



## **North Ayrshire Council**

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

Issued on 14 September for the meeting on 29 September 2020

# Contents

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## 01 Our report

Introduction	3
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### ***Audit dimensions and best value***

Overview	5
Financial management	6
Financial sustainability	10
Governance and transparency	15
Value for money	18
Best value	21
Emerging issues – climate change	22

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## 02 Sector developments

Responding to COVID-19	25
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## 03 Appendices

Purpose of our report and responsibility statement	28
Action plan	29

# 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 management;
- Financial sustainability;
- 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 and Scrutiny Committee (the Committee) of North Ayrshire Council (the Council) as part of our 2019/20 audit responsibilities. The Best Value Assurance Report (BVAR) was published in June 2020. This covered a number of areas that are also relevant for the annual audit, therefore has been used to inform our conclusions within this report. I would like to draw your attention to the key messages from this paper.

### **Financial Management**

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

The change to Section 95 Officer role from 1 April 2020 has transitioned smoothly.

### **Financial sustainability**

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

As reported through the BVAR, the Council has made good progress with its transformation agenda, however, it still faces a significant shortfall and detailed plans are not yet in place. The Council has a coordinated approach to workforce planning and is developing workforce plans to support transformational change.

The full development of workforce plans and arrangements to monitor and report the benefits from its transformation plans needs to be progressed as a matter of priority.

### **Governance and Transparency**

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

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

The IJB has made some good progress during the year, particularly in its approach to transformation, however, the financial position of the IJB continues to be challenging. This is being actively monitored by the Council.

### **Value for money**

The Council continues to have a clear and robust performance management framework in place. It also has a robust and long-standing arrangements in place to comply with the new SPI Direction including its public performance reporting requirements.

The performance of the Council is showing evidence of improvements in a number of areas. 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.

# Introduction (continued)

## The key messages in this report (continued)

### **Best Value**

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

Our detailed findings and conclusions are included on pages 6 to 21 of this report.

### **Emerging issues**

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focusing on the impact of COVID-19. We have provided a summary of those most relevant to the Council as an Appendix on pages 25 and 26 of this report.

In particular, we have provided a high level assessment of where the Council is in its response to the Climate Change Agenda, discussed on page 22 and 23.

### **Next steps**

An agreed Action Plan is included at Appendix 29 of this report, including a follow up of progress against prior year actions. We will consider progress with the agreed actions as part of our 2020/21 audit.

### **Added value**

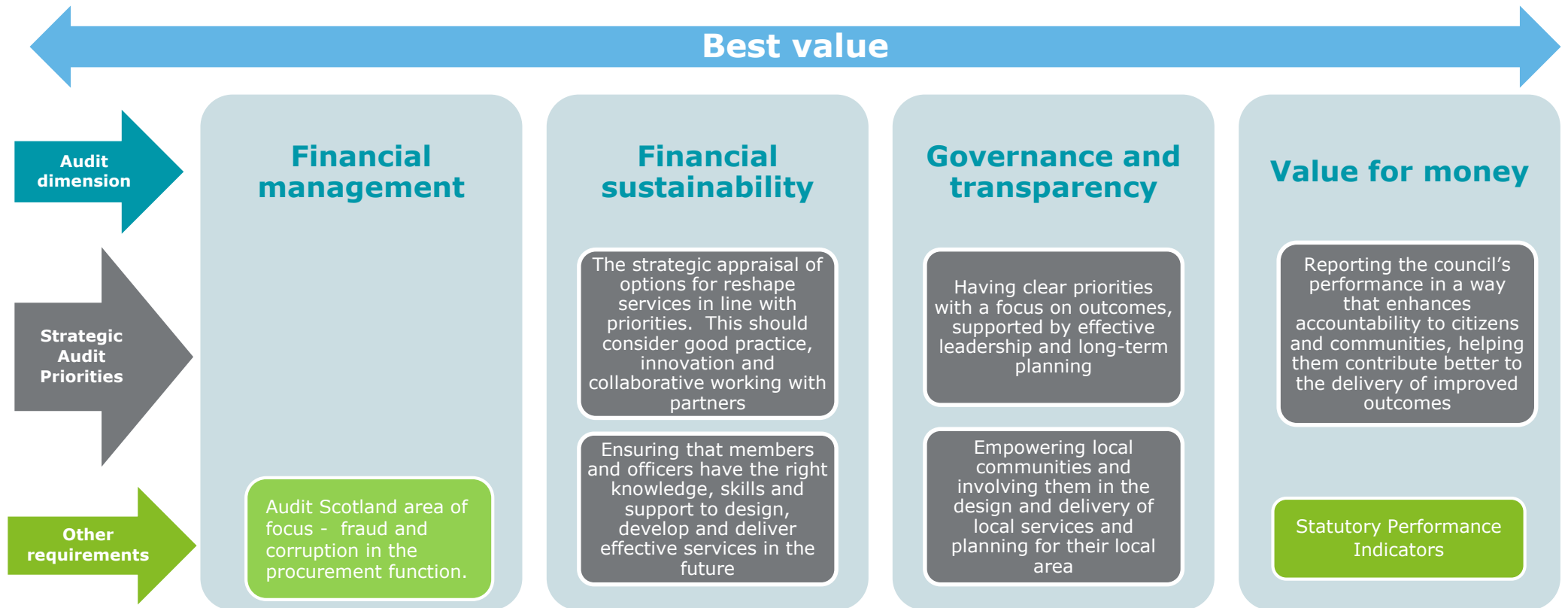
Our aim is to add value to the Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making, and more effective use of resources.

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

# 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 BV arrangements (discussed further on page 21).

# Financial management

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



## Areas considered

Our approach to the audit dimensions is risk focused. Within our audit plan we confirmed that while there was no specific risk in relation to financial management, we would continue to review the Council's financial management arrangements including the extent to which the performance impact of in year savings is monitored.

## 2019/20 financial performance

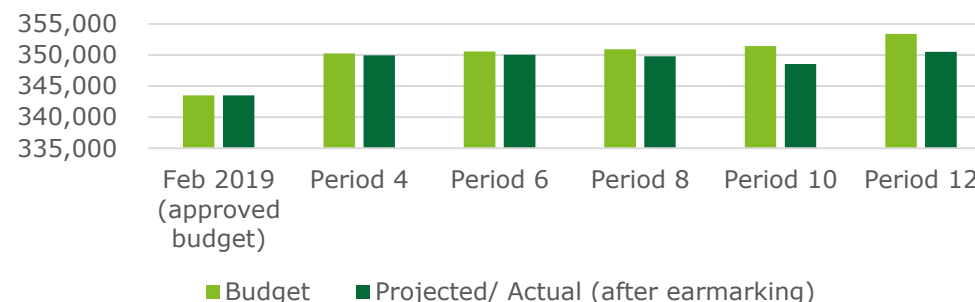
**2018/19 conclusion:** The General Fund and HRA ended the year in a breakeven position. A total of £65m capital expenditure was incurred in the year.

## 2019/20 update:

The **General Fund budget** of £343.521m was approved by the Council in February 2019. Some changes were made to this during the year as a result of additional income being received and carrying forward of earmarked funds from 2018/19, and the final outturn reported actual expenditure of £346.459m. After agreeing to carry forward £4.073m to earmarked reserves and £0.5m to the Insurance Fund, a net in-year underspend of £2.594m was reported.

The Council agreed in March 2020 that any in-year underspends would help mitigate the impact of future COVID-19 costs and support recovery and renewal activities. This balance has therefore been added to the General Fund unearmarked balance (discussed further on page 11).

General Fund budget performance (£'000)



The key reasons for the variances were:

- **Communities service** – underspend of £1.052m, primarily related to the Early Learning and Childcare expansion programme. This has been earmarked for future years to support the programme in future years.
- **Place service** – underspend of £1.444m. This relates to reduced costs and increased income across a range of services.
- **Corporate services** – underspend of £3.383m, largely relating to funds no longer required to support pension auto-enrolment and Scottish Government funding not yet drawn down.

# Financial management (continued)

## 2019/20 financial performance (continued)

The **Housing Revenue Account (HRA)** end the year with a small underspend of £0.463m compared to breakeven budget. This has been consistently reported to members throughout the year.

The most significant variances relates to an underspend in property costs as a result of a reduction in planned cyclical works.

The council has ambitious **long-term year capital programme, as discussed further on page 12**. Progress against this plan are reported regularly to Cabinet.

The final position for 2019/20 reported £70,799m of capital investment incurred during the year (£33.039m general services and £37.760m housing). The most significant projects included:

- New build Additional Support Needs (ASN) School – incurred £7.376m expenditure in the year (with total projected forecast £25.540m)
- Early Years Estate - £4.540m
- Roads Infrastructure - £3.126m
- Council House build programme - £21.410m
- Refurbishment to housing - £5.754m
- Improvements to housing stock - £5.911m

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

## Savings Plans

**2018/19 conclusion:** Savings of £5.094m were achieved in line with budget.

**2019/20:** The approved 2019/20 budget included a need to made savings of £6.278m. Progress against this target was closely monitored through monitoring reports to Cabinet. The final outturn reported that these were largely achieved, with 93% of approved savings delivered.

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

## Financial reporting

**2018/19 Conclusion:** The Council has effective financial planning and management arrangements in place.

**2019/20 Update:** The Council approved its 2019/20 budget on 27 February 2019. The Executive Leadership Team and Councillors regularly review progress against budget throughout the year, with quarterly reporting to the Cabinet for both revenue and capital expenditure. From review of the reporting throughout the year, variances are clearly reported and explained.

**2019/20 Conclusion:** The Council continues to have strong financial management arrangements in place. This is consistent with the conclusions in the BVAR report which concluded "*effective financial management arrangements are in place*".

# Financial management (continued)

## Financial capacity

**2018/19 Conclusion:** The finance team was led by the Executive Director (Finance and Corporate Support) and Head of Finance, both of whom are experienced in local government finance roles. In 2018/19, the IJB appointed a new Head of Finance and Transformation, further enhancing resources and capacity within the HSCP. Previously this role had been performed by the Head of Finance of the Council.

**2019/20 Update:** As part of the Council's senior management restructure, discussed further on page 15, the Executive Director (Finance and Corporate Support) left the Council in June 2020 and the post has been deleted. All Section 95 responsibilities were transferred to the Head of Finance from 1 April 2020, following a lengthy period of handover and as a result, the transition has been smooth. The wider finance team has remained consistent throughout the year.

**2019/20 Conclusion:** The Council has a sufficiently qualified and experienced finance team to support the financial management of the Council. The change to Section 95 Officer role from 1 April 2020 has transitioned smoothly.

## 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 concluded that all significant findings have been appropriately considered as part of the disclosures in the Annual Governance Statement.

Three instances of fraud were reported as part of internal audit work and appropriate action taken to address this. These have been reported to Audit Scotland.

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

We have reviewed the Council's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Council's arrangements to be to be designed and implemented appropriately.

## National Fraud Initiative (NFI)

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

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



# Financial management (continued)

## Fraud and corruption in respect of the procurement function

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

- The risk of procurement fraud is not currently in the Council's risk register, but plans are in place to incorporate this in the next update.
- There are controls in place around the procurement process, including segregation of duties.
- There is a gift and hospitality policy in place to prevent unacceptable instances taking place and systems in place to ensure all acceptable instances are recorded in a register.
- All staff involved in procurement related decisions are trained on how to identify procurement fraud 'red flags' (e.g. excessive entertaining of procurement staff by suppliers).
- Internal Audit coverage of procurement systems is adequate and proportionate to the risks faced by the Council. In 2019/20, Internal Audit carried out a review of procurement cards and procurement spend during 2019/20 and identified a number of actions to improve controls.
- Arrangements are in place to encourage and protect whistleblowers.

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

## Deloitte view – financial management

The Council has strong financial management arrangements which are robust enough to manage financial activity and capture and address any challenges to the achievement of financial targets. The General Fund ended the year with an in-year net underspend of £2.594m after earmarking £4.073m to be carried forward to 2020/21. Savings targets of £6.278m were largely achieved and the HRA ended the year with a small surplus. The financial position and variances were transparently reported to Cabinet throughout the year.

The capacity of the finance team has remained consistent during the year and is sufficient to support the Council's financial management arrangements. The change to Section 95 Officer role from 1 April 2020 has transitioned smoothly.

# Financial sustainability

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



## Areas considered

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

*“There is a risk that the transformation plans, focusing on service redesign, demand management and digital initiatives, are not robust enough to allow the benefits to be realised.”*

## Budget setting

**2018/19 Conclusion:** The Council approved a budget of £343.52m for 2019/20 on 27 February 2019. This incorporated a savings of £6.33m and plans to use £3.88m from reserves. In setting its budget, the Council recognised that, whilst projecting to achieve short-term financial balance, a number of risks existed.

**2019/20 Update:** The Council approved a budget of £357.928m for 2020/21 on 5 March 2020. This incorporated planned savings of £4.330m. The budget also assumes a 4.84% council tax increase in the year.

As concluded in the BVAR “the Council engaged well with elected members and communities as part of the budget process and is continually looking for ways to improve its budget engagement”.

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

- the cost of service delivery exceeding financial provision including: pay, demand led pressures and inflation; not securing in year financial balance; savings not delivered timeously and adequacy of reserves and provisions;
- the financial sustainability of the Health and Social Care Partnership; and
- The delivery of current and future year transformations.

## Impact of COVID-19

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

An update was provided to the Cabinet in June 2020 setting out the current projected cost impacts to March 2021 and it was agreed that once developed, Financial Recovery Options were considered at the Cabinet meeting in September 2020.

# Financial sustainability

## Budget setting (continued)

The update to Cabinet included consideration of the Council's subsidiary, North Ayrshire Leisure Limited (KA Leisure). This noted that the current assessment of lost income projected to 31 March 2021, taking into account a phased release of staff back from the Job Retention scheme, amounts to £2.8m. To ensure visibility of cost pressures, this has been included in the overall cost return. The Council are continuing to work with KA Leisure to identify further areas of cost saving to mitigate the financial impact.

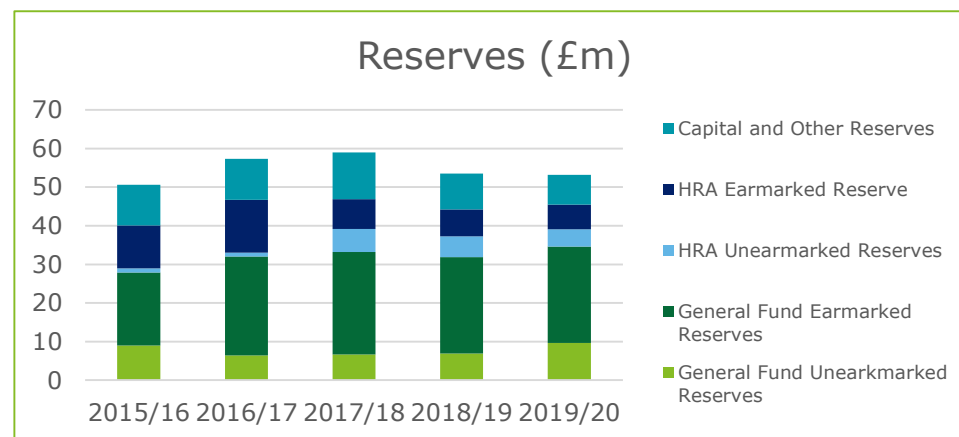
**2019/20 Conclusion:** The impact of COVID-19 on the ability to achieve short-term financial sustainability presents a risk to the Council. As noted on page 9, the Council has a robust planning and monitoring process in place for achieving savings and has, historically, achieved the majority of savings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

## Reserves

**2018/19 Conclusion:** The Council has used reserves in setting its budget over the last few years. This included a reduction in unearmarked reserves to the current level of 2% of net expenditure. It recognised that use of reserves provides a temporary solution but requires a more sustainable approach to be developed. It's Reserve Strategy is a risk specific approach and in line with best practice.

**2019/20 Update:** At the time of approval of the 2020/21 budget, the Council carried out its annual review of its Reserve and Fund Balances in line with good practice. This took into account known commitments, potential liabilities and the risk profile of the Council to provide flexibility to deal with unforeseen circumstances.

The total reserves position for the Council at 31 March 2020 and movement over the last five years is illustrated below, with the general fund unearmarked balance representing 2.7% of budget. As noted on page 6, the Council achieved a net underspend of £2.594m in 2019/20, which has been added to the unearmarked General Fund and will be available to help mitigate the impact of future COVID-19 costs and support recovery and renewal activities.



In line with previous year, in approving its budget, the Council again highlighted that it had used reserves in setting its budget over the last few years, and reduced the unearmarked reserves to the current 2% minimum, release of earmarked reserves no longer required and application of in year underspends. As noted in previous years the Council recognise the use of reserves provides a temporary solution and a more sustainable solution is needed. In 2020/21, following a review of earmarked reserves, a total of £0.548m was released to support the 2020/21 budget.

# Financial sustainability

## Reserves (continued)

In addition, the Council agreed as part of its budget setting process to set-aside £8.8m as an Investment Fund to support Community Wealth Building activity, deliver sustainable investment in the environment and support the economy. This was largely possible as a result of a review of the loans fund advances following a change in regulation which allowed the Council to revise its debt repayment timelines. While there is no change to the overall level of loans fund advances that the Council needs to repay, the re-proofing of the principal and interest payments allowed the Council to transfer £8.8m to reserves.

**2019/20 Conclusion:** The current reserves held are at an acceptable level. As discussed on page 10, the impact of the COVID-19 pandemic is having a significant impact on the Council. We note that the Council is planning to re-assess the 2020/21 budget, and would expect the reserves balances to be considered as part of this review.

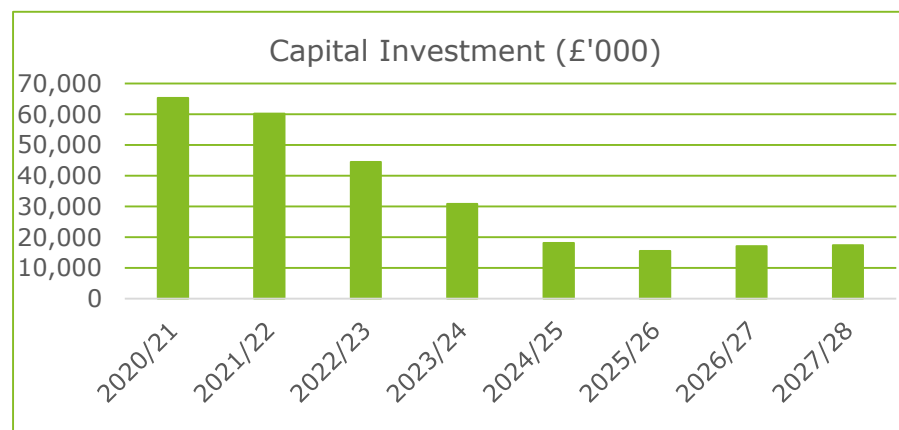
## Capital planning and treasury management

**2018/19 Conclusion:** The Council has a Capital Investment Programme (CIP) covering the period 2019/20 to 2027/28. The CIP incorporates all funding sources to 2027/28, including assumed levels of general capital grant, specific grants and a prudent assessment of the level of capital receipts

**2019/20 Update:** The Council updates its Capital Investment Plan (CIP) on an annual basis as part of its budget setting process. The HRA capital programme is also updated annually as part of the annual report of the HRA Business Plan.

As concluded in the BVAR ["the capital planning process clearly aligns investments with Council priorities"](#).

The graph below illustrates the projected CIP over the next 8 years, which again shows that the Council continues to have an ambitious capital programme. In addition, the Council has approved £68.448m HRA capital expenditure for 2020/21 and a further £27.657m for future years.



As noted on page 7, the Council has demonstrated a history of managing its capital programme. However, also noted on page 10, the Council has recognised that it will need to revisit this programme in light of the impact of COVID-19.

**2019/20 Conclusion:** The capital planning process clearly aligns investments with Council priorities and the Council has a history of managing its capital programme. Given the scale of the programme over the next 8 years, it is imperative that this continues. It is important that the impact of COVID-19 on future plans is also considered.

# Financial sustainability (continued)

## Medium to long-term financial planning

**2018/19 Conclusion:** The Council has a clear process in place for medium and long term financial planning. The Medium Term Financial Plan (MTFP) was updated in February 2019 to cover the period 2019/20 to 2021/22. The MTFP sets a balanced budget for 2019/20, however, indicates a deficit of £14.67m and £10.74m in 2020/21 and 2021/22 respectively. The Long Term Financial Outlook (LTFO) covering the period 2018/19 to 2027/28. The LTFO includes the significant financial challenges the Council faces over the next 10 years and the approach to respond to this. This includes service reviews and associated delivery plans. The LTFO is updated every three to four years.

**2019/20 Update:** As reported in detail in the BVAR:

- the Council has a ten-year long-term financial outlook (LTFO) covering the period 2018/19 to 2027/28. This identified an estimated funding shortfall of £156m over this period. The approach taken by North Ayrshire Council was highlighted as a positive step to help manage the financial challenges and to make well-informed decisions which are aligned to Council priorities.
- The LTFO provides the context for a more detailed Medium-Term Financial Plan (MTFP) and annual budgets. The latest MTFP, covering the period 2020/21 to 2022/23, builds on previous year's MTFP and the analysis within the LTFO. The Council agreed a balanced budget for 2020/21, however, gaps of £9.248m and £9.817m remain for 2021/22 and 2022/23 respectively.

**2019/20 Conclusion:** It is positive to note that the Council continues revisits the medium-term position as part of its annual budget process and has a history of achieving in-year savings. In addition, as noted in the BVAR, the publication of a ten-year outlook is also considered best practice. However, the Council is still faced with a significant shortfall in future years. As noted on page 10, the impact of COVID-19 is expected to have a significant impact over the medium to longer term, and therefore the estimated financial impact of these challenges is likely to change.

## Transformation Strategy

**2018/19 Conclusion:** The Council had done a lot of work around transformation planning, such as creating the Transformation Think Tank and incorporating the next phase of transformation into the Council Plan. It has identified an ambitious savings target over the next three financial years from transformation, however, this does not completely close the estimated cumulative funding gap of £25.41m. We highlighted that it was therefore vital that the Council identify further savings and efficiencies to close the remaining funding gap. We highlighted the importance of detailed plans to deliver these targets and monitors the progress of key objectives and outcomes to ensure savings remain on track over these years. If the next phase was not progressed appropriately, we highlighted that this could result in benefits not being realised and financial balance not being achieved.

**2019/20 Update:** As concluded in the BVAR:

*"the Council has made good progress with its transformation agenda, however, it still faces a significant shortfall and detailed plans are not yet in place".*

*"the Council has a coordinated approach to workforce planning and is developing workforce plans to support transformational change".*

The BVAR made two specific recommendation in relation to transformation, which are discussed on page 21. We will continue to monitor the progress as part of our 2020/21 audit.

# Financial sustainability (continued)

## Transformation Strategy

**2019/20 Conclusion:** some good progress has been made with transformation, however, significant work is still required to develop and implement detailed plans to address the financial challenges faced. We recognise that COVID-19 is likely to further impact on future plans.

## Ayrshire Growth Deal

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

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

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

## Deloitte view – Financial sustainability

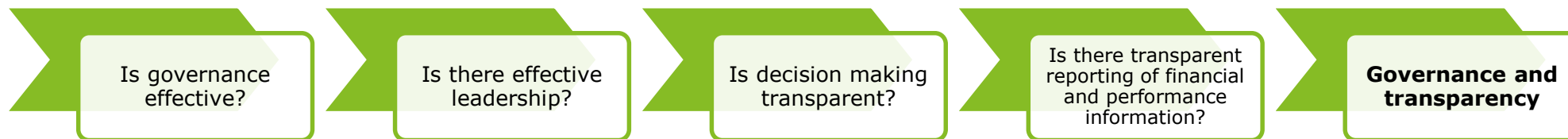
As discussed on page 9, the Council achieved short-term financial balance in 2019/20 and has set a balanced budget for 2020/21. The current reserves held are at an acceptable level. It is also positive to note that the Council is actively assessing the financial impact of COVID-19. There does, however,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

The scale of the CIP over the next 8 years is ambitious and requires strong project management and governance arrangements in place over the projects involved. It is important that the impact of COVID-19 on future plans is also considered.

As reported through the BVAR, the Council has made good progress with its transformation agenda, however, it still faces a significant shortfall and detailed plans are not yet in place. The Council has a coordinated approach to workforce planning and is developing workforce plans to support transformational change. The full development of workforce plans and arrangements to monitor and report the benefits from its transformation plans needs to be progressed as a matter of priority.

# Governance and transparency

**Governance and transparency** is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information



## Areas considered

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

Our audit plan did highlight a risk that the change to the management structure may have an adverse impact on service delivery therefore we have closely monitored how the management structure has progressed.

In relation to the IJB, we identified in our audit plan that there continues to be an ongoing risk that the IJB does not achieve the full benefits of integration along with a balanced budget position.

## Leadership

**2018/19 Conclusion:** The Council had changes to leadership in 2018/19 with the appointment of a new Chief Executive. This allowed the Council to approve a wider Directorate restructure. Whilst the new structure wasn't expected to be fully implemented until 2020/21, we highlighted the need for the Council to ensure that the change in structure did not have an adverse impact on capacity to deliver services.

**2019/20 Update:** As reported in detail as part of the BVAR, the Executive Leadership Team was in the process of being restructured, with all services clearly aligned to the priorities in the Council Plan. The restructure was completed in June 2020. The BVAR concluded.

"the leadership team and elected members work very well together".

**2019/20 Conclusion:** The Council continues to have strong leadership in place.

## Governance and scrutiny arrangements

**2018/19 Conclusion:** The Council has effective governance structures. In order to ensure that the governance and scrutiny framework is continually improving, we recommended that the Council consider an annual self-assessment of Committee and Council performance. The results of which should be made publicly available through the publication of an annual report.



# Governance and transparency (continued)

## Governance and scrutiny arrangements (continued)

**2019/20 Update:** The Audit and Scrutiny Committee continues to play a key role in the governance and scrutiny arrangements of the Council. It considers reports from internal audit throughout the year as well as other relevant national reports. In line with good practice and as recommended in our 2018/19 report, the Committee now carries out an annual self assessment to consider the development needs of elected members.

The Council's Committee structures were temporarily suspended during the COVID-19 outbreak with all meetings suspended until 30 June 2020. During this period, the Council's Scheme of Delegation to Officers already allowed the Chief Executive, to consider and deal with any urgent issues, subject to reporting back to the Cabinet for information at the first available opportunity. This power was exercised in consultation with the relevant Chief Officer and the relevant portfolio holder. In the interest of transparency, decision notices in respect of matters determined under the emergency governance arrangements are published on the Council's website on a fortnightly basis, together with the relevant officers' report.

Prior to the summer recess in June 2020, the Planning Committee, the IJB Performance and Audit Committee and Cabinet (Education) met and plans are in place for all Committees to restart after the recess.

**2019/20 Conclusion:** The Council continues to have robust governance and scrutiny arrangements in place. Appropriate arrangements have been put in place in response to the COVID-19 pandemic.

## Openness and transparency

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

**2019/20 Update:** The Council has continued to be open and transparent with its decision making, as concluded in the BVAR:

*"The Council is open and transparent in its decision-making. It streams full Council and Cabinet meetings on its website".*

**2019/20 Conclusion:** In line with our previous year's conclusions and that of the BVAR, the Council continues to be open and transparent.

## Community engagement and equalities

**2018/19 Conclusion:** The Council fully supports community empowerment and recognises the importance of building community capacity, we highlighted the Council's approach to community engagement as best practice and sector leading.

**2019/20 Update:** Community engagement and empowerment was a key area of focus in the BVAR work. This concluded that:

*"The Council is committed to community empowerment and is recognised by the Scottish Government and COLSA as a sector leader. The Council's approach is focused on embedding community empowerment in everyday business. The Council works well with a wide number of communities and groups including young people and tenants".*

*"Tackling inequality is the overarching theme of both the Council Plan and the Local Outcome Improvement Plan".*

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



# Governance and transparency (continued)

## Health and social care partnership

**2018/19 Conclusion:** The final financial position for the IJB in 2018/19 was an improvement on the prior year, particularly given the significant historical overspends. Improvements had been made to the quality and frequency of financial monitoring reports and we concluded that there was now an effective integrated budget monitoring arrangement in place.

**2019/20 Update:** While the IJB has achieved short-term financial balance, it has been unable to repay any of the debt due to the Council in 2019/20 and a number of risks remain with the 2020/21 budget, in particular the impact of COVID-19. The Medium-Term Financial Plan has not yet been updated, with further delays as a result of management focusing on responding to COVID-19. The IJB is therefore unable to evidence it is financially sustainable in the medium-to longer term. In view of the financial position, the Council has continued its increased scrutiny of the IJB with regular reports to the Cabinet and Audit and Scrutiny Committee.

As reported in the BVAR, the IJB is progressing with its transformation programme and taking an innovative approach to determine future service delivery. Significant work is still required to make the level of transformational change needed, with COVID-19 likely to impact on timelines and plans.

The IJB continues to have strong leadership. As it starts to develop its next Strategic Plan, it is important that this work is progressed in line with the updated MTFP.

**2019/20 Conclusion:** The IJB has made some good progress during the year, particularly in its approach to transformation, however, the financial position of the IJB continues to be challenging.

## Following the public pound

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

Within the Internal Audit plan there is specific time set aside to review "Following the public pound" during the year as part of the work performed. This includes an annual audit of Community Councils accounts' to ensure Council funding is used in accordance with the Council's Scheme of Administration and an annual audit of the accounts of various Tenants and Residents Associations. Additionally, the Council supports KA Leisure and the Community Investment Fund, where collaborative projects are developed, supported and monitored by the Council within the locality planning framework. We are therefore satisfied that the Council complies with the Following the Public Pound Code.

### Deloitte view – governance and transparency

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

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

The IJB has made some good progress during the year, particularly in its approach to transformation, however, the financial position of the IJB continues to be challenging. This is being actively monitored by the Council.

# Value for money

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



## Areas considered

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

## Performance management framework

**2018/19 Conclusion:** There is a clear framework in place to ensure that Council performance is monitored and reported. The Council's approach to focused performance improvement in specific areas is effective, as evidenced by the improvement in local performance indicators.

**2019/20 Update:** An overall assessment of outcomes and performance and the reporting of these was a key area of focus in the BVAR work. This concluded:

"Performance reporting systems are clearly focused on priority areas. Targets are realistic and kept under review. Performance information is readily available in a variety of formats. Reports have become more user-friendly and focused in recent years".

**2019/20 Conclusion:** The Council continues to have a clear and robust performance management framework in place.

## Statutory performance indicators (SPIs)

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

### 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 (BV)

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

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

In view of the approach embedded within the Council for a number of years, with performance monitored through the Community Planning Partnership (CPP) and LOIP, the requirement to report on performance for both the Council and with its partner communities was already standard practice. As noted on page 18, the BVAR work concluded robust performance management arrangements in place. In addition, the BVAR noted "the CPP has a clear strategic direction and partners are committed to working together to improve outcomes".

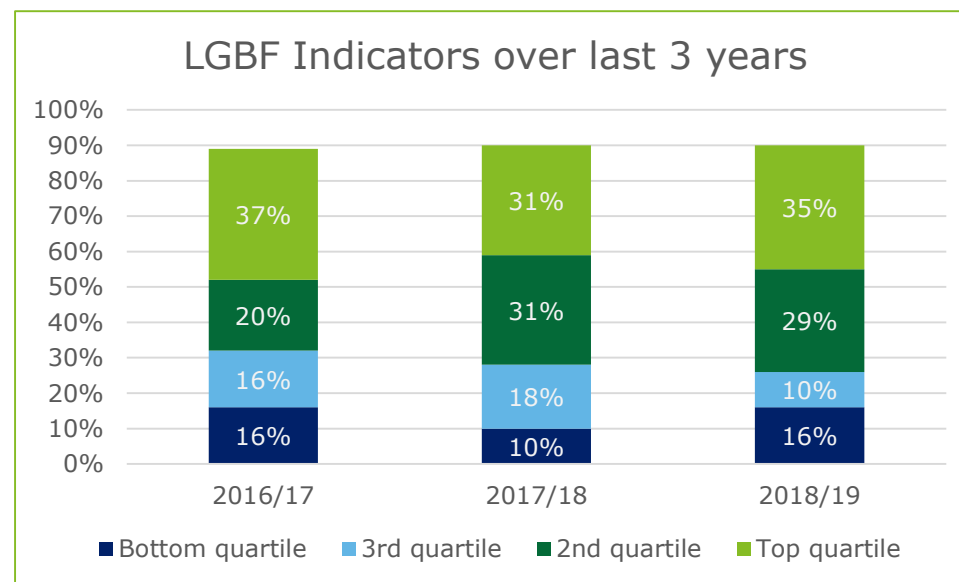
In addition, as reported in the BVAR, the Council has a strong culture of continuous improvement and has embraced the principles of community empowerment (discussed further on page 16).

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

## Performance data

**2018/19 Conclusion:** Council performance against local indicators which fell significantly adrift of targets reduced from 15% to 11% in 2018/19, whilst performance indicators on target increased from 55% to 63%. This evidenced that performance improvements have been made between the end of 2017/18 and the mid-year point of 2018/19.

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

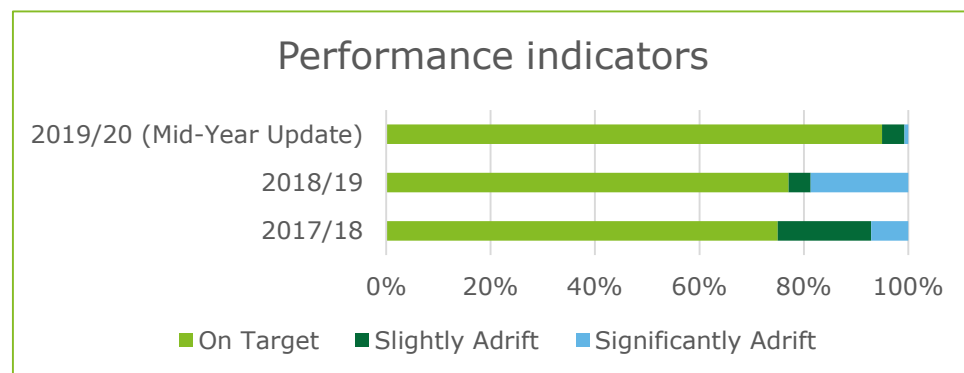


# Value for money (continued)

## Performance data (continued)

64% of indicators in 2018/19 (2017/18: 62%, 2016/17: 57%) were either in the top quartile or second quartile, i.e. performing above the Scottish average, demonstrating that the Council is performing well compared to their peers.

The annual performance report for 2018/19 was published in September 2019 and included the full range of performance that is reported by the Council. The mid-year update for 2019/20 reported improvements, as illustrated below.



In assessing how well the Council was performing, the BVAR concluded:

“North Ayrshire has one of the highest rates of deprivation in Scotland. It also has a shrinking population, particularly among the economically active. These factors present significant challenges for the Council. Despite this, the Council is performing well and is a frequent award winner and early adopter of national pilots.

Council performance has improved over the last five years, though, like other councils, it has levelled off in the last year. There has been a deterioration in most education performance indicators, which the Council is working to address”

**2019/20 Conclusion:** The performance of the Council is showing evidence of improvements in a number of areas. 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.

### Deloitte view – Value for money

The Council continues to have a clear and robust performance management framework in place. It also has a robust and long-standing arrangements in place to comply with the new SPI Direction including its public performance reporting requirements.

The performance of the Council is showing evidence of improvements in a number of areas. 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.

# 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 meet 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 a Council's functions, regard shall be had to the extent to which the outcomes of that performance have improved.

## BV arrangements

The BV framework follows a five year approach to auditing BV. 2019/20 represents year four of the BV audit plan. The BVAR for North Ayrshire Council during 2019/20 with the report published in June 2020.

As concluded in the BVAR in the Commission findings:

"We commend the significant progress made by the Council since the previous Best Value report in March 2011. The core of this progress has been a good sense of self-awareness; the Council has been clear on how and where it can improve, has a well-defined strategy, and shared with its partners a strong vision for North Ayrshire. This strategic direction is reinforced by a record of collaboration; between elected members and officers; in engaging with staff in improvement; and in the empowering approach taken by the Council in its relationship with its communities".

Through our annual audit work, discussed further within this report, the Council continues to have a number of arrangements in place to secure best value, including an established governance framework, strong leadership, and is making some good progress with transformation, but recognises that significant work is still required.

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.

The Chief Executive has shared the BVAR through the Council's website and will be formally considered by the Council meeting in September 2020. We will follow up progress with the agreed actions as part of our 2020/21 annual audit work.

In relation to the new requirements in relation to the Islands Act, North Ayrshire Council have added island assessment to its equalities and socio-economic assessment templates. As a result, every policy and strategy should now be automatically subject to island assessment.

## Deloitte view – best value

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

# 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](http://www.deloitte.co.uk/climatechange)

### Council preparedness

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

#### Baseline expectations

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

#### North Ayrshire Council position

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

- As highlighted in the BVAR, the Council declared a climate emergency in 2019, and changed its aim to reduce carbon emissions by 40% by 2030 to the aim of becoming carbon neutral by 2030.
- The BVAR incorporated a case study highlighted that North Ayrshire Council has a proactive and ambitious approach to tackling climate change.
- It has engaged with communities on the latest update to its Environmental Sustainability and Climate Change Strategy, which was first published in 2014 and last updated in 2017. The Council engaged with communities on updating the strategy for 2020.
- Several transformation initiatives are linked to reducing carbon emissions.
- The Council approved an £8.8m investment fund for climate change, infrastructure and community wealth building in its 2020/21 budget.

# 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.

To reflect the recent declaration by the Council of a climate change emergency, the Strategic Risk Register was updated in March 2020 to include Climate Change as a “High Risk” to the Council.

**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.

An update was reported to Cabinet in January 2020 where it noted the successes and progress made in implementing the Environmental Sustainability and Climate Change Strategy 2017-2020 and agreed the proposed target year of 2030 to achieve net-zero carbon emissions across North Ayrshire.

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

Narrative is included in the 2019/20 Annual Report and Accounts as part of “Our Challenges and Areas of Focus”, making specific reference to the Climate Change Strategy and the fact that the Council has declared a state of Climate Change Emergency with an ambition towards achieving a net zero carbon footprint.

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



# Sector developments





# Sector developments

## Responding to COVID-19

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

### **An emerging legacy**

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

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

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

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

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

### **Seven emerging legacies:**

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

Read the full article at:

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

# Sector developments (continued)

## Responding to COVID-19 (continued)

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

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

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

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

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

### COVID-19: Impact on the workforce

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

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

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

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

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

# Appendices



# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Audit and Scrutiny Committee and the Council discharge their governance duties. Our report includes our work on the following:

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

### The scope of our work

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

### Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

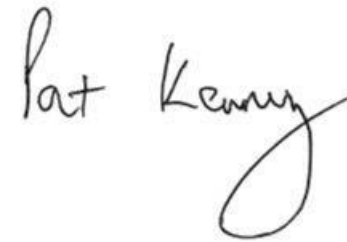
### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in 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 | 14 September 2020

# Action plan

## Follow-up 2018/19 action plan

We have followed up the recommendations made in our 2018/19 annual report and are pleased to note that all recommendations made have been fully implemented, with follow up actions being monitored as part of the BVAR work (see page 21).

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<b>Financial sustainability – Transformation</b>	The proposed savings targets for the next phase of transformation are ambitious, therefore, it is important the Council has the supporting infrastructure in place. We recommend the Council has detailed plans in place to deliver the next phase of transformation and monitors the progress of key objectives and outcomes of these with appropriate benefit realisation tools.	The Transformation Think Tank will review the governance that underpins planning and delivery of our transformation programme. This will include benefits realisation.	Chief Executive	December 2019	High	<i>Fully implemented. Follow up recommendation considered as part of BVAR (see page 21)</i>
<b>Financial sustainability – Workforce planning</b>	The Council’s new approach to workforce planning is still in its early stages, so it is important that the Council monitor this new way of working closely to ensure workforce planning across the whole Council is effective.	Our workforce planning has been evolving since being established in 2018. This is a key component of our planning framework and regular updates on progress will continue to be provided.	Executive Director (Finance and Corporate Support)	March 2020	High	<i>Fully implemented. Follow up recommendation considered as part of BVAR (see page 21)</i>
<b>Governance and transparency – Self evaluation</b>	The Council should consider annual self-assessment of Committee and Council performance. The results of which should be made publicly available through the publication of an annual report.	CIPFA’s “Delivering Good Governance in Local Government” is already adopted and an annual report to Council reviewing core governance documentation is produced. To assess the effectiveness of the current Audit and Scrutiny committee a self-assessment will be undertaken in line with best practice frameworks.	Chief Executive	March 2020	Medium	<i>Fully implemented</i>



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