

**MIDLOTHIAN AUDIT SERVICES  
INTERNAL AUDIT REPORT**



**Subject:** Transformation Programme  
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## EXECUTIVE SUMMARY

### 1 Objective of the Audit

The objectives of this review were to:

- form an opinion on the adequacy and effectiveness of the governance arrangements for the Council wide transformation programme and a sample of individual work streams including service reviews;
- review progress to date against original aims and objectives at a programme level and on a sample of individual work streams; and
- assess the effectiveness of the programme to deliver change.

### 2 Scope of the Audit

The audit reviewed the overarching governance arrangements for the Transformation Programme and focused in detail on a sample of supporting programmes. This included an examination of:

- the adequacy of the governance of the programme and governance of individual work streams (roles and responsibilities, performance, financial and information management systems, adequacy of project documentation including links to priority themes and underpinning of Council's core principles, risk management, issue monitoring and resolution, communication, partnership working and stakeholder management etc);
- the adequacy of base lining of the work stream / service being transformed and the subsequent monitoring of progress against the targeted outcome and benefit (including financial and non financial objectives); and
- the adequacy of work stream / service reviews project completion in terms of learning lessons for future programmes and the follow through on service improvement recommendations and savings.

The Audit also included an examination of the financial performance against budget for other Council initiatives designed to assist in delivery of a balanced budget (financial discipline and service savings).

### 3 Background

The Transformation Programme was initiated in 2010 as a result of constrained funding and demographic cost pressures. The primary aim of the programme was to allow the Council to bridge funding gaps. It was also seen however as an opportunity to modernise and improve processes while at the same time improving the quality of service provided to users of Council services by transforming how services were delivered.

The Programme has developed since initiation and the latest Transformation Strategy was approved by Midlothian Council in May 2013. This notes that successful delivery of the Transformation Programme will allow Midlothian to achieve substantial and rapid change and to deliver outcomes that will have a positive impact on the Council and its Communities. Transformation is also aimed at supporting the Single Midlothian Plan and the key priorities of: economic growth and business support; positive destinations; and early years.

Restructuring of the Senior Management Team (December 2013) means that the Business Transformation team now report through the Head of Finance and Integrated Service

Support who, on transformation matters, reports directly to the Chief Executive. Governance is provided through a Business Transformation Board (senior Council officers) and the Business Transformation Steering Group (elected members and senior Council officers). Any policy changes are then sent to the full Council for approval. The Transformation team, amongst other responsibilities provides support to individual projects, to the Board and the Steering Group.

The Council has approved utilisation of £5.868M of General Fund Reserve to fund costs associated with Business Transformation. As at 31 March 2014, £2.112M has been applied with future commitments of £1.144M identified for 2014/15 to 2016/17 leaving £2.612M as uncommitted. Total savings delivered to the end of 2013/14 have been calculated by the Head of Finance and Integrated Service Support as £7.472M.

Savings targets have been established for Transformation to deliver against for 2014/15 (£1.995M), 2015/16 (£1.625M) and 2016/17 (£4.292M). Programmes aimed at achieving these savings (reported to Council on 24 June 2014) include: Integrated Service Support (ISS), Education Provision, Income Maximisation (including sundry debt), Energy Reduction, Customer Services, Services to the Communities, Externalisation / In-Sourcing, Children's Services, and a number of continuing service reviews.

#### **4 Audit Conclusion and Opinion**

It is Audit's opinion that the Transformation Programme has been and continues to be critical to the Council both in terms of delivery of savings and to improve the quality of service provided to users of Council services.

Midlothian Council has put in place a number of processes and controls to assist with the delivery of the Transformation Programme:

- a governance framework with the establishment of a Transformation Programme Board and Steering Group;
- the development of a Transformation Strategy;
- the establishment of a Project Management Office with dedicated staff;
- a range of tools and techniques to support the wide variety of transformational change requirements;
- the development of a financial strategy, approved by Council in February 2014, which outlined how the Council plans to deliver the required level of savings; and
- regular performance reporting.

In addition there are a number of examples where Transformation can be shown to have had a major impact on individual areas. Examples include:

- **Housing** – following a report by the Scottish Housing Regulator a series of recommendations were made to improve performance and customer services in Housing. Support was given by Business Transformation with an end to end review comprising four strands: Homelessness; housing repairs; rent arrears and benefits; and allocations and voids. Improvements are evidenced by:
  - reductions in homelessness clients going through a full homeless presentation;
  - one point of contact for tenants through the housing allocations process enabling better matching of properties;
  - being able to take card payments directly from tenants over the phone;
  - face to face advice and assistance being provided by a Revenues Officer at the Cash Collection Enquiries Counter;

- reduction in void spend and a quicker turnaround in terms of rental income; and
  - improved staff empowerment and engagement.
- **Children's Services** – the preventative approach taken (ie the way the Council works with families) was key to achieving change as demonstrated by a number of transformational programmes of work including:
    - Foster Care Campaign resulting in no external placement of a child outwith Midlothian in over a year;
    - Family Resilience Project – a pilot project bringing together a number of key agencies thus allowing joined up creative thinking to try and resolve issues in a different way; and
    - Three 4-bedroomed residential houses where two are used as residential houses and the third is used for outreach work with families who are at high risk of being accommodated. This preventative approach has proven to be very rewarding and successful.
  - **Adult Social Care** – tackling the demographic pressures by major shift in spend from care homes to supporting older people to live as independent lives as possible in their own homes and communities.

In December 2013, Grant Thornton noted in their “Scotland’s Public Finances: Addressing the Challenge” that there were no clear plans in place to bridge the potential funding gaps to the period 2016/17. Midlothian concurrently developed a Financial Strategy (2015/16 and 2016/17) which identifies how savings may be delivered over the period. This includes detailing where savings may be generated through transformational activity, service reviews and financial discipline and was approved by Midlothian Council in February 2014.

There has however been considerable challenge in realising the savings targets established as part of the Transformation Programme as the budgeted savings target since the start of the programme have not been achieved (variance of £1.319M) as at 31 March 2014.

This is not sustainable with the Council facing a potential budget shortfall of £10.97M by 2016/17. It is therefore vital that Transformation savings are actually delivered against the expected savings targets. Where these are unlikely to be delivered, reporting over variances need to be improved so that alternative savings proposals are introduced and achieved.

The current reporting routines on the costs and savings through Transformational activities within the Council need to be strengthened. For example reporting to the Transformation Board and Steering Group needs to include the total saved over each projects’ life and the net position after deduction of relevant costs and this should be regularly reported.

Regular monitoring of the level of compliance with the existing governance arrangements over risk management, end of project reporting and to the project methodology documentation can be strengthened.

As well as reviewing the overall governance arrangements we also looked at three projects in detail: Effective Working in Midlothian (EWIM), People Strategy and Integrated Service Support (ISS) and recommended improvements in the way these are managed through:

- more effective and regular reporting to the Transformation Board and Steering Group – including total amounts spent on projects and savings delivered since outset; and
- improvements over the decanting of buildings and an increase in the pace of disposal of sites surplus to requirement.

Although not part of the original People Strategy, it is also considered essential that, moving forward, a workforce strategy, development plan and HR metrics are clearly defined, measured and regularly reported to senior management and the Business Transformation Board and Steering Group. In addition, regular reporting of the budget position within SWITCH should be reported to Business Transformation Board and Steering Group (this is currently only reported to the MiFuture Board).

As noted above, there are a number of issues above the acceptable level of residual risk which must be addressed within a reasonable timescale. These are detailed in the Management Action Plan together with a number of recommendations to improve controls. Therefore, we have rated the strength of internal control as **Amber** (in accordance with the table below):

<b>Colour</b>	<b>Level of Assurance</b>	<b>Reason for the level of Assurance given</b>
<b>Blue</b>	<b>Very High</b>	Internal Control, Governance and the Management of Risk are at a very high standard with no unacceptable residual risk existing.
<b>Green</b>	<b>High</b>	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
<b>Yellow</b>	<b>Moderate</b>	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
<b>Amber</b>	<b>Limited</b>	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
<b>Red</b>	<b>Very Limited</b>	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

We are pleased to report that during the course of the audit, management acted on a number of the recommendations and these are therefore now shown as complete on the agreed management action plan.

## MANAGEMENT ACTION PLAN

### 1.0 Projected Budget Savings against those actually achieved

#### 1.1 Programme Savings

One of the key objectives of the Transformation Programme along with financial discipline and service savings is to provide a mechanism for the Council to bridge potential funding gaps.

Significant savings are expected to be delivered as follows:

Financial Year	Saving Category	Savings Target
2013/14	Transformation Programme	£1.448M
	Financial Discipline	£1.186M
	Service Savings	£2.003M
2014/15	Transformation Programme	£1.995M
	Operational Savings	£0.855M
	Service Savings	£0.527M
	New Leadership Structure	£0.144M
2015/16	Transformation Programme	£1.625M
	Service Reviews	£0.260M
	Efficiency / Financial Discipline	£0.750M
2016/17	Transformational Programme	£4.292M
	Service Reviews	£0.560M
	Efficiency / Financial Discipline	£1.200M

There has been considerable challenge in realising the savings targets established as part of the Transformation Programme. As at 31/03/14 there is a cumulative variance to budget since inception of the programme amounting to £1.319M. Whilst we have noted that progress has been made in 2013/14 (with a positive budget variance of £538K due to a reported Business Transformation saving within Children's Services of £1.172M) there remains a significant challenge in delivery.

Failure to deliver against budgeted savings is not sustainable with the Council facing a potential budget shortfall of £10.97M by 2016/17. It is therefore vital going forward that savings are actually delivered against the expected savings targets.

In order to facilitate this process, the following areas should be addressed:

- although there is reporting of Transformation material variances to Council and the Audit Committee through the quarterly Financial Monitoring Reports, this is at a project level rather than at a programme level and therefore it is not sufficiently evident whether the Transformation programme is failing to deliver against target;
- the quarterly Financial Monitoring Reports do not include variance reporting against the financial discipline and service savings targets which have not delivered against the expected savings targets in 2013/14 (£0.466M below budget). It has been explained that this is because individual variances within the financial discipline and service savings targets are not sufficiently material to warrant reporting. Nevertheless, cumulatively these are significant and need to be reported as they are key to delivering the anticipated savings;

- the projected savings on a number of projects (eg Income Maximisation and Externalisation / Insourcing), reported to Council on 4 February 2014, were not at that stage fully supported by detailed analysis or validation;
- current reporting to the Business Transformation Board and Steering Group does not include the total saved over the project's life but rather focuses on the annual saving against the budgeted saving in the year of reporting. Savings delivered above or below budget in previous years are not therefore reflected in the report. This makes it difficult to assess the success or otherwise of the project and for the Transformation Programme as a whole. In addition, the net position (after any direct Transformational costs) is not separately shown. Reporting on savings at a programme level was also noted to be irregular; and
- although there is information provided to the Performance Review and Scrutiny Committee within the Performance Reports on Transformation and through the Financial Monitoring Reports (which are also presented to the Audit Committee), the reporting was at a high level and did not provide, for example: summaries of expected costs, savings and delivery or otherwise of benefits. This information is provided to Council via the Financial Strategy reports but these are not currently reported to the Audit Committee.

We noted that reporting on total savings delivered as part of the Business Transformation Programme was not always consistent. For example the Management review undertaken in 2010 was included in some reports but not others.

## 1.2 Project Costs

Transformation expenditure is periodically reported to the Business Transformation Board and Transformation Steering Group. However it was noted that this does not include all relevant costs. For example costs are not charged to Transformation for a number of permanent employees, who work either fully or in part on Transformation projects. This is evidenced through the ISS project where there are no documented costs attributed to the programme and also through members of the former Corporate Improvement Section (policy officers) who currently work full time on Transformation activities but whose costs are not charged to the Transformation Programme budget.

The true cost of Transformational activity within the Council is therefore understated and this makes it more difficult to assess the benefits and savings achieved and plan future initiatives.

No	Recommendation	Priority	Manager	Target Date
1	<p>All projected savings presented in the Financial Strategy paper to Council on 4 February 2014 need to be supported by detailed analysis and be subject to validation by Financial Services, the Transformation Team and Services impacted to ensure that they present realistic savings targets which can actually be delivered.</p> <p><u>Management Comment</u> The Transformation team have undertaken a number of challenge sessions on projected savings and a revised listing of anticipated savings was submitted to Council in June</p>	High	Transformation Programme Manager	Completed

No	Recommendation	Priority	Manager	Target Date
	<p>2014. This process has identified that two projects: Income Maximisation; and Externalisation / In sourcing require further validation of established targets. Work is ongoing in both these areas.</p> <p>Transformation will continue to monitor and challenge savings targets to ensure that these are supported by achievable plans.</p>			
2	<p>At least quarterly reports should be submitted to the Business Transformation Board and Steering Group detailing projected savings against the targets established in the Financial Strategy document issued to Council in February 2014.</p> <p><u>Management Comment</u> Regular reports are now submitted to each Business Transformation Board and Steering Group meeting. These occur on approximately a six week cycle.</p>	High	Transformation Programme Manager	Completed
3	<p>Reporting to the Business Transformation Board and Steering Group should include total savings delivered as a result of the project as well as current year performance. Reporting should also include the net savings or costs through the Transformational activities and include financial discipline and service savings as well as Transformation savings.</p> <p><u>Management Comment</u> This will be reported to the next Business Transformation Steering Group.</p>	High	Transformation Programme Manager	17/11/14
4	<p>There should be an annual Report on progress with the Business Transformation Programme to Council. This should include the results of the Health Check reviews recommended under section 2.6 below.</p>	Medium	Transformation Programme Manager	31/08/15



No	Recommendation	Priority	Manager	Target Date
5	The Financial Strategy reports should be provided to the Audit Committee, for its interest, following submission to the full Council.	High	Head of Finance and Integrated Service Support	28/10/14
6	All relevant Transformation costs should be reported against the projects in the programme including utilisation of Transformation resource to demonstrate return on investment.  <u>Management Comment</u> Transformation / change is now a key element of each service area and thus it is not feasible to record this level of detail. However, costs associated with members of the former Corporate Improvement Section (policy officers) who currently work full time on Transformation activities will be reviewed and charged against the Transformation Programme budget	Medium	Transformation Programme Manager	31/10/14
7	There should be consistency of reporting in terms of programme inclusion and amounts saved between different Council Officer Reports.	High	Head of Finance and Integrated Service Support	Complete

## 2.0 Programme Governance

### 2.1 Project Reporting

Testing by Internal Audit identified that there was not always complete, consistent or timely reporting on project progress to the Business Transformation Board and that there was a lack of challenge by the Board for projects that failed to comply with the stated requirements.

General observations on the quality of reporting between the periods of December 2012 – December 2013 identified the following:

- target savings and / or benefits to be delivered were not routinely reported or where they were reported, lacked consistency of approach (e.g. some showed anticipated benefits while others showed actual, some showed validated savings while others did not etc);
- colour coding used did not always correctly match the actual situation (e.g. milestone missed but reported as green status);
- only verbal updates or no reports being delivered on certain projects to the Business Transformation Board;
- inconsistent reporting formats used;
- lack of clarity on what the baseline position is from which improvements are being measured; and
- overall project status not being reported.

We also noted that a number of projects are started and then consumed into other projects and it is therefore difficult to judge performance and delivery. Examples include: HR Transactional, Business Services Review and IT (which are now part of ISS).

Reporting of progress via highlight reports to the Business Transformation Board and Steering Group was found to be good for the People Strategy project (ie regular reports have been submitted). There is however a lack of reporting on the overall benefits realised from the funding that has been allocated to Human Resource (HR) projects (including the People Strategy which was not earmarked to deliver any savings) from the Transformation fund. As at 31 March 2014, total funding of £833k had been allocated to Human Resources from the Transformation fund as follows:

- £300k was approved for People Strategy 1 (over a period of 3 years) and this was required to fund 2.5 HR advisers and other miscellaneous resources from 2011 to 2014;
- £205k was awarded to fund a number of HR projects such as: HR Adviser posts, the cost of the HR restructure, supporting the 2012 Early Release scheme and the Competency Framework;
- £182k was awarded to manage the MiFuture project for 2013/14; and
- £146k was awarded for the Voluntary Severance Scheme and for 2 HR Advisors to support service reviews for 2014/15.

No	Recommendation	Priority	Manager	Target Date
8	<p>There needs to be standardised reporting to the Business Transformation Board and Steering Group on progress with projects.</p> <p>Reports need to detail:</p> <ul style="list-style-type: none"> <li>• approved budget against what has actually been spent (recording these as a milestone);</li> <li>• savings targets and progress against delivery (recording as a milestone);</li> <li>• end date for the project (recording as a milestone);</li> <li>• benefits to be delivered and progress made against benefit realisation (recording as a milestone); and</li> <li>• clearly show where the project is behind schedule overall (this should be measured against original baseline dates and not revised dates).</li> </ul> <p>Guidance should be produced for those charged with completing reports on the standards expected.</p>	High	Transformation Programme Manager	Completed

No	Recommendation	Priority	Manager	Target Date
9	The Transformation team should vet submitted reports for completeness, quality and accuracy before submission to the Business Transformation Board.  Project teams that fail to provide reports or fail to provide reports to the standard agreed should be flagged to the Transformation Board / Steering Group and relevant officers held to account.	High	Transformation Programme Manager	Completed
10	There needs to be reporting when projects are incorporated into other programmes so that there is full transparency on the costs and benefits and progress with milestones.	High	Transformation Programme Manager	Completed

## 2.2 End of Project Reporting

One of the key elements detailed within the project methodology is that there should be an end of project report to identify what went well and any learning points that could be used to inform future reviews. Such reporting would also allow the Business Transformation Board and Steering Group to conclude on achievement or otherwise of the programme.

Internal Audit identified that a central register is not maintained of all projects that have been initiated and subsequently closed. There is therefore a lack of audit trail on whether end of project reports have actually been undertaken and provided to the Business Transformation Board.

We also noted that the current methodology does not emphasise the need for independence in the completion of reviews.

No	Recommendation	Priority	Manager	Target Date
11	A central register should be maintained of all projects that have been initiated and this should be used to track for submission for end of project reports.  <u>Management Comment</u> This has been added to the delivery plan which is used to track project progress.	High	Transformation Programme Manager	Completed
12	In order to ensure independence of reporting, the end of project reviews should be undertaken by the project manager with support from the Transformation team and with input from the end user. This requirement should be updated to the methodology documentation.	Medium	Transformation Programme Manager	Completed

No	Recommendation	Priority	Manager	Target Date
13	In order to ensure compliance with the requirement to submit an end of project review, the Transformation team should be responsible for monitoring compliance and report any failings to deliver reports to the Transformation Board.	Medium	Transformation Programme Manager	Completed
14	Project closure methodology should include the requirement to obtain feedback on team and individual performance on each project.	Medium	Transformation Programme Manager	Completed

### 2.3 Governance Model - Responsibilities

The current governance arrangements for the Transformation Programme set out the responsibilities of the various Boards and Groups as follows:

Board / Committee	Responsibility
Midlothian Council	Fulfils the role of providing political governance.
Business Transformation Steering Group	Fulfils the role of challenging and scrutinising the development and delivery of the transformation programme to ensure outcomes support the aspirations of the Council within the Scottish context.
Business Transformation Board	Provides corporate direction, governance and accountability. The board is effectively the decision making body.
Senior Leadership Team	Provide support, challenge and promote information sharing

We noted however that although the Business Transformation Board routinely receives the Steering Group minutes, the Steering Group do not receive the Business Transformation Board Minutes. This reduces the opportunity for challenge.

No	Recommendation	Priority	Manager	Target Date
15	The Transformation Board minutes should be made available to the Business Transformation Steering Group.	Medium	Transformation Programme Manager	17/11/14

### 2.4 Project Management Methodology

The Transformation team has provided detailed guides for project teams to follow which includes the standardised documentation that should be completed by each individual project team as part of any project. Internal Audit reviewed the adequacy of the documentation provided against Prince 2 methodology and the level of compliance against the standards for three specific projects (see 4 below).

Whilst we found that the guides were generally of a good standard the following was observed:

- the project definition document does not provide a section for linking the project to the core principles, or priority themes or how the project supports the overall objectives of the business transformation programme;
- the project definition document does not provide a section to record opportunities to work with outside bodies or the voluntary sector;

- the project definition document although mentioning costs does not make specific reference to expected savings;
- the templates are guides rather than being mandatory requirements;
- the templates need updating to reflect a number of changes since the documentation was completed (those authorised to approve a project, those authorised to change a project, those authorised to appoint sponsor or project manager); and
- there is no template for the recording of issues arising out of the project.

No	Recommendation	Priority	Manager	Target Date
16	<p>The Project Definition Document should be updated to include:</p> <ul style="list-style-type: none"> <li>• a requirement to directly link to the core principles, priority themes or how the project supports the overall objectives of the business transformation programme;</li> <li>• details of any potential to work with outside bodies or the voluntary sector;</li> <li>• an issues template for project teams to complete; and</li> <li>• a section on earmarked savings.</li> </ul> <p><u>Management Comment</u> All new project definition documents now incorporate these requirements.</p>	Medium	Transformation Programme Manager	Completed
17	<p>Where historic projects are still running, relevant updates should be made to existing project definition documents.</p> <p><u>Management Comment</u> All historic projects which are still running will be reviewed and updated to reflect these issues.</p>	Medium	Transformation Programme Manager	31/10/14
18	<p>The use and completion of the standard documentation should become a mandatory requirement rather than just acting as a guide.</p>	Medium	Transformation Programme Manager	Completed
19	<p>Templates should be updated to reflect the current approved processes (e.g. on authorisation of projects, changes to projects or those authorised to appoint project managers).</p> <p><u>Management Comment</u> The Transformation Board now authorise these changes. Templates will be updated to reflect this.</p>	Medium	Transformation Programme Manager	Completed

No	Recommendation	Priority	Manager	Target Date
20	An issues template should be added to the template library.  <u>Management Comment</u> Issues now require to be recorded on the new highlight reports.	Medium	Transformation Programme Manager	Completed

## 2.5 Asset Management Strategy

Effective Working in Midlothian (EWIM) focuses on transformation of the Council's property portfolio and forms part of the original Asset Management Transformational work stream which included not only buildings but also IT, fleet and equipment.

We noted as part of our review on EWIM that although there is an Asset Management Strategy, it is currently dispersed across Directorates and does not therefore provide a single Council strategy. The Financial Strategy report presented to Council on 4 February 2014 stated that the existing Asset Management Strategy is being reviewed and options will be developed through the Strategic Leadership Group and presented to the Transformation Steering Group. A cohesive, Council wide strategy is necessary to ensure that assets are utilised effectively and will contribute to achievement of the required savings. This should include all Council assets and all buildings (eg schools / libraries) and should incorporate investment plans for each strand of asset. A recommendation has therefore been raised for this to enable Internal Audit to track its progress and implementation.

No	Recommendation	Priority	Manager	Target Date
21	A cohesive Council wide Asset Management Strategy (comprising buildings, IT, fleet, equipment etc) should be developed and presented to the Business Transformation Steering Group. This should include separate stages and investment plans for each strand of asset.	High	Director Resources to co-ordinate with relevant HOS	31/03/15

## 2.6 Health Check Reviews

In 2012, the Transformation team undertook a health check on the current Transformation programme and recorded the following objectives for the review:

- to determine if the Transformation Programme is delivering the outcomes and benefits set out in the Transformation Strategy and Project Definition Documents;
- to determine if the programme and Transformation projects have sound governance and internal controls and with sufficient resource in place to drive transformational change; and
- to identify remedial actions, if necessary, to ensure both the programme and transformation activities are focused and effectively progressing to deliver their objectives.

A total of 12 recommendations were made as part of this assessment to improve controls going forward. Internal Audit testing noted however that these were not formally tracked for implementation and there has only been one health check review completed since the Transformation Programme commenced in 2010.

No	Recommendation	Priority	Manager	Target Date
22	Recommendations made as part of health check reviews of the Transformation Programme should be updated to Covalent and tracked on a regular basis for implementation.	Medium	Transformation Programme Manager	31/08/15
23	Health checks should be undertaken at regular intervals (ideally annually).	Medium	Transformation Programme Manager	31/08/15

### 3.0 Risk Management

#### 3.1 Risk Registers

A risk register is maintained for the Transformation Programme as a whole. Regular assessments are made against the risks by the Transformation team and reports are presented to the Business Transformation Board and Steering Group. Individual projects must also maintain risk registers and report any escalation in risk above certain pre-defined limits to the Business Transformation Board through submission of highlight reports.

A number of risks were escalated for the programme as a whole in February 2014:

- programme resourcing (from moderate impact and high likelihood to major impact and high likelihood);
- benefits realisation and projected budget (from moderate impact and high likelihood to major impact and high likelihood); and
- workforce strategy (from moderate impact and high likelihood to major impact and high likelihood).

The Risk Management Strategy requires a referral to the Business Transformation Steering Group for these categories of risk.

Audit testing however identified that there was clear evidence dating back to June 2013 of savings targets failing to be achieved but that this was not reflected within Risk Registers until February 2014. Early referral would have assisted the Council in highlighting and escalating the risk earlier and allowing action to be undertaken to counter the risk of non delivery of savings.

#### 3.2 Report to Business Transformation Board - February 2014 Programme Risk Register

A review of the latest Risk Register submitted to the Business Transformation Board on 12 February 2014 identified the following:

The internal control risk is shown as likelihood - moderate and impact - low. However the internal controls in place have not prevented the non delivery of savings targets in 2012/13. The controls therefore need to be reviewed and strengthened on a regular basis to allow delivery against the Transformation objectives.

We noted that a number of the controls listed within the risk register were not fully operational or did not adequately describe what the controls actually were. These had however been used as part of the assessment of overall risk:



- highlight reports are listed as a control, however these are not currently satisfactory and there is no corresponding action or reflection of this in the risk assessment;
- post implementation / benefits realisation reviews are conducted for every Transformation project and reported to the Business Transformation Board. The operation of this control, could not always be demonstrated; and
- Transformation Executive / Manager were listed as controls without stating why. Reasons could include accountability for delivery or to ensure compliance against the governance methodology etc. In addition a control was noted as “Governance going forward to follow ISS”. This does not detail those elements within ISS that are regarded as controls and are absent in other projects.

There are a number of actions within the risk register which are several months over their expected completion dates:

- programme resources - staff (resourcing of the Programme Management Office);
- engagement and communication - develop a change communication strategy; and
- Workforce Strategy - concern that developing a Transformational Programme for 2014/17 without an understanding around current and future workforce considered high risk.

No	Recommendation	Priority	Manager	Target Date
24	<p>The adequacy and accuracy of the Transformation Risk Register should be regularly reviewed to allow:</p> <ul style="list-style-type: none"> <li>• risks to be escalated in a timely manner;</li> <li>• controls listed only to be included where there is evidence that they are working effectively; and</li> <li>• overdue actions are addressed within reasonable timescales.</li> </ul> <p><u>Management Comment</u>            Since the Audit review was undertaken the risk register has been reviewed in detail and all relevant risks assessed and escalated as appropriate. The risk register is reviewed regularly by the Transformation Manager and through 1 to 1 challenge sessions between the Chief Executive and Heads of Service. Regular reports are provided to the Business Transformation Board on the Risk Register and risks on individual projects are reported through highlight reports.</p>	High	Transformation Programme Manager	Completed



No	Recommendation	Priority	Manager	Target Date
25	Regular cross project reviews of risk registers should be undertaken to ensure that risk registers are complete, accurate and are being scored in a consistent way.  <u>Management Comment</u> This will be included within the remit of future Health Check reviews.	Medium	Transformation Programme Manager	31/08/15

#### 4.0 Sample of 3 Specific Projects

Three individual projects were reviewed to examine: the management of cost and savings against budget; whether milestones and objectives have been achieved; and whether the governance surrounding the projects was adequate. Details of the findings for each project are as follows:

##### 4.1 Asset Management Rationalisation of Midlothian Council Estate - Effective Working in Midlothian (EWIM)

The objective of the EWIM project is to rationalise the Council's estate which includes a number of short term moves to facilitate the final outcome and provide support for wider EWIM objectives.

A report on 'Asset Management Rationalisation Short Term Moves' was presented to the Council on 18 December 2012 and this provided a strategy on the short term office moves and consequent building closures identified for Phase 1. This identified the following buildings for closure by 31 March 2013: Ironmills Road; Loanhead Social Work Centre; and Eskdail Court. Although progress has been made, there has been some slippage as follows:

- the earmarked savings from the closure of Ironmills Road and Loanhead Social Work Centre were not achieved as both buildings were vacated later than anticipated (27 September and 18 October 2013 respectively) resulting in a loss of savings of circa £26k for 2013/14. In addition, the sites have not yet been disposed of and the earmarked capital receipts of £100k (Ironmills – latest valuation estimates a minimum of £300k) and £400k (Loanhead) have not been received. It has been advised that the Ironmill Road site is now 'under offer' and the relocation of IT and CCTV provisions is still to be resolved in advance of demolishing the Loanhead Social Work Centre. The site will be marketed in conjunction with the Library Headquarters, when it is vacated, to maximise the land value; and
- Eskdail Court was earmarked for vacation and disposal following exploration of the future delivery of training facilities but this was postponed due to a service review being undertaken by the occupants of the building (the site was valued as £180k in 2012 but re-valued to £50k in February 2014). However, it is now included in Phase 2 of the short term moves (see below).

Discussions with the Head of Service highlighted that the pace of disposal of sites will increase as he has instructed Estates section to start marketing sites before buildings are decanted. He stated that although there have not been the savings predicted, the ongoing bills for the 2 vacated buildings are dramatically less, the backlog of maintenance for these buildings has disappeared (assessed as £227k in 2008) and further savings will be achieved once the sites have been disposed of. Also, a number of additional works (circa £40k) have

been undertaken as part of Phase 1 of the project (for example the creation of a new staff car park and the archiving of boxes) and these were delivered within the original budget.

There has been a lack of regular reporting on progress with EWIM. For example between the periods March 2012 to March 2014 no formal reports were submitted to the Business Transformation Board or Steering Group with only 2 verbal updates provided within this period. There has also been no regular reporting to full Council (no reports were presented between December 2012 and March 2014) and the Project Steering Group (documented in the PDD governance structure) has not been operational. A report 'Asset Management Rationalisation Phase 2' was presented to Midlothian Council on 25 March 2014 and this detailed the moves, closures and associated timescales for delivery of Phase 2 of the short term moves.

The PDD did not detail the earmarked savings from the outset of the project making it difficult to determine whether the project is on target to achieve these savings. There has been a lack of reporting of the costs (Capital and Revenue) and the savings for the project since outset making it difficult to validate exactly what has been spent and the savings achieved to date. For example:

- the most recent report presented to the Business Transformation Board and Council made no reference to the total amount spent on the project to date or the savings that have been delivered making it difficult for the Business Transformation Board and Council to provide any comment or challenge on this aspect of the project;
- the journey for the earmarked revenue savings for 2013/14 is unclear: ie a saving of £120k was reported to the Business Transformation Board on 14/12/11 and 27/6/12; then a saving of £212k pa was reported to Council on 18/12/12; and the latest target saving of £25k was reported to the Business Transformation Board on 25/2/13;
- against this latest saving of £25K for 2013/14, the forecast savings have not been delivered and it has been reported that there is a revenue budget variance of £90k. Also, the savings for the closure of Ironmills Road and Loanhead Social Work Centre are less than anticipated due to slippage in the timescale for relocation (see above); and
- an overspend of £131K on EWIM for 2012/13 (relating primarily to staff costs) was not reported through Transformation but was instead reported through operational budgets. Although no savings were earmarked for 2012/13, a lack of reporting of any overspends to the Business Transformation Board / Steering Group can result in a lack of transparency and challenge (the overspend for 2013/14 was also reported in this fashion).

The risk register for this project is not held within Covalent although it was found to contain the key features of the Covalent risk register. However, the scoring methodology was different making it difficult to benchmark with other project risks that are held in Covalent. This also affects reporting to the Business Transformation Board as it is a requirement that all 'high' risks are referred to the Business Transformation Board. There were a number of high risks in the register (the highest being 'Elected Members decide not to proceed') but these were not reported to the Business Transformation Board. We also noted that two of the risks for the project had been rated as low ie 'risk of failure to close buildings' and 'failure to achieve budget savings'. This view of risk is not shared by Internal Audit because both of these risks have become reality.

No	Recommendation	Priority	Manager	Target Date
26	For the EWIM project, there should be regular reporting to the Business Transformational Board, Steering Group and Council of progress with the project and this should include costs (Capital and Revenue) and the savings achieved for the project since outset. Any overspend of the budget should also be reported as part of the Transformation reporting process.	High	Head of Property and Facilities Management	Completed
27	A Project Board for the EWIM Project should be in place; in line with all other Transformation projects.	High	Head of Property and Facilities Management	Completed
28	The pace of disposal of buildings that have been vacated should be increased to avoid ongoing charges associated with the buildings and to secure earmarked capital receipts as soon as possible.	High	Head of Property and Facilities Management	31/12/14
29	The EWIM risk register should be held and maintained in Covalent to provide consistency and visibility and allow benchmarking with other projects.	Medium	Head of Property and Facilities Management	31/10/14
30	The risk ratings for each risk in the register should be revisited to ensure they are realistic and represent the current risks of the project.	Medium	Head of Property and Facilities Management	31/10/14

#### 4.2 People Strategy

The overall aim of the People Strategy project was to establish a supported, engaged and highly performing workforce and a series of actions were developed across 5 themes: Culture; Recognition; Working lives; Management; and Performance and Development.

A review of the action plan and performance measures identified that:

- the majority of the agreed actions have been achieved and the indicators which have been identified and measured through the employee survey (benchmarked against national standards) demonstrate progress in the delivery of the strategy. In 2013, management stated that the overall agreement levels increased showing that the People Strategy is having an impact on the ground. The participation rate in the Employee survey in 2012 was 38%, in 2013 it was 59% and in 2014 it was 46%. The overall results were thought to be generally positive with 74% of employees agreeing or strongly agreeing that the conditions in Midlothian are favourable. Although this was a slight drop from the agreement rate in 2013 of 75%, management have classed this and the response rate of 46% as a strong response in times of significant change; and
- other measures demonstrating good progress with the strategy are the achievement of a gold award for the Healthy Working Lives Group and positive evaluation and feedback from attendees at the Leadership Pathway programme.

The diagnostics and scoping have been completed, at a high level, for People Strategy 2. People Strategy 1 was due to finish at the end of March 2014 and a structured work-plan still

has to be developed for 2014-17 (the current strategy was late starting resulting in a carry forward of the remaining funding into 2014/15).

Workforce planning ie the current profile of the workforce and what it needs to be like for the future given the potential funding gaps and the need to continue to deliver key services to the people of Midlothian has commenced but needs to be progressed.

Relevant Human Resource Metrics are not currently clearly defined, documented, measured and regularly reported to senior management, the Business Transformation Board and Steering Group in relation to workforce planning to allow a clear link to be demonstrated between funding and benefits delivered (examples could include: attendance levels, staff turnover rates, numbers achieving fully effective and exceptional ratings, number of grievances etc.)

The project risk register is held in Covalent, is kept up to date and risks are regularly discussed at every People Strategy Project Board meeting. However, the register only has 2 live risks and the risks detailed in the People Strategy Board minutes 'that the strategy is not moving quickly enough' and 'the project is not having a big enough impact that is felt through the organisation' were not on the register.

No	Recommendation	Priority	Manager	Target Date
31	Workforce planning (ie the current profile of the workforce and what it needs to be like for the future) should be undertaken. In addition, relevant HR Metrics should be more clearly defined, documented, measured and regularly reported to senior management, the Business Transformation Board and Steering Group.	Medium	Organisational Development & HR Manager	31/10/15
32	The People Strategy risk register should be updated to include the risks detailed above.	Medium	Organisational Development & HR Manager	31/10/14

#### 4.3 Integrated Service Support

The objective of the ISS project was to redesign existing systems and services to: ensure an enhanced customer experience; ensure services are provided on an integrated basis; remove separate 'Corporate Central Services and Divisional HQ functions; deliver high quality integrated service support activities and help deliver the Transformation Programme.

The project evolved into 2 phases: the first phase was a management review and the second phase is a detailed review of the flow of work: Customer First. Phase 1 of the ISS project (managerial review) was off target as the original baseline date for delivery was 1 November 2013 but this was revised and delivered on 30 June 2014. It has been advised that the revised completion date was influenced by the timetable for the new senior management structure. There is a risk that the development of a new management structure, prior to the redesigning of systems and services, may limit the scope of any potential integration of services and thus achievement of savings. However, management have advised that the management structure will be reviewed following Phase 2. The project Board have been made aware of the slippage to project delivery due to the failure to close Phase 1 within the original timescale and the impact this will have on the delivery of outcomes and progression to Phase 2.

The Project Definition Document did not detail the earmarked savings from the outset of the project and the majority of the deliverables from the PDD were off target. The PDD stated that savings should have started to be realised in December 2013 but this did not occur until July 2014.

The ISS project has a target to achieve savings of £750k in year 1 (2014/15). Due to the reliance of the Voluntary Severance and Early Retirement (VSER) Scheme to deliver this and the need to effectively change business processes to achieve efficiencies, the risk of failing to achieve the savings target is considered as high risk by the ISS Project Board – an assessment of savings and benefits is ongoing. An update on the impact of the VSER was presented to the September 2014 Council meeting and this detailed an expected saving of £259k (from the ISS and Management reviews) for 2014/15 although there is a one off cost associated with this. Moving forward, it is important that the cost of the Voluntary Severance and Early Retirement Scheme and the actual savings delivered are regularly reported to Councillors (as detailed in Audit Scotland’s national report: Managing early departures from the Scottish public sector).

Managers that are displaced as part of the Management Review process will be transferred to SWITCH and as part of this process, six months’ salary costs will be transferred to the SWITCH budget from their operational cost centre. Where employees are not re-located within six months or do not leave the Council through the Voluntary Severance and Early Retirement scheme, there will be a funding requirement for these employees as there is currently a ‘no compulsory redundancy’ policy. We have been unable to evidence that funds have been set aside for these potential costs and it has been reported that funding will continue to be provided from the operational budget. This could result in an overspend on the operational budget and there is a risk that savings may not be realised. In addition, there is no regular reporting to the Business Transformation Board or Steering Group on funds drawn from SWITCH to remaining funds available and thus no visibility over how much the ‘no compulsory redundancy’ policy is costing the Council (although there is reporting to the MiFuture Board).

The risk register for the project is held in Covalent and kept up to date (most recently 28/03/14) with risks regularly discussed at every ISS Project Board meeting. It is noted that all risk ratings have been reduced since the last updated risk register (dated 27 November 2013).

No	Recommendation	Priority	Manager	Target Date
33	The cost of the Voluntary Severance and Early Retirement Scheme and the actual savings delivered should be regularly reported to Councillors.	High	Head of Finance and Integrated Service Support	Completed
34	Reporting of the budget balance within SWITCH (currently provided to the MiFuture Board) should be provided to the Business Transformation Board and Steering Group to allow regular review and provide visibility.	High	Head of Finance and Integrated Service Support	17/11/14
35	The management structure should be reassessed following completion of Phase 2 of the ISS project.	Medium	Head of Finance and Integrated Service Support	Ongoing