

South Ayrshire Council

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

Issued on 8 September for the meeting on 24 September 2020

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Introduction

The key messages in this report

Background:

As set out in our audit plan, the Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland.

Our audit work has considered how the Council is addressing these and our conclusions are set out within this report.

Scope of audit

Our audit work was risk based and proportionate, covering the four audit dimensions as follows:

- Financial 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 Governance Panel (the AGP) of South Ayrshire Council (the Council) as part of our 2019/20 audit responsibilities. I would like to draw your attention to the key messages from this paper.

Financial Management

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

There is scope for improvement in the capital budget process given the significant movement between the budget approved at the start of the financial year and the final year-end position. The Council should review its process for setting the capital budget to ensure that the profiling of expenditure over future years is realistic and achievable.

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 is at an acceptable level and the planned use of reserves are sustainable in the short term. It is also positive to note that the Council is actively assessing the financial impact of COVID-19 and scenario planning. There does, however, remain a risk, therefore it is important that the position is closely monitored.

We are pleased to note that the Council has published a 10-year Financial Strategy in line with our recommendation.

This is a positive first step to enable the Council to manage the financial challenges that it faces and to make well-informed decisions which are aligned to Council priorities. As part of the planned review of the 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.

Similarly, 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 to this work.

Governance and Transparency

The Council continues to have robust governance and scrutiny arrangements in place and 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.

Introduction (continued)

The key messages in this report (continued)

Governance and Transparency (continued)

The IJB has made some good progress during 2019/20, achieving a year-end underspend position, starting to repay the debt due to the Council and developing a MTFS. However, some significant issues remain which raise concerns that the IJB leadership at a strategic level is not sufficiently focused to drive forward the required changes. It is important that the Council (and NHS Board) have a clear visibility of progress and input into the developments in these areas.

Value for money

There is a clear framework in place to ensure that the Council's performance is monitored and reported with its framework recently updated to reflect current practices. The Council has appropriate arrangements in place to comply with the SPI Direction including its public performance reporting requirements.

The performance of the Council is showing evidence of improvement, although there has been a reduction in comparison with other Councils. We recognise that the COVID-19 pandemic has had a significant impact on a number of services. Given the financial challenges that the Council is facing, it is important that any lessons learned from its response to the pandemic are taken into account as it moves into the recovery phase to consider alternative approaches to service delivery.

Best Value

Subject to the improvements that we have identified within this report, the Council has sufficient 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 29 of this report.

Emerging issues

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focussing on the impact of COVID-19. We have provided a summary of those most relevant to the Council as an Appendix on pages 33 and 34 of this report.

Next steps

An agreed Action Plan is included as an Appendix on pages 37 to 42 of this report, including a follow-up of progress against prior year actions. We will consider progress with the agreed actions as part of our 2020/21 audit.

Added value

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

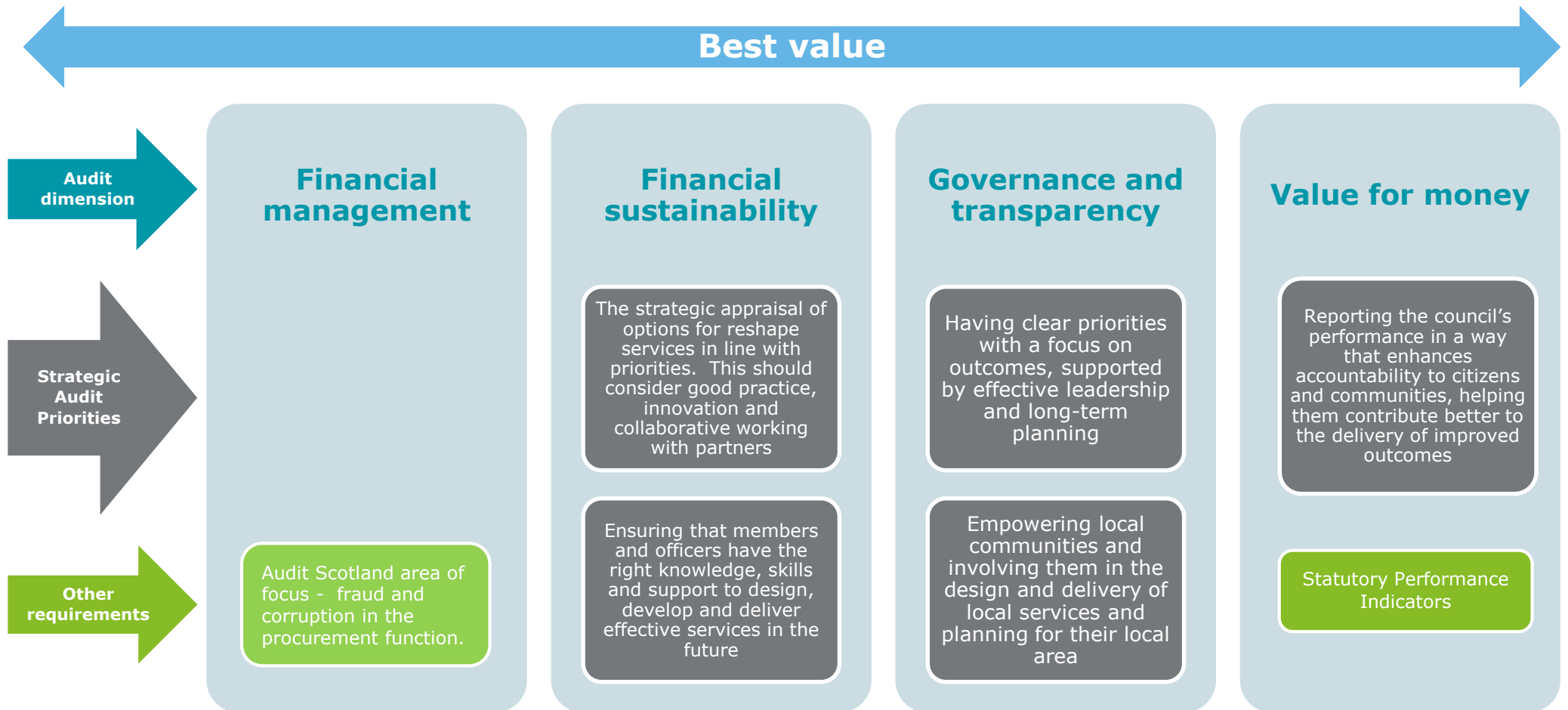
This is provided throughout the report. In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, invites have been issued to our weekly webinar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

Pat Kenny
Audit Director

Audit dimensions and best value

Overview

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



Financial management

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



Areas considered

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

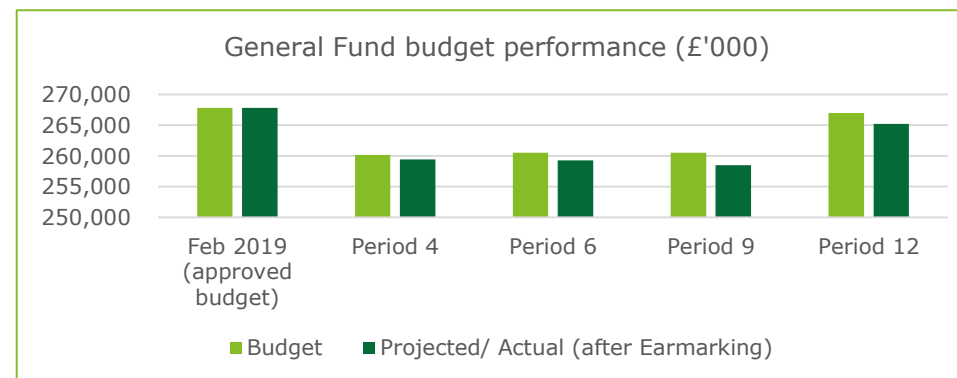
2019/20 financial performance

2018/19 Conclusion: The final outturn in 2018/19 was a net decrease in the general fund of £9.232m, comprising an in-year underspend of £5.974m offset by a draw on reserves of £15.208m. The draw on reserves included £6.091m from 2017/18 earmarked spend and £3.280m temporary funding to the HSCP to fund its in-year overspend.

2019/20 update:

The **General Fund budget** of £267.818m 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 the final outturn reported actual expenditure of £265.227m, representing an underspend of £1.761m against the revised budget of £266.988m. This result is after earmarking £3.424m to be carried forward to 2020/21.

The projected outturn has been consistently reported throughout the year, as illustrated below.



The underspend and earmarking for future years was achieved as a result of a number of favourable and adverse variances, including:

- Overachievement of payroll management including delays in filling vacancies; and
- a significant rebate (£0.964m) received in non-domestic rates following a rateable value appeal in respect of primary and secondary schools.

Financial management (continued)

2019/20 financial performance (continued)

The **Housing Revenue Account (HRA)** ended the year with an in-year surplus of £1.972m, which, when added to the balances carried forward from previous years, resulted in a closing position of £11.329m compared to a breakeven budget. This has been consistently reported to members throughout the year. £6.469m of the HRA balance is earmarked for specific purposes, primarily to assist in future capital investment in the Council’s housing stock.

The main drivers for the variance in the year are reduced volume of repairs in relation to emergency, urgent and routine repairs, reduced staff costs due to vacancies, and reduced admin costs as a result of lower bad debts arising as a result of effective management and collection of outstanding accounts.

The Council has ambitious long-term capital plans, with a 10-year **General Services Capital Investment Programme** and a 5-year **Housing Capital Programme** as discussed further on page 13.

The final position for 2019/20 compared to the plans approved in February 2019 is summarised below:

	General Services £'000	Housing £'000
Approved 2019/20 budget at Feb 2019	72,037	32,430
Actual expenditure	39,657	22,791

While the reduction in expenditure and carry forward into future years has been consistently reported to members throughout the year and an element of slippage and re-profiling is always expected in capital projects, the reduced expenditure in the current year compared to plan is significant. It is important that the Council has clear plans in place at the start of the year to ensure that capital programmes can be delivered.

The most significant areas of capital expenditure in 2019/20 included the following:

- Archive and Registration Centre and Ayr Grammar School Project - £9m
- School Refurbishment Programme - £2.2m
- Ayr Leisure Facility - £3.5m
- Office Accommodation and Riverside Project - £3.2m
- HRA Major Component Replacement £12.7m
- New Build HRA - £4.4m

In addition, the Council took occupation of the New Queen Margaret Academy in 2019/20 which was constructed via a Design, Build, Finance and Maintain (DBFM) contract. A finance lease liability of £25.216m has been brought onto the Council’s balance sheet to reflect the new financing arrangements that are now in place.

2019/20 Conclusion: the Council continues to have effective financial planning and management arrangements in place, with the final general fund and HRA reporting surpluses in comparison with the original budget, with underspends clearly reported throughout the year. Improvements can be made in the capital budgeting process to ensure that the profiling of approved budgets is realistic and achievable.

Financial management (continued)

Savings Plans

2018/19 Conclusion: Savings of £3.56m were achieved, against budgeted savings of £3.68m.

2019/20 Update: The approved 2019/20 budget included new savings of £6.45m. The final outturn reported savings of £6.33m were achieved, resulting in a shortfall of £0.51m against a revised target of £6.84m.

The Council has a Budget Working Group where various savings options are presented, from which decisions are taken on what approach is most appropriate based on the Council Plan and priorities. The Council links budgets into these key priorities to ensure that savings targets are met and funding is directed to the areas that need it most.

2019/20 Conclusion: The Council continues to largely achieve the savings targets set, which are clearly linked to priorities.

Financial reporting

2018/19 Conclusion: The Council has strong financial management arrangements which are robust enough to sufficiently manage financial activity and capture and address any challenges in the achievement of financial targets.

2019/20 Update: The Council approved its 2019/20 budget on 28 February 2019. Senior management and Councillors regularly review progress against budget throughout the year. The Corporate Leadership Team (CLT) and the Leadership Panel review financial performance monthly and quarterly, respectively. From review of the reporting throughout the year, variances are clearly reported and explained.

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

Financial capacity

2018/19 Conclusion: The finance team is led by the Head of Finance and ICT and the Service Lead – Corporate Accounting, who are both experienced in local government finance roles for a number of years.

2019/20 Update: The finance team has remained consistent throughout the year following a restructure in 2018/19 and continues to be led by the Head of Finance and ICT and the Service Lead – Corporate Accounting.

2019/20 Conclusion: The Council has a sufficiently qualified and experienced finance team to support the financial management of the Council.

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. No direct reliance has been placed on the internal controls work performed by internal audit.

From our review of the internal audit reports issued during 2019/20, one “High Risk” graded recommendation was made in relation to lack of internal control in the Fuel Control Grounds Maintenance process. We note that no frauds have been identified as a result of these issues, and management has either addressed or made plans to address the risks highlighted. We are satisfied that the issues identified by internal audit do not significantly impact on the control environment of the Council.

Financial management (continued)

Standards of conduct for prevention and detection of fraud and error

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

National Fraud Initiative (NFI)

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

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

Fraud and corruption in respect of the procurement function

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

- The risk of procurement fraud is acknowledged on the Council's risk register and a risk owner identified as the Chief Executive who has overall responsibility in ensuring this risk is effectively mitigated.
- 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 are in place to ensure all acceptable instances are recorded in a register.
- The Procurement Team staff are all qualified with the Chartered Institute of Procurement and Supply (CIPS) and as part of their commitment to CPD they have to complete annual training courses. In 2019 the team undertook training on 'Ethical Procurement and Supply 2019', which is a CIPS course. This training covered fraud, bribery and corruption, human rights abuses, and the impact of procurement on the environment.
- Internal Audit coverage of procurement systems is adequate and proportionate to the risks faced by the Council.
- Arrangements are in place to encourage and protect whistleblowers.

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

Financial management (continued)

Deloitte view – financial management

The Council has strong financial management arrangements which are robust enough to sufficiently manage financial activity and capture and address any challenges to the achievement of financial targets. The General Fund ended the year with an in-year surplus of £1.761m after earmarking £3.424m for future years, savings targets of £6.45m were largely achieved and the HRA achieved an in-year surplus of £1.972m. The financial position and variances were transparently reported to the Leadership Panel throughout the year.

We have identified scope for improvement in the capital budget process given the significant movement between the budget approved at the start of the financial year and the final year-end position. The Council should review its process for setting the capital budget to ensure that the profiling of expenditure over future years is realistic and achievable.

The capacity of the finance team has remained consistent during the year and is sufficient to support the Council's financial management arrangements. The arrangements for prevention and detection of fraud also remain robust.

Financial sustainability

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



Areas considered

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

“There is a risk that the change programme currently being developed is not robust enough to allow the benefits to be realised.”

Budget setting

2018/19 Conclusion: The Council approved a balanced budget of £267.82m for 2019/20. This incorporates £1.20m of previously approved savings and a further £6.45m of new savings to be made and plans to use £1.82m from uncommitted reserves.

2019/20 Update: The Council approved a balanced budget of £279.6m for 2020/21 on 5 March 2020. The budget incorporates £0.575m of previously approved savings and a further £4.188m of new savings to be made and plans are in place to utilise £1.056m from reserves.

The budget details individual saving targets which are assigned to a responsible service lead. Performance against savings targets will then be monitored by the Leadership Panel through quarterly Budget Management Reports which highlight any shortfalls in achieving targets.

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

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

As part of the 2020/21 budget setting process, the Council consulted with the community through ‘Our Future, Let’s Talk’, building on previous years’ consultations. A snapshot of the responses were taken on 26 February 2020 and provided to Elected Members, in time for their consideration to setting the budget on 5 March 2020. The full results of the survey were published in June 2020. A total of 711 responses were received (compared to 2,232 in 2019/20), with only 80 received after the snapshot was taken. The response rate was impacted by the Council’s inability to promote it during the COVID-19 pandemic. In addition, the start of the survey was impacted by the delays with UK and Scottish Government budget setting.

Financial sustainability

Budget setting (continued)

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.

The Council has reconvened its Budget Working Group, comprising the Leader, Depute Leader, Provost, two other senior members of the administration, the Chief Executive, Directors and the Head of Finance. This group is assessing the financial implications of the pandemic with the intention of keeping the overall financial position of the Council under review to determine whether it is necessary to bring forward an emergency budget to the Council.

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 10, 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 and scenario planning. There does, however, remain a risk, therefore it is important that the position is closely monitored.

Reserves

2018/19 Conclusion: The current reserves held are at an acceptable level and the planned use of reserves is sustainable in the short term. However, we recommended that the Council should consider if this is sufficient from a risk-based perspective, and should consider whether the Reserves Strategy needs to be amended to increase the minimum reserve level.

2019/20 Update: In its updated Financial Strategy, approved in October 2019, the Council approved the Reserves Strategy as follows:

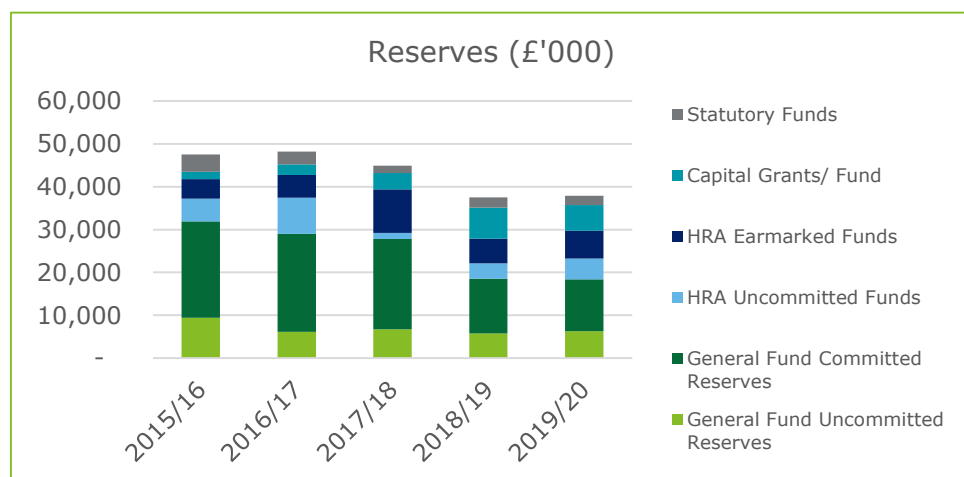
- To maintain uncommitted general reserves at a minimum of 2% of the following year's net expenditure.
- To consider, on a regular basis, contributing resources to augment currently held committed funds.
- To contribute a proportion of the Council tax raised from second homes each year to the Affordable Homes Fund.
- To set aside or commit other resources as determined either by the Leadership Panel or Council to meet other pressures or initiatives as required.
- To maintain three statutory funds as empowered under Schedule 3 of the Local Government (Scotland) Act 1975: Repairs and Renewals Fund, Insurance Fund and Capital Fund.

In setting the 2020/21 budget, the Council approved the use of £1.056m from uncommitted reserves to balance its budget, which resulted in a projected uncommitted balance at 31 March 2020 of £8.993m (3.2% of planned future expenditure).

Financial sustainability (continued)

Reserves (continued)

The total reserves position for the Council at 31 March 2020 and movement over the last five years is illustrated below, with the general fund uncommitted balance representing 2.24% of budget.



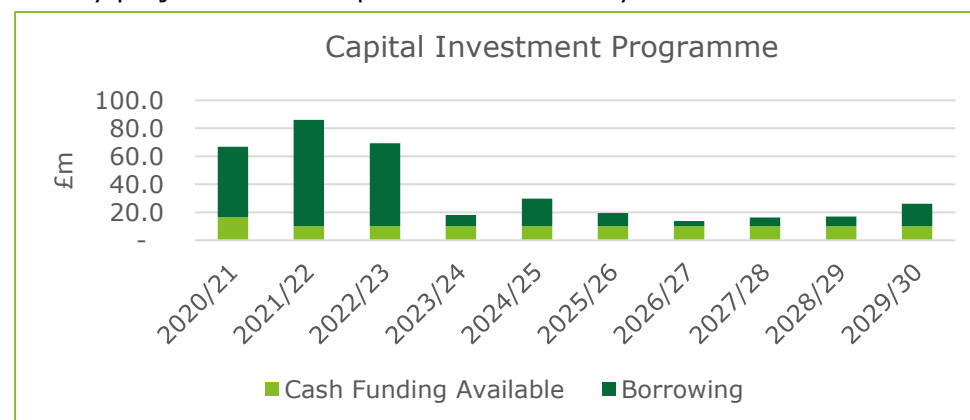
2019/20 Conclusion: The current reserves held are at an acceptable level and the planned use of uncommitted reserves approved as part of the 2020/21 budget process is sustainable in the short term. As discussed on page 12, the impact of the COVID-19 pandemic is having a significant impact on the Council. We note that the Council is planning to re-assess its level of reserves in light of this as part of its new Long-Term Financial Strategy due to be presented to the Council during 2020/21.

Capital planning and treasury management

2018/19 Conclusion: The Capital Investment Programme (CIP) is expected to deliver a total programme of £347.18m to 2028/29 and the balance of funding required to deliver the capital programme will be met through borrowing which is anticipated to be £228.58m over the period. Given the scale of the programme relative to historic programmes, we reported that it was imperative that the Council has strong project management and governance arrangements in place over the projects involved.

2019/20 Update: The Council updates its CIP as part of the annual budget setting process. The programme has been refreshed for 10 years to cover the period from 2020/21 to 2029/30 to allow for greater medium-to-longer term planning to take place. This details the Council's expected borrowing requirement compared to its operational boundaries and debt charge implications.

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



Financial sustainability (continued)

Capital planning and treasury management (continued)

The CIP is expected to deliver a programme totalling £362.82m by 2029/30 and the balance of funding required to deliver the capital programme will be met through borrowing which is anticipated to be £254.03m over the period.

As noted on page 7, the performance in 2019/20 shows expenditure significantly below initial budget indicating that the profiling of expenditure could be improved to ensure that it is accurate and achievable.

2019/20 Conclusion: Given the scale of the programme over the next 10 years, it is imperative that the Council has strong project management and governance arrangements in place over the projects involved. Otherwise, the Council faces the risk of the projects overrunning with negative implications regarding cost and service provision. It is important that the impact of COVID-19 on future plans is also considered.

Medium-to Long-Term Financial Planning

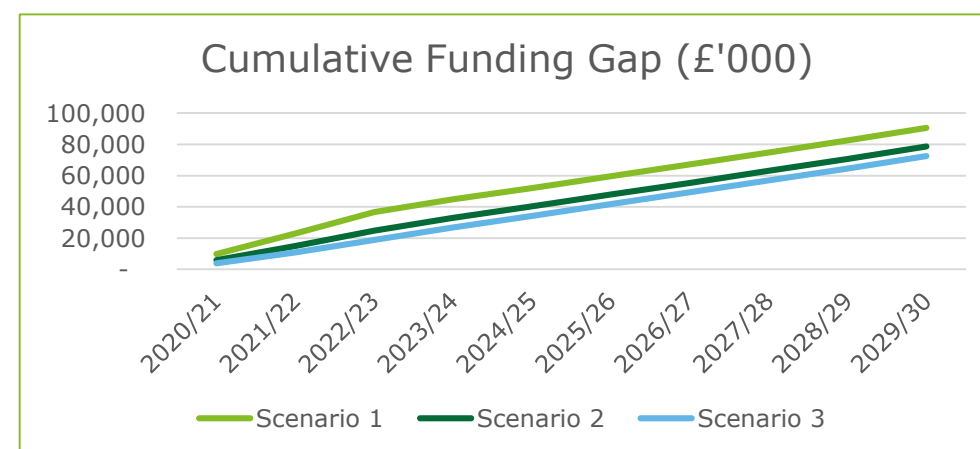
2018/19 Conclusion: The Council's Financial Strategy for the period 2019/20 to 2021/22 estimated a cumulative funding gap over this period of between £25.66m and £43.24m. No Long-Term Financial Strategy was in place.

2019/20 Update: The Council approved a 10-year Financial Strategy in October 2019 covering the period 2020/21 to 2029/30. This recognised that, in line with other Council's, it faces significant financial challenges and is required to operate within tight fiscal constraints for the foreseeable future due to the continuing difficult national economic outlook and increased demand for services.

The Financial Strategy enables the Council to develop a better understanding of the wider policy and financial environment within which it operates, identify and respond flexibly to changing contributing factors, manage and mitigate risk and ensure financial resources are directed towards achieving the Council's strategic objectives and outcomes.

Scenario based financial modelling has been undertaken due to the uncertainties regarding the level of grant funding, as follows:

- **Scenario 1 (pessimistic)** – assumes Scottish Government grant funding reduced annually by 2% for the years 2020/21 to 2022/23 followed by flat cash in each of the remaining years of the forecast.
- **Scenario 2 (likely)** – assumes Scottish Government funding is on a flat cash basis throughout the period of the forecast.
- **Scenario 3 (optimistic)** – assumes Scottish Government grant funding is increased by 1% in each of the first three years of the forecast followed by a flat cash basis for each of the years in the forecast.



Financial sustainability (continued)

Medium-to Long-Term Financial Planning (continued)

The results of the scenario analysis show that in the medium term, the Council could face gaps of between £18.8m and £36.7m by 2022/23 and between £72.6m and £90.6m by 2029/30.

As part of the approval of the 2020/21 budget, the following is noted:

- A balanced budget has been agreed, incorporating £4.763m savings and £1.056m use of reserves. This is largely in line with the "scenario 2" projections in the Financial Strategy for 2020/21.
- An indicative budget was noted for 2021/22, with a gap of £11.070m. This falls between "scenario 2" and "scenario 3" projections in the Financial Strategy.

The future estimates do not currently take into account demand pressures, particularly for social care. The Strategy makes clear that no further direct Scottish Government funding for the Health and Social Care Partnership (HSCP) has been assumed, therefore any demand pressures within Social Care will require to be carefully considered by the Council in conjunction with appropriate HSCP efficiency measures. Demographic predictions for the area show that the number of people aged 75 and over is projected to increase by 85% which will have a major consequence for the demand for older people's services. This therefore remains a significant risk area. The impact of COVID-19, as discussed on page 12, will also have a significant impact on the medium to longer term financial outlook of the Council and we welcome the Council's decision to revisit this during 2020/21.

2019/20 Conclusion: The publication of the 10-year Financial Strategy is a positive first step to enable the Council to manage the financial challenges that it faces and to make well-informed decisions which are aligned to Council priorities. As part of the planned review of the 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.

Transformation

2018/19 Conclusion: The Council was developing its next stage of transformation. We highlighted that it was important that detailed plans are developed, which are clearly linked to the savings targets required so that the Council has a clear understanding of what transformation is required in order to achieve savings targets. Given the financial challenges the Council faces, we recommended that a formalised transformation programme be put in place as a matter of urgency.

2019/20 Update: As reported in previous years, the Council's transformation programme, Transforming South Ayrshire (TSA), has historically been more focused on ICT projects rather than real transformation of services. A Digital Strategy was approved in May 2019 which set out the Council's priorities and commitments to become a Digital Organisation and continue the evolution of South Ayrshire Council's services through the use of digital technology. As part of the strategy, a number of key actions and timescales were identified to ensure delivery of the strategy. Now one year on, the Council plan to revisit this and assess progress against these actions.

Financial sustainability (continued)

Transformation (continued)

In March 2020, the Council considered a paper setting out a number of proposals for a strategic change programme:

"The South Ayrshire Way Strategic Change Programme – Preparing for the Future".

This is being seen as an extension of the "South Ayrshire Way" set out in the Council Plan, which goes beyond values and behaviours and challenges its way of working, driving organisational change and improvement while maintaining or improving outcomes for communities.

Six high level themes were approved (as summarised below), which will provide an overarching framework for the alignment of change activity. Further work is being progressed to develop a detailed change programme for 2020/21 and beyond. This was due to be presented to the Leadership Panel in June 2020, however has been delayed as a result of the COVID-19 pandemic. This will also be supplemented by a proposed new service review framework which is expected to provide transparency and consistency whilst providing a mandate to adopt a tailored and proportionate approach.

High level themes:

1. Delivering Council Plan Priorities
2. Services which are designed to be fit for purpose and sustainable
3. Customers at the heart of what we do
4. Digitally confident
5. Maximising the use of our assets
6. A workforce for the future

Key requirements to achieving successful transformational change are ensuring that there is sufficient capacity and resources to deliver the change required and appropriate governance structures in place.

Capacity:

At the time of the Chief Officer restructure in December 2017, new posts of Director and Executive Managers were created, each with defined and distinct purposes and remit. Executive Managers were to assume a more strategic and corporate leadership role, driving change in the organisation. The Council has reported a number of examples of change activity which have improved processes and services and the customer experience. However, Directors have still been required to dedicate a significant level of resource to driving forward operational activity. As a direct result of this, Executive Managers have become more involved in day-to-day operational issues which have impacted on their capacity to lead and progress the wider change agenda.

To address this issue, the Council has agreed to amend the remit of the Executive Managers to include responsibility for a group of services with appropriate delegations in relation to staffing and budgets. To better reflect these new arrangements, they have also been re-designated as Assistant Directors. This change is designed to ensure that these posts work corporately and will not be exclusively focused on Directorate objectives or priorities.

Resources:

Rather than establishing a support team at present, the Council has recognised that the skills and profile of this resource will emerge as projects and service reviews become more fully developed and may fluctuate depending on the nature of the work.

In recognition of this, an agreement in principle of a budget of up to £250,000 over the first two years has been made from the Efficiency and Improvement Fund.

Financial sustainability (continued)

Transformation (continued)

Governance structures:

The following structures have been agreed:



2019/20 Conclusion: The agreement of the transformational themes and support and infrastructure is a positive 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, including:

- Developing the transformational themes into clear projects.
- Assess the resources and support required to deliver these projects.
- Develop a robust benefits realisation tracker to assess whether the Council has achieved its aims

Workforce Planning

2018/19 Conclusion: The Council's Corporate Workforce Plan 2018-22 represented the first attempt to fully align workforce planning with business and people strategies. We reported that the Council's work around workforce planning was a positive step, but needs to be further developed in line with the transformation work.

2019/20 Update: The first annual update of the Workforce Plan was published in October 2019. This was a key recommendation within the approved Workforce Plan to accommodate any strategic changes and also to take consideration of any external drivers, such as the National Workforce Plan for Health and Social Care.

A key development in 2019/20 was the development of the Health and Social Care Partnership workforce plan, which was approved by the IJB in May 2019. As over 900 Council employees work within the partnership, it is recognised that it will have an impact on Council workforce planning. The Partnership and Council workforce plans are therefore viewed as complementary to each other and in some aspects intrinsically linked.

Operationally, workforce planning is done at service level with Service Managers having local responsibility. Workforce planning and succession planning toolkits have recently been developed to support managers.

2019/20 Conclusion: The Council has a co-ordinated approach to workforce planning. One of the key themes agreed as part of the Council's change programme is "A workforce for the future – ensuring an engaged, empowered and informed workforce with the skills necessary to deliver the Council priorities". It is therefore important that as transformation projects are developed, these are closely aligned to workforce plans to allow the Council to have information on the numbers, cost and skills of the current and desired workforce and facilitate the transition from the current workforce composition to the desired workforce.

Financial sustainability (continued)

Ayrshire Growth Deal

The Ayrshire Growth Deal (AGD) is key component of the Council's 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 6, 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 and the planned use of reserves is sustainable in the short-term. It is also positive to note that the Council is actively assessing the financial impact of COVID-19 and scenario planning. There does, however, remain a risk, therefore it is important that the position is closely monitored.

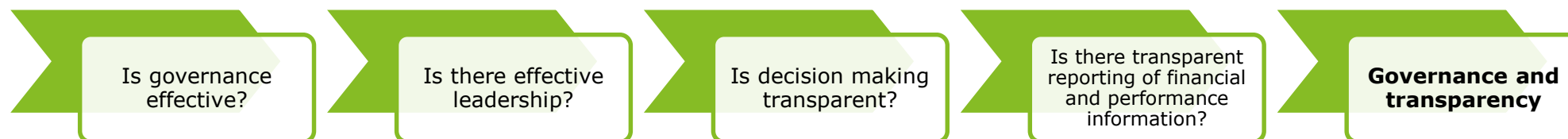
The scale of the CIP over the next 10 years is ambition therefore it is imperative that the Council has strong project management and governance arrangements in place. It is also important that the impact of COVID-19 on future plans is also considered.

We are pleased to note that the Council has published a 10-year Financial Strategy in line with our recommendation. This is a positive first step to enable the Council to manage the financial challenges that it faces and to make well-informed decisions which are aligned to Council priorities. As part of the planned review of the 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.

Similarly, 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 to this work.

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 change plans.

In relation to the IJB, we identified in our audit plan that there continues to be a risk that the partner bodies and IJB members do not have a clear understanding of their respective roles and responsibilities and therefore the IJB does not achieve the full benefits of integration along with a balanced budget position.

Leadership

2018/19 Conclusion: A restructuring of the Council's management structure was completed in 2018/19 to align with the Council Plan. This has also allowed the Council to flatten and simplify the management structure and to release currently untapped capacity. Whilst we did not identify any specific issues, we highlighted that the Council should continue to ensure that the change in structure will not have an adverse impact on capacity to deliver services.

Our 2018/19 interim report also highlighted a high turnover of staff in Childrens Services.

2019/20 Update: As discussed on page 16, in March 2020, the Council has agreed to amend the remit of the Executive Managers to include responsibility for a group of services with appropriate delegations in relation to staffing and budgets. To better reflect these new arrangements, they have also been re-designated as Assistant Directors. This change is designed to ensure that these posts work corporately and will not be exclusively focused on Directorate objectives or priorities.

In addition to this, a further review at Head of Services level was carried out, and in March 2020 the Council agreed to revise the structure reducing from three to two Heads of Service and restructuring Service Lead posts and associated administrative support. These changes are expected to realise full year savings of £245,929.

There has continued to be a number of changes in leadership within the Health and Social Care Partnership (HSCP) during the year. From interview with a sample of Board members these changes have been seen as positive. Operationally, the structure is designed to better support the transformation agenda and enhance governance and regulatory requirements. However, given the significant issues remaining in relation to the decision-making process resulting in the close of the Kyle Day Centre and the lack of progress with the critical actions arising from the Significant Case Review (discussed further on page 21), there is a concern that the IJB leadership at a strategic level is not sufficiently focused to drive forward the required changes.

Governance and transparency (continued)

Leadership (continued)

2019/20 Conclusion: As concluded on page 17, the revised governance structure designed to progress the wider change agenda is a positive step. It is important that the Council closely monitor the impact of this change to ensure that it meets the desired outcomes. In relation to the HSCP, while a full Senior Management Team is in place to better support at an operational level, leadership at the strategic level is currently not sufficiently focused. Further work is required to ensure that the partnerships is appropriately resourced and focusing on the areas of most critical concern.

Governance and scrutiny arrangements

2018/19 Conclusion: There are 28 appointed elected members in the Council's decision-making structure, including Leader and Deputy Leader. There are eight councillors on the Audit and Governance Panel, which is chaired by a member of the opposition party in accordance with best practice. From our observations at these meetings, they are generally well attended and have a good level of scrutiny and debate.

2019/20 Update: The Audit and Governance Panel continues to play a key role in the governance and scrutiny arrangements of the Council. It considers reports from internal audit throughout the year, updates from the Best Value Working Group and has also considered the risk management framework and associated risk reports bi-annually. In line with good practice and in order to ensure that the governance and scrutiny framework is continually improving, we would encourage the Council to consider an annual self-assessment of the Panel's performance.

In June 2020, the Leader of the Council stepped down and Councillor Peter Henderson was elected as the new Leader.

In response to the COVID-19 pandemic, all meetings of the Council and Panels, with the exception of some Appeals Panel meetings, were cancelled until 30 June 2020. Additional delegated authority was provided to the Chief Executive to deal with urgent matters. Council members have received regular briefings in the intervening period. These arrangements have been kept under review and agreement was made at the June 2020 Council meeting to end the emergency powers and replace these with the Leadership Panel and all other Panels working remotely. The Council also agreed at this meeting to suspend the recess period from 26 June 2020 until 18 August 2020.

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

Openness and transparency

2018/19 Conclusion: We were are satisfied that the Council is open and transparent with its residents and relevant stakeholders. Through the South Ayrshire Community Planning Partnership, the Council is committed to engaging with local communities in order to work effectively in partnership to deliver sustained improvements to residents. We are satisfied that the Council is fully committed to engaging with local communities.

Governance and transparency (continued)

Openness and transparency (continued)

2019/20 Update: The Council has continued to be open and transparent with its decision making. Only reports containing commercially sensitivity are not published, in accordance with the Council's Standing Orders. Council meetings are open to the public and all agendas and minutes are available through the Council website. Some specific issues have arisen during the year in relation to the HSCP, discussed opposite.

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

Health and social care partnership

2018/19 Conclusion: The Council agreed to fund the IJB's £3.28m deficit on an interim basis, on the assumption that this will be repaid in future years. Whilst the IJB has agreed a balanced budget for 2019/20 incorporating a repayment plan for the £3.28m, the IJB accepted there are still high risks in the delivery of efficiencies. This therefore represented a recoverability risk to the Council.

2019/20 Update: A significant improvement was noted in the financial position of the IJB in 2019/20, with a year-end underspend achieved and £0.291m of the debt to the Council was repaid.

It is also positive to note that the IJB has developed a Medium-Term Financial Strategy and work is progressing to address the significant funding challenges that the IJB faces. However, the IJB is still faced with significant financial challenges in the medium to longer term, with the impact of COVID-19 increasing this risk.

Significant developments have also been made with its governance and scrutiny arrangements during the year. It is important that the areas identified from the review of the Integration Scheme, including the better refinement of roles and responsibilities of the respective parties, are progressed during 2020/21.

However, some significant issues remain, as summarised below and discussed in more detail in our annual audit report to the IJB, which raise concerns that the IJB leadership at a strategic level is not sufficiently focused to drive forward the required changes.

- **Kyle Day Centre** - Some specific issues have arisen during the year as a result of the decision to close the Kyle Day Centre. While it is positive to note that the IJB is taking the opportunity to review its arrangements to ensure that similar legal issues do not recur in the future; this needs to be progressed as a matter of priority, with lessons learned reported back to the IJB. It is important that the Council (and NHS Board) as partner bodies, are part of the work.
- **Significant Case Review** - Given the significance of the findings from this review, first published in April 2019, which concluded a number of failures within the service, it is disappointing that the actions have not yet been fully addressed, over 15 months since receiving the formal report. It was also noted that while the backlog of case reviews were initially cleared in response to the issues raised, this has subsequently increased indicating a lack of sustainable resources to meet ongoing statutory requirements and points towards the need for more robust oversight from strategic leaders to ensure that critical risks are mitigated. We understand that as part of the 2020/21 budget approval, the IJB has approved finding for an additional three Community Care Assistants to support the reviews and recruitment is now progressing, although has been delayed due to the COVID-19 pandemic. This indicates that there is insufficient focus by leadership and a lack of resourcing in place to prioritise the work required.

Governance and transparency (continued)

Health and social care partnership (continued)

2019/20 Conclusion: The IJB has made some good progress during 2019/20, achieving a year-end underspend position, starting to repay the debt due to the Council and developing a MTFS. However, some specific issues remain and further work is required to ensure that the partnerships is appropriately resourced and focusing on the areas of most critical concern. It is important that the Council (and NHS Board) have a clear visibility of progress and input into the developments in these areas.

Community engagement and equalities

2018/19 Conclusion: The Council has embraced the principles of the Community Empowerment Act through the South Ayrshire Community Planning Partnership which is committed to engaging with local communities in order to work effectively in partnership to develop sustained improvements to residents of South Ayrshire.

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

The Council published its "Equality Outcomes and Mainstreaming Progress Report 2018/19". This sets out the work that the Council has done to address equalities through its work, with the two strategic emerging from the development of the Local Outcome Improvement Plan being:

1. Supporting older people to live in good health; and
2. Closing the poverty-related outcomes gap for children and young people in South Ayrshire.

All of the Council plans tie with the Council's current Equality Themes of Health, Human Rights, Rurality and Deprivation.

The Council has a range of formal performance reporting mechanisms in place which implicitly include reporting of equalities progress for its communities. The Mainstreaming report takes the opportunity to highlight some of the equality work and good practice that has taken place over the last year that is not part of the formal performance reporting.

The following is of particular note:

- Councillor McGinley, Economy and Culture Portfolio Carrier and Councillor Brennan-Whitefield, Chair of the Equality and Diversity Forum, have continued to lead equality and diversity progress within the Council.
- The Equality and Diversity Forum meets on a six-weekly basis.
- There are Equality Champions for each service area.
- The Council ensures that the potential equality impacts of all proposals put before them are considered within the decision-making process by the use of its Equality Impact Assessment Process.
- Service provision, e.g. Housing Services – preventing social isolation, young tenant group, Community Learning and Development, procurement.
- Education services mainstream equalities into everything they undertake.
- Partnership working e.g. community safety.

Over the period April 2013 to March 2019 the Council has made progress on each of its equality outcomes, as identified within its Equality and Diversity Strategy 2013.

Governance and transparency (continued)

Community engagement and equalities (continued)

A new Community Engagement Strategy was approved in February 2020 which adopts three frameworks:

- The National Standards for Community Engagement
- The Public Participation Spectrum
- Audit Scotland's Principles for Community Empowerment

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

Following the public pound

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

The Partnerships Panel, made up of eight elected members, provides a scrutiny overview of service delivery through or in partnership with external bodies with regard to "Following the public pound". Additionally, within the Internal Audit plan there is specific time set aside to review "Following the public pound" during the year as part of the work performed. We are therefore satisfied that the Council complies with the Following the Public Pound Code.

Deloitte view – governance and transparency

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

The revised governance and leadership structure designed to progress the wider change agenda is a positive step. It is important that the Council closely monitor the impact of this change to ensure that it meets the desired outcomes.

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

The IJB has made some good progress during 2019/20, achieving a year-end underspend position, starting to repay the debt due to the Council and developing a MTFS. However, some significant issues remain which raise concerns that the IJB leadership at a strategic level is not sufficiently focused to drive forward the required changes. It is important that the Council (and NHS Board) have a clear visibility of progress and input into the developments in these areas.

Value for money

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



Areas considered

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

Performance management framework

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

2019/20 Update: An updated Performance Management Framework was approved in April 2020. This took into account recent changes in the Council's reporting requirements, Council's structures and its approach to planning to ensure that it maintains a coherent and effective approach to delivering continuous improvement and ensuring the Council delivers best value.



Value for money (continued)

Performance management framework (continued)

In line with best practice, the Council has mapped the 11 national performance framework outcomes to the six priorities set out in the Council Plan.

Performance information is reported and scrutinised by senior management and elected members at various stages throughout the year including Full Council meetings, Scrutiny Panels, the Audit and Governance Panel, the Partnership Panel and Corporate Leadership Team. In addition, the Partnership Panel scrutinises the Local Performance Report, Police Scotland and Scottish Fire and Rescue, Ayrshire Roads Alliance Annual Performance Report and the Quay Zone. The HSCP Performance and Audit Committee also scrutinises performance reports submitted by the HSCP.

The performance information reported monitors against both local and national objectives, monitors trends over time and performance against appropriate benchmarks and comparative data.

2019/20 Conclusion: The Council continues to have a clear and robust performance management framework in place, with a recent update to reflect current practices. We are pleased to note that the Council has taken on board our recommendation and increased the frequency of performance reporting, as reflected in the updated Performance Management Framework.

Statutory performance indicators (SPIs)

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

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. The Council has incorporated the new SPI requirements into its updated Performance Management Framework, discussed on page 24. The framework sets out how the Council are complying with the SPI requirements as illustrated on the following page.

Value for money (continued)

Statutory performance indicators (SPIs) (continued)

SPI 1 is monitored through a number of sources including:

- The Local Outcome Improvement Plan 2017/22
- Community Planning Partnership
- "Our People, Our Place" Council Plan 2018/22 (mid-term refresh 2020)
- Service level Improvement/ Service, Strategic Plans and performance reporting and benchmarking activity
- Annual Performance Report
- Local Government Benchmarking Framework

SPI 2 is monitored through the following:

- Best Value Assurance Report (BVAR)
- Best Value Working Group (BVWG)
- Annual Accounts (including Best Value)
- Self-evaluation – How Good is Our Council (HGIOC)
- South Ayrshire Voice
- South Ayrshire Live
- Consultations
- Participatory Budgeting
- Place Planning

We have considered how the Council is actually performing on pages 27 and 28 to assess the effectiveness of the above arrangements. During 2019/20, the following specific updates have been made which are highlighted as good practice:

- In March 2020, the Council approved the **mid-term refresh of the Council Plan 2018/22, "Our People, Our Place"**. This provided an opportunity to promote, enhance and focus the ambitions of the Council. As part of the refresh, the terminology for the strategic objectives has been translated into "commitments" which will be used when promoting and reporting on the contents of the Plan with communities, staff and partners.

- The **BVWG**, which was initially established following the previous BVAR in 2016, has continued to meet during 2019/20. The remit of the group is to ensure that the Council is consistently focused on fulfilling its statutory Best Value responsibilities and to maintain an overview of the workstreams undertaken by Members and Officers to ensure BV is being delivered in a sustained and sustainable manner. An update on the work of the BVWG is reported to the Audit and Governance Panel on a six monthly basis.
- The key workstreams of the BVWG are:
 1. Strategic oversight of BV preparedness
 2. Considering self-evaluation landscape and potential gaps across services
 3. Oversight of the HGIOC activity being reinvigorated as the self-evaluation tool, where no other mechanism exists
 4. Evaluating the extent to which self-evaluation feeds into improvement planning and therefore considering the extent to which the Council is generally delivering BV and is an improving Council.
 5. Oversight of change and transformation.
 6. Communication and engagement around the Council's journey of improvement.
- There has been an increased focus on **self-evaluation** during the year, with training provided and a "Guide to Self Evaluation" published in August 2019.
- In relation to **Participatory Budgeting (PB)**, the People and Leadership Panel approved the initial approach to PB, recognising the elements of the Council budget which are subject to participatory processes. The approved approach was a three stage process linked to mainstreaming budget-setting cycles which allowed the Council to build on existing community engagement and develop much more robust systems of consultation, particularly around the budget savings exercise.

Value for money (continued)

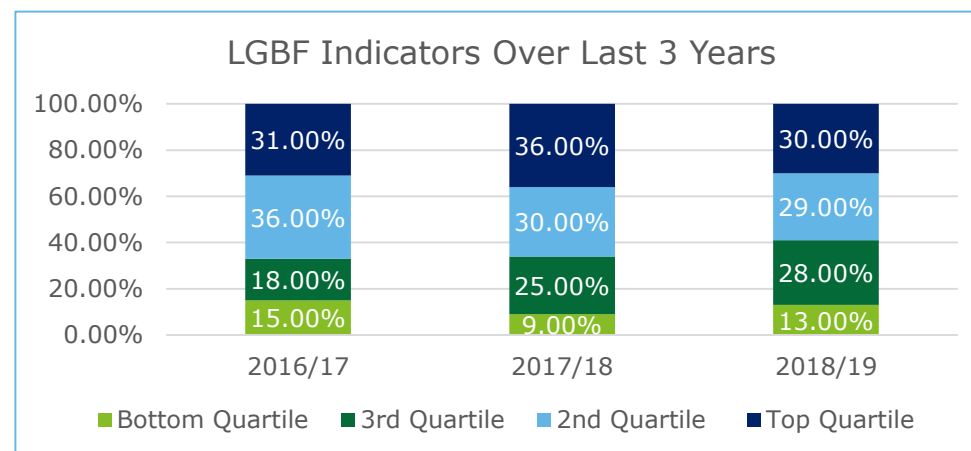
Statutory performance indicators (SPIs) (continued)

2019/20 Conclusion: The Council has appropriate arrangements in place to comply with the SPI Direction including its public performance reporting requirements. The work of the BVWG is an important part of the Council's work to demonstrate BV and will be a key area of focus and review by the BVAR team during the BVAR work scheduled for 2020/21. We are also pleased to note progress made in relation to PB following our previous year's recommendations.

Performance Data

2018/19 Conclusion: In the 2017/18 Local Government Benchmarking Framework exercise Council service performance improved in 36 areas, declined in 25 areas, with no change identified in 19 areas. We are pleased to note that the Council clearly reports on its contribution towards national outcomes by carrying out comprehensive analysis for each performance area and makes this available to the public. We concluded that the Council is fully engaged with its contribution towards national outcomes, evidenced by carrying out comprehensive analysis on LGBF indicators.

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, with a detailed report to the Service and Performance Panel in March 2020 and recognise that these help to start discussions on performance rather than the whole story and are considered locally in the context of Family Groups were relevant.



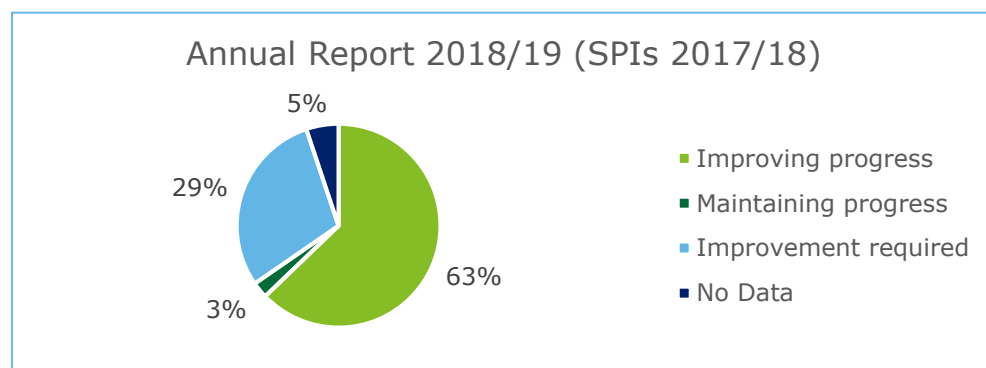
59% of indicators in 2018/19 (2017/18: 66%, 2016/17: 67%) were either in the top quartile or second quartile, i.e. performing above the Scottish average, demonstrating that the Council is performing well compared to their peers, albeit a declining trend.

The year-on-year picture from 2017/18 to 2018/19 shows an increase in 37 indicators, decrease in 29 indicators and no change in four indicators. It is positive to note that there have been more improving indicators than ones that have declined.

Value for money (continued)

Performance Data (continued)

The annual performance report for 2018/19 was published in December 2019 and included the full range of performance that is reported by the Council. The status of progress is summarised below, based on the trends over the past two years. This highlights that 63% of indicators are reporting an improvement, with 29% highlighted as further improvement required.



2019/20 Conclusion: The performance of the Council is showing evidence of improvements in a number of areas, although there has been a reduction in the number in the top and second quartile in comparison with other Councils. 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. This will become increasingly important given the financial challenges, as discussed on page 18.

Deloitte view – Value for money

There is a clear framework in place to ensure that the Council's performance is monitored and reported with its framework recently updated to reflect current practices. We are pleased to note that the Council has taken on board our recommendation and increased the frequency of performance reporting, as reflected in the updated Performance Management Framework.

The Council has appropriate arrangements in place to comply with the SPI Direction including its public performance reporting requirements. The work of the BVWG is an important part of the Council's work to demonstrate BV and will be a key area of focus and review by the BVAR team during the BVAR work scheduled for 2020/21.

The performance of the Council is showing evidence of improvements, although there has been a reduction in the number in the top and second quartile in comparison with other councils. We recognise that the COVID-19 pandemic has had a significant impact on a number of services. Given the financial challenges that the Council is facing, it is important that any lessons learned from its response to the pandemic are taken into account 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 make the equal opportunity requirements
5. The Council shall discharge its duties in a way that contributes to the achievement of sustainable development
6. In measuring the improvement of the performance of an Council's functions, regard shall be had to the extent to which the outcomes of that performance have improved

BV arrangements

The BV framework follows a five-year approach to auditing BV. 2019/20 represents year four of the BV audit plan. The BVAR for South Ayrshire Council is planned for year 5 (i.e. 2020/21). As a result of delays caused by the COVID-19 pandemic, Audit Scotland are revisiting the timescales for future BVARs. We will liaise with management to discuss and agree any revisions to the timetable.

The Council has a number of arrangements in place to secure best value, as discussed further throughout this report.

As noted elsewhere within this report, the Council has an established governance framework. The revised governance structure designed to progress the wider change agenda is also positive step. It is important that the Council closely monitor the impact of this change to ensure that it meets the desired outcomes. In relation to the HSCP, while a full Senior Management Team is in place to better support at an operational level, leadership is currently not sufficiently focused to ensure that the partnership is appropriately resources and focusing on the areas of most critical concern.

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

Deloitte view – best value

Subject to the improvements that we have identified within this report, the Council has sufficient 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

Council preparedness

As part of our audit work in 2019/20, we have carried out a high level assessment of the work that South 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.

South Ayrshire Council position

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

- In June 2019 the Council approved its first Sustainable Development and Climate Change Strategy (SD&CCS) which is intended to drive delivery of the Council's climate change duties over the next 4 years. This is underpinned with a cross departmental action plan to deliver mitigation and adaptation measures across the Authority area. The Strategy has three themes:
 - 1. Sustainable Council:** Reducing the corporate greenhouse gas emissions and improving the wider environment
 - 2. Sustainable Environment:** Protecting and enhancing the environment while improving the health, well-being and livelihoods of local communities
 - 3. Sustainable Community:** Supporting local communities to limit greenhouse gas emissions, adapt to climate change impacts and improve their local environment.
- A Sustainable Development and Climate Change Member/ Officer Working Group has been established and is responsible for delivery of the strategy.
- The Council created the Provost's School Footprint Challenge to encourage young people to look after the environment and empower them to reduce carbon emissions related to schools' activities and buildings.

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

Emerging issues (continued)

Climate change (continued)

Council preparedness (continued)

Baseline expectations (continued)

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

Climate Change is not currently identified as a Strategic Risk for the Council. We understand that this is being considered as part of a wider sustainability and climate change strategic risk expected to be incorporated into the updated Risk Register for approval in the Autumn 2020.

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.

The Council's plan "Our Vision, Our Place 2018-2022" sets the framework for achieving the goal – "we want South Ayrshire to be the best it can be and for all people and places to have the opportunity to reach their full potential". The South Ayrshire Way principles "respectful, supportive and positive support sustainable development aspirations for the Council and its community. The SD&CCS sets out how the sustainable development outcomes relate to the Council Plan strategic objectives.

Reporting/ Financial Statements: Transparency in the annual report

The Council submitted its annual Climate Change Duty Report for 2018/19 to the Scottish Government in November 2019 in line with the statutory deadline. No information on climate change is included in the 2019/20 Annual Report and Accounts. As Climate Change becomes more important and as the SD&CCS is embedded and actions progress, 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: Lockdown exit and recovery

Whilst many things remain uncertain in the current environment, it is increasingly clear that many organisations are beginning to plan for the easing of the lockdown.

Two documents have been developed to support you in your thinking:

- **Lockdown exit and recovery:**– Based on insight from Henry Nicholson, our Chief Strategy Officer and our Economic and Financial Advisory Team, this document provides an overview of economic forecasts to predictions around exit strategies, potential economic impact, plus key considerations to consider in relation to: Supply, Demand, Operations, People and Financing.
- **Exit timelines:** This document provides an overview for each of the major European countries of their current status, key statistics and a reported or illustrative timeline (as relevant) for their exit strategy. It also includes some actions organisations are taking in the workplace to 'return to work' plus advice for management teams.

Copies of these documents can be accessed through the following link:

<https://www2.deloitte.com/uk/en/pages/financial-advisory/articles/covid19-uk-lockdown-exit-and-recovery.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 Governance Panel and the Council discharge their governance duties. Our report includes our work on the following:

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

The scope of our work

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

Use of this report

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

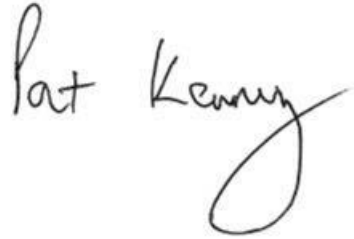
What we don't report

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

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

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

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



Pat Kenny, CPFA
For and on behalf of Deloitte LLP
Glasgow | 8 September 2020

Action plan

Recommendations for improvement

1 **Area: Financial management – capital programme**

Recommendation: The Council should ensure that has clear plans in place at the start of the year to ensure that capital programmes can be delivered.

Management Response: South Ayrshire Council set and aim to deliver ambitious capital plans. There are occasions where project programmes slip and re-profiling is required. For example, the HEEPS ABS Energy Improvement works, which form part of the Housing Capital programme, were delayed due to the need to agree a new contract with the Energy Agency. Similarly, we re-tendered the Housing Managing Agent role last year and this impacted on the HRA Major Component Replacement works.

On other occasions, the project scope changes and an enhanced scheme is approved. For example, we originally planned to construct a running track at Craigie Park in Ayr. With further funding, we are now planning to construct an indoor warm up facility and 3G pitch along-with the track so although the spend has slipped, a superior project will be delivered.

Projects are also affected by statutory approvals, the planned office development at Riverside in Ayr was refused planning permission and options are now being developed for the site. Again, this caused slippage in spend and necessitated re-profiling.

South Ayrshire Council has a well-established, formal process in place for the setting of capital budgets. We do have clear plans and slippage and re-profiling is reported to members on a regular basis.

Covid-19 restrictions contributed to the underspend in 2019/20 and it is likely that as restrictions have only recently been eased, that the originally planned programme for 2020/21 will require to be reduced substantially. A major review of both the General Services and HRA capital programmes is planned for October 2020. It is likely that budgets will be re-profiled over a number of years.

Responsible person Service Lead – Professional Design Services

Target Date: March 2021

Priority: Medium

Action plan (continued)

Recommendations for improvement (continued)

2 Area: *Financial sustainability - Transformation*

Recommendation: Transformational change needs to be progressed at pace, including:

- Developing the transformational themes into clear projects.
- Assess the resources and support required to deliver these projects.
- Develop a robust benefits realisation tracker to assess whether the Council has achieved its aims.

Management Response: The Council, at a meeting on 24 March, approved proposals for a strategic change programme in support of the Council's strategic objectives from the Council Plan 2018-22 and the Financial Plan 2020-30. The Council noted that there had been many examples of change activity which have improved processes and services and the customer experience including:

- Service improvements in Refuse Collection and Recycling, Property Maintenance, Facilities Management, Sport and Leisure, Asset Management, Tourism and Events, Economy and Regeneration and Building Standards;
- Strategy development – Waste, Fleet, Child Poverty, Culture, Tourism and Events;
- Office rationalisation and the establishment of community-based staff;
- Development of new facilities – Grain Exchange, Belleisle, Craigie Sporting campus;
- Commercialisation projects;
- Place making and the thematic review of community-based services; and
- Enhanced organisational profile and reputation through more targeted and proactive use of social media and digital channels, increasing reach to over half a million people.

The scale of Scottish Government grant reductions and those forecast for future years mean that it will become increasingly difficult for the Council to remain financially sustainable with the current service delivery model. It is anticipated that future service demands and cost pressures will significantly outstrip the resources available. It is recognised that the Council will need to continue to improve its productivity and efficiency in order to maintain or improve the services provided, and continue to prioritise its spending. A sustained approach will be required to deliver improvements in service delivery; to maintain the commitment to deliver the strategic objectives in the Council Plan and to support the ongoing financial sustainability of the Council.

The South Ayrshire Way Strategic Change Programme – Preparing for the Future, set out high level themes against which transformation work would be prioritised:

- Delivering Council Plan priorities – focussing our services and expenditure on activities that support the Council Plan priorities
- Services which are designed to be fit for purpose and sustainable - ensuring that we carry out systemic and structural reviews of our services which will seek to identify opportunities for transformational change through improvement, flexibility and integration
- Customers at the heart of what we do – Ensuring that the quality of services and the customer experience is the best that it can be, while encouraging and supporting customers to be more flexible and to work with us to deliver sustainable services

Action plan (continued)

Recommendations for improvement (continued)

2 **Area: Financial sustainability – Transformation (continued)**

- Digitally confident – doing more online and being more efficient in our processes
- Maximising the use of our assets – working with communities to support them to make best use of their local assets
- A workforce for the future – ensuring an engaged, empowered and informed workforce with the skills necessary to deliver the Council priorities

The impact of COVID-19 and the subsequent lockdown which occurred immediately after the Council meeting has inevitably delayed progressing this. However there are many examples of work that took place during the lockdown which did transform our operational delivery:

- Services quickly redesigned processes to allow customer transactions to take place by telephone or online
- ICT improvements were quickly established to support online delivery
- To support the Council's commitment to addressing poverty, we established a network of humanitarian assistance centres during the pandemic over 53,000 free school meal boxes were delivered to children across South Ayrshire.

While the overarching high level themes remain unchanged, as we move into the recovery phase new areas of work have been identified as high priority. This includes: a Digital by Default project which will deliver the Council's Digital Strategy and Digital Skills Strategy; the development of new service plans which will also focus on recovery; and a significant project with the aim of reducing the Council's estate by establishing a proposal for sustainable home working arrangements for staff.

As recovery progresses we are not returning to 'normal' pre the pandemic, but are directing Service Leads to develop bold, ambitious plans which will transform the way their services are delivered and which will challenge our ways of working, drive organisational change and improvement, improve outcomes for our communities and deliver significant financial savings.

It is planned to present a Strategic Change Programme report to Leadership Panel in October 2020.

Responsible person Assistant Director – People, Assistant Director – Place, Service Lead – Director Support Place

Target Date: October 2020

Priority: High

Action plan (continued)

Recommendations for improvement (continued)

3 **Area: Financial sustainability – Medium-to Long Term Financial Planning**

Recommendation: 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.

Management Response: Demand pressures are already built in to the current methodology to a certain extent when developing the different scenarios. Further consideration will be given to expanding these factors in the next iteration of the Medium to Long Term Financial Plan.

Responsible person Head of Finance and ICT

Target Date: March 2021

Priority: High

4 **Area: Governance and transparency – governance and scrutiny arrangements**

Recommendation: In line with good practice and in order to ensure that the governance and scrutiny framework is continually improving, we would encourage the Council to consider an annual self-assessment of the Audit and Governance Panel's performance.

Management Response: Democratic Governance will look to best practice in other authorities in relation to continuous improvement within the Council's scrutiny panels, and in this regard will consider the implementation of an annual self-assessment for the Audit and Governance Panel, which is the Council's chief scrutiny panel.

Responsible person Head of Finance and ICT

Target Date: March 2021

Priority: Low

Action plan (continued)

Recommendations for improvement (continued)

5 **Area: Governance and transparency – openness and transparency**

Recommendation: 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.

Management Response: In order to accommodate remote access to Council meetings by members of the public and wider stakeholders, the Council's ICT service is assessing the business requirements for an integrated audio and video solution with the option to capture live council meetings and allow live streaming of meetings, with the intention of producing an options appraisal report to Council.

Responsible person Service Lead – Democratic Governance

Target Date: December 2021

Priority: Low

Action plan (continued)

Follow-up prior year action plans

We have followed up the recommendations made in our previous audit report and are pleased to note that six of the total seven recommendations made have been fully implemented. Three of the recommendations made in 2017/18 were repeated in 2018/19 so have now been consolidated. We will continue to monitor the outstanding actions as part of our 2020/21 audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial sustainability – Reserves Strategy	The Council should consider if its current Reserves Strategy is sufficient from a risk-based perspective, and should consider whether the policy needs to be amended to increase the minimum reserve level.	This will feature in the updated Financial plan due to be considered by Leadership Panel in September 2019.	Head of Finance & ICT	September 2019	Medium	<i>Fully implemented – updated Financial Strategy approved.</i>
Financial sustainability – Financial strategy	Given that a balanced budget has now been set for 2019/20, a refreshed scenario based financial modelling exercise should be undertaken to reflect this. As recommended in 2017/18, we recommend that the Council incorporates this into an updated Financial Strategy which explicitly considers the Scottish Government’s Medium-Term Financial Strategy.	This will feature in the updated Financial plan due to be considered by Leadership Panel in September 2019.	Head of Finance & ICT	September 2019	High	<i>Fully implemented – updated Financial Strategy approved.</i>
Financial sustainability – Long-term financial strategy	A longer-term financial strategy (5 to 10 years) should be developed. Taking a more long-term view would provide Members with a greater ability to take a 'future focused' approach to decision making.	This will feature in the updated Financial plan due to be considered by Leadership Panel in September 2019.	Head of Finance & ICT	September 2019	Medium	<i>Fully implemented – updated Financial Strategy approved.</i>

Action plan (continued)

Follow-up prior year action plans (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial sustainability – transformation	Given the financial challenges the Council faces, we recommend that a formalised change programme be put in place as a matter of urgency. The progress of the programme should be monitored thereafter through detailed plans, benefits realisation tools, dedicated resources and Member input.	A change programme is currently in development.	Executive Managers	September 2019	High	<i>Partially implemented:</i> As discussed on page 16, high level themes approved and governance structure are in place, but further work is required. See updated recommendation on page 38.
Financial sustainability – community involvement	The Council’s use of Participatory Budgeting is still some way short of achieving the Scottish Government’s 1% target of net expenditure by the end of 2021. We recommend that the Council includes a target budget in future budgets, reviews its current Participatory Budgeting and community engagement arrangements in place and puts a robust plan in place in order to achieve the target set by Scottish Government.	Participatory Budgeting Report presented to Leader Panel in June 2019. Community engagement report in development at present.	Depute Chief Executive and Director - People	September 2019	Medium	<i>Fully implemented – participatory budgeting report presented in June 2019 and Community Engagement Strategy approved in February 2020.</i>
Value for money – performance reporting	We are satisfied the Council has an appropriate framework in place to ensure services are performing at the optimal level of efficiency and effectiveness, however, we recommend that the Council increase the frequency in which performance is reported to quarterly.	Consideration will be given to increasing frequency alongside operational aspects in terms of practicality.	Depute Chief Executive and Director - People	December 2019	Low	<i>Fully implemented – a revised schedule of meetings is now in place, along with an updated Performance Management Framework.</i>



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