



External Audit Update and Wider Scope report

Financial year ended 31 March 2021

Audit and Scrutiny Committee Meeting on 23 September 2021

As at 10 September 2021



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect The Highland Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Update on the audit of the annual accounts

Our revised financial statements audit timeline

As detailed in our External Audit Plan presented to the Audit and Scrutiny Committee on 31 March 2021, we planned to complete our audit of the Highland Council and its Group annual report and accounts by 23 September 2021. Unfortunately, due to delays in completing our audit procedures we have agreed with Officers to revise our audit delivery dates and will complete our audit to enable us to express an opinion on the Highland Council and Group Annual Report and Accounts. We therefore now plan to complete our audit testing procedures over the coming weeks with the Annual Report and Accounts and our Annual Audit Report being presented to the Audit and Scrutiny Committee in November for signing and publication by the 30 November deadline.

The main reasons for the delay in completion of our audit procedures in 2020/21 are:

- Due to overrunning audits across other Public Sector engagements our audit fieldwork of Highland Council started later than planned.
- Delays in completing audit procedures remotely as a result of Covid-19, particularly in areas where there are high volumes of transactions being tested which require supporting information to be provided from the Council.
- Increased audit procedures and documentation requirements reflecting our focus on continuously improving audit quality and increased work on audit areas, including the requirements of the revised auditing standard, ISA 540.

Revised timescales are in accordance with statutory requirements

The pre-Covid-19 deadline for submission of audited accounts and annual report was 30 September 2021. As a result of the challenges facing both Officers and auditors in completing the annual accounts and audit process during the Covid-19 pandemic, the Scottish Government amended the accounts regulations to require the 2020/21 annual accounts to be signed off by 31 October and published by 15 November. However, the provisions of the Coronavirus (Scotland) Act 2020, which permitted bodies to delay publication of the 2019/20 accounts until “reasonably practicable” have been extended. As confirmed by Audit Scotland in their Planning Guidance: *Guidance on planning the audit 2020/21 – addendum*, reasonably practicable is considered to be 30 November 2021. Therefore for the financial year ended 31 March 2021, 30 November remains an appropriate deadline for finalising the accounts. As detailed in our revised timeline below we have agreed with Officers to complete our remaining substantive audit procedures to allow finalisation of the Audit in line with this deadline.

Emerging issues from our audit of the Annual Report and Accounts

The conclusions from our audit procedures over the Annual Report and Accounts will be included in our Audit Findings Report (ISA 260) in November 2021. At the time of reporting we have not identified any significant issues from our audit procedures that would require reporting to Members at this stage.

Revised timeline

We have agreed with Officers a revised delivery timetable for our outstanding audit procedures. This is summarised below and has been developed to minimise the disruption to council staff while enabling us to complete our required audit procedures.



We would like to thank Officers, particularly the Council's Finance team for their understanding and support in the delivery of our audit procedures in line with our revised timeline.

Executive Summary

Wider scope audit

Under the Audit Scotland Code of Audit Practice ('the Code'), the scope of public audit extends beyond the audit of the financial statements. The Code of Audit Practice requires auditors to consider the Council's arrangements in respect of the wider dimensions of public audit covering: financial management; financial sustainability; governance and transparency; and, value for money.

In our External Audit Plan for the year ended 31 March 2021 we documented our assessment of wider scope risks and planned audit work. Through our audit procedures we have not identified any further wider scope risks. In accordance with the Code, we outline the work undertaken in response to the risks and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

Financial management

The Council continued to demonstrate sound financial management during a challenging financial year.

The Council's reserves position has been significantly improved as a result of the additional Covid-19 funding that was not specifically used to meet the additional costs incurred by services as well as the Council's underlying financial performance, including the delivery of £13 million of savings. In total, excluding business grants, the council received £57.5 million of Covid-19 funding. Of this, £11.7 million has been carried forward to 2021/22, earmarked for specific purposes. £21 million has been allocated to services budgets during the year to offset cost / lost income pressures. This resulted in a residual unapplied budget of £24.8 million which has contributed to the net increase in unearmarked reserves which are being used to support recovery in 2021/22.

While the Council's underlying reserves position has strengthened, the Council has recognised an increased level of financial risk and uncertainty in the coming years through a combination of: uncertainty around future funding settlements; Covid-19 impacts; as well as the potential longer term impact of EU withdrawal. We consider the Council's approach to increasing unearmarked reserves from 3% to 4% of annually budgeted expenditure to be prudent given the uncertainty faced

Executive Summary

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Financial sustainability

The Council continued to report strong financial performance during 2020/21, however Officers recognise the Council face greater financial challenges of the medium term.

The Council faces a period of significant uncertainty reflected in a potential budget gap of between £13.9 and £120.4 million over the next five years. Covid-19 funding and financial performance during 2020/21 has enabled the Council to increase in unearmarked reserves to 4% of budgeted expenditure, providing greater financial flexibility to manage unforeseen costs. Going forward Officers have agreed to take quarterly medium term financial plan updates to the Council, this should enable continued focus and scrutiny of the Council's financial plans.

Governance and transparency

Governance and transparency arrangements were effective during the year. The interim governance arrangements established by the Council reflected the critical situation and immediate challenges faced. These were not inconsistent with other public bodies. The Council also re-established governance structures in a timely manner and the establishment of the Recovery Board has allowed strategic oversight of the Council's response to the pandemic.

The Council has recognised the importance of ensuring ongoing recovery activity is aligned to the Council's wider improvement and transformation activity and the role of the Recovery, Improvement and Transformation Board, with oversight of the council, is critical to that.

Executive Summary

Wider scope audit (continued)

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Value for money and delivering Best Value

The Council has made good progress in implementing the BVAR Improvement plan actions in response to the recommendation raised in the BVAR report.

While 2020/21 represented a year of unprecedented challenge for the Council, and other public bodies, in responding and recovering from Covid-19, the Council has demonstrated good progress in addressing the recommendations raised in the BVAR report. However, further work is required to fully deliver on these. In the coming years the Council faces considerable challenges and uncertainty, both operationally and financially, as it looks to work with its partners to continue to improve on its key strategic outcomes, focusing on the priorities of the region.

Value for money: Lead Agency Model

During 2020/21 the Lead Agency Partnership Agreement was subject to significant discussion between parties as well as wider consultation. There were delays during the year in finalising the Lead Agency Model Partnership agreement, reflecting both logistical challenges in changes across senior personnel at both partners as well as some of the complex elements of the agreement, particularly around finance. The revised scheme is now complete subject to final sign off and submission to the Scottish Government.

While it is too early to determine the operational effectiveness of the new arrangement, discussion with Officers indicate that partnership working arrangements are effective. This has been further evidenced through the proposed development of a shared strategy, Future Highlands, between the Council and its strategic partners, including NHS Highland. To ensure that the governance and management arrangements in place over the partnership are appropriate and operate effectively, the Council, working with NHS Highland, should ensure that there is evaluation of the effectiveness of the arrangements as they embed.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff amidst the pressure they were under during these unprecedented times.

Wider scope audit

This section of our report sets out our findings and conclusion on our audit work on the wider scope audit dimensions: financial management; financial sustainability; governance and transparency and value for money. We take a risk based audit approach to wider scope. Within our audit plan we identified 3 significant wider scope risks and these are concluded in this section of our report. In addition, we follow up on the Council's progress against its Best Value Assurance Improvement Plan, implanted in response to the BVAR report in 2019. As part of our audit work we have not identified any further wider scope audit risks.

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
<p>Financial Management</p> <p>Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively</p>	<p>No significant wider scope risks identified</p>	<p>Through our cumulative audit knowledge and planning risk assessment we did not identify any significant audit risks in relation to the Council's financial management arrangements.</p> <p>Financial performance and the impact of Covid-19</p> <p>The Council reported total comprehensive expenditure for the year of £31.782 million. Whilst the Council reported a deficit for the year, this reflects the impact of accounting adjustments (particularly pensions accounting entries) and a more informative indication of the Council's financial performance for the year is reflected in the movement in General Fund Balances.</p> <p>The Council's total General Fund Balances as at 31 March 2021 were £96.696 million (2019/20: £35.706 million), predominantly reflecting the increase in reserve balances as a result of unspent Covid-19 funding. Of this, £43.4 million was unearmarked representing an increase from the prior year (£15.5 million) of £27.9 million.</p> <p>The Council, increased unearmarked general reserves by £27.9 million. A significant proportion of this funding has been allocated to Covid-19 recovery activity during 2021/22. This outturn performance was primarily due to additional Covid-19 funding in the year as well as delivering budgeted savings of approximately £13 million in the year to meet budget pressures. This resulted in a significant improvement in the Council's underlying financial position.</p>	<p>Through the audit procedures performed we have not identified any significant risks in relation to the Council's financial management arrangements.</p>

Performance in year	£m
Service overspend (estimated through the impact of Covid-19 and Brexit as well as other factors)	(4,4)
Council tax income below budget as collection rates impacted through covid-19	(0,8)
Covid-19 funding offsetting 2020/21 Service Overspends and Supporting Recovery spend in 2021/22	24.8
Roads investment – unallocated budget	1.2
Contribution to reserves – Affordable housing contribution 2 nd homes exceeding budget	(0.6)
Net budget underspend	20.2
Planned increase in reserve through budget and centralisation of year end DSM balances	7.7
Net increase in non-earmarked reserves	27.9

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion												
Financial Management (continued)	No significant wider scope risks identified	<p>The Council's reserves strategy was updated during the year to reflect the increased uncertainty facing the Council.</p> <p>The Council's reserves position has been significantly improved as a result of the additional Covid-19 funding that was not specifically used to meet the additional costs incurred by services in 2020/21. In total, excluding business grants, the council received £57.5 million of Covid-19 funding. Of this, £11.7 million has been carried forward to 2021/22, earmarked for specific purposes. £21 million has been allocated to services budgets during 2020/21 to offset specific cost / lost income pressures. This resulted in a residual unapplied budget of £24.8 million which offsets 2020/21 service overspends, contributed to the net increase in unearmarked reserves, which are being used to support recovery in 2021/22.</p> <p>While the Council's underlying reserves position has strengthened, the Council has acknowledged the increasing risk and uncertainty it faces, particularly in relation to Covid-19 recovery activity where the level of future revenue available is not envisaged to meet the medium to longer term financial impact on the Council. Consequently, the Council has revised its reserve policy to increase the minimum unearmarked General reserve balance to 4% of budgeted expenditure. This reflects the greater risk and uncertainty.</p> <p>Capital expenditure</p> <p>During 2020/21 the Council reported capital expenditure of £76.6 million. This reflected an underspend of £9.2 million from the capital plan. The primary driver for the underspend was project slippage as a result of the Covid-19 impact on construction and development work. The Council recognises the strategic importance of the Capital plan and has revisited to reflect the continued focus on Council priorities. Key areas of investment in the year were £28 million in schools as well as £11.4 million in roads and bridges. The Council also incurred £48.8 million in housing stock.</p>	<p>The Council has recognised an increased level of financial risk and uncertainty in the coming years through a combination of: uncertainty around future funding settlements; Covid-19 impacts; as well as the potential longer term impact of EU withdrawal. We consider the Council's approach to increasing unearmarked reserves from 3% to 4% of annually budgeted expenditure to be prudent given the uncertainty faced.</p>												
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Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
Financial Management (continued)	No significant wider scope risks identified	<p>Financial management arrangements continued to be enhanced however there is an opportunity for the Council to look at its current financial ledger to explore opportunities for streamlining information</p> <p>During 2020/21 the Council continued to develop its financial and operational planning arrangements. This has included integrating financial and non-financial reporting with performance reports to Committees. While these reports are in their relative infancy they should support greater consideration of wider service performance aligning service operational performance with financial planning.</p> <p>To support services the Council continues to invest in both its finance and performance teams. This should support services in developing services plans and utilising performance information, including financial information to promote continuous scrutiny, improvement and challenge.</p> <p>Officers are exploring options of utilising Power –BI a data analysis tool to support budget holder with more effective real time monitoring of the Council’s financial performance.</p>	Through the audit procedures performed we have not identified any significant risks in relation to the Council’s financial management arrangements.

Wider scope dimension

Plan risk

Wider scope audit response and findings

External Audit conclusion

Financial sustainability

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

Significant risk identified:

Consideration of the medium to long term financial sustainability of Highland Council. We will consider how Covid-19 has impacted on Highland Council's financial strategy and understand particular areas of cost pressures identified during the year. We will review the extent to which savings delivered during 2020/21 represent sustainable recurring savings and consider the levels of reserves used by Highland Council during the year.

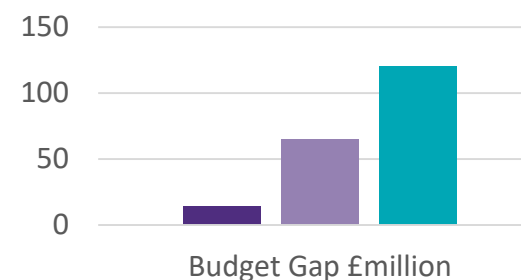
Response to significant risk:

The Council's financial projections highlight a period of significant uncertainty for the Council projecting potential budget gap of between £13.9 and £120.4 million. In addition, the longer term financial impact of Covid-19 on the Council increases the uncertainty surrounding financial projections. Therefore it is important that the Council ensure they continue to monitor financial forecasts, ensuring financial plans continue to reflect best available information to support effective use of resources in a financially sustainable way.

In March 2021 the Council approved a balanced revenue budget for 2021/22 with agreement on a number of items for the period extending to 2023/24. That medium term financial planning work, which included an estimated residual budget gap of £20.3m over 2022/23 and 2023/24. The Council takes a strategic approach to financial planning recognising the importance of having longer term view to ensure financial sustainability. Recognising the uncertainty surrounding future finances, the Council have undertaken scenario analysis. This focuses on the impact of pay increase (range 1-3%), Core Funding changes (0—3%) and Council Tax increases (between 3-6%) as well as general budgetary pressures of £5 million.

Over the next five years the Council have estimated a potential budget gap of £13.9 million - £120.4 million, highlighting the uncertainty surrounding the Council's financial position. This is after deducting £6.6 million of savings already agreed.

Officers recognise that the uncertainty creates developing financial planning a challenge. The Council is developing financial plans around a "best estimate" (central) budget gap is £64.9 million. However it is recognised there is considerable risk and uncertainty surrounding these projections.



The Council faces a period of significant uncertainty reflected in a potential budget gap of between £13.9 and £120.4 million. Covid-19 funding and financial performance during 2020/21 has enabled the Council to increase in unearmarked reserves to 4% of budgeted expenditure, providing greater financial flexibility to manage unforeseen costs. Going forward Officers have agreed to take quarterly medium term financial plan updates to the Council.

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
Financial sustainability (Continued)	<p>We will focus on in-year financial performance as well as the impact on the Council's medium term financial framework, in particular the 3 year budget outlook. Lastly we will understand the additional monies received by the Council relating to the Covid-19 pandemic and how they have been utilised in year. In particular we will focus on where local decisions have been made. We will seek to understand future plans, on recovery and re-mobilisation beyond the pandemic, and options to ensure future financial stability.</p>	<p>Strategic investments Alongside underlying budgetary pressures facing the Council, Officers need to ensure that longer term strategic investments, including capital projects, have a focus on the longer term capital and revenue implications on the Council. Two significant investments include: strategic investments in schools across the region including £60 million investment across 5 schools and exploring the opportunity for the development of a Green Energy Hub to meet the Council's legal requirements to move away from existing levels of landfill waste management.</p> <p>Strategic planning processes appear prudent with a clear focus on ensuring both short and longer term viability of investment proposals. This has included considering the medium term impact of Covid-19 and other economic factors may have on underlying construction costs. However, as the Council looks at implementing new ways of working, including greater home-working, it will be important that there is a clear understanding of the Council estate and how to maximise the use of the assets. This may include rationalising the estate or redesigning workplaces to support hybrid working. We will consider the progress made by the Council in considering the planned use of the estate during 2021/22.</p>	<p>We did not identify any significant issues with regards the Council's financial sustainability arrangements. Officers recognise the importance of continuous review of planned capital spend to ensure that capital projects remain financially viable while also reflecting the strategic needs of the Council.</p>

Wider scope dimension	Plan risk	Wider scope audit response and findings	External Audit conclusion
<p>Governance and transparency</p> <p>Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>Significant risk identified:</p> <p>We will, as set out in the planning guidance, consider how Highland Council has maintained good governance throughout the year, focused on any new governance arrangements introduced, the openness and transparency of decision making and how governance has evolved during the Covid-19 pandemic. This was considered in 2019/20 and for this year we will focus on governance changes, in light of the 2nd wave and the planned governance on recovery and future plans beyond Covid.</p>	<p>Response to significant risk:</p> <p>The Council established a Recovery, Improvement and Transformation Board to oversee the Council's Covid-19 recovery activity as well as aligning with wider improvement and transformation activity.</p> <p>In the immediate response to Covid-19, the Chief Executive established an officer gold COVID-19 group which included the Executive Chief Officers (ECOs) and other key staff. This group focused on agreeing strategic priorities as the pandemic evolved. A member gold COVID-19 group was also established consisting of the Chief Executive, the Convener, the leaders of the administration groups and the official opposition group, the Budget Leader and the ECO for Performance and Governance. Decisions in this early period, when committees were suspended, were taken under emergency powers. A formal report, setting out all of the decisions taken under emergency governance arrangements was approved at Full Council in June, including homologation of decisions made in the period. This included the resumption of Council policies and services to their pre-COVID-19 arrangements and return to the normal governance arrangements.</p> <p>In June, the Council also established the Recovery Board, responsible for overseeing the delivery of the Council's recovery plan from the pandemic. The Recovery Board has evolved into the Recovery, Improvement and Transformation Board to co-ordinate all elements of Council recovery, improvement and redesign joining up the Council's Covid-19 response with transformation activity and financial planning. In addition, fortnightly member briefings have been established to ensure members are kept up to date on all developments, including those during the second national lockdown, at the Council.</p>	<p>Governance and transparency arrangements were effective during the year. The interim governance arrangements established by the Council reflected the critical situation and immediate challenges faced. These were not inconsistent with other public bodies. The Council also re-established governance structures in a timely manner and the establishment of the Recovery Board has allowed strategic oversight of the Council's response to the pandemic. The Council has recognised the importance of ensuring ongoing recovery activity is aligned to the Council's wider improvement and transformation activity and the role of the Recovery, Improvement and Transformation Board, with oversight of the council, is critical to that.</p>

Wider scope
dimension

Plan risk

Wider scope audit response and findings

External Audit conclusion

Governance and transparency (continued)

Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Significant risk identified (continued):

We will also review Officer and Member engagement and participation throughout the governance process and the general behaviours exhibited and consider the ways in which these behaviours ensure openness and transparency across the Council.

Response to significant risk (continued):

The interim governance arrangements established by the Council reflected the critical situation and immediate challenges faced. These were not inconsistent with other public bodies. The Council also re-established governance structures in a timely manner and the establishment of the Recovery Board has allowed strategic oversight of the Council's response to the pandemic.

The large (74 members) and political make-up of the council (Independent group alongside other parties and non-aligned members) can at times, present a challenge to effective decision-making, in particular balancing Council-wide decisions aligned to Council priorities alongside the needs of the local communities that elected members represent. Officers continue to look to support members, through training, development and communications to continue to improve governance arrangements.

The Council is embedding the Governance arrangements established in 2019/20 following a self-assessment review. This included moving from four strategic committees to six with a focus on establishing an effective committee structure regardless of the operational structure of the Council. As Covid-19 resulted in significant disruption to normal committee business, the Council plans to undertake a self-assessment of the effectiveness of Committee business to further enhance governance arrangements.

As part of the Council's BVAR Improvement Plan the Council has established a member training and development programme for new Members in 2022. In addition, through member briefings, training events and workshops, Officers have sought to support Members understanding of specific issues or proposals. This work continues to enable greater focus on Council business.

The Council continues to develop and enhance member training and development to support effective scrutiny and governance.

Wider scope dimension	Audit Plan risk	Wider scope audit response and findings	External Audit conclusion
<p>Value for money</p> <p>Value for money is concerned with using resources effectively and continually improving services.</p>	<p>Significant risk identified:</p> <p>Highland Council is the lead agency for Children’s Services and NHS Highland is the lead agent for the delivery of adult services across Health and Social Care. The arrangements are managed through the Highland Health and Social Care Partnership (HHSCP). Both Highland Council and NHS Highland have previously highlighted the unsustainable financial position of the current financial arrangements in place in relation to the delivery of Adult Social Care services. The Integration Scheme and Partnership Agreement was due for renewal at the end of June 2020 with agreement to be reached as to how the financial gap would be funded and an appropriate level of funding to be agreed for Adult Social Care going forward. We will review the agreements made in relation to this matter as well as the impact on the 2020/21 financial position and the planned future impact upon Highland Council.</p>	<p>Response to significant risk:</p> <p>Lead Agency Model</p> <p>During 2020/21 the Lead Agency Partnership Agreement was subject to significant discussion between parties as well as wider consultation.</p> <p>There were delays during the year in finalising the Lead Agency Model Partnership agreement, reflecting both logistical challenges in changes across senior personnel at both partners as well as some of the complex elements of the agreement, particularly around finance. The revised scheme is now complete subject to final sign off and submission to the Scottish Government.</p> <p>The Partnership will include a Joint Officer Group which should ensure appropriate leadership and discussion between the partners to facilitate timely resolution where challenges are faced. In addition, the Council a Project Board has been established, funded with support of the council’s transformation funds, to support integration.</p> <p>The agreement will look to enhance partnership working and includes the establishment of the Joint Officer Group, consisting senior management from the Health Board along with Executive Chief Officer – Health and Social Care and Executive Chief Officer – Resources and Finance. The revised arrangements aims at establishing more effective protocols in escalating and managing financial and operational pressures.</p>	<p>While it is too early to determine the operational effectiveness of the new arrangement, discussion with Officers indicate that partnership working arrangements are effective. This has been further evidenced through the proposed development of a shared strategy, Future Highlands, between the Council and its strategic partners, including NHS Highland. To ensure that the governance and management arrangements in place over the partnership are appropriate and operate effectively, the Council, working with NHS Highland, should ensure that there is evaluation of the effectiveness of the arrangements as they embed. We will follow up the Council’s progress in this area as part of our 2021/22 wider scope work.</p>

Wider scope dimension	Audit plan risk	Wider scope audit response and findings	External Audit conclusion
Value for money (continued)	Significant risk identified: (continued)	<p>Response to significant risk:</p> <p>The Council recognises the importance of working strategically with its key partner. The proposed development of the Future Highlands strategy reflects an ambitious collaboration between the partners to look to deliver significant benefits for the partners and the wider region.</p> <p>The Council, in collaboration with its 5 strategic partners (NHS Highland, Police Scotland, Highlife Highland, Scottish Fire and Rescue Service and Highlands and Islands Enterprise has proposed the development of a “Future Highlands” strategy to articulate a collaborative approach to progressing 5 Strategic Partnership Priorities. This is aimed at delivering a consistent and joined up approach to deliver key outcomes for the region. The 5 priorities are:</p> <ul style="list-style-type: none"> • green energy; • social care reform; • people; • place; and, • shared investment opportunities. <p>The priorities are derived from existing previously approved Council approaches contained in the Council Programme, the Budget Strategy and the Indicative Regional Spatial Strategy for Highland. Officers envisage that the Strategic Partnership will encourage wider joined up working in delivering the best outcomes for the partners and the region. The partners will look to leverage the strength of the partnership to look additional investment in the delivery of the strategy.</p>	<p>The Council continues to develop its relationship with key partners in the region. While still in its infancy, the Future Highlands Strategy demonstrates a commitment from the Council to work collaboratively with its partners to maximise the benefits to the partners and the wider region.</p>

Wider scope
dimension

Audit plan risk

Wider scope audit response and findings

External Audit conclusion

**Value for money
(continued)****Significant risk identified:**

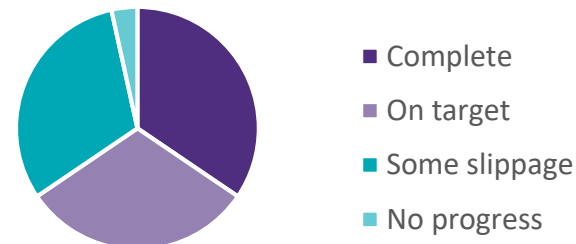
A Best Value review was undertaken by Audit Scotland and Grant Thornton during 2019 and the Best Value Assurance Report (BVAR) was issued in January 2020. The review found that the Council's pace of change had been inconsistent and slower in areas such as improving performance management and ensuring longer term financial sustainability. There was however recognition that the pace of change had significantly increased with the appointment of the Chief Executive in September 2018. The BVAR highlighted the persistent challenge faced by the Council in demonstrating that it is financially sustainable, as well as its ability to build its level of reserves to meet unplanned costs. The BVAR also reflected on the management restructure and the need for a period of stability to deliver the Council's change and improvement strategy.

A BVAR Improvement Plan was approved in March 2020 and we have followed up on the Council's progress as part of our 2020/21 audit.

Response to significant risk:

While 2020/21 represented a year of unprecedented challenge for the Council, and other public bodies, in responding and recovering from Covid-19, the Council has demonstrated good progress in addressing the recommendations raised in the BVAR report.

We have considered the progress made by the Council in implementing the 7 recommendations raised in the Accounts Commissions BVAR report. Of the 7 recommendation 3 are complete / on target with 4 delayed, primarily due to the impact of Covid-19. One action was reported as making no progress in relation to Executive Chief Officer's external learning visits to learn best practice but this was due to onsite visits being curtailed during Covid-19. None of the actions in addressing the recommendations were significantly delayed or not reporting progress.



The Council's BVAR Improvement Plan contained 27 improvement actions covering the 7 recommendations. Of these 69% (18) were complete and on-target.

While 2020/21 represented a year of unprecedented challenge for the Council, and other public bodies, in responding and recovering from Covid-19, the Council has demonstrated good progress in addressing the recommendations raised in the BVAR report. However, further work is required to fully deliver on these. In the coming years the Council faces considerable challenges and uncertainty, both operationally and financially, as it looks to work with its partners to continue to improve on its key strategic outcomes, focusing on the priorities of the region.

Wider scope dimension Audit plan risk Wider scope audit response and findings External Audit conclusion

Value for money (continued)

Significant risk identified: (Continued)

Response to significant risk: (Continued)

The Council continues to develop its performance management arrangements, including transparent reporting of its corporate performance during the year.

In accordance with SPI 1, the Council is required to report on: performance in improving local public services, provided by both (i) the council itself and (ii) by the council in conjunction with its partners and communities; and, progress against the desired outcomes agreed with its partners and communities. Under SPI 2: Demonstrating best value the guidance requires authorities to report on:

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

The Council reports performance through Service Committees during the year as well as publishing performance information on the website. The Council has made significant progress in ensuring updated information available across its Key Performance Indicators to get live performance information.

The Council reports performance through Service Committees during the year as well as publishing performance information on the website. In September the Council received a full report of performance across all KPIs (and available PIs) enabling clear focus on performance of the whole Council. Of the report 9 KPIs (24 PIs) reported areas where no significant progress had been made.

	KPIs	Performance Indicators
Complete / On target	12	35
Performance within Council's performance threshold	16	13
Performance with no significant progress	9	24
No data	-	3
Total	27	75

Key areas for development include: selected educational targets; tourist visits and business start-ups. From the Council's assessment these were predominantly through stretch targets, the impact Covid-19 or through establishing baseline targets.

The Council has enhanced its performance reporting information to improve the level of scrutiny against key strategic objectives as well as providing transparent reporting of performance. The Council is also required to report on its SPIs including Local Government Benchmarking Framework (LGBF) indicators and locally defined performance indicators (LPIs). The Council is currently in the process of completing data returns to the Improvement Service for 2020/21 supporting arrangements for full performance to be assessed by 31 March 2022.

Best Value - Best Value Assurance Report Follow up

In September 2021, the Council reported the progress made in implementing the agreed BVAR Improvement Plan. The Table Below summarised our external audit assessment of the progress made by the Council to date. We consider the outstanding actions, as identified by Officers in the Council's BVAR Improvement plan as well as any further areas for development.

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
The Council needs to seek to ensure that all staff are fully engaged in the transformation programme and that budget holders are clear on expectations to deliver the planned savings set out in ongoing transformation work. The council should continue to develop and implement a longer-term delivery model which is affordable and achievable.	Delays in implementing agreed Improvement Plan Actions Revised implementation date: March 22	<p>The Council have identified some slippage against this action with actions expected to be completed by March 2022. The Council has aligned budget setting and improvement and transformation activity through incorporating into the 2021 budget setting process, incorporating as part of savings proposals. To promote corporate focus on performance and financial delivery the Executive Leadership Team meets weekly to consider governance, resources and performance issues and the ECO team scrutinises all requests to recruit to vacant posts.</p> <p>The Recovery Board has evolved into the Recovery, Improvement and Transformation Board to co-ordinate all elements of Council recovery, improvement and redesign joining up the Council's Covid-19 response with transformation activity and financial planning.</p> <p>During 2020/21 a key area of focus has been the Council's covid-19 response. Online briefings by the Chief Executive and ECOs are well attended and interactive with opportunities for staff to ask questions. There are also staff focus groups and web resources to support staff input their views and suggestions. The emphasis of this work across 2020/21 has been to engage and inform staff on the Council's response to COVID-19, supporting staff health and wellbeing and in New Ways of Working.</p>	Officers recognise further work is required to complete the Improvement actions. This includes: improving the Council's HR and payroll database and in delivering updated financial management training and embedding revised service business planning arrangements to support greater planning and monitoring arrangements across Management and committees.

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
The Council should increase the use of family grouping data, benchmarking and targets to enhance performance reporting.	<p data-bbox="456 475 689 544">Complete / on target</p> <p data-bbox="456 592 689 699">Implementation Date: February 2022</p>	<p data-bbox="703 475 1765 735">The Council has made good progress in implementing the actions outlined in the BVAR Improvement Plan in response to this recommendation. The Council's revised Corporate planning process articulates trend data, family and national benchmark positions resulting in targets being set focusing on improvement against the Council's national benchmark positions. This approach has resulted in enhanced performance reporting as reflected in Service Performance Reports and annual performance reporting.</p> <p data-bbox="703 783 1765 1062">The Council has revised its Service Planning guidance to clearly align to the requirements of the Corporate Plan. Work continues to improve the use of data to inform improvement planning and performance reporting to Strategic Committee linked to the improvements now agreed through Service Plans. It will be important that the Council looks to embed these processes in Council and service planning arrangements across the council, supporting consistent approaches to performance reporting.</p>	The Council has demonstrated commitment to continue to develop and enhance performance reporting. Specifically a key area of focus is working with Schools to focus on utilising data to focus on specific performance issues impacting schools (as observed)

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
<p>The Council's approach to performance management can be further improved through sharing of practices between services and council teams in order to fully embrace and support effective self-assessment and a culture of continuous improvement.</p>	<p>Delays in implementing agreed Improvement Plan Actions</p> <p>Revised implementation date: March 22</p>	<p>While the Council has progressed with Improvement Actions, there have been delays in completing actions primarily due to Covid-19 impacting the extent to which the Council can look to visit and learn from other bodies. The Council have committed to work with the Improvement Service to adopt the Public Services Improvement Framework. The Improvement Service ran workshops for the Executive and Senior Leadership teams on performance and self-assessment.</p> <p>Through the Executive and wider Senior Leadership team there is focus on challenge and discussion around service delivery and performance, sharing good practice across Council services.</p>	<p>While the Council has worked with other authorities, particularly engaging around response to Covid-19, further work is required to support embedding a culture of self-assessment and learning from other bodies and sharing good practice.</p>
<p>Once the council has implemented the revised governance arrangements, it should seek to monitor the effectiveness of these changes to ensure they deliver the improvements anticipated, including the intended enhanced scrutiny and decision-making.</p>	<p>Complete / on target</p> <p>Revised implementation date: Complete</p>	<p>In response to the BVAR audit report work has been completed to revise the Council's governance arrangements and a framework in place to support ongoing scrutiny around the effectiveness of these. The focus of the revised governance arrangements are to establish sustainable governance arrangements that support effective decision making and oversight regardless of Council operational structure.</p> <p>As noted in our <i>Wider Scope Risks – Governance & Transparency</i>, above, the Council has a planned assessment of the revised Governance arrangements due to be completed in late 2021. This will help shape future member training and development as well as focus on continuous improvement.</p>	<p>The actions take in response to the BVAR action are complete.</p> <p>As part of our ongoing wider scope audit work, we have identified further opportunities to support the self-assessment exercise and enhance governance arrangements.</p>

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
<p>Once the new leadership team is in place, it will be key that they look to successfully manage the need for increased pace of change alongside continued engagement across officers to achieve the strategic objectives and this should be reviewed and evaluated on an ongoing basis.</p>	<p>Delays in implementing agreed Improvement Plan Actions</p> <p>Revised implementation date: March 2022</p>	<p>The Council has made progress in implementing the Improvement Actions in relation to this BVAR finding. Particular, through Council Redesign the new leadership team is nearing completion with levels below Head of Service cascading from the senior structure.</p> <p>The BVAR highlighted the pace of change in transforming the Council's financial position. As noted in our <i>Wider Scope - Finance Management Section</i>, we highlight how the Council's reserves position has significantly improved. However, the Council faces significant financial and operational pressures in the coming years both in terms of the ongoing pressures on local authority finance as well as the medium to longer term uncertainty around the impact of covid-19 and the cost of the response and recovery to the pandemic. As a result pace of change in recovery, improvement and transformation must be maintained to delivery efficiency saving. The Council has revised its corporate and service planning approach to focus on service delivery and improvement with regular reporting to Strategic Committees. This should ensure there is effective officer engagement in the Council's strategic objectives at all levels of the organisation. Ambitious Highland, Health & Prosperity Strategy 2021-22 reflects the unprecedented challenges the Council has faced and continues to face due to Covid and the UK's exit from the EU.</p> <p>While the immediate focus is on the economy and community wellbeing from recovery into full health, the focus also remains on delivering improved performance and medium to long term financial planning and sustainability.</p>	<p>There have been delays in establishing permanent employees in the Council's Executive and Senior Leadership structure. This has been a combination of factors including identifying the right candidate as well as ensuring the structure is fit for purpose with the creation of Deputy Chief Executive Post to further enhance the leadership arrangements. Therefore an assessment of the effectiveness of this structure has been delayed.</p>

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
<p>The Community Planning Partnership (CPP) should increase the pace in developing the remaining locality action plans in line with the requirements of the Community Empowerment Act.</p>	<p>Delays in implementing agreed Improvement Plan Actions</p> <p>Implementation date: March 2022</p>	<p>The Council has had engagement with CPP to identify how to support and resource locality planning and the review of the Terms of Reference for the CPP in Highland were completed. However, consensus could not be reached at that time (December 2019) on how best to support and resource the completion of the commitments of the CPP and the response to covid disrupted taking this forward. This is now being progressed through the partnership. Of the 25 locality plans, 14 remain outstanding.</p> <p>As reported through the Communities and Place Committee and the RIT Board, the Council has developed its framework for engagement with Communities. This has been strengthened throughout the response to covid-19 since March 2020. The strong community response to resilience is supporting improved engagement, with better understanding of community needs and how to support them with their aims and objectives. This is being supported through a new Community Support Co-ordination team along with developments in place-planning.</p>	<p>The CPP is undertaking a review of the CPP locality planning arrangements which includes how the partnership resources, supports and delivers locality planning. It is envisaged that having a more streamlined approach to planning and by creating clear priorities for each Community Partnership for which performance can be monitored, more effective delivery of outcomes will be achieved. Proposals include streamlining the Community Partnership to focus on an area based approach, significantly reducing the number of plans</p>

BVAR Recommendation	Assessment of progress	Assessment of progress made	Outstanding areas
<p>The council should continue to work with elected members to understand reasons for variable uptake of training and agree how this can be improved alongside a programme of ongoing elected member development. In particular, elected members' knowledge of and involvement in the performance management process needs to be improved to enhance scrutiny and help drive improvement.</p>	<p>Complete / on track</p> <p>Implementation Date: December 2021</p>	<p>The Council has made good progress in implementing the actions set out in the BVAR Improvement Plan in response to this recommendation. This has included the development of a Members training and development programme which supports their role in scrutiny and improvement and a framework in place to ensure annual reporting to the Council on the update of training and development. The Council has also established a new induction programme for members in 2022. The new training programme will integrate online training alongside onsite training for members.</p> <p>Supporting the Member training activity is workshops and briefings, particularly around technical or legislative matters to support there understanding.</p>	<p>There are no significant outstanding areas from the BVAR Improvement Plan. The Council will look to incorporate feedback from members (new and departing members) to support continuous learning and development.</p> <p>The application of more system based learning and development programme should support members development and understanding.</p> <p>While there are no significant aspects of the BVAR Improvement Plan outstanding, as noted in our <i>Wider Scope - Governance and Transparency</i>, above, there are opportunities to development and enhance governance arrangements, particularly ensuring the Committee meetings focus on core business.</p>

Appendices

1. Follow up of 2019/20 wider scope recommendations

We set out below our follow up of our 2019/20 wider scope recommendations that related to wider scope audit work:

1. Risk Management

There is an opportunity to re-review the risk management strategy (framework for the Council). This includes setting out which management groups review risk, when and for what purpose and the same for groups with political representation and ultimately reporting at Committee level. This will better demonstrate the link between service committees and their responsibilities on risk and the Audit and Scrutiny Committee. Lastly, as a result of Covid-19 and Brexit there is an opportunity to refresh the Council wide risks, and Council response to manage or mitigate risk.

Responsible officer: Corporate Audit & Performance Manager

Initial management response: The Council's Risk Management Strategy will be reviewed to ensure links are demonstrated by June 2021. COVID risks are managed on a continuous basis through the Officer GOLD group. Brexit risk is under continuous review by the Brexit Tactical Group feeding into regular reporting to ELT and Audit & Scrutiny. Quarterly and six-monthly reporting will be sustained during the COVID crisis.

Timescale for implementation: June 2021.

Follow up: CLOSED. The Council's Risk Management Strategy was reviewed and there is clearer alignment between Council delivery and risk management. The Council is investing in Business Analysts, who will further embed risk management with business planning, performance and financial management across the Council.

2. Capital Plan

Recent performance would indicate that the Council's capital budgets are unrealistic or unachievable having underspent against budget by £17 million in the current year. The Council's infrastructure is important in supporting the efficient and effective delivery of services. The Council must balance the cost of financing capital projects against the revenue implications of running with ageing or unsuitable infrastructure. It is important that capital plans reflect the Council's true level of planned capital activity in year and set achievable aspiration for the year. This should incorporate any carry forward from previous years.

Responsible officer: Strategic Asset Management Group

Initial management response: The Council has reprofiled its capital plan which was presented to Members in January 2021. Work is ongoing through the officer Strategic Asset Management Group (which comprises the ECOs for Housing and Property, Finance and Resources and Infrastructure and Environment) to develop the Council's capital strategy which will help focus on capital programme deliverability and affordability as well as taking a long-term view on the requirement for investment in the Council's assets

Timescale for implementation: 30 September 2021

Follow up: CLOSED. The Council has reprofiled its capital plan and continues to ensure there is strategic focus on the appropriate use and application of capital resources in light of the impact of Covid-19.

3. Political discussions

The level of discussion and debate, particularly at full Council, can be operational rather than strategic and this has resulted in meetings taking much longer than planned, to get through the agenda. Officers and Elected members should continue to work together, to ensure the papers and subsequent discussion and debate support a strategic focus.

Responsible officer: ECO Performance and Governance

Initial management response: Council and Committee Agendas are being reviewed to ensure a strategic focus and reports will be adjusted to remove operational detail. Guidance to be provided to Committee Chairs to assist in the management of meetings in addressing where members raise operational matters in the course of discussion. A Training session is being arranged with the Standards Commission which will also cover the distinction between strategic and operational

Timescale for implementation: July 2021

Follow up: OPEN– From review of Committee meetings during 2020/21 there continues to be an operational focus rather than strategic. The Council should continue to look at opportunities for ensuring Committee Business remains focused on strategic matters. This could be an area of focus on the new Member training programme following the local elections.

Responsible officer: ECO Performance & Governance

Revised implementation date: September 2022

4. Recovery Board

The gold, silver, bronze command arrangements and the temporary suspension of meetings is like most Council's. As the pandemic is ongoing, the Council should continue to review their governance structures to ensure they remain flexible to meet changing external circumstances and continue to be transparent. This can include lessons learned from the early arrangements established.

Responsible officer: ECO Performance & Governance

Initial management response: Council agreed on 7 January that wherever possible decisions would be taken through the Council's standard formal governance arrangements and there is a full schedule of Committee, Council and Board meetings planned throughout the coming months to provide for this and there is scope to arrange urgent meetings under the current Standing Orders to provide for flexibility. This is facilitated by the successful transition to online meeting platforms that were not available at the start of the first lockdown period. Should very urgent action be required as a consequence of the emergency situation that can't wait for committee approval then this will be reported to Members within a week and published on the Council's website for full transparency. However, it is not envisaged that this will happen often, if at all. The situation will be kept under regular review

Timescale for implementation: January 2021

Follow up: CLOSED –The Recovery Board has evolved into the Recovery, Improvement and Transformation Board to co-ordinate all elements of Council recovery, improvement and redesign joining up the Council's Covid-19 response with transformation activity and financial planning. The Board reports to the full council meetings to ensure transparency with scrutiny of performance through the re-established service committees.

5. Partner Organisations

A number of partner organisations support the Council in delivering services. It is important, given the ongoing uncertainty surrounding covid-19, that Officers and Elected Members continue to maintain an oversight of these bodies and any potential obligation should it crystallise. This is important in ensuring the continuity of services being delivered on the Council's behalf by these entities as well as ensuring the financial position of the Council is maintained.

Responsible officer: Head of Corporate Finance

Initial management response: Financial risks associated with partner organisations will be considered as part of the 2021/22 budget setting process and will continue to be reported on as part of regular budget monitoring as has happened in the current financial year.

Timescale for implementation: July 2021

Follow up: CLOSED – The Council's budget process includes financial risks of approximately £4 million in relation to potential requirement for financial support to Highlife Highland. The Highlife Highland 2021 financial statements include an emphasis of matter in relation to the entity's going concern assessment. Highlife Highland receives approximately £15 million of funding annually from the Council but requires commercially generated revenue to support its operations. As a result of the impact of covid-19 on services, the organisation recognises that the level of future revenue over the next 12-18 months has significant uncertainty and may require additional support from the Council. While the Council has not budgeted for any support being required, a budget risk has been recognised around potential future outlays. This ensures that there remains continued focus on the entity's financial performance and where required consideration of any funding requirement from the Council.

3. Follow up of 2018/19 wider scope recommendations

We set out below our follow up of our 2018/19 wider scope recommendations:

1. Financial challenges

In August 2019, Officers undertook an exercise to forecast the financial outlook over the next three years covering 2020/21 to 2022/23. This highlighted the scale of the financial challenges facing the Council with a potential funding gap of between £50.2 million (most optimistic) and £77.3 million (most pessimistic) over the three year period. While this incorporates the previously identified financial pressures, it represents a significant challenge for the Council to deliver and will require transformational change. During 2018/19, the Council failed to deliver £2.7 million of the targeted £13 million savings targets. This has been a recurring theme at the council over the last three years with shortfalls in delivering savings of £1 million and £0.5 million in 2016/17 and 2017/18 respectively. In addition, the Council's Care and Learning Service has failed to operate within budget over the last three years as the Council has challenges in managing Looked after children and Additional Support Needs in a financially sustainable operating model.

Responsible officer: ECO – Resources and Finance

Management's follow up response in 2019/20: The Council acknowledges the scale of the financial challenge and has a well-established change programme and change fund in order to deliver the transformation required. The change programme focuses on savings which are challenging to deliver. Increased governance of spend is resulting in better management of historic areas of overspend and plans to provide long term solutions to these issues will be factored into the 2020/21 budget process

Revised implementation date: Ongoing

Follow up: **CLOSED** - During 2020/21 the Council's financial position has improved significantly, with significant increases in general reserve enabling the Council greater ability to manage unforeseen costs. However, the medium to longer term impact of Covid-19 and EU withdrawal has increased the level of financial uncertainty and the level of risk facing the Council, representing new challenges for the Council.

2. Strategic Leadership and Tone from the Top

Elected Members and senior management team play a critical role in both developing and delivering the Council's strategic goals. During 2017/18, the Council's Chief Executive announced his retirement effective from November 2018 and the Director of Care and Learning, the Council's largest service is also due to retire. The Council is currently in the process of recruiting for positions. Given the financial and operational challenges facing the Council and likely difficult decisions that it will face, it is critical that there is a strong leadership team in place to meet these challenges. Following the restructuring of the Council's senior management team in 2018/19, the Council has sought to embed these new structures across the organisation as well as recruit appropriate individuals to fill the executive chief officer roles that support the Chief Executive as part of the Council's senior leadership team.

2019/20 update: While the Council has recruited to five of the eight posts, it has faced challenges in making permanent recruitment across Education and Learning; Health and Social Care and Transformation and Economy. As at November 2020, each of these posts are currently filled on an interim basis. One temporary appointment included a consultant for the position of Executive Chief Officer, Education during the year which included consultancy fees. Given the financial and operational challenges facing the council, it is critical that there is a stable and effective leadership team in place with the capacity and capability to support the organisation through challenging times while maintaining a focus on delivering strategic objectives and statutory services.

Responsible officer: Chief Executive

Management's follow up response in 2019/20: : The ECO Team has 6 permanent appointments and 2 interim. The whole team, under the Chief Executive's leadership, works together very effectively and has a strong corporate strategic focus. The reorganisation of the Council has introduced significant and wide ranging changes to the Council's Service and management structure that would ordinarily have taken some time to work through and fully establish. The advent of a national pandemic has impacted on this as the focus has, unavoidably and appropriately, moved to resilience and response ahead of internal re-structuring. Nevertheless, the effectiveness of the whole senior team has meant that service delivery, financial management, emergency response and COVID recovery are all being taken forward successfully. The ability to put interim posts in place has greatly assisted this in delivering capacity, capability and responsiveness in an agile way. The intention is still to complete the senior management and service restructure at the earliest opportunity and it is anticipated this will be concluded by the middle of 2021 at the latest.

Revised implementation date: July 2021

Follow up: **CLOSED** – The Council has filled all ECO appointments on a permanent basis, with a focus on ensuring stability across the Leadership Team. The Council is in the process of recruiting a deputy chief executive to further strengthen the Council's leadership team.

