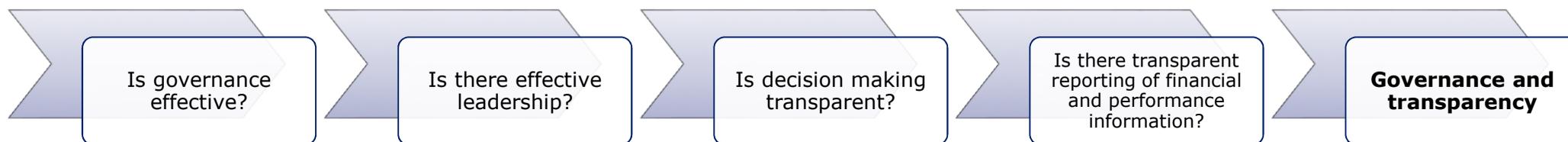
As discussed on page 12, the Council achieved short-term financial balance in 2019/20 and has set a balanced budget for 2020/21, assuming an unsustainable draw on reserves. The current reserves held are at an acceptable level. It is also positive to note that the Council is actively assessing the financial impact of COVID-19.

The Council recognises that it is not financially sustainable. It's MTFP is optimistic and has not been reviewed in the year. The Business Transformation and Service Redesign Programmes have suffered delays – which are likely to be made worse by COVID-19 – and it is not clear that they can deliver the savings required.

In a significant number of areas, such as budgeting, review of reserves, review of the MTFP and LTFP and review of the asset investment plan, we have not noted any improvement in the year.

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. We have provided an update for the Council on all areas considered in the prior year audit report. We identified the following risk in our audit plan:

"There is an ongoing risk that the Council's self evaluation is not sufficiently developed to demonstrate continuous improvement. We will consider the work being done by the Council in response to the recommendations made in our 2018/19 interim report."

"There is also an ongoing risk that the Council is not meeting its obligations under the Community Empowerment Act. We will assess the work being done to develop locality plans as required under the Act."

"There is an ongoing risk that that the IJB does not achieve the full benefits of integration. We will consider the ongoing work to review the Integration Scheme as part of our separate audit of the IJB."

Council and Partnership plans

2018/19 Conclusion: The Council started leading the development of delivery plans. The Council needs to set clear timeframes for when delivery plans will be available and ensure their development is properly prioritised and resourced. The Council Plan is not clearly aligned to the Partnership Plan and should ensure clear links are made when the Council Plan is refreshed in 2020.

2019/20 Update: The Council Plan is due to be refreshed later in 2020/21.

In July 2019, the Council published the Delivery Plan 2019-22 to support to delivery of the Partnership Plan. This is underpinned by Project Charters, which provides detail on actions and resources required, risks, outcomes sought and how they will be measured.

2019/20 Conclusion: We welcome the development of delivery plans in the year and the supporting project charters. The outcome measurements in the charters need to be monitored and reported to the Council to ensure that the Partnership captures the benchmark and addresses any risks to achievement of the plan in a timely manner. We understand and consider it reasonable that performance reporting has been curtailed in light of COVID-19.

We reaffirm our view that the Council should ensure that the Council Plan is clearly linked to the Partnership Plan when the Council refreshes the plan in 2020/21.

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 Shetland. Members, management and partners support the shared vision for the area. The wider leadership team need to continue to drive progress rather than being heavily reliant on the CEO.

2019/20 Update: There have not been any significant changes in executive management within the Council in the year. There have been a couple of changes at Member level, with Moraig Lyall replacing Mark Burgess and Stephen Flaws replacing Beatrice Wishart following elections in 2019/20.

Governance and transparency (continued)

Leadership (continued)

Members and executive management have worked closely together in response to COVID-19, with daily meetings held at the start of the COVID-19 pandemic, with these reduced to twice weekly as matters have progressed. The frequency and content of the meetings continues to evolve as the Council responds to the prevailing circumstances.

We have held meetings with the wider Corporate Management Team to follow up on our work and observed a meeting as the COVID-19 pandemic started.

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 Council’s local phasing recovery plans.

It was evident from our discussions with the wider Corporate Management Team and attendance at a meeting that there has been improved buy-in to the need for change across the Council. While COVID-19 has impacted on the timelines for this, we are satisfied that the Council has the correct attitude to driving the necessary change as it emerges from COVID-19.

Effectiveness of governance

2018/19 Conclusion: The Council does not have a structured approach to self-assessment, with only the Audit Committee subject to self-assessment in the year. The Council needs to develop a self-assessment programme covering annual reviews of governance arrangements, Committee and Council performance, supplemented by reviews by corporate and service level, which should be made public.

Attendance at Council meetings is commendably high, increasing from 81% in 2017/18 to 84% in 2018/19. The number of meetings grew by 37% in the year and attendance fluctuates significantly – some Members attend as few as 15 and some as many as 67, with attendance rates ranging from 57% to 100%. The Council needs to work with Members to more equitably share the workload of the Council.

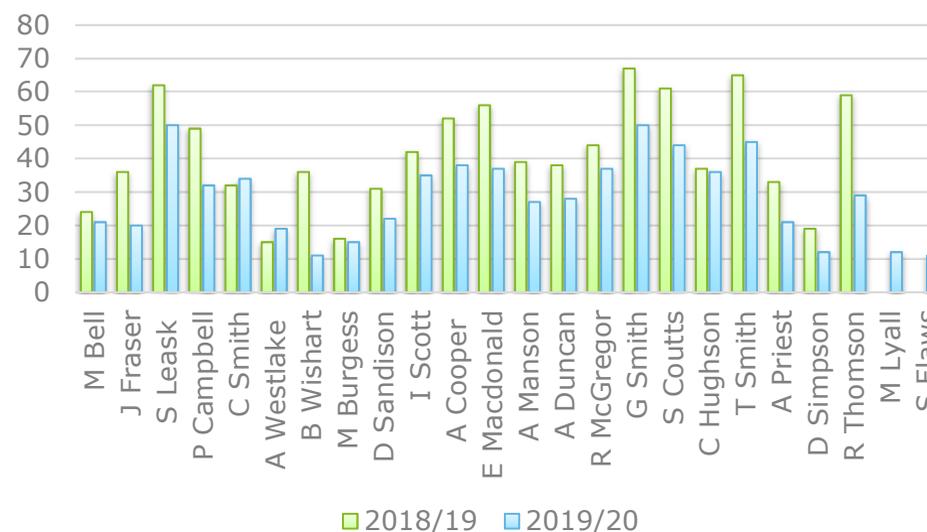
The Council does not have a training plan at an individual Member, Committee or Council level. No skills gap analysis has been carried out and appraisals are not conducted for Members. The effectiveness of training which is provided is not regularly assessed. The Council needs to adopt a formal, ongoing approach to development.

2019/20 Update: We have not been provided with any evidence of self-assessments being carried out at service, corporate, Committee or Council level. We are aware that the Council published a review of compliance with governance arrangements in June 2019, although this was based on 2017/18 information and has not been updated for 2019/20.

A skills gap analysis was not carried out in the year. In 2019/20, 40% of Members completed a self-evaluation, with 23% of Members having a personal development plan in place. Further work is needed to ensure that all Members are carrying out self-assessments and agreeing personal development plans, with any gaps at a Committee or Council wide level then being identified and a plan put in place to address thematic areas for development.

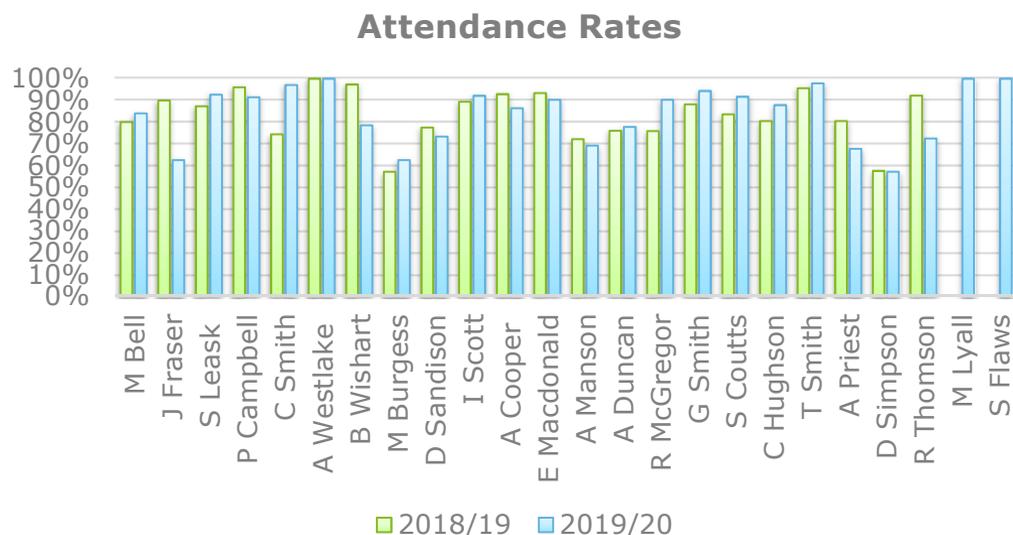
Council meetings have declined in the year, from a total of 98 meetings in 2018/19 to 69 in 2019/20 (which is in line with the 71 meetings in 2017/18). Attendance remains high, at 83%. Attendance continues to vary significantly between members (between 57% and 100%), with the number of meetings attended varying from 11 to 50.

Meetings attended (#)



Governance and transparency (continued)

Effectiveness of governance (continued)



The Council’s Committee structures were temporarily suspended during the COVID-19 outbreak and it was agreed to suspend all Council and Committee meetings with immediate effect from March, which was formally approved on 22 April 2020. Decisions were delegated to the Corporate Management Team, supported by a Tactical Team. Elected members have been provided with regular COVID-19 briefings from the Chief Executive. The temporary arrangements remain under review but Council and Committee meetings have started to resume in summer 2020.

2019/20 Conclusion: We welcome the continued high attendance by Members at Council meetings and the Council’s adaptability in response to the COVID-19 pandemic. It is positive to note that the Council is considering lessons that can be learned from the COVID-19 pandemic and using the opportunity to implement changes in its governance processes (such as hosting webcast Council meetings, discussed across).

We have not noted any improvements in the Council’s approach to self-assessment in the year, although we have noted some progress in the approach to training. Similarly, while there have been changes in Committee membership, there has not been a noticeable improvement in the sharing of Council workload amongst Members, with a number of Committees having vacant positions for long periods. Our conclusions in these areas from 2018/19 remain relevant and appropriate in 2019/20.

As part of our 2019/20 audit work, we issued a questionnaire to Members covering queries on the audit dimensions. Not a single Member responded to our questionnaire.

Openness and transparency

2018/19 Conclusion: The Council is generally positively disposed to improvements in openness and transparency, with planned improvements to the Council’s website and publication of information. The Council has not carried out a review of its approach to openness and transparency or sought the views of the wider community and staff in this area.

2019/20 Update: In July 2020, the Council held its first webcast Council meeting, with this continuing to be available to view online after the meeting had completed.

The Council has rolled out the beta version of its new website, which is accessible through the Council’s current website.

We have not seen evidence of any stakeholder surveys, staff surveys or reviews which consider the Council’s approach to openness and transparency.

2019/20 Conclusion: In line with our previous year’s conclusions, the Council continues to be open and transparent. We welcome the Council’s move to webcasting Council meetings and the benefit this will have in engaging the wider community in local democracy. As recommended in 2018/19, 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.

Governance and transparency (continued)

Quality of information

2018/19 Conclusion: The Council provides extensive and timely information to Members to enable them to take decisions. The Council should review the style of reporting and whether covering reports identify key matters and implications appropriately, in addition to whether the minutes of meetings are clear and have sufficient detail.

The Council should consider webcasting of meetings, holding meetings in alternative locations and the publication of a quarterly or annual newsletter setting out key decisions of the Council, how the Council is performing and how the public can get involved.

2019/20 Update: We have not seen any evidence of a review into the style of reporting and minute taking in the year, although we do note training was provided in this area. Similarly, from our review of reporting to the Council, we have not identified any noticeable changes in these areas.

As discussed on page 19, the Council began webcasting Council meetings in July 2020. We are aware that the Council is preparing to permanently move Council meetings to a new building in Lerwick to enable greater public attendance and participation.

There have been a number of comments in the local press during the year by members of the community about the quality and accuracy of information provided to Members in relation to topics of particular public interest. In August 2020, a local community council highlighted these and called for an independent investigation into the integrity of information provided to Members – in particular in relation to ferry funding, fixed links and consultations.

2019/20 Conclusion: The Council continues to provide extensive, timely and high quality information to Members. We have not identified any issues with the completeness or accuracy of information provided in relation to ferry funding (and note that the amounts were prepared jointly with the Scottish Government) and have commended the Council on the quality of consultations in relation to large-scale transformation and redesign projects.

As highlighted throughout this report, we have identified areas for further improvement (for example, in relation to the MTFP, budgeting and performance reporting). We welcome the webcasting of meetings and the Council's plans to enable greater public attendance and participation at meetings.

We would encourage the Council to progress a review of reporting and minute taking to ensure that these demonstrate that the information provided to Members is high quality.

Community engagement

2018/19 Conclusion: The Council needs to improve its community engagement and consultation in relation to financial planning, with there being no evidence of structured community engagement in the budget setting process. The Council should also carry out regular stakeholder surveys to monitor changing expectations.

The Council is not meeting all of its obligations under the Community Empowerment Act, being non-compliant with the requirement to have locality plans in place.

2019/20 Update: There is no evidence of community engagement and consultation in relation to the budget setting process. The MTFP and LTFP have not been revised in the year. There continues to be community engagement on large scale projects in the Business Transformation and Service Redesign Programmes (as discussed on page 15), for example in relation to bus and air service retendering and the 'recreate Scalloway' plan.

The Council has worked with its partners to develop locality plans in the year. However, these were not developed in the year and the Council remained non-compliant with the Community Empowerment Act until September 2020.

There is no evidence of the Council reviewing or documenting its approach to community engagement in the year.

2019/20 Conclusion: We welcome progress the Council has made in developing locality plans to ensure the Council is compliant with its responsibilities under the Community Empowerment Act, although we do note the delay in addressing this, with the Council becoming compliant in September 2020. As the Council prepares to enter the budget setting period for 2021/22, revise its MTFP and LTFP, we would encourage the Council to consider innovative ways of engaging and consulting the community in that process.

Governance and transparency (continued)

Following the public pound

2018/19 Conclusion: The Council has clear policies in place to comply with the Following the Public Pound (FtPP) Code, which was last reviewed by internal audit in 2017/18. A number of issues were identified and we concluded that the Council should include compliance with FtPP as a standard item in the internal audit annual plan until sufficient assurance is received that the issues identified have been remedied.

The Council's policy requires summary reports to be provided to the relevant service committee. No reporting was noted in either 2017/18 or 2018/19.

2019/20 Update: 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.

We were provided with summary reports of grants issued in the year. However, from our review of reporting to committees in the year, we have not identified that these reports were presented to the relevant committees.

The internal audit annual plan for 2019/20 did not include a review of FtPP and it is not referenced in internal audit's opinion.

2019/20 Conclusion: We have not identified any improvements in the year in relation to the Council's approach to FtPP. Our conclusions from 2018/19 remain relevant and appropriate in 2019/20.

Health and social care integration

2018/19 Conclusion: Financial planning is not integrated, long term or outcome focused. The Council needs to work with the IJB in developing its MTFP. The Council should work with the NHS to ensure that the IJB has the resources and capacity needed to develop strategic thinking and deliver transformational change. The Council needs to make sure it involves the IJB in the development of the Council workforce plan.

The Council, NHS and IJB need to work together to review the Integration Scheme, with a legal deadline of June 2020.

2019/20 Update: In 2019/20, £2.53m of savings were required, with £1.43m of savings achieved (56%). This is a significant improvement on the prior year, although there is heavy reliance on non-recurrent savings. In its 2020/21 budget, the IJB noted a significant increase in funding from both SIC and NHSS, increasing its funding from £45.648m to £50.736m. This enables the IJB to set a balanced budget for 2020/21, and reduces the funding shortfall by 2023/24 from £7.66m (14%) to £1.73m (3%). This savings target is in line with the efficiency targets set by the Scottish Government. The MTFP has not been reviewed in the year, with delays as a result of the 2020/21 budget settlement process and COVID-19.

In May 2020, the IJB set its 2020/21 budget. The IJB has set a balanced budget for the first time since its inception, following significant uplifts in the funding provided by both SIC and NHSS.

The IJB received no reporting on workforce planning in the year, relating either to the NHS or Council plans. While the Chief Officer was consulted in the development of both plans, the Board was not involved and has not received assurance on what the IJB's needs are, how these will be met and how any gaps will be addressed.

In line with the Public Bodies (Joint Working) (Scotland) Act 2014, the Council is required to work together with the IJB and NHS to formally review the Integration Scheme by the fifth anniversary of its approval, being June 2020. This review has not been completed and the Council, along with its partner organisations, is non-compliant with the relevant legislation. The requirement for this review was communicated to all three organisations during our audits in summer 2019, and insufficient progress was made in early 2020, with planned work on this area then further delayed due to the COVID-19 pandemic.

2019/20 Conclusion: The Council is currently non-compliant with its responsibilities under the IJB's governing legislation and needs to address this as a priority. We welcome the Council working with the IJB and NHS to ensure that the IJB was able to set a balanced budget for 2020/21 and reiterate our recommendation that the Council should work closely with the IJB in the development of its MTFP and workforce plan.

Governance and transparency (continued)

Deloitte view – Governance and transparency

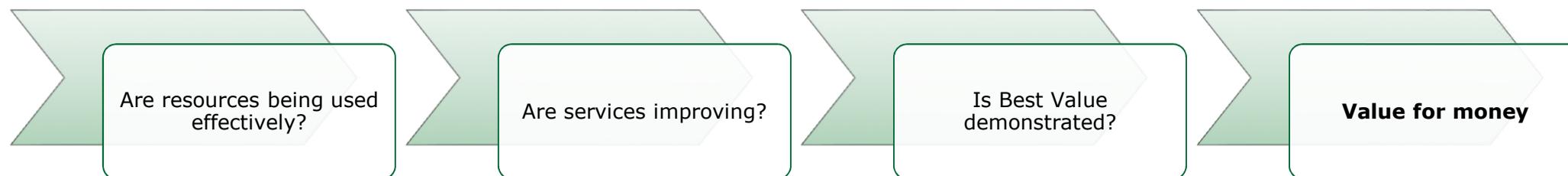
The Council continues to have strong leadership, which has been particularly evident in the Council's response to COVID-19. We commend the continuing high level of participation at Council meetings by Members and are satisfied that the Council provides sufficient information to Members to enable effective scrutiny and decision making.

The Council continues to have a good attitude towards openness and transparency, demonstrated by their decision to begin webcasting Council meetings in July 2020 and through the roll-out of a new Council website which will see additional information made publicly available. We welcome the development of a delivery plan and supporting project charters for the Shetland Partnership Plan and improvements in collaboration with the IJB in the year, enabling the IJB to set a balanced budget for 2020/21 and significantly reduce its medium-term funding gap.

There remain a number of areas where we have not identified improvements and where we would encourage the Council to focus as it demonstrates its commitment to continuous improvement. For example, we have noted that the Council remained non-compliant with its obligations under the Community Empowerment Act until September 2020 and became non-compliant with its obligations under the Public Bodies Act in June 2020. Given issues identified with regards to Following the Public Pound, the Council should ensure that this is considered in 2020/21 and any issues rectified. The Council should improve its approach to self-assessment and community consultations, consider its approach to openness and transparency and reporting, and ensure that it involves the IJB in the development of its MTFP and workforce plan.

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. We have provided an update for the Council on all areas considered in the prior year audit report. We identified the following risk in our audit plan:

"There is an ongoing risks that members are not provided with the required information to monitor the Council's performance and focus on continuous improvement. We will continue to review the Council's performance, 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. We noted the Council was developing a new Performance Framework to be used by the Council and the Shetland Partnership.

2019/20 Update: The Council approved a revised Performance Management Framework in July 2019. However, the Council's approach to performance management has remained relatively consistent during 2019/20 as it has put in place transitional arrangements for fully embedding the revised framework.

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.

2019/20 Conclusion: We welcome the revision of the Council's Performance Management Framework in the year and that in line with best practice, it clearly links performance measures to the National Performance Framework.

Statutory performance indicators (SPIs)

2018/19 Conclusion: The Council has appropriate arrangements for the publication of fair, balanced and engaging performance information.

2019/20 Update: 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.

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

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.

Value for money (continued)

Statutory performance indicators (SPIs) (continued)

SPI 2: Demonstrating Best Value

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 BV 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 Partnership Plan, the requirement to report on performance for both the Council and with its partner communities was already standard practice.

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.

Accuracy of reporting

2018/19 Conclusion: We identified instances where information differed between reports, with the reasoning for this being unclear. This undermines the ability of Members to effectively monitor performance. The Council needs to standardise reporting to committees.

2019/20 Update: We have not identified any inaccuracies or inconsistencies in reporting through our work in 2019/20. As part of the revised Performance Management Framework (discussed on page 23), the Council has developed standard templates for reporting on performance.

2019/20 Conclusion: We welcome the improvement in the year and are satisfied that information reported to Members, based on the work performed, is accurate.

Self-assessment

2018/19 Conclusion: The Council does not carry out self-assessments at an operational level. The lack of a centralised Improvement Plan makes it difficult to monitor improvement across the Council as a whole and to identify areas where improvement is not progressing as planned.

2019/20 Update: As discussed on page 18, we have not seen any evidence of the Council carrying out self-assessments at an operational level in the year. We do note that the Council has established a 'Learning Board', which invites relevant officers to report to the Corporate Management Team on lessons learned from projects across the Council. The Learning Board met 8 times in 2019/20.

The Council has not developed an Improvement Plan or reported on improvements in the year.

2019/20 Conclusion: We welcome the establishment of the Learning Board and consider that this will enable the Council to ensure that lessons learned from key projects are applied across the Council. Our conclusions in relation to annual improvement plan or annual improvement report remain and the establishment of a self-assessment programme at an operational level remain in place.

Major transformation projects

2018/19 Conclusion: The Full Business Cases for both the acquisition of SLAP and the College Merger demonstrated clear financial savings, identify positive changes to service delivery and provide assurance that if appropriately managed, progressed and monitored, value for money will be achieved.

2019/20 Update: There were significant delays with the finalisation of the acquisition of SLAP and completion of due diligence work. In September 2019, we reported to the Council that we considered that SLAP's assets were over-valued and the Council had paid £1.55m above the value of the assets to acquire SLAP. Delays in filing the completion accounts resulted in a cost of £0.38m for the Council. Ongoing litigation resulted in the Council not completing the hive up process within 2019/20, although it expects to do so in 2020/21.

Value for money (continued)

Major transformation projects (continued)

There have also been delays to the implementation of the College Merger due to ongoing discussions between the Council, Scottish Funding Council and NAFC. This has resulted in a substantial increase to the Council's provision for pension cessation costs and a reduction and delay in the anticipated savings which will be achieved as a result of the merger. The Ministerial Business Case was approved in April 2020 and it is anticipated that the merger will be completed in 2021/22.

2019/20 Conclusion: The acquisition of SLAP and implementation of the College Merger are significant milestones for the Council and represent key strands of its Business Transformation and Service Redesign Programmes. Due to delays and inadequacies in their implementation – not all of which were within the Council's control – the Council will not realise the financial savings initially anticipated. However, the Council will continue to generate savings over the longer-term and the projects will enable the Council to progress other transformation projects and improve service delivery. While we consider that there are lessons to be learned from these projects, we are satisfied that they continue to represent value for money.

Homelessness

2018/19 Conclusion: The Council is in the bottom quartile of all social landlords in relation to key indicators such as tenant satisfaction, communicate, tenant participation, value for money, days to complete repairs and repairs completed right first time. The Council needs to create a specific plan to address these areas.

2019/20 Update: The Scottish Housing Regulator has preliminarily concluded that there has not been a significant improvement in service quality or services for people who are homeless, and that quarterly meetings with the Council will continue. The Council has confirmed that it is prioritising improvement in this area and that it believes improvements have been made in the year.

2019/20 Conclusion: From review of reporting to the Development Committee in September 2020 and discussions with the Scottish Housing Regulator, we have noted minor improvements in performance, primarily in relation to tenant satisfaction scores. We will continue to work with the Scottish Housing Regulator in assessing the Council's performance in this area in 2020/21.

Shetland Partnership Plan / Service performance

2018/19 Conclusion: Performance is reported to service committees on a quarterly basis. In Q3 2018/19, of 40 measures reported, 24 due dates had been amended with no narrative to explain the rationale. There are no targets for any of the outcomes reported, with the accompanying narrative lacking in any measurable data or specific actions to address underperformance. The information reported is insufficient to enable Members to properly monitor and scrutinise performance.

Performance at a service level improved marginally between 2017/18 and 2018/19. However, there are a large number of indicators where there is no target or where no information is provided (increasing from 40% in 2017/18 to 46% in 2018/19). There is no link between indicators, the Council's priorities and outcomes for communities.

2019/20 Update: Due to the outbreak of COVID-19, performance reporting was curtailed. Performance reporting on the Partnership Plan and service targets was presented up to Q2 of 2019/20 only (with some services not reporting at all in the year). In the available reports, we noted no improvements in 2019/20.

We requested evidence from the Council to outline if further revisions to due dates and targets had been made and an analysis of targets achieved to date. The Council confirmed that as the Partnership Plan has now developed a delivery plan, targets will be revised to 2022. This does not align with the Council's internal performance reporting in Q2 of 2019/20.

2019/20 Conclusion: Due to insufficient reporting due to the transition to a new Performance Management Framework and a curtailment in performance reporting due to the outbreak of COVID-19, it is not possible for us to conclude on progress made in the year.

The Council needs to ensure its revised reporting (in line with the new Performance Management Framework) in 2020/21 accurately captures revisions to due dates (and the rationale for them), has measurable targets and provides appropriate narrative information to enable Members and the public to understand how the Council will address areas of underperformance. We will consider the Council's progress in this area in 2020/21.

Value for money (continued)

Local Government Benchmarking Framework

2018/19 Conclusion: Council performance improved in 20 areas, declined in 22 areas, with no change identified in 5 areas. The cost of services reduced in 10 areas, increased in 6 areas and was maintained in 3 areas. The Council's performance is better than the Scottish average in 31 areas (worse in 16). The Council spends more than the national average in 68% of areas and performs better in 57%. This information is provided in full to the Council but the report lacks detail of which areas the Council considers to be a priority and lacked supporting narrative. The reporting did not enable a whole-Council view to be taken or to enable trends across the Council to be identified.

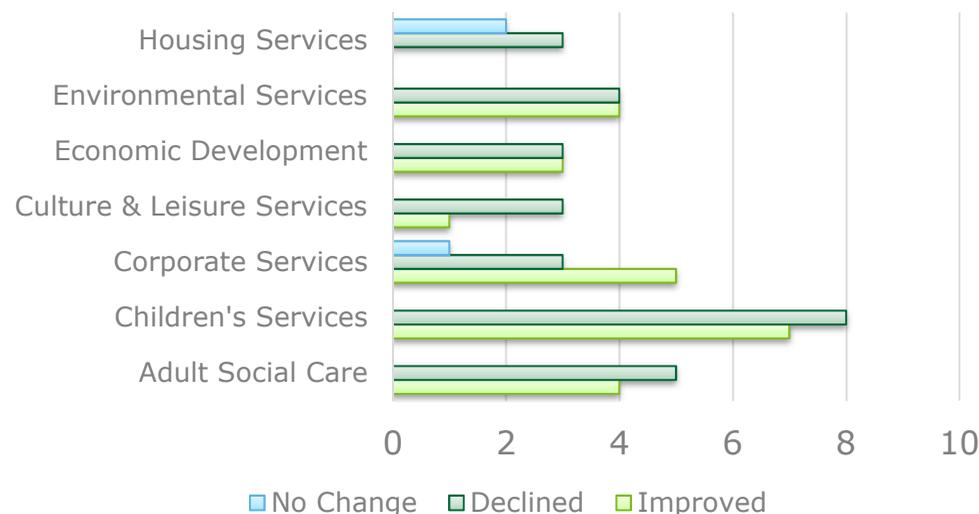
2019/20 Update: The 2018/19 LGBF report was presented to the Council in March 2020. In line with our conclusions in the prior year audit report, the accompanying report continued to lack analysis of the Council's priority areas, analyse trends across the Council or effectively set out future plans to address underperformance.

In 2018/19, Council service performance improved in 24 areas, declined in 29 areas, with no change identified in 3 areas. The cost of services was reduced in 11 areas, increased in 8 areas, and maintained in 1 area.

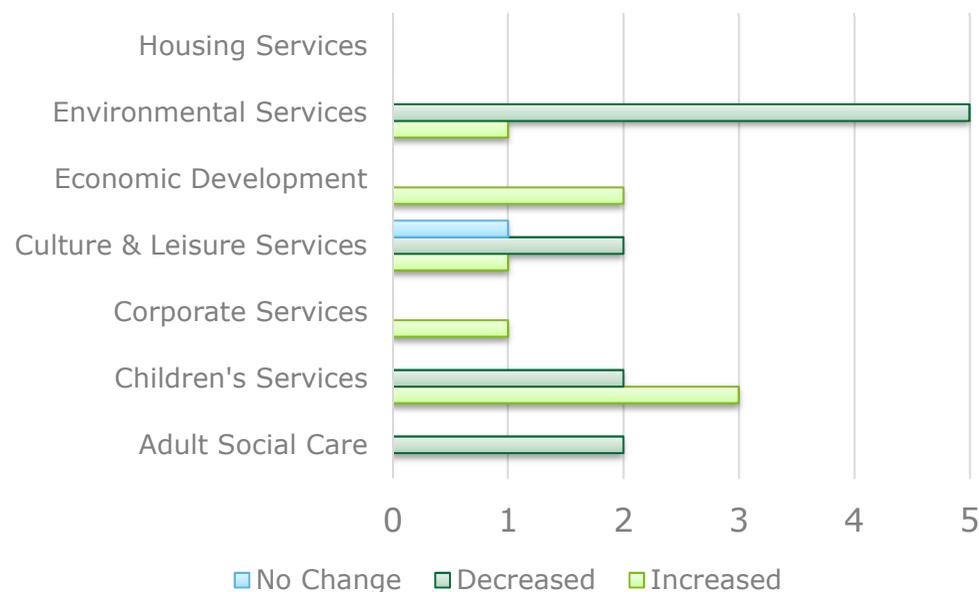
The main areas where spend was reduced was Environmental Services (5 out of 6 indicators) and Culture and Leisure Services (2 out of 4 indicators). This had an impact on these services: 50% of indicators in Environmental Services and 75% within Culture & Leisure Services showed a decline in performance. Spend was also reduced in 2 areas of Children's Services, which had an adverse effect: 53% of service indicators reported a decline. This decline in spend and performance does not appear to be in line with the priorities set out in the Council Plan.

2019/20 Conclusion: Although performance has declined locally, Council performance is better than the Scottish average in 36 areas (worse in 20). Against similar councils, Shetland Islands Council performs better in 32 areas (worse in 24). However, this higher level of performance needs to be considered in the context of the higher spend in Shetland - Shetland Islands Council spends more than comparable councils in 15 areas (less in 5), and more than the national average in 13 areas (less in 7). Similar to 2018/19, the Council has performed better than the national average in 64% of areas but spends more in 75% of areas.

Service Indicators



Cost Indicators



Value for money (continued)

Deloitte view – Value for money

The Council has revised its Performance Management Framework and in line with best practice, reports will clearly link its performance measures to the National Performance Framework. It also has long standing arrangements in place to comply with the new SPI Direction including its public performance reporting requirements. Reporting on performance in the year was curtailed as a result of the new framework and the outbreak of COVID-19. There has been insufficient reporting for us to conclude on whether the Council's performance at a service or Partnership level has improved in the year and to assess the pace of that improvement.

The performance of the Council is showing evidence of improvements in a number of areas in the Local Government Benchmarking Framework, although there has been a decline in performance in more areas. The Council continues to perform well against the national average, although this comes at additional cost. 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.

The Scottish Housing Regulator has concluded that the Council's performance in addressing underperformance in relation to housing and homelessness has not improved significantly in the year, although monitoring subsequent to 2019/20 has been impacted by COVID-19. The Council has confirmed that it is prioritising improvement in this area and has reported on its plans and progress to the Development Committee in September 2020. We will continue to liaise with the Council and the regulator to monitor performance in 2020/21.

While we have identified issues with the implementation of the acquisition of SLAP and the College Merger, from which the Council should ensure it learns lessons, we are satisfied that these projects continue to represent value for money as they will deliver longer-term savings for the Council whilst also being expected to improve service delivery.

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. Due to anticipated changes to the audit engagement as a result of COVID-19, the Best Value Assurance Report for Shetland Islands Council is expected to be completed in 2021/22.

The Council has a number of arrangements in place to secure Best Value, including an established governance framework and strong leadership.

The Council recognises that it must deliver services within the financial resources available and, as noted elsewhere in this report, further work is still required to achieve long term financial sustainability.

We have highlighted improvements in a number of areas throughout this report. However, we have similarly highlighted a number of areas where there has been no improvement or disimprovement in the year. There are a number of key areas where the Council must prioritise improvement in order to demonstrate Best Value – for example, self-assessments and compliance with key legislative provisions.

In February 2020, the Local Area Network of regulators (consisting of Audit Scotland, Deloitte, Education Scotland, the Care Inspectorate and the Scottish Housing Regulator) highlighted concerns on the pace of change within the Council and its focus on improvement.

In relation to the new requirements in relation to the Islands Act, the Council has not yet carried out islands community impact assessments and has not published information about the steps the Council plans to take to ensure compliance with its responsibilities under the Act when they come into force.

Deloitte view – Best Value

The Council has a number of arrangements in place to secure Best Value. While the Council continues to demonstrate improvements in a number of areas and is committed to improvement, further improvements are needed in key areas and the Council needs to ensure that the pace of change is appropriate.

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 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 Shetland Islands 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.

Shetland Islands Council position

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

- In January 2020, the Council approved the creation of a Climate Change Programme team to consider the Council's ambitions in light of the approval of the Climate Change Strategic Outline Programme. The Council also 'recognised' the global climate emergency.
- In approving the 2020/21 budget, 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 Business Transformation and Service Redesign Programmes incorporate a number of themes linked to climate change, including managing the property estate, improvements in technology and changes to bus, air and ferry services.

As the work of the Climate Change Programme team develops, the Council should monitor the impact and make revisions 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 is identified as a risk on the Council's risk register. In the risk register reporting in July 2020, it was given the highest risk rating possible and the Council has set out mitigating actions it plans to take.

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 January 2020, the Council approved its first Climate Change Strategic Outline Programme, which established a Climate Change Programme team led by the Director of Infrastructure. This is still in its early stages and we will consider its progress as part of our 2020/21 audit.

Reporting/Financial Statements: Transparency in the annual report.

The Council includes sufficient narrative within its annual accounts to set out what work the Council is doing to address the 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 Committee and the Council discharge their governance duties. Our report includes our work on the following:

- Financial management;
- Financial sustainability;
- Governance and transparency; and
- 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 | 11 September 2020

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Governance and transparency</i>	The Council, IJB and NHS need to work together to review the Integration Scheme, in line with their responsibilities under the IJB's governing legislation.	The Council has been working with partners to fulfil its statutory obligation to review the integration scheme for the IJB. Completion of the review has been delayed due to the COVID-19 pandemic, although the review itself has largely been completed. The Council has plans to report the outcome of the review to elected Members by 31 December 2020.	Interim Director – Adult Health & Social Care Executive Manager – Governance & Law	31/12/20	High

Action plan (continued)

Follow up on 2018/19 action plan

We have followed up the recommendations outstanding from our 2017/18 report and those made in our 2018/19 annual report and note that 7 of the total 24 recommendations made have been fully implemented, with 1 not yet being due. 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</i>	The Council needs to review its MTFP given the significant of the anticipated underestimation of the funding gap to 2023/24. The funding gap identified in the MTFP should be linked to planned savings from the BTP and SRP, demonstrating how the BTP and SRP will enable the Council to close the funding gap in the medium term.	The Council recognises the challenges it faces. We will update its medium- and longer-term financial planning assumptions over the summer of 2019 and will present the refreshed MTFP and LTFP in the autumn. Where possible, likely savings determined through the initial scoping of service redesign and business transformation activities will be built into the Council's planning assumptions.	Executive Manager - Finance	31/03/20	High	<p><i>Not implemented:</i> The MTFP has not been revised in the year.</p> <p>Updated management response: The Council will be refreshing its MTFP in November 2020, alongside a refreshed Change Programme and Corporate Plan.</p> <p>Updated target date: 31/03/21</p>
<i>Financial Management</i>	For each capital project planned, the Council needs to clearly outline the due dates for projects and their original budgeted cost, with an annual report outlining any changes to the planned due date and budgeted cost, documenting which projects have been completed and at what cost. This will enable the Council to monitor whether it is delivering capital projects on time and on budget.	The Council welcomes the opportunity to improve transparency and accountability. An annual update report will be prepared by the end of the 2019/20 financial year.	Executive Manager – Assets, Procurement & Commissioning Executive Manager - Finance	31/03/20	High	<p><i>Not implemented:</i> The changes recommended were not made in the year and an annual update report was not presented.</p> <p>Updated management response: The Council is committed to improve its reporting of capital expenditure in line with this recommendation and best practice, which will also include an evaluation of completed capital projects that will provide an objective assessment of actual performance against budgetary expectations.</p> <p>Updated target date: 31/03/21</p>

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Governance & Transparency	The Council needs to carry out a skills gap analysis as part of the annual self assessment of Committees and the Council, work in conjunction with Members to develop training plans for them, assess the effectiveness of all training provided and track and report attendance at training by Members.	<p>Attendance at all development events is logged. Feedback will now be requested from formal and informal Member development events. Members are currently participating in the Improvement Service CPD Framework. PDPs and a refreshed Member Development Programme will be prepared once completed.</p> <p>Training need for Members formed part of the Committee and Governance review reported to Members on 11 June 2019. A more in depth analysis leading to a training plan is underway.</p>	Executive Manager – Executive Services	31/03/20	High	<p><i>Partially implemented:</i> Feedback and attendance is now collated. Further improvements are needed in agreeing training plans for Members.</p> <p>Updated management response: The Council already keeps records of Member attendance at training and development events through the year. The Council, in conjunction with the Improvement Service, is supporting elected Members with personal development: 40% have completed a self-evaluation through the Improvement Service CPD Framework and 23% have a Personal Development Plan in place as a result.</p> <p>The Council will continue to support Member development and consider monitoring the effectiveness of the training provided to all Members.</p> <p>Updated target date: 31/03/21</p>

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Governance & Transparency	<p>The Council needs to have annual self-assessments of governance arrangements, Committee and Council performance. The Council should develop a self assessment programme and assign a specific officer with responsibility for ensuring the Council has adequate self assessment arrangements in place.</p> <p>The results of these reviews should be made publicly available through the publication of an Annual Self-Evaluation Report.</p>	<p>The Council considered an initial Governance review report as part of the review of its Code of Corporate Governance in June 2019. An updated report is promised for September 2019, and annually thereafter.</p>	Executive Manager – Governance & Law	31/12/19	High	<p><i>Not implemented:</i> The Council has not carried out self-assessments or developed a self-assessment programme.</p> <p>Updated management response: The Council approved an update to its Code of Corporate Governance in June 2019, which introduced an annual review process, with the first annual review expected to start in March 2020. Due to COVID-19, the annual review process did not commence, as planned. Completion of a self-assessment evaluation at this time would have to reflect on the impacts of the pandemic on the Council’s governance arrangements, and would perhaps not provide sufficient evidence to allow the Council to fully consider the impacts and any improvements required in governance, whilst the Council remains in recovery phase. However, the Council’s Recovery and Renewal Plan, and in particular Work Strand 7 - Council Change/Renewal Programme, will provide opportunities to reflect on ways of working, including governance arrangements. This Programme is in the early stages of planning, and whilst no specific dates have yet been assigned to it, updates will be provided to Council, and any specific impacts on the Council’s Governance arrangements will form part of the next annual review and self-assessment, to commence in March 2021.</p> <p>Updated target date: 31/03/21</p>

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Value for Money	<p>Performance information across the Council (including the Partnership Plan) needs to be improved with all indicators having targets or narrative to explain performance. The Council should report on an annual basis on the indicators it intends to monitor in the coming year, the targets for each quarter, and the performance for the corresponding period in the previous year.</p> <p>Changes to target dates should be clearly explained and challenged by Councillors. If progress is reported on a % basis, measurable targets should be included and reported against.</p>	<p>A performance Framework for Shetland has been developed and is being presented to the Council, the NHS and IJB for approval; in June/July 2019.</p> <p>The Framework incorporates the commissioning cycle and is designed to be used for joint commissioning, performance management and reporting for the Shetland Partnership. The Framework will be fully implemented by 31 March 2020 with 2019/20 a transition year during which time the Framework will continue to evolve informed by practice.</p>	Director – Corporate Services	31/03/20	High	<p><i>Partially implemented:</i> The Council has approved a revised Performance Management Framework. Performance reporting has been curtailed and so it is not possible to conclude that this has been fully implemented in 2019/20.</p> <p>Updated management response: The dedicated quarterly performance management meetings have been removed from the Council Diary of meetings in 2020/21 as part of the implementation of the new Performance Management Framework. Reports were presented in line with the Framework in January / February 2020 and end of year reports were presented to the Special Council meeting on 2 July 2020 during COVID-19 restrictions. Performance reports in line with the Framework will be presented during 2020/21. The new website is currently being tested ahead of implementation in October 2020, and will allow the publication of data and statistics as per the Framework to be completed timeously going forward.</p> <p>Updated target date: 31/03/21</p>

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Financial Sustainability</i>	In its budget, the Council should identify savings which will need be achieved in the year, allocated appropriately across Directorates. These savings should reduce the overall Directorate budget (as opposed to being separate 'savings lines' in the budget) and be separately disclosed in the narrative to enable monitoring of progress against savings in the year.	The Council opted against using 'savings lines' to enable balanced budgets to be set in 2019/20. The Council will include all efficiencies or savings targets expected to be realised through service redesign or business transformation activities in the next budget-setting cycle.	Executive Manager - Finance	31/03/20	Medium	<p><i>Not implemented:</i> The Council's 2020/21 budget did not quantify savings from transformation or elsewhere.</p> <p>Updated management response: The Council is in the process of refreshing its Service Redesign and Business Transformation programmes and will present a refreshed Change Programme in November 2020. The refreshed Change Programme, co-ordinated by a Project Management Function within Corporate Services, will set out the Council's priorities for change and transformation projects over the next 5 years, linked to the updated MTFP and Corporate Plan. The Council is aiming to quantify the savings, efficiencies and/or non financial benefits expected to be realised from each project which will enable progress to be monitored and reported more effectively than at present.</p> <p>Updated target date: 31/03/21</p>

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Financial Sustainability</i>	The Council's MTFP should make reference to the key principles of public service reform - prevention, performance, partnership and people - and how these key principles are reflected in the Council's financial planning.	The Council will update its medium- and longer-term financial planning assumptions over the summer of 2019 and will present the refreshed MTFP and LTFP to Council in the autumn. The refreshed MTFP will reflect the principles and assumptions contained in the the National Performance Framework and the Scottish Government's own Medium-Term Financial Strategy.	Executive Manager - Finance	30/09/19	Medium	<p><i>Not implemented:</i> The MTFP has not been revised in the year.</p> <p>Updated management response: The Council will be refreshing its MTFP in November 2020, alongside a refreshed Change Programme and Corporate Plan.</p> <p>Updated target date: 31/03/21</p>
<i>Financial Sustainability</i>	The Council should include the impact that decisions will have on the Council's position against the in-year draw on reserves, the funding gap identified in the MTFP and the approach adopted in the LTFP in the 'Finance implications' section of reports, so that it is clear to everyone who is making the decision the longer-term financial impact that decisions are expected to have, rather than simply understanding the impact in the short term.	The Council is keen to present financial information in an accessible and open way. The Council acknowledges that reports requiring decisions could be clearer in this area, and will seek to set out the likely financial implications on a short, medium and longer-term basis in the relevant section.	Executive Manager - Finance	31/12/19	Medium	<p><i>Not implemented:</i> We have not identified improvements in reporting in this area in the year. We anticipate improvements will be possible following revision of the MTFP and LTFP.</p> <p>Updated management response: The Council will be refreshing its MTFP in November 2020, alongside a refreshed Change Programme and Corporate Plan. The refreshed MTFP will provide the 'baseline' from which the estimated short-, medium-, and longer-term financial impact of Council decisions can be determined and reported.</p> <p>Updated target date: 31/03/21</p>

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Financial Management</i>	The Council's budget should include analysis of how the budget links in quantitative terms to the priorities set out in the Council's Corporate Plan. The budget should also include information of the outcomes the Council expects to be progressed (and to what extent) by the budget.	The Council is keen to present financial information in an accessible and open way, not just to elected members but the wider community. The Council will aim to address this recommendation during the next budget cycle as it sets the 2020/21 budget.	Executive Manager - Finance	31/03/20	Medium	<p><i>Not implemented:</i> The Council's budget did not change how it linked to the Corporate Plan.</p> <p>Updated management response: The Council is in the process of refreshing the Corporate Plan, with a focus on sustainability. Although difficult to link budgets to outcomes on a quantitative basis, the refreshed Corporate Plan should make it easier for the Council to link what it plans to spend on each priority to the outcomes it expects to achieve as part of its 2021/22.</p> <p>Updated target date: 31/03/21</p>
<i>Financial Management</i>	The Council should carry out a review of the finance structure, to assess whether changes in the finance structure and model could result in improvements in financial management.	The Council will consider the feasibility and advantages and disadvantages of moving to a different structure for the finance team.	Executive Manager - Finance	31/03/20	Medium	<p><i>Not implemented:</i> We have not seen evidence of a review carried out in the year. We have not noted any changes to the structure of the finance team.</p> <p>Updated management response: A review of the finance team structure has not taken place, as the team has prioritised supporting other services and Council priorities during the year. The resourcing and development of the finance team is kept under continual review by the Finance management team to ensure continuity of service delivery to both internal and external stakeholders and in terms of future workforce development and succession planning.</p> <p>Updated target date: 31/03/21</p>

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Governance & Transparency	The Council should carry out a review of how open and transparent it is, seeking the views of the wider community. The Council should carry out regular stakeholder or citizen surveys and seek views on how open and transparent it is through these and through its own staff survey.	One of the four priorities in Shetland's Partnership Plan is Participation. This priority is led by the Director of Corporate Services supported by Community Planning and Development. HR are leading on the continuing development of action plans to take forward issues from previous Viewpoint Surveys and will repeat the survey to ensure comparisons over time.	Director – Corporate Services	31/03/20	Medium	<p><i>Not implemented:</i> We have not seen evidence of a review carried out in the year.</p> <p>Updated management response: The Viewpoint Survey was repeated in December 2017 and will be done again in December 2020. A separate Pulse Survey was undertaken in May 2020. The results were compared with the Viewpoint Survey findings and used to inform planning for the response , recovery and renewal phases of COVID-19.</p> <p>Updated target date: 31/03/21</p>
Governance & Transparency	The Council should review whether the style of reports used and is appropriate. Covering reports should identify the key matters being considered and the implications of decisions. Officers signing off the report should challenge the content before submitting it for reporting.	A review of report writing has been completed resulting in training being delivered in June 2019 which will inform further work developing Council Guidance for Report Writing and Presenting.	Executive Manager – Human Resources Executive Manager – Governance & Law	31/03/20	Medium	<p><i>Partially implemented:</i> The Council completed a review of report writing in June 2019. We are not aware of further progress with Council guidance for report writing and presenting.</p> <p>Updated management response: Training has been delivered and will continue to feature in training plans going forward.</p> <p>Updated target date: 31/03/21</p>

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Governance & Transparency	The Council needs to take steps to actively communicate with the community on an ongoing basis. Improvements could be made through the use of webcasting meetings or hosting meetings in alternative locations on occasion. The Council should consider publishing a quarterly or annual newsletter, sent to all households, outlining key decisions, Council performance and how the public can engage with the Council.	<p>The Council is committed to enabling public scrutiny through virtual attendance by audio or webcasting meetings. This is an ambition which is linked to the recent decision in June 2019 to move the Council debating chamber to a new location at St Ringan's Church.</p> <p>One of the four priorities in Shetland's Partnership Plan is Participation. This priority is led by the Director of Corporate Services supported by Community Planning and Development.</p>	Director – Corporate Services	31/03/20	Medium	<p><i>Partially implemented:</i> The Council has started webcasting Council meetings and moved to a larger location to accommodate public attendance. Improvements are outstanding in relation to wider community engagement in financial planning, provision of information and stakeholder surveys.</p> <p>Updated management response: The Council is progressing the delivery of live-streaming/webcasting of Council and committee meetings, as part of the planned relocation of the Council Chamber. As an interim measure, the Council has started to record and publish its formal Council and committee meetings in response to the COVID-19 pandemic which has precluded public attendance at meetings.</p> <p>The Council plans to launch its redesigned website in October, which will facilitate digital communication with Council services and enable more accessible performance reporting.</p> <p>Updated target date: 31/03/21</p>

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Governance & Transparency	The Council should provide summary reports on the external support provided to organisations and the outcomes achieved through that support to the relevant service committee on an annual basis. The Council should include compliance with FtPP as a standard item in the annual internal audit plan until sufficient assurance is received that the Council is complying with the Code.	Reports will be presented to Development Committee and Policy and Resources Committee.	Director – Development	31/03/20	Medium	<i>Not implemented:</i> We have not seen evidence of reporting to committees in the year. FtPP was not considered by internal audit.
		Issues of procurement and Best Value form part of the 2019/20 Internal Audit Plan and the Council will discuss with Internal Audit whether the provision of support to external organisations can form part of these audits.	Director – Corporate Services			<p>Updated management response: A report will be presented on an annual basis to Development and P&R Committees providing a summary of support provided to external organisations and analysis of Outcomes achieved. This report will be as an appendix to the established Directorate performance reports.</p>
						<p>Training on commissioning and procurement was delivered by Scotland Excel in February 2020. A number of actions were agreed as a result with regard to processes and reporting. These have not been completed due to prioritisation of the COVID-19 response. Work in this regard will be co-ordinated with work arising from internal audit findings on procurement.</p>
						<p>Updated target date: 31/03/21</p>

Action plan (continued)

Follow up on 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Value for Money</i>	The Council should review LGBF information against what it considers to be 'priority' areas and include narrative on which indicators are considered to be the most important and relevant by the Council. The report should outline the general performance of the Council and include trend analysis, including specific narrative on how the Council plans to address areas of poor performance or whether it accepts poor performance in specific areas.	LGBF information is considered and reports are prepared for discussion at committee. LGBF will also be discussed by CMT going forward to ensure key issues identified are prioritised and built into work programmes.	Director – Corporate Services	31/03/20	Medium	<p><i>Not implemented:</i> There were no changes to reporting in the year.</p> <p>Updated management response: LGBF has featured in discussions on performance and service planning. The Council's Recovery and Renewal Framework and the Change Programme currently being developed will use LGBF information to inform proposals for change.</p> <p>Updated target date: 31/03/21</p>
<i>Financial Sustainability</i>	<p>The Council's Annual Investment Plan should cover what level of reserves the Council currently has, what it aims to have, what it expects to use reserves for, how the level and use of reserves will be monitored and remedial actions which will be taken if reserves fall below a certain level or are not used appropriately.</p> <p>On an annual basis, the Council needs to consider the nature, extent and timing of plans to use earmarked reserves to ensure that they remain valid, appropriate and reasonable.</p>	The Council presented its 2019/20 Annual Investment and Treasury Strategy to committee in March 2019. The Council has been transitioning to a revised investment strategy since January 2019. Once complete, the Annual Investment and Treasury Strategy will be reviewed to ensure it addresses the points raised in this recommendation and to reflect best practice.	Executive Manager - Finance	31/03/20	Low	<p><i>Not implemented:</i> There were no changes to the information in the Annual Investment Plan in the year.</p> <p>Updated management response: This recommendation is still being addressed. The Council's annual investment and treasury strategy for 2021/22 will be updated in line with the audit recommendation and best practice, including an assessment of the planned use of earmarked and uncommitted reserves and the consequential impact on overall Council reserves. The updated strategy will also link to the refreshed MTFP, by taking any updated assumptions and estimates of future funding and expenditure into account.</p> <p>Updated target date: 31/03/21</p>



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