Internal Audit Report

Governance

Transformation

EXECUTIVE SUMMARY

In 2017 Aberdeen City Council proposed a new Target Operating Model in order to help manage an increased demand for services in the current environment of increasingly restricted budgets. The associated transformation blueprint, to be implemented over 5 years, included delivery of the Target Operating Model by 31 March 2021, a Digital Strategy by 31 December 2020, and £125 million of savings by 31 March 2023. The initial phase of this Transformation process was to move to a new interim structure with a managed reduction in posts. This phase was completed, and a new Scheme of Governance was approved in support of the new structure.

The objective of this audit was to provide assurance that the Council is continuing to make progress to ensure the success of its transformational aspirations, through a follow-up review of the Council's progress in achieving its transformational aspirations (Target Operating Model project management, goals / milestones, progress, new Scheme of Governance, etc). Assurance was obtained, and the Council is reporting progress and reflecting the planned changes from transformation in its Council Delivery Plan, Commissioning Model, Budget and Medium Term Financial Strategy.

Clear governance arrangements are in place including management reporting of progress, supported by underlying detail held in a bespoke in-house developed system. However, some of the detail has not been consistently recorded. The Corporate Management Team (CMT) is satisfied with the level of assurance obtained through the governance routes already in place, however the Programme Management Office (PMO) will be asked to review current system reporting to ascertain if the system can be further enhanced. Greater assurance can be evidenced / supported at a detailed level, with clear system reporting of completed projects and milestones.

Financial return on investment was a key part of the transformation proposals, including the £125 million of savings, and investment of £15 million in specific projects. Progress with this has not been separately reported to Committee. The Service has noted that Transformation has become business as usual: return on investment for transformation is therefore reflected in the budget setting process, as part of service redesign, and monitored through the Council's quarterly financial reporting reported to the City Growth and Resources Committee. Internal Audit considers that in the absence of separate tracking there is less assurance that specific activities resulted in the planned financial outcomes. However, the focus on preparing and delivering against a balanced budget is acknowledged. The budget set in March 2020 provided substantial detail on savings to be delivered through service redesign, and these are being tracked.

1.   INTRODUCTION

1.1   In 2017 Aberdeen City Council proposed a new Target Operating Model in order to help manage an increased demand for services in the current environment of increasingly restricted budgets. The associated transformation blueprint sought to deliver over five year, the Target Operating Model by 31 March 2021, the Digital Strategy by 31 December 2020, and £125 million of savings by 31 March 2023. The initial phase of this Transformation process was to move to a new interim structure with a managed reduction in posts. This phase has now completed, and a new Scheme of Governance was approved in support of the new structure.

1.2   The objective of this audit was to provide assurance that the Council is continuing to make progress to ensure the success of its transformational aspirations, through a follow-up review of the Council's progress in achieving its transformational aspirations (Target Operating Model project management, goals / milestones, progress, new Scheme of Governance, etc).

1.3   The review focused on how phases 2 to 4 of the Transformation process are progressing. This involved determining what programmes are currently underway, whether they are predicted to complete within proposed timeframes, and that budgeted savings have been realised or are forecast. Additionally, the reporting process was examined to determine that progress and any delays with projects individually and collectively are reported to appropriate Officers, Boards and Committees in a timely manner to provide assurance and apply any remedial action as necessary. Consideration has also been given to whether the initially envisaged savings associated with Phase 1 have been realised following its completion.

1.4   The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Fraser Bell, Chief Officer – Governance, David Leslie, Strategic Infrastructure Plan Programme Manager, and Jonathan Belford, Chief Officer – Finance.

2. FINDINGS AND RECOMMENDATIONS

2.1 Phase 1

2.1.1 Phase 1 of the transformation process is complete. This included moving existing staff onto a new interim structure and the appointment of Chief Officers to manage the new structure. In April 2018 all staff were transferred to the new interim structure. Additionally, the Strategic Transformation Committee agreed in February 2018 to reduce workforce numbers by 370, including 140 vacancies, with a view to making savings of £10.3 million.

2.1.2 In the final report to Strategic Transformation Committee in November 2018 the Service was able to report that savings of £9.873 million had been realised by moving to the new transitional structure. This saving has been deducted from budgets to reflect the agreed changes. The difference (£427,000) from the original planned saving of £10.3 million has been addressed through subsequent budget setting processes.

2.1.3 Following approval of the new Scheme of Governance in March 2019 the Council disbanded the Strategic Transformation Committee. There was no further requirement for separate Committee decision making as parameters had been set including no compulsory redundancies or changes to terms and conditions. It had been recognised that transformation had become business as usual and could be distributed across other relevant Committees.

2.2 Governance and Reporting Arrangements

2.2.1 Phases 2 to 4 in the transition to the new Target Operating Model focus on seven organisational capabilities:

1) Managing demand through prevention and early intervention
2) Being flexible and adaptable
3) Ensuring accountability, transparency and openness
4) Becoming intelligence led
5) Encouraging inclusiveness, engagement and collaboration
6) Achieving consolidation and consistency
7) Focusing on outcomes that make a difference

2.2.2 In order to ensure that each of the seven organisational capabilities are realised, a programme of works comprised of individual projects have been set up for each capability, plus an additional Digital programme.

2.2.3 Managing the delivery of the programmes are eight Programme Groups whose remit is to ensure completion of the individual projects on time and to the expected quality. Each Programme Group is chaired by a Senior Responsible Officer. Programme Groups meet on a monthly basis to discuss the progress of projects over which they have responsibility and to ensure that milestones which have been set within each project are being achieved.

2.2.4 The Programme Groups were accountable to the Transformation Management Group (TMG) which was made up of the Chief Executive, Directors and the appropriate Chief Officers. A dedicated session for Transformation takes place each month to consider progress. TMG has recently been renamed Corporate Management Team (CMT) Transformation which creates consistency with three other meetings of CMT; CMT Stewardship, CMT Strategy and CMT Finance.

2.2.5 The remit of CMT Transformation includes to monitor return on investment, financial and non-financial, in respect of the Transformation programmes. CMT Transformation was supported in its financial monitoring responsibilities via a sub group which was formed –

CMT (Finance), to monitor the progress of approved transformation savings within the annual budget and consider proposals for transformation savings for future year budgets.

2.2.6   £15 million of resources had been set aside for investment in transformation, through a dedicated Fund. The majority of this had been earmarked for specific projects in the Digital Strategy by the end of 2018, but the extent of its use and whether payback periods (each project had to return savings equivalent to the amount invested within 5 years) were on track in respect of each project it had been used towards have not been reported separately to a Committee since the Strategic Transformation Committee ended in 2018.

2.2.7   The Service has noted that spend incurred from this fund was approved following consultation with the City Growth and Resources Convener, and the associated programme was overseen by the Digital Board. The original business case for the investment of £15 million used industry benchmarks to quantify the likely return on such an investment – it was unable to attribute these savings to discrete parts of the digital strategy. As a result, the return on investment for this investment has not been tracked at an individual project level but instead has been tracked at a macro level of the Budget. The financial savings programmed from these investments underpinned the activities which have generated savings – delivery of which is reflected in the Council's Budget, and Quarterly Financial Monitoring Reports presented regularly to the City Growth and Resources Committee.

2.2.8   £125 million of savings were to be achieved through Transformation over 5 years (by 2023). The Service is confident that this is on track to be delivered, however this is not separately recorded and it is not a static target: Although savings were originally planned for delivery in particular years the scenario changes annually depending on the latest set of planning and financial assumptions. The Budget and Medium Term Financial Plan are updated annually and include revised assumptions on the level of savings which may be achieved through the programmes and other activities/ budget options. The budget set in March 2020 provided substantial detail on savings to be delivered through service redesign.

2.2.9   A process for reporting performance across a range of factors using scorecards has been set out clearly in the Council Delivery Plan for 2020/21, which also set out a high level overview of the Programme being delivered. These include aspects relating to customers, colleagues, processes, finances and controls. Reporting on a wider 'return on investment' – focusing on outcomes rather than financial inputs / outputs, is being developed as part of the performance management framework.

Recommendation
Financial return on investment in respect of Transformation Programmes should be reported consistently at the appropriate levels.

Service Response / Action
Not agreed. Financial return on investment for transformation is reflected in the budget setting process, for example as part of service redesign, and monitored through the Council's quarterly financial reporting.

Internal Audit Comment	**Grading**
Service response noted. In the absence of separate tracking there is less assurance that specific activities resulted in the planned financial outcomes. However, the focus on preparing and delivering against a balanced budget is acknowledged.	Significant within audited area

2.2.10   A significant element of the Target Operating Model presented to Council in 2017 was to implement a Commissioning based approach for the Council's operations, which was to ensure that all services commissioned, whether inhouse or external, could identify their contribution to the outcomes set out in the Local Outcome Improvement Plan. In addition, it was anticipated that the approach would then enable a set of service standards to be developed which would reflect the available resources from the budget process. The Council has developed its strategic commissioning approach and has set out its service standards and commissioning intentions, and key measures for them, in the Council Delivery Plan 2020-21. These are linked to the Local Outcome Improvement Plan and reinforced through the Council's Budget and associated work on service redesign. Key performance indicators are being reported to Committees as part of the performance management framework discussed above.

2.3   Project Progress

2.3.1   The Council has developed a project management application and reporting tool (the App) to plan and monitor phases 2 to 4. This allows for real-time reporting of progress overall and within individual projects. The App, and the capability of the teams creating and using it, have continued to develop as part of the rollout of the Council's digital workstreams. Reports can be produced for each Programme Group showing an overview of progress for projects for which they have responsibility. The current reporting setup includes regular meetings, with Senior Officers being kept abreast of current progress with all projects.

2.3.2   The system used needs to be robust to provide assurance over progress and success in the delivery of the programme, therefore Internal Audit reviewed the App and its content to ensure it provided suitable supporting evidence of progress. The Service confirmed that access to the App and individual projects is restricted to those working on the project, that all amendments / updates are recorded, and it is possible to reinstate saved versions if required.

2.3.3   The Service highlighted that as the Transformation programme has progressed, more synergies have been found across a number of projects across the capabilities and as a result some projects and milestones have been amalgamated. Projects may also be abandoned where it becomes clear that their original objective is no longer compatible with current goals or where other amended projects may have fulfilled the original objectives. Any decisions to abandon or amalgamate projects are taken by CMT Transformation to ensure effective programme and project change control.

2.3.4   Details of progress to date on all projects and milestones was requested from the Service and the statistics below reflect progress as of 29 January 2020. At this point there were 101 Projects, comprising of 558 milestones.

2.3.5   All 22 projects associated with phase 2 of the Transformation Programme have been marked as completed. However, the App indicated that one of the supporting milestones had not been marked as been completed. Whilst this is not material in itself, it reduces assurance that only fully concluded projects are being reported as complete. The Service has however confirmed that projects are only closed where assurance has been provided to CMT Transformation that the required outcomes are being delivered, and CMT Transformation has stated that progress is subject to regular and robust challenge.

2.3.6   Phases 3 and 4 commenced simultaneously in reflection that many of the projects had moved into business as usual, and being halfway through the Programme provided an opportunity to take stock and consolidate as appropriate. Subsequent to audit fieldwork concluding, phase 3 is being considered for closure, with proposals being put forward for changes and additional projects for the final phase.

2.3.7   Of the 79 Projects associated with these phases the system indicated 33 were still to be completed. Further analysis showed that of a total of 558 milestones associated with all phases of the Transformation Project that 353 had been completed, 135 were due to complete on time, 1 was due to complete within 30 days and 69 were overdue. The Service was confident that the overall Transformation Project would complete on time despite some 12% of milestones being overdue, and has provided assurance that this is being monitored regularly at various levels, and projects prioritised as appropriate within existing resources. CMT Transformation continues to monitor delivery to ensure the required outcomes are realised.

2.3.8   In order to review the system and supporting processes, six of the 101 projects were randomly selected and reviewed in detail to ensure clear and consistent records are being maintained of progress and of actions being taken in response to any identified issues. These comprised 79 milestones.

2.3.9   Where milestones have not been met, this can be highlighted within the App. The accuracy of reporting depends on the data being updated fully and promptly. During discussion with the Service it was noted that there are times where actions have not been updated on the system when they have in fact been completed. This leads to a situation where the system highlights that milestones have not been reached when they have. The Service is considering automation of emails to responsible Managers in advance of milestones falling due, to ensure that the system is updated confirming actions taken. This could assist in ensuring the system is updated in a timely fashion and the information subsequently presented to CMT Transformation is up to date.

2.3.10   It was noted when looking at the milestones data within the dashboard that milestone status indicators in some instances were noted as being 'future' when the date had passed. The Service has agreed to seek to determine why this is the case.

2.3.11   Two projects' milestones had not been updated, but the due date had passed. Another milestone had been marked as complete in advance of the action required to complete it having taken place. To evidence progress it is important that the data is maintained accurately and up to date.

2.3.12   A running narrative of overall project progression is provided in 'project update' screens and this encapsulates all elements of a project. However, the detail provided was not consistent between projects, and did not always clearly state the actions taken to reach and close individual milestones. There are separate screens for each milestone within a project, which Internal Audit anticipated would hold supporting detail showing how those milestones had been met, and what was being done in the event of any issues arising. However, this was not always the case. Some of the key information on progress is covered in the accompanying narrative, but this has not been consistently recorded.

2.3.13   In the event that an action has not been completed on time, system records do not regularly and consistently record why this has been the case, or provide details of what is being done to mitigate delays, in order to give due consideration to any effect this may have on overall future project completion.

2.3.14   The date that the milestone was completed is also not recorded on the system. There is therefore no record of any past delays to completion which may affect future milestones, and a risk these may not be highlighted until subsequent milestones are not met. There is also no specific record on the system of agreement to close, delay or change projects and milestones. Where there is a need for significant changes these should be escalated appropriately, and there is evidence of this taking place. Recording this on the system would give more assurance that these are always being reported as required.

2.3.15   The system does not have the facility to report on exceptions – i.e. delays and overspends, when and why they have occurred, and what is being done to mitigate them. Therefore, although the system is able to provide an overview indication of programme and project progress, there is insufficient detail for it to provide assurance on its own. Assurance is instead provided through meetings between Senior Responsible Officers and their Teams, and escalation of risks and issues to Project Boards, and CMT Transformation. Whilst this provides a clear route for reporting overall progress and achievements, without consistent supporting records there is a risk that it may not be highlighted if individual elements of projects have not progressed as planned.

Recommendation
The clarity and consistency of supporting records should be reviewed to ensure the system can demonstrate that projects and milestones are being completed as planned, with exceptions and mitigating actions highlighted.

Service Response / Action
CMT Transformation is satisfied with the level of assurance obtained through the governance routes already in place, however PMO will be asked to review current system reporting to ascertain if the system can be further enhanced

Internal Audit Comment
Greater assurance can be evidenced / supported at a detailed level, with clear system reporting of completed projects and milestones.

Implementation Date	Responsible Officer	Grading
October 2020	Strategic Infrastructure Plan Programme Manager	Significant within audited area

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AUDITORS: D Hughes
C Harvey
D Henderson

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the organisation.
Major at a Service Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited. Financial Regulations have been consistently breached.
Significant within audited area	Addressing this issue will enhance internal controls. An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on a system's adequacy and effectiveness. Financial Regulations have been breached.
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

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