



# South Ayrshire Council

**Report to the Audit and Governance Panel  
on the 'Audit Dimensions and Best Value' for the year ended 31 March 2022**

Issued on 14 June for the meeting on 28 June 2022

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# Key messages

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.

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

## *Financial management*

The Council continues to have strong budget setting and monitoring arrangements in place. This is supported by an experienced finance team, although recent changes has resulted in some temporary vacancies. We are pleased to note the approval of increased capacity in the finance team and will continue to monitor this throughout our audit.

The internal audit function has experienced resourcing challenges in the year, with a revised Internal Audit Plan approved. It is critical that this is closely monitored, and sufficient resources provided to ensure that the internal audit function is able to provide the Council with the assurance it requires.

## *Financial sustainability*

The Council has set a balanced budget for 2022/23 and holds unearmarked reserves at a level consistent with its Reserves Strategy, therefore is financially sustainable in the short term. However, it continues to be faced with significant financial challenges over the medium and longer-term, projecting a funding gap of between £6m and £20m by 2023/24, and a gap of between £108m and £172m over a ten year period.

It is positive to see the work progressing with the Strategic Change Programme with governance arrangements in place and the planned approach agreed. However, there is still insufficient detail against each project to be able to demonstrate that the plans are sufficient to meet the significant challenges that the Council is facing over the medium-to-longer term. It is critical that this work is progressed at pace and scale to ensure that both the plans are sufficient and that the planned benefits are realised.

# Key messages (continued)

## *Governance and transparency*

There continues to be good working relationships between officers and members, however, further work is required to be able to demonstrate that there is sufficient pace and focus on delivering improvements.

The governance arrangements continue to be robust, with an effective Audit and Governance Panel. The Council continues to be open and transparent, with the introduction of live streaming of all meetings during the year enhancing that openness.

## *Value for money*

The Council has a clear performance management framework which has been refreshed during 2021/22 in response to the recommendations in the BVAR, with further changes planned in the next iteration of the Council Plan. It has continued to report its performance against the commitments within the Council Plan and also against the LGBF, with clear actions in place to address indicators that are adrift of target.

**Best value** - The Council has made good progress in implementing the recommendations and associated actions arising from the BVAR and has a clear understanding of areas which require further development.

## **Next steps**

An agreed Action Plan is included on pages 44 to 46 of this report, including a follow up of progress against prior year actions.

## **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.

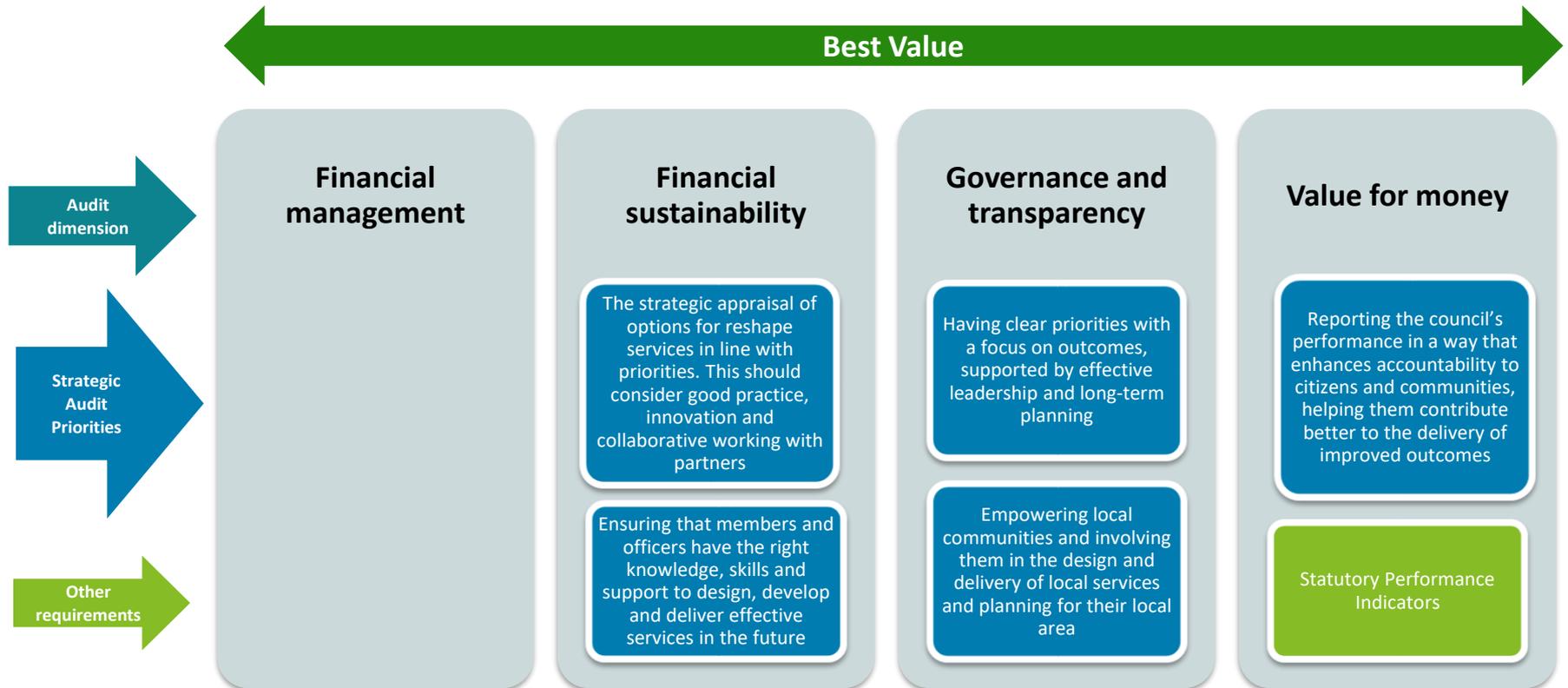
This is provided throughout the report. In particular, we have included our “sector developments” on pages 40 to 42 where we have shared our research, informed perspective and best practice from our work across the wider public sector that are specifically relevant to the Council.

# Audit Dimensions and Best Value

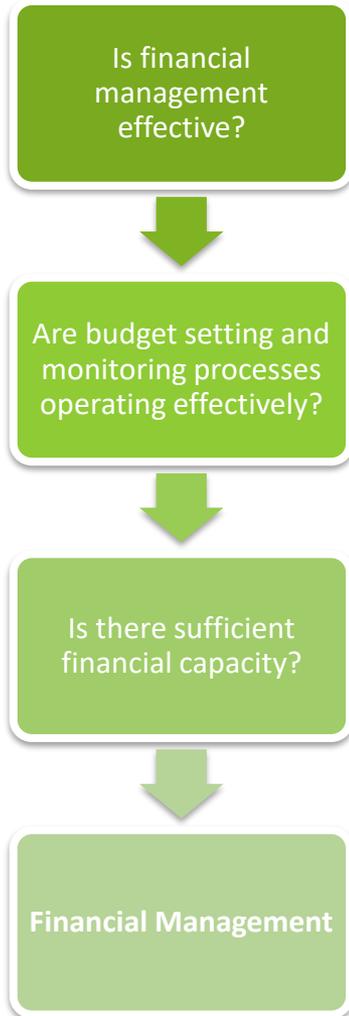
## Overview

This 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 **Statutory Performance Information** Direction.

In recognition of the demands on auditors' time and the challenges of remote auditing, the Accounts Commission agreed that auditors are not required to specifically consider and report on the SAPs as part of the 2021/22 audit. The SAPs continue to be important but the work on the audit dimensions will be used to inform progress. We have therefore set out below how each SAP inter-relates to the audit dimensions.



# Financial management



## Significant risks identified in Audit Plan

In previous years we have concluded that the Council had strong financial management arrangements in place and a sufficiently qualified and experienced finance team. We therefore did not identify any significant risks in relation to financial management during our planning. We have continued to review the arrangements in place as summarised on the following pages.

## Current year financial performance

The **2021/22 General Services revenue budget** of £284.907m was approved by the Council on 4 March 2021. This incorporated previously approved efficiency savings of £1.115m and new efficiencies of £1.864m. No draw on reserves was required to set the balanced budget. It has been updated throughout the year to include in-year movements and the latest projected position is a net underspend of £4.454m. after earmarking £9.520m to be carried forward, i.e. a gross underspend of £13.974m. The Corporate Leadership Team and Councillors regularly review progress against budget throughout the year, with quarterly reporting to the Leadership Panel for both revenue and capital expenditure. From review of the reporting throughout the year, variances are clearly reported and explained.

The underspend of £13.974m can be split between underspends arising from “normal” activity of £7.862m and underspends relating to COVID-19 of £6.112m. The main underspend has arisen in the People Directorate, which is projecting an underspend of £8.064m (£4.122m of which is COVID-19 related). The largest variances are within Community Services and Facilities which saw income significant above target, particularly with golf memberships and green fees and in Primary Education, which includes Pupil Equity Funding received from the Scottish Government which can be carried forward to future years.

The budget incorporated planned savings of £2.979m, with the majority of these on target to be delivered by 31 March 2022.

# Financial management (continued)

## Current year financial performance (continued)

The **2021/22 Housing Revenue Account (HRA)** budget, agreed by the Council on 20 January 2021, is projecting an underspend of £2.201m and it has been agreed by Council that this will be used towards capital investment on Tenants' priorities. This has been consistently reported to members throughout the year as part of the normal reporting cycle. The primary reason for the underspend is due to staff vacancies, and underspends in property costs and financing costs.

The Council has an ambitious long-term **investment programme**, as discussed further on page 12. Progress against this plan is reported regularly to Cabinet.

A summary of the original and revised budgets for the general services and HRA capital programmes for 2021/22 is provided in the table below.

	General Services (£'000)	Housing (£'000)
Original budget	86.128	36.220
Revised budget	74.230	32.867
Projected to 31 March 2022	65.951	23.898

As can be seen from the above table, there has been some changes from the original budgets due to having to re-profile projects to future years due to the COVID-19 restrictions impacting on the construction industry. The Council has continued to report the ongoing disruption to supply chains and labour due to COVID-19 and the UK's exit from the EU.

In setting its 2021/22 budget, the Council highlighted that in addition to the new Scottish Government COVID-19 funding that was made available for 2021/22, there are several financial flexibilities that are available, or may become available, in 2021/22 which the Council may wish to access to help support the continuing response to the pandemic during 2021/22 and beyond. No such need has arisen during 2021/22.

## Finance capacity

The finance team has remained consistent throughout the year although recent changes has resulted in some temporary vacancies. Whilst COVID-19 has created additional work for the team, including the additional reporting requirements to the Scottish Government and administering of the business support grants, this is being well managed.

As part of our 2020/21 financial statements audit, we recommended that management consider the capacity within the finance team and allocation of responsibilities to help improve the timeliness of the provision of working papers. In recognition of the fundamental shift in the required support activity needed and expected across the Council, including Finance, ICT Services, Legal, HR and Regulatory services, the Leadership Panel approved the creation of 11 temporary posts within the Corporate Support teams for a 24-month period. We will consider the impact that this has had on the finance team capacity during our financial statements audit and provide an update to the Panel in September 2022.

# Financial management (continued)

## Internal audit

We have assessed the internal audit function, including its nature, organisational status and activities performed. We have also carried out a review of the internal audit reports published throughout 2021/22. The conclusions have helped inform our audit work, although no specific reliance has been placed on this work.

The 2021/22 Internal Audit Plan was approved by the Audit and Governance Panel in March 2021. Due to staff turnover within the internal audit team, a revised plan was then approved in February 2022 reflecting reduced available days as illustrated below. As a result, eight projects were deferred. The revised plan has been based on an assessment of the risks in each audit to help ensure that there is no limitation of scope that would require disclosure within the Annual Governance Statement.



The February 2022 progress report concluded that four audit assignments from the 2021/22 internal audit plan have been completed compared to the revised total of 23 assignments in the plan. The latest update has shown improvement on this position, with 16 reports completed, and a further seven assignments either in progress or draft reports issued.

The Chief Internal Auditor has highlighted that the revised plan for the remainder of the year is challenging with a large number of assignments planned for quarter four. In addition, the estimation of days available may be subject to change should a large-scale investigation require Internal Audit resource. It is critical that this is closely monitored, and sufficient resources provided to ensure that the internal audit function meets the requirements of the Council.

We will consider the work of internal audit as part of our audit work on the Annual Governance Statement and report our conclusions in our final report to the Audit and Governance Panel in September 2022.

# Financial management (continued)

## Standards of conduct for prevention and detection of fraud and error

We have assessed the Council's arrangements for the prevention and detection of fraud and irregularities. This has included specific considerations in response to the increased risk of fraud as a result of COVID-19. 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 2020/21. We have continued to monitor the council's participation and progress in the NFI during 2021/22 and submitted an assessment of the council's participation to Audit Scotland in February 2022. The information submitted will be used by Audit Scotland in its next national NFI report which is due to be published in the summer of 2022. We concluded that the council was sufficiently engaged in the exercise. However, the Audit and Governance Panel and Council key contact for the NFI exercise had not reviewed the self-appraisal checklist recommended by Audit Scotland as a means of monitoring the Council's planning and progress with the 2020/21 NFI exercise. We would therefore encourage that this is carried out in advance of future NFI exercises.

## Deloitte view – financial management

The Council continues to have strong budget setting and monitoring arrangements in place. This is supported by an experienced finance team although recent changes has resulted in some temporary vacancies during the year, with the posts now filled.. We are pleased to note the increased capacity approved and will continue to monitor this throughout our audit.

The internal audit function has experienced resourcing challenges in the year, with a revised Internal Audit Plan approved. It is critical that this is closely monitored, and sufficient resources provided to ensure that the internal audit function meets the requirements of the Council.

# Financial sustainability



## Significant risks identified in Audit Plan

While the Council has historically achieved short term financial balance, there remains a risk that robust medium-to-long term planning arrangements are not in place to ensure that the Council can manage its finances sustainably and deliver services effectively. We have therefore considered the 2022/23 budget setting process and the work being done over the medium and longer-term, including the strategic change programme, as summarised on the following pages.

### 2022/23 budget setting

The Council approved a balanced budget of £304.962m for 2022/23 on 3 March 2022. This incorporated previously approved efficiency savings of £0.630m and new efficiencies of £0.892m. The 2022/23 budget assumes use of £3.096m from reserve and a 2.9% increase in Council Tax.

In setting its budget, in line with our suggested approach highlighted in our 2019/20 report, the Council recognises there are a number of inherent assumptions in arriving at budgeted figures and therefore risks, uncertainties and cost pressures that may be faced if costs change or new pressures emerge. The following key risks have been highlighted:

- The risk associated with using one-off measures to balance the budget instead of recurring funding through an increase in Council Tax income or through identified additional savings;
- The continued uncertainties arising from the COVID-19 pandemic;
- Outstanding pay award settlements and the implications of the National Living Wage for external service providers;
- The impact of the wider economic climate on inflation, interest rates, employment tax and income levels as well as the impact this could have on service demands alongside demographic changes;
- Unplanned capital investment requirements and the associated cost;

# Financial sustainability (continued)

## 2022/23 budget setting (continued)

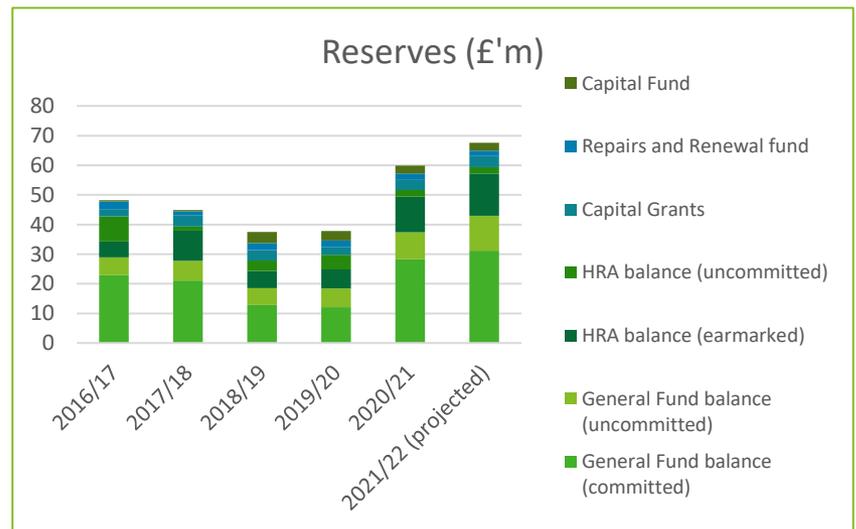
- The ability to continue to meet the expectations of the communities within a period of fiscal constraint; and
- The impact on any further reduction in reserves would have on the Council's financial resilience and sustainability and in turn financial capacity to respond to unforeseen events or unbudgeted cuts.

Elected members were involved in the budget process in advance of the formal budget setting meeting through the Budget Working Group, followed by formal consultation with Portfolio Holders in advance of the formal report being presented to Council..

In addition, budget information has been provided through social media communication routes between December 2021 and February 2022. This will be followed by a medium-to-long term public consultation process to make sure that local communities can get involved in how the Council targets its resources going forward.

## Reserves

At the time of approval of the 2021/22 budget on 3 March 2022, the Council carried out its annual review of its uncommitted reserves in line with good practice. The projected reserves position at 31 March 2022 is illustrated below.



The Council's policy is to maintain uncommitted reserves of between 2% and 4% of net expenditure to meet the potential cost of unforeseen liabilities. The estimated balance at 31 March 2022, at the time that the budget was set, is £11.779m, being 3.9% of expenditure and therefore towards the top end of the range. This has been achieved in part through the underspend (after earmarking) being projected for 2021/22, discussed further on page 6.

# Financial sustainability (continued)

## Reserves (continued)

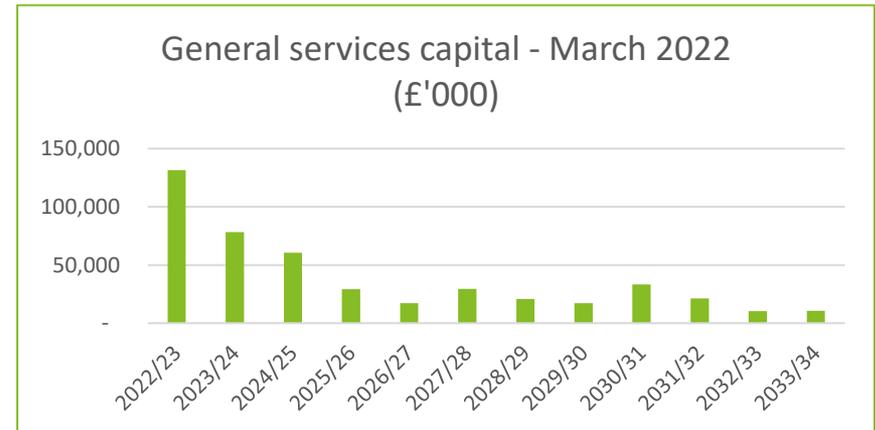
The overall reserves position has continued to increase in comparison with 2020/21, however, the majority of this is earmarked for specific purposes, in particular:

- The General Fund balance has been significantly impacted by the additional funding received from the Scottish Government in late 2020/21 to support the Council in responding to COVID-19. In setting the 2022/23 budget, an uncommitted COVID-19 reserve of £3.388m was available to utilise in 2022/23, with £2.640m committed to be used. Since then, further funding has been received and will be confirmed in the final outturn report to Cabinet in June 2022.
- The HRA earmarked reserve has increased from £12.067m to £14.268m and has been committed to assist in future capital investments in the Council's housing stock.

## Capital planning and treasury management

The Council updates its 12-year Capital Investment Programme (CIP) on an annual basis as part of its budget setting process. The latest long-term capital programme covers the long-term period of 2022/23 to 2033/34. This incorporates adjustments made to re-profile expenditure to ensure that the programme reflects the actual anticipated spend profile of each project.

The graph opposite illustrates the projected CIP over the next 12 years which again shows that the Council continues to have an ambitious capital programme, particularly in the first 3 years of the programme which totals £270m, which is reflected in the approved capital budget.



The HRA capital programme is also updated annually as part of the process for setting the Council house rents and other charges. In March 2022, the Council approved £180.137m HRA capital expenditure for the period 2022/23 to 2026/27.

## Medium-to-long term financial planning

The Best Value Assurance Report (BVAR) published in October 2021 concluded that progress had been particularly slow in financial planning. This builds on conclusions from previous annual audit reports, most recently in our 2019/20 report which concluded that the development of the 10-year financial strategy was a positive first step, we recommended that the Council build into the scenarios the impact of demand pressures on costs to the Council along with the estimated changes in funding to get a fuller picture of the likely challenges that it faces.

# Financial sustainability (continued)

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

The Council updated its Long-Term Financial Outlook (LTFO) in October 2021 covering the period 2022-2032. This has pulled together in one place all known factors affecting the financial position and financial sustainability of the Council over the longer-term.

In recognition that the assumptions that underpin the LTFO cannot be exact and are subject to refinement and change over time, a series of scenarios have been used to set out a range of possibilities. This has identified that the cumulative funding gap by 2031/32 could be between £36.236m and £171.492m as illustrated below. This represents between 1.1% and 6.4% of the Council's annual expenditure and is a significant increase from the estimated 10-year gap identified in the 2020 LTFO of £53.842m. The Council is therefore facing an increasingly significant financial challenges.



In preparing the LTFO, the Council has considered a wider range of factors as illustrated below. We have considered the assumptions used and concluded that they are reasonable and based on available data.

### Local

- Demography and Population
- Households
- Deprivation
- Health

### National

- Economic Outlook
- Scottish Government Funding
- Climate Change
- National Care Service – Feeley Review

### Income sources

- Council Tax
- Fees and Charges
- Use of Reserves

### Cost pressures

- Pay policy
- Inflation factors and key objective investment
- Capital investment decisions

# Financial sustainability (continued)

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

In view of the significant financial challenges faced by the Council, the LTFO sets out the key levers for change that will need to be initiated over the next three-year period to allow action to be taken now that will impact on future years. It has recognised that the historical one-year approach to achieving a balanced budget is no longer sustainable.

The key levers for change are as follows:

- Change programme
- Managing demand
- Reviewing costs and income
- Future Operating Model
- Dis-invest in non-priority service areas
- Digital Technology
- Reduce Council asset base
- Workforce planning

The LTFO is designed to assist the Council in the development of a Medium-Term Financial Plan (MTFP) and subsequent annual budgets.

The MTFP for the period 2022-2025 was approved by the Leadership Panel in October 2021 and drew much of its supporting context and evidence from the LTFO. This provided a clear direction on how the Council will manage its financial resources in the short to medium-term to ensure they are deployed effectively to achieve Council priorities and objectives.

The annual budget gap is summarised below, showing a range of between £2.4m and £14.9m in 2022/23 and a cumulative gap by 2024/25 of between £8.624m and £52.291m.



The MTFP sets out a number of guiding principles to improve the current budget setting process and move to a more medium-term revenue budget strategy.

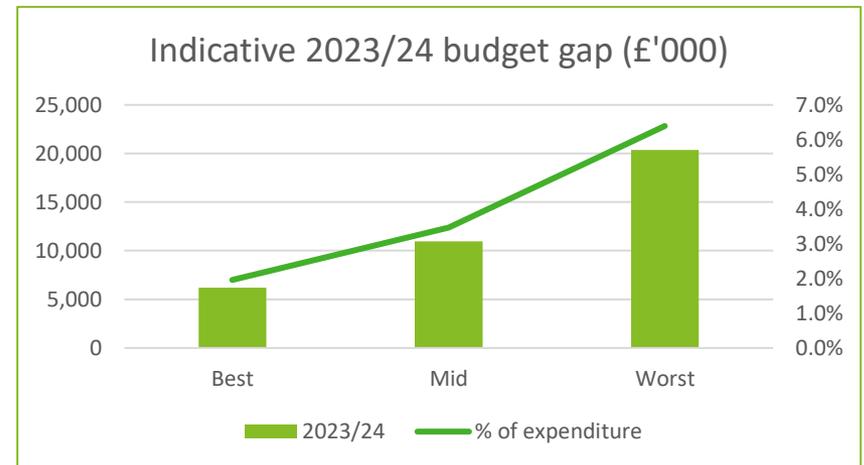
# Financial sustainability (continued)

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

In approving the LTFO and MTFP, the Council agreed the following key actions which are critical to the success of the plans:

1. Develop an external public-facing communication plan to publicise the significant financial challenges the Council faces for the foreseeable future;
2. Develop a clear understanding of the public needs, preferences, and priorities through a robust engagement process;
3. Members require to set clear prioritised service provision based on the Council Plan and projected needs of the public. This may mean service redesign, reduction or cessation of service provision altogether of non-priority areas to stay within the estimated financial envelope; and
4. Develop a workforce plan that is clearly aligned to the prioritised service provision that identifies the size and shape of the desired workforce and facilitates the transition from the current workforce to the desired workforce composition..

An indicative scenario-based revenue budget for 2023/24 was considered at the time of setting the 2022/23 budget, and estimated the following potential funding gaps, which is a worsening position to that estimated at the time of preparing the MTFP.



# Financial sustainability (continued)

## Transformational change

The BVAR concluded that *“South Ayrshire’s approach to transformation has been slow and inconsistent, lacking drive and urgency”*. This builds on conclusions from previous annual audit reports, most recently in our 2019/20 report which concluded:

*“..the agreement of the transformational themes and support and infrastructure is a positive first step. However, significant work is still required to make the level of transformational change needed based on the current financial forecasts, with COVID-19 likely to further impact on future plans. This needs to be progressed at pace. Workforce planning needs to be closely aligned”*.

The BVAR report made the following recommendation in relation to the strategic change programme:

- The Council should make sure that its transformation work is fully aligned and integrated to its COVID-19 recovery planning work and improve its approach to strategic change programme by:
  - Adding greater detail about individual projects;
  - Setting clear timelines for each project; and
  - Developing a benefits realisation tracker to assess whether the Council has achieved its aims.

The Council should improve and embed workforce planning, so that service workforce plans are developed consistently across the council. The plans should include clear links to the council’s priorities and to its strategic change programme.

A detailed follow up of each of the agreed actions is included on pages 28 to 35 of this report.

### South Ayrshire Way Strategic Change Programme – overarching high level themes

Delivering Council Plan priorities

Services which are designed to be fit for purpose and sustainable

Customers at the heart of what we do

Digitally confident

Maximising the use of our assets

A workforce for the future

# Financial sustainability (continued)

## **Transformational change (continued)**

We are pleased to see that regular progress updates have been provided to the Leadership Panel, the most recent at the time of the audit being in February 2022, with the key developments noted as follows:

### *Governance arrangements and resource:*

The Strategic Change Executive (SCE) was established as the senior officer group to provide oversight of delivery of the change programme. The SCE held its first meeting in July 2021 and meets on a monthly basis, reporting to the Executive Leadership Team (ELT) and in turn the Leadership Panel.

The Strategic Change Programme Office (SCPO) has been established, comprising three members of staff, made permanent as part of the 2022/23 budget, basis to deliver the programme. The team started in June 2021 and include one Project Implementation Coordinator and two Project Implementation Officers. In approving the 2022/23 budget, a further two posts were added to the team.

As referred to on page 7, approval has been given to create 11 temporary posts within the Council's Corporate Support teams for a 24-month period, in part to meet corporate support requirements in the delivery of the Change Programme. Recruitment to these posts is underway.

A Resource Allocation system has been implemented to identify and ensure projects have the required level of delivery resource in place.

### *Detailed projects and benefits tracker:*

19 projects were initially approved by the SCE for inclusion within the programme, with a further four added in February 2022. As at March 2022, 19 of these are at implementation stage, three projects are at planning stage and one closed.

A Benefits Realisation Plan has been developed and approved by the SCE. The SCPO is currently working with project teams and finance to input into the benefits tracker to support identification of measurable cashable, qualitative and/or quantitative benefits. Evidencing the impact of each of the projects is a key focus of activity for the Change Team over the next quarter, and a further update is expected to the Leadership Panel in June 2022.

At this stage, there are no details of expected savings or benefits identified at a project level. This is critical for two key reasons:

1. Firstly, to be able to demonstrate that the programme is sufficient to meet the financial challenges that the Council is facing over the medium to longer-term (as discussed on page 15); and
2. Secondly, to demonstrate that the programme is achieving what it set out to.

We will continue to monitor how this is progressed through the update to the Leadership Panel in June 2022.

# Financial sustainability (continued)

## Future Operating Model

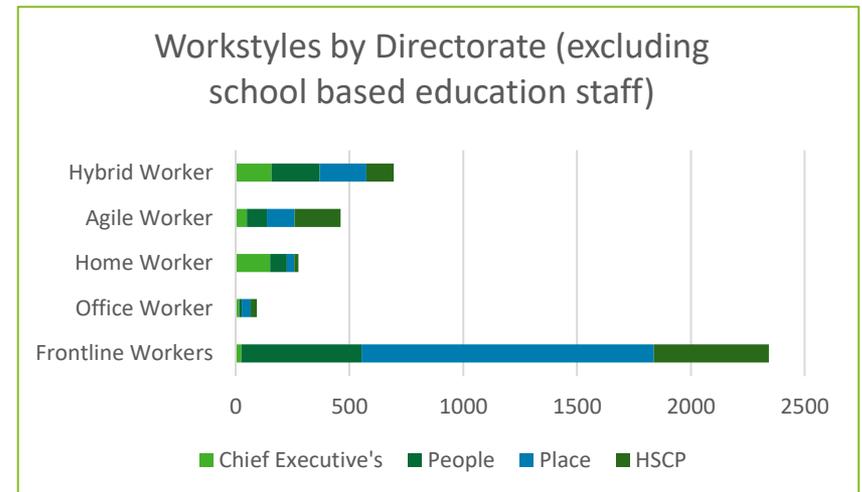
The BVAR concluded that progress had also been particularly slow in workforce planning. This builds on conclusions from previous annual audit reports, most recently in our 2019/20 report which concluded that it was important that as transformation projects are developed, they are closely aligned to workforce plans.

As highlighted in the BVAR, the Council's changes to working practices due to the COVID-19 pandemic has prompted a review to rationalise its property assets, in particular its Council offices. Following feedback received through the Employee Covid Recovery Survey, a "Future Operating Model" project commenced in March 2021. The project comprised six workstreams to embed lessons learned from the COVID-19 pandemic and review how the Council will operate in the future.

	Workstream
1	Workforce Analysis
2	Health, Safety and Wellbeing
3	Support for Homeworking: Digital/Equipment
4	Support for Homeworking: Employee and Manager Guidance
5	Workplace: Office Accommodation
6	Face to Face Service Delivery

In March 2022, the Council approved a paper setting out the proposals coming from this project, and in particular:

- Agreement of workstyles for different roles (as illustrated below);
- Approval of Remote Working Policy;
- Approval of Homeworking Health and Safety Guidance for Manager and Employees;
- Note principles, proposals and plans for the office estate to meet the needs of the new ways of working; and
- Agreement to the reintroduction of face to face customer services by triaged appointment.



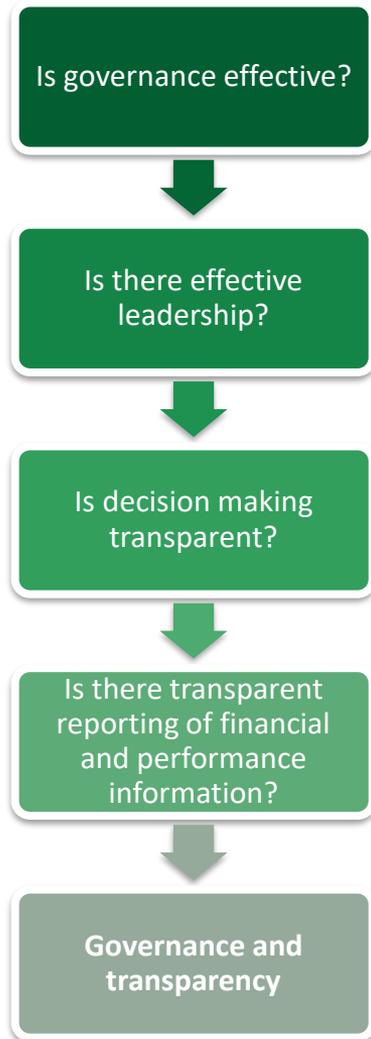
# Financial sustainability (continued)

## Deloitte view – Financial sustainability

The Council has set a balanced budget for 2022/23 and holds unearmarked reserves at a level consistent with its Reserves Strategy, therefore is financially sustainable in the short term. However, it continues to be faced with significant financial challenges over the medium and longer-term, projecting a funding gap of between £6m and £20m by 2023/24, and a gap of between £108m and 172m over a ten year period.

It is positive to see the work progressing with the Strategic Change Programme with governance arrangements in place and plans agreed. However, there is still insufficient detail against each project of both the expected savings or benefits and achievements to date to be able to demonstrate that the plans are sufficient to meet the significant challenges that the Council is facing over the medium-longer term. It is critical that this work is progressed at pace and scale to ensure that both the plans are sufficient and that the planned benefits are realised.

# Governance and transparency



## Significant risks identified in Audit Plan

The BVAR concluded that there was good working relationships between officers and elected members, however the Council's leadership – elected members and management – had made limited progress on key aspects of Best Value. Progress had been particularly slow in community planning, financial and workforce planning, transformation and some aspects of community empowerment. While there had been some very recent progress, the BVAR concluded that the Council's leadership needs to increase its ambition, pace and focus to deliver improvements in these important areas. This therefore remains a risk. We have assessed the work that the Council's leadership has done to increase its ambition, pace and focus to deliver improvement as part of our consideration of the progress on transformational change discussed further on pages 16 to 18. We have also reviewed the work of the Council and its Panels, as summarised on the following pages.

Our audit plan identified that there have been a number of changes within the Internal Audit function during the year, with the Chief Internal Auditor post being vacant for a number of months while recruitment was carried out and a permanent replacement appointed in December 2021. There had also been vacancies at the Senior Internal Auditor and Auditor level. This therefore presents a risk which needs to be closely monitored to ensure that the sufficient assurance can be provided inclusion in the Annual Governance Statement. We have considered this on page 9.

## Leadership

The Executive Leadership Team has remained largely consistent with previous years. The Depute Chief Executive/Director of People left the Council in January 2022, The Education element of this role was replaced by a Director of Education, who has been appointed in January 2022.

In line with the discussion on transformational change on pages 16 to 18, while some progress has been made with developing plans and arrangements in place, further work is required to be able to demonstrate that there is sufficient pace and focus on delivering improvements.

# Governance and transparency (continued)

## Governance and scrutiny arrangements

We have reviewed meetings attendance from the past year and confirm that there has been adequate attendance. In addition, from attendance at meetings we can confirm that there is sufficient scrutiny and challenge exercised by members during the meetings.

As a result of COVID-19 and associated restrictions, meetings of the Council and its Panels have taken place via a hybrid model of face to face mixed with members and officers attending remotely via MS Teams. In October 2021, following the successful implementation and testing of the “Public-1” platform, the Council agreed to allow access to the public and press via live webcasting of all meetings.

The Audit and Governance Panel continues to be a key element of the governance arrangements in place. Every two year, it now undertakes a self-evaluation of its performance, which has become a standard procedure following our recommendations. The next review is due in August 2023.

The Audit and Governance Panel also provide oversight and scrutiny of the Strategic Risks through a bi-annual report, which was last reported to the Panel in December 2021, with subsequent reporting to the Leadership Panel.

## Openness and transparency

The Council continues to make all agendas, papers and minutes available to the public through its website. We are also pleased to note that, in line with our recommendations, all meetings are now live streamed to allow access to the public, thereby continues to demonstrate openness and transparency of decision making and performance information (which is considered further on page 25).

The Council has continued to engage with communities on plans and decisions, with further engagement planned in the development of the medium-to-longer term plans. A new Thriving Communities service has been established and implementation of new structures and formation of community based locality teams is ongoing.

# Governance and transparency (continued)

## Following the public pound

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

The Partnership Panel, made up of six elected members, provides a scrutiny oversight of service delivery through or in partnership with external bodies with regard to FtPP. In addition, within the Internal Audit Plan, there is specific time set aside to review FtPP during the year as part of the work performed.

We are therefore satisfied that the Council complies with the Following the Public Pound Code.

### **Deloitte view – Governance and transparency**

There continues to be good working relationships between officers and members, however, further work is required to be able to demonstrate that there is sufficient pace and focus on delivering improvements.

The governance arrangements continue to be robust, with an effective Governance and Scrutiny Panel. The Council continues to be open and transparent, with the introduction of live streaming of all meetings during the year enhancing that openness.

# Value for money



## Significant risks identified in Audit Plan

The BVAR concluded that performance reports to members were detailed and balanced and there was good scrutiny by members. However, the report identified a number of areas where performance reporting could be improved. This therefore remains an area of risk. We have followed up on progress with this as summarised on the following pages.

The COVID-19 pandemic is expected to continue to have a substantial impact on performance reporting. There therefore also remains a risk that the Council is unable to demonstrate that resources are being used effectively with a focus on continuous improvement. We have therefore reviewed the performance reports presented at the Council to assess the extent of openness and transparency during the year, as summarised on the following pages.

## Performance management framework

The Performance Management Framework was previously approved in August 2020. In response to the recommendations made in the BVAR, an updated Performance Management Framework was approved by the Service and Performance Panel in February 2022. This included the following key changes:

- Changes to terminology to ensure it matches the wording of the Council's six commitments;
- Introduced the requirement to monitor performance against targets where possible;
- Introduced the requirement to provide a management summary at the beginning of performance reports and set out guidance on what the summary should include; and
- Updated the reporting schedule to include quarterly performance (KPI) reporting where available.

The Council also have plans in place to explore options for the future iterations of the Council Plan with members and Community Planning Partners and consider how reporting could be improved. As part of this development, it plans to put a greater emphasis on measuring outcomes.

# Value for money (continued)

## Statutory performance indicators

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 Statutory Performance Information Direction requires a council to report a range of information in the areas listed below.

### SPI 1: Improving local services and outcomes

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

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

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

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

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

## Performance data

The Council has continued to report performance measures, in particular:

1. The Council's Annual Performance Report 2020/21 was considered and approved by the Council in December 2021.
2. A progress report setting out progress against the strategic objectives contained in the Council Plan 2018-22 (2020 Mid-Term Refresh) was considered by the Service and Performance Panel in February 2022.
3. An analysis of the Council's performance within the Local Government Benchmarking Framework (LGBF) based on the 2019/20 data analysis was considered by the Service and Performance Panel in April 2021.

We have considered each of these on the following pages.

# Value for money (continued)

## Performance data

The Annual Performance report 2020/21 provides a summary of the performance of the Council over the year, including both statistics and narrative against each of the Council's six commitments:

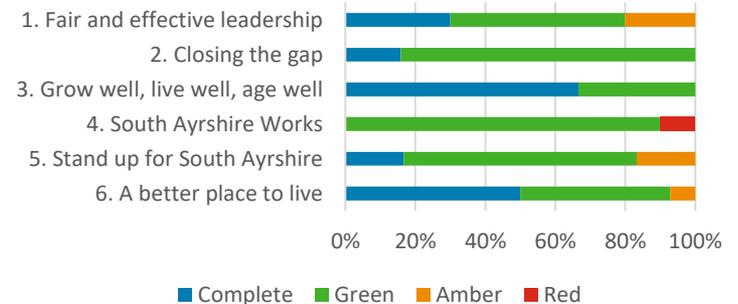
1. Fair and Effective Leadership
2. Closing the Gap
3. Grow Well, Live Well, Age Well
4. South Ayrshire Works
5. Stand up for South Ayrshire
6. A better place to live

Throughout the report, the Council has highlighted examples of service recovery and improvement actions that have taken place during 2021 along with specific case studies.

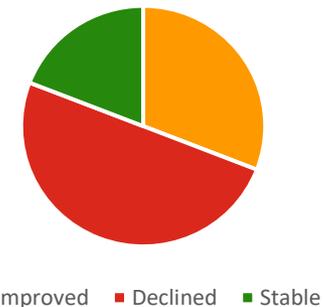
The progress report on the actions from the Council Plan, also reports of the six key commitments, with the latest status illustrated opposite. This is showing that the majority of actions have either been completed or are on target (green).

The LGBF 2019/20 Data Analysis, being the most recent data that is available, provided benchmarking data on 97 indicators covering a wide range of key service areas. As the data relates to 2019/20, the impact of COVID-19 will not have fed through. In addition, the pandemic has impacted on data collection for some of the measures, most notable education. An overall summary is shown opposite. Officers have provided members with commentary on each measure to help provide context and highlight where improvement activity is planned or already underway.

## Council Plan - Progress at Dec 2021



## LGBF Indicators 2019/20



## Value for money (continued)

### **Deloitte view – Value for money**

The Council has a clear performance management framework which has been refreshed during 2021/22 in response to the recommendations in the BVAR, with further changes planned in the next iteration of the Council Plan. It has continued to report its performance against the commitments within the Council Plan and also against the LGBF, with clear actions in place to address indicators that are adrift of target.

The Council also continues to have appropriate arrangements in place to comply with the SPI Direction, including its public performance reporting requirements.

# Best value

It is the duty of the Council to secure **Best Value** as prescribed in Part 1 of the Local Government in Scotland Act 2003. We have a statutory duty to be satisfied that the Council have made proper arrangements for securing BV.

## 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; and
  - 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; and
  - 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.

2021/22 is year six of the extended six-year approach to auditing BV in councils. BV audit work is integrated with the annual audit and have worked closely with Audit Scotland's Performance Audit and Best Value ('PABV') team to plan, perform and report on the BV audit work.

A key feature of the approach to auditing BV is the Controller of Audit providing a Best Value Assurance Report ('BVAR') to the Accounts Commission for each Council once over the audit appointment. The BVAR for South Ayrshire Council was published in October 2021. This concluded that whilst many services were performing well, the Council's leadership, elected members and management, has made limited progress in key aspects of Best Value since the previous report in 2016. We have followed up on the progress with the recommendations as part of the annual audit work, considering the pace and depth of continuous improvement. A summary of the progress against each recommendation is reported on pages 28 to 34.

Our BV audit work is integrated into our audit approach, including our work on the audit dimensions discussed on pages 5 to 26. Through our annual audit work, discussed further within this report, the Council continues to have a number of arrangements in place to secure best value, including an established governance framework and a comprehensive performance management framework. However, significant work is still required to be able to demonstrate that there is sufficient pace and focus on delivering improvements given the financial challenges faced in the medium-to-longer term.

## Deloitte view – Best Value

The Council has made good progress in starting to implement the recommendations and associated actions arising from the BVAR published in October 2021 and has a clear understanding of areas which require further development.

# Best Value (continued)

## Best Value Assurance Report

We have assessed the Council's progress against each of the recommendations made, as summarised in the table below. (as reported to the Audit and Governance Panel on 16 March 2022).

Recommendation/Agreed Action	2021/22 update	Progress/Target Date
<p><b>Recommendation 1</b> - The council should assure itself that it has the capacity and skills required to increase its pace of improvement in key aspects of Best Value, such as community planning and empowerment, financial and workforce planning, and transformation. Where appropriate, external support should be sought from other councils, or the Improvement Service, to help with focusing its areas of improvement.</p>		
<p>Secure additional funding to add temporary resources to key areas of Best Value</p>	<p>Following creation of Director of Education post, Chief Executive requested to bring forward further structural proposals in due course - anticipate that these will now be post May 2022.</p>	<p><i>10% progress</i> <i>Due 31/12/2022</i> <i>(on target)</i></p>
<p>Engage the Improvement Service on aspects of Best Value</p>	<p>Discussions took place with Improvement Service when report was published and they have identified some areas for potential support for discussion on 7 February 2022.</p>	<p><i>10% progress</i> <i>Due 31/12/2022</i> <i>(on target)</i></p>
<p><b>Recommendation 2</b> - The council should prepare both medium- and long-term financial plans. The plans should consider changes to both income and expenditure, identify budget gaps and set out the actions necessary to address those gaps. There should also be a clear linkage to council's priorities.</p>		
<p>Develop a Long-Term Financial Outlook (LTFO) that draws together all known factors which affect the Council's financial position and its financial sustainability over the longer-term (i.e., a ten year period). The LTFO will be refreshed bi-annually</p>	<p>Long-Term Financial Outlook (LTFO) and Medium Term Financial Plan (MTFP) was considered and approved by Leadership Panel in 2021. <i>(100% complete)</i></p>	<p><i>100%</i> <i>(complete)</i></p>

# Best Value (continued)

## Best Value Assurance Report (continued)

Recommendation/Agreed Action	2021/22 update	Progress/Target Date
Develop a Medium-Term Financial Plan (MTFP) that provides a clear understanding of the anticipated resources available to the Council in the short and medium-term (i.e. three years) in order to deliver its priorities and objectives. The MTFP will be updated annually.	Plan developed and approved.	100% <i>(complete)</i>
Ensure clear and continued linkage between the LTFO and MTFP with other key strategic documents, including the Council Plan, Workforce Plan, Long-Term Financial Linkage evidenced in future strategic developments. Executive Leadership Team (ELT) and Corporate Leadership Team (CLT) Ongoing and aligned to Council Plan and Workforce Plan Strategy and Treasury Management Strategy.	This work be taken forward after elections in May 2022	0% <i>Due 31/12/2022</i> <i>(Not due to start)</i>
Develop a public-facing communication plan to publicise and explain the significant financial challenges facing the Council for the foreseeable future.	A communications plan will be developed at the appropriate time	0% <i>Due 31/12/2022</i> <i>(Not due to start)</i>
Develop a clear understanding of public needs, preferences, and priorities through a robust and recurring engagement process, aligned with the local government electoral cycle.	An engagement strategy will be developed and delivered through Thriving Communities teams at the appropriate time.	0% <i>Due 31/12/2022</i> <i>(Not due to start)</i>
Develop processes to support Elected Members in setting clear, prioritised objectives based on the Council Plan and the projected needs of the public, including service redesign, reduction, and cessation where appropriate.	The development of these processes will be taken forward following Elected Member induction in May/June 2022	0% <i>Due 31/12/2022</i> <i>(Not due to start)</i>

# Best Value (continued)

## Best Value Assurance Report (continued)

Recommendation/Agreed Action	2021/22 update	Progress/Target Date
<p>Engage with external partners (e.g. Improvement Service) to ensure that the design and delivery of community engagement improvement actions are effective and reflects best practice.</p>	<p>Thriving Communities are liaising with the HSP, 3RD Sector and other CPP partners to improve community engagement across CPP. It is proposed that the existing CPP Communities Reference Group is refreshed and called Community Engagement Coordination Group. (Proposal Attached). Internally improvements have already taken place, this includes the established consultation officer's group, engagement with Community Councils and the roll out of Place Standards toolkit. Initial meetings have taken place with the Improvement Service and a presentation was delivered by them to Senior Management. Early engagement has commenced in relation to best practice engagement activity.</p>	<p><i>100% complete (complete)</i></p>
<p><b>Recommendation 3</b> - The council should improve and embed workforce planning, so that service workforce plans are developed consistently across the council. The plans should include clear links to the council's priorities and to its strategic change programme</p>		
<p>Convene a Corporate Working Group to develop a workforce plan for 2022-25 that links to the Council's strategic priorities and improvement areas in relation to Best Value.</p>	<p>Completed</p>	<p><i>100% (complete)</i></p>
<p>Workforce Plan Implementation</p>	<p>Plans still awaited from a few services - support being provided to ensure plans completed by end June</p>	<p><i>95% progress Due 30/06/2022 (on target)</i></p>

# Best Value (continued)

## Best Value Assurance Report (continued)

Recommendation/Agreed Action	2021/22 update	Progress/Target Date
<p><b>Recommendation 4</b> - The council should make sure that its transformation work is fully aligned and integrated to its Covid-19 recovery planning work and improve its approach to its strategic change programme by:</p> <ul style="list-style-type: none"> <li>• adding greater detail about individual projects</li> <li>• setting clear timelines for each project</li> <li>• developing a benefits realisation tracker to assess whether the council has achieved its aims</li> </ul>		
<p>Update Leadership Panel on the development and delivery of the South Ayrshire Way Strategic Change Programme</p>	<p>To date, the following updates have been provided:</p> <ul style="list-style-type: none"> <li>• Leadership Panel - 15 February</li> <li>• Service and Improvement Panel - 29 March</li> <li>• Cabinet - 14 June</li> </ul>	<p><i>50% progress</i> <i>Due 31/12/2022</i> <i>(on target)</i></p>
<p>Development of a Communications Strategy including the roll out of key messages to staff, stakeholders, partners and the public on the launch of the Change Programme; key themes and outputs and the benefits that will be achieved</p>	<p>Communication Strategy approved and implemented, and updates provided to the Strategic Change Executive</p>	<p><i>100%</i> <i>(complete)</i></p>

# Best Value (continued)

## Best Value Assurance Report (continued)

Recommendation/Agreed Action	2021/22 update	Progress/Target Date
Implementation of internal effective mechanisms for reporting programme progress and in particular tracking benefits	A Benefits Realisation Plan and Tracker has been developed and approved by the Strategic Change Executive. All projects are now developing benefit trackers to capture, record and monitor the delivery of project benefits. A link to the Benefit Realisation Plan which has the Tracker embedded is provided below. Options for reporting programme benefits have been considered with a preferred system identified. This will be trialled during March.	100% <i>(complete)</i>
Continue to progress the delivery of projects, focussing on moving projects from the scoping/exploratory phase and into delivery.	Over 80% of the projects on the Programme are at delivery stage.	100% <i>(complete)</i>
Review governance arrangements across the Council to integrate its approach to transformation and change; avoid duplication, promote recovery from covid and inform best practice	Governance arrangements in place for the Strategic Change Programme only as managed by Place Directorate. Wider Governance arrangements will be required to identified and be adopted and integrated across whole Council by Senior Leadership.	0% <i>(Due 31/05/2022)</i>

# Best Value (continued)

## Best Value Assurance Report (continued)

Recommendation/Agreed Action	2021/22 update	Progress/Target Date
<p><b>Recommendation 5</b> - The council should improve performance reporting by:</p> <ul style="list-style-type: none"> <li>• setting targets for its KPIs</li> <li>• including a summary of performance against KPIs in its performance reports to members</li> <li>• increasing the frequency of reports to elected members</li> <li>• making performance reports more accessible to the public.</li> </ul>		
<p>Explore options for the future iterations of the Council Plan with Members and community planning partners and consider how reporting could be improved</p>	<p>Scoping of good practice in other LAs complete and data packs are being compiled at a ward and locality level. Induction meeting/training arranged with members on the 27th of June.</p>	<p><i>25% progress</i> <i>Due 31/12/2022</i> <i>(on target)</i></p>
<p>As part of the development of the new Council Plan a greater emphasis will be on measuring outcomes</p>	<p>Webinar on measuring outcomes attended by Service Lead and CP Lead Officer. Further discussion on outcome measures will flow from the plans ongoing development.</p>	<p><i>10% progress</i> <i>Due 31/12/2022</i> <i>(on target)</i></p>
<p>Review the performance monitoring framework to improve public performance reporting</p>	<p>The review of the Performance Monitoring Framework was approved at the Service and Performance Panel that took place on Tuesday 8th February 2022</p>	<p><i>100%</i> <i>(complete)</i></p>

# Best Value (continued)

## Best Value Assurance Report (continued)

Recommendation/Agreed Action	2021/22 update	Progress/Target Date
<p><b>Recommendation 6</b> - To help them carry out their roles, including their responsibilities under Best Value, elected members should take advantage of the learning and development opportunities provided by the council. The council should continue to work with elected members to understand and address the reasons for the variable uptake of training.</p>		
<p>Conversion of all training to online Coast training courses and production of online Member's pack</p>	<p>Legal, HR, Health and Safety and Risk and committee services have all identified and uploaded new Coast Training Courses. The Chief Executive services are now considering at the point of any new training for members whether it can or should form a Coast Course. Head of Legal, HR and Regulatory Services has written to Organisational Development to ask them to consider how best to make that request of the wider Council Services. Material is being considered for an online Members Induction Pack – this can be concluded once the induction programme is finalised by the group coordinating this training.</p>	<p><i>90% progress</i> <i>Due 31/08/2022</i> <i>(on target)</i></p>
<p>Consideration of medium for delivery of training – i.e. by Hybrid training where Members can be both present in person and attending online</p>	<p>Questionnaire sent to members to request their views of best mediums for training. Response awaited. Once feedback received then a proposal for how training could be delivered will be discussed with the Chief Executive. A request has been made to ICT to consider what options would be available for training to be provided in person and online at the same time. Once received this will be filtered into the proposal on training for members after the election</p>	<p><i>75% progress</i> <i>Due 31/08/2022</i> <i>(on target)</i></p>

# Best Value (continued)

## Best Value Assurance Report (continued)

Recommendation/Agreed Action	2021/22 update	Progress/Target Date
Return to Personal Development Plan (PDP) and personalisation of training needs with new Members intake	Head of Legal, HR and Regulatory Services has asked Organisational Development to provide the process they followed in the past for PDP when they trained new members. This will be considered and a process developed to provide PDPs	<i>60% progress Due 31/12/2022 (on target)</i>
Further develop new Member induction training	Chief Executive has convened a group that is considering the timetable of meetings and training that will be delivered for new members. The training to deliver this programme is being developed by officers responsible for that training. Group is meeting regularly.	<i>Complete</i>
Report to Service and Performance Panel on training that is delivered with details of Member attendance	Consideration is being made of how the different training attended by members could be captured and how that could be presented in a report to Service and Performance.	<i>10% progress Due 31/12/2022 (on target)</i>

# Emerging issues

## Climate change

### Background

In our 2020/21 report, we set out a high level assessment of the work that the Council has done in relation to preparing for the impact of climate change against our baseline expectations. This concluded that climate change is clearly on the Council's agenda, is recognised as a strategic risk and the Sustainable Development and Climate Change Strategy had set out how the sustainable development outcomes relate to the Council Plan strategic objectives.

In March 2022, Audit Scotland published a report [Addressing climate change in Scotland | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/reports/Addressing%20climate%20change%20in%20Scotland) drawing together the key themes identified across a range of published recommendations for Scotland and set out a high level summary of the key improvements that need to be made across the public sector if Scotland is to reach its climate change ambitions of a just transition to net zero and adapting to improve resilience to the effects of the global warming we are already experiencing. We have summarised each of these key themes below, along with the suggested actions. We recommend that the Council carry out a self assessment against each of these points and develop an action plan to help focus on where further work is required.

### Key themes

### Suggested actions

**Leadership** – public bodies should make responding to climate change a core value and key outcome.

Public bodies can lead the way through developing procurement framework and contracts with economic, social and environmental requirements and with developing and maintaining standards and regulations.

**Governance** – climate change plans need to have robust governance arrangements to ensure a clear approach to delivery which allows collaboration and integration and can address and resolve any conflicts between partners, priorities and policies. It also needs to support fast-paced changes to plans, technologies and policies.

Good governance ensures accountability and transparency. It requires:

- Monitoring, evaluating, reporting and verifying plans with clear timeframes;
- Feedback mechanisms to review how things work as they are being implemented;
- Processes for how projects will be upscaled and alternatives proposed where projects are not delivering what is expected; and
- Effective scrutiny, oversight and challenge by elected members and non-executive board members.

# Emerging issues (continued)

## Climate change (continued)

Key themes	Suggested actions
<p><b>Community empowerment to develop local solutions</b> – actions to address climate change could potentially have an unequal impact on some people and communities. Climate change should become a priority issue that public bodies and their partners engage with local communities on.</p>	<p>Incorporating climate resilience and net zero targets into existing local plans and initiatives, such as city and regional deals and participatory budgeting, will make it easier for public bodies to work with communities and support faster progress,</p>
<p><b>Behavioural change</b> – clearer information on the environmental impact of people’s choices is needed for all of us to make informed decisions, particularly around sustainable diet, waste and travel.</p>	<p>There is a need for clear plans to influence societal change and help people adapt to climate change and smooth transition to net zero.. Greener options need to be attractive in terms of quality and affordability.</p> <p>Public bodies should make efforts to sustain some of the changes in behaviours beneficial to emission reduction that emerged in the COVID-19 lockdowns, such as remote working, replacing business travel with videoconferencing and online collaboration, and broader lifestyle choices including more walking and cycling.</p>
<p><b>Alignment of policy and spend</b> – the type of leadership outlined on the previous page, would support the alignment of all policy and funding decisions. However, the challenge is significant.</p>	<p><b>Policy alignment</b> – all policies should be reviewed individually and holistically to identify conflicts or incoherence with climate change ambitions and be amended as required. The complex landscape, and sheer number of strategies and plans that will play a part in delivering net zero and reducing the impacts of climate change makes this challenge harder at all levels of public sector.</p> <p><b>Alignment of spend</b> – budgets and spend (both capital and revenue) should align with climate change ambitions. Public bodies will also need to ensure all future funding and investment decisions are based on their contribution to climate change ambitions and an inclusive, net zero carbon economy.</p>

# Emerging issues (continued)

## Climate change (continued)

Key themes	Suggested actions
<p><b>Robust planning for net zero, mitigation and adaption</b> – robust cross-sector plans are essential, but experts recognise the challenge is colossal.</p>	<p>As urgent action is required, climate change plans need innovative thinking to address the inherent tensions between doing things thoroughly and doing things quickly. Lessons could be learnt from the public sector’s response to the COVID-19 pandemic. Climate change planning needs to happen collaboratively, with a range of private and public sector bodies, third sector organisations, and communities, as well as simultaneously in different geographical areas. Climate experts should also be involved in planning.</p> <p>Plans should provide clarity in delivery and implementation with sufficient detail and clear timelines.</p>

# 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 Audit and Governance Panel and the Council discharge their governance duties.

### 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.

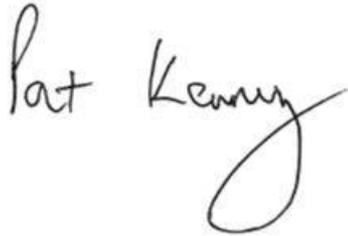
### What we don't report

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 audit of the financial statements and the other procedures performed in fulfilling our audit plan.

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



**Pat Kenny, CPFA**  
**and on behalf of Deloitte LLP**  
Glasgow | 14 June 2022

# Sector developments



# Local government in Scotland

## Financial overview 2020/21

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### Background and overview

The Accounts Commission published its Local government in Scotland financial overview 2020/21 in March 2022. This covers the first full year that makes clear the impact of COVID-19. It also looks ahead to the medium-to-longer term financial outlooks for Councils.

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### Key messages

#### Local government finances 2020/21

- The Covid-19 pandemic persisted throughout 2020/21, with the Scottish Government increasing funding to councils by £1.5 billion to support them in dealing with the impacts of the pandemic.
- When Covid-19 funding is excluded, there has been a real terms underlying reduction of 4.2 per cent in local government funding since 2013/14.
- The underlying increase in Scottish Government funding of £358 million in 2020/21 was 1.1 per cent in real terms. But, over half of this increase is due to specific grants. Ring-fenced funding helps support delivery of key Scottish Government policies but constrains a proportion of the total funding and resources and removes any local discretion over how councils can use these funds.
- Councils' income from customers and clients was affected by Covid-19 restrictions and fell by £0.5 billion.
- In 2020/21, all councils reported surpluses and increased their usable reserves. The total increase in reserves was £1.2 billion (46 per cent). This increase was mainly due to late Covid-19 funding, which was unspent at 31 March 2021.
- Councils administered a further £1.4 billion of Covid-19 grants on behalf of the Scottish Government in 2020/21, putting additional pressure on finance staff across councils.

#### Medium and longer-term outlook for local government finances

- Scottish Government capital funding to councils is expected to fall again in 2021/22.
- Uncertainty over the amount of funding available for Covid-19 recovery at the end of 2020/21 led to difficulties in setting budgets, and many councils established updated Covid-19 budgets in autumn 2021.
- Covid-19 resulted in revised medium-term financial plans, but longer-term planning will need to be updated as Covid-19 uncertainty diminishes.

# Local government in Scotland (continued)

## Financial overview 2020/21 (continued)

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### Key observations

**Reserves** – Most of the increase in the general fund is committed to Covid-19 recovery.

**Financial management and transparency** - Management commentaries in councils accounts have improved, but many are still not complying with previous recommendations on transparency

**Budgets for 2021/22** - The uncertainty over the funding position for Covid-19 at the end of 2020/21 led to issues in budget setting and many councils established Covid-19 budgets in autumn 2021

**Medium and long-term financial planning** - Covid-19 resulted in revised medium-term financial plans, but longer-term planning will need to be updated as Covid-19 uncertainty diminishes.

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### Audit Scotland Recommendations

Elements of Covid-19 funding that are being carried forward in general earmarked and unearmarked reserves in the accounts should be clearly identified.

We recommend again that councils review and improve how they comply with these key expectations of transparency, in particular:

- Is the outturn against budget position for the year clearly shown, and are the reasons for significant variances obvious?
- Is the outturn reported in the narrative reconciled to the movement in the general fund contained in the financial statements, and are major differences explained?
- Is progress against agreed savings reported?

We expect councils to agree spending plans and timescales for Covid-19 recovery reserves with the relevant decision making committee.

All councils will now need to revise medium-term financial plans to reflect additional financial pressures and updated funding arrangements and to account for updated savings requirements and financial assumptions. Councils should also review longer-term planning as Covid-19 uncertainty diminishes.

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### Next steps

The Council should consider each of the above recommendations and incorporate into plans where not already considered. The full report is available through the following link: [Local government in Scotland: Financial overview 2020/21 | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/local-government-in-scotland-financial-overview-2020-21)

# The future of infrastructure: A survey of infrastructure trends

## Deloitte insights

### Background and overview

A new economic reality calls for infrastructure reimagined: more digital, more sustainable, more equitable. From broadband to bike lane's, Deloitte centre for government insight has asked experts how infrastructure will change. Some of the key highlights are summarised below, with the full article available here [Future of infrastructure | Deloitte Insights](#)

#### The pandemic is shifting demand

- Many respondents expect more work from home, more broadband, and more transportation options. However, only 4% believe that there will be fewer people living in cities.

#### Cybersecurity a top concern

- As government shift to more digital infrastructure, cyber risk becomes a concern. About 76% of global infrastructure leaders expect greater focus on data security over the next three years.

#### Technology will reshape infrastructure

- Many respondents expect artificial intelligence, cloud computing, and cybersecurity to reshape infrastructure – a clear signal that infrastructure is going digital.

#### Green infrastructure is in demand

- About 60% of respondents globally said that they plan to invest in urban places for walking, cycling, socialising and eating.

#### Infrastructure's biggest obstacle? Talent

- Interestingly, respondents see talent shortage as a bigger obstacle to executing infrastructure projects than budget constraints or regulatory barriers.

# Action plan



# Action plan

We have followed up the recommendations made in our previous years audits. We are pleased to note that all three recommendations have been fully implemented, with further actions required in relation to transformation identified through the BVAR Action Plan discussed on pages 28 to 34.

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Recommendation	Management Response	Priority	Management update 2021/22
<p><b>1.1 Financial sustainability - transformation</b></p> <p>Transformational change needs to be progressed at pace, including:</p> <ul style="list-style-type: none"><li>• developing the transformational themes into clear projects</li><li>• assess the resources and support required to deliver these projects</li><li>• Develop a robust benefit realisation tracker to assess whether the Council has achieved its aims</li></ul>	<p>Whilst the individual actions for this recommendation have been completed the overall Transformation change activity remains ongoing with further reports on progress and activity to be brought to Leadership Panel in due course.</p> <p><b>Responsible Person:</b> Assistant Director – People, Assistant Director – Place</p> <p><b>Target Date:</b> December 2021</p>	High	<p>Several reports have been presented to Leadership Panel outlining approach, action taken and progress (October 2021 and February 2022)</p> <p><b>Fully implemented</b></p> <p>Superseded with further actions arising from BVAR as discussed on pages 28 to 35.</p>

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## Action plan (continued)

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Recommendation	Management Response	Priority	Management update 2021/22
<p><b>1.2 Financial sustainability – medium-to-long term financial planning</b></p> <p>As part of the planned review of the Financial Strategy during 2020/21 to reflect on the impact of COVID-19, it is important that the Council also build into the scenarios the impact of demand pressures on costs to the Council along with the estimated changes in funding to get a fuller picture of the likely challenges that it faces.</p>	<p>Given the significant uncertainty encountered during the early and middle period of 2020/21 brought about by the ongoing pandemic and lock down situation it was determined that the revised Medium and Long-term Financial plan should be delayed to allow for further consideration of all the new and emerging issues and to ensure that they would factored in to the new Plan. A new M/LTFP is expected to be brought to LP in October 2021.</p> <p><b>Responsible Person:</b> Head of Finance and ICT</p> <p><b>Target Date:</b> March 2021</p>	High	<p>Long-Term financial Outlook and Medium-Term Financial Plan presented to Leadership Panel in October 2021.</p> <p><b>Fully implemented</b></p>

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## Action plan (continued)

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Recommendation	Management Response	Priority	Management update 2021/22
<p><b>2.1 Governance and transparency – openness and transparency</b></p> <p>In the interest of continuous improvement, the Council should consider if there are any lessons learned from other public bodies or other ways of engaging with wider stakeholders, for example by webcasting Council and Panel meetings to reach a wider audience.</p>	<p>New system purchased and installed. Cameras were physically installed in County Hall on 3 September 2021. Test events have taken place for remote meetings with the go live for remote meetings expected in September/October for Regulatory Panel (Planning), Leadership Panel and Council. Testing will now take place for “in person” meetings of Council but the go live date is subject to the requirements of Scottish Government Guidance for the holding of these meetings. Where the public are unable to access “in person” meetings by 1 October 2021 then arrangements will be implemented to allow the public access to view these meetings through the new system.</p>	Low	<p>Webcasting of formal meetings now in place. Cameras and microphones installed in County Hall for future Hybrid meetings (in person/remote options) when they commence following removal of Covid-19 restrictions.</p> <p><b>Fully implemented</b></p>
	<p><b>Responsible Person:</b> Service Lead – Democratic Governance</p> <p><b>Target Date:</b> December 2021</p>		

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