

East Ayrshire Council

**Report to Members and the Controller of Audit
on the 2009/10 Audit**

October 2010



 **AUDIT SCOTLAND**



East Ayrshire Council

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Key Messages

Financial statements

We have given an unqualified opinion on the financial statements of East Ayrshire Council.

The council approved its 2009/10 budget in February 2010 and was based on a Band D council tax level of £1,189. This budget was set on the basis of a deficit of £6.820 million to be funded from the general fund balance brought forward. The actual net expenditure for the year was an underspend against budget of some £7.378 million.

The housing revenue account returned a surplus of £1.653 for the year. This surplus was achieved after charging the HRA with some £1.163 million in excess of budgeted capital contributions from revenue (CFCR).

The council's cash-backed funds at 31 March 2010 totalled £54.071 million, an increase of £2.555 million on the previous year.

The council delivered its capital programme during 2009/10 at around 90% of the original allocation. The main components of the underspend on the housing capital programme are elements key to the achievement of the Scottish Quality Housing Standard by 2015. The council is committed to meeting the Scottish Quality Housing Standard and should continue to review and reformulate its strategy, as necessary, to ensure that the 2015 target is met.

Budget pressures

The Executive Director of Finance and Corporate Support has presented a number of papers to cabinet clearly setting out the impact of the anticipated changes in central funding to the council. The council has responded to the new funding climate by formulating its forward financial strategy to address constraints to funding. In 2010/11 the council again froze the council tax in accordance with the concordat with the Scottish Government. In doing so some £7 million of savings were factored into the year's revenue budget. The most recent Finance and Service Strategy Report, covering the period to 25 July 2010, indicates that a modest surplus is being forecast.

The Social Work Service, in particular children and older people's services, continue to present resourcing challenges to the council. During 2008/09 a "sustainability board" was constituted to identify resource issues and address service challenges, the board has continued in operation and has brought forward a number of changes to ensure sustainability into the future. A number of reviews into providing social work services have been undertaken and various challenges, including organisational capacity, workforce planning, workforce development and professional practice, were identified. A programme of change and



improvement is underway within the Social Work Service. The work on redesigning services will remain under continual review to ensure that efficiencies and improvements are realised.

In common with other UK councils the ultimate cost to the council of claims in respect of equal pay remains uncertain. It is likely that resolution of the issue will take some time. The picture will become clearer as tribunal claims are decided. The outlook for East Ayrshire Council will, at least in the short term, remain uncertain. What is probable, based on previously decided cases and advice we have received from legal and human resource practitioners, is that East Ayrshire Council will be required to pay compensation to a proportion of claimants. The council has assessed the likelihood of success of claims made against it and has retained a provision in the 2009/10 accounts.

Use of resources

The keystone of the council's response to the funding constraints is its Efficiency Strategy 20011/12-2013/14. This approach is well embedded in the council and is a reprise of the council's previous Strategic Review of the Revenue Budget (SRRB) on which we have previously made favourable comment. This approach will also draw on the good practice and checklists highlighted in Audit Scotland's Improving Public Sector Efficiency report.

In 2009 a procurement capability assessment (PCA) was carried out by Scotland Excel to assess procurement performance in public sector bodies. Overall East Ayrshire Council scored an average of 25% which places it on the cusp of conformance. In relative terms the council is, overall, operating marginally above the average for local government sector (22.6%). This score ranks it 9th of the 32 Scottish councils. However, it remains some way below the average for the Scottish public sector as a whole. The council needs to build on the solid foundations that it has in place to achieve better value.

The council reports that 94% of its buildings are in either good or satisfactory condition and that 66% of its properties are assessed as being suitable for disabled access. This maintains a trend of improvement established over the previous three years.

Governance

Governance and accountability issues are likely to be more prominent as the council and its partners' operating environment and economic position becomes more difficult. We expect to see further developments in clarifying accountability and governance arrangements as joint working becomes more prevalent in service delivery.

Performance management

The council, in recognising the need to consolidate and streamline its performance reporting arrangements, procured an IT based performance management system which went live on 1 April 2009. The Project Board has a number of plans in place for further development in the next 18 to 24 months. The council



refreshed its public performance reporting for 2010 and produced a new style annual performance report for 2009/10. This was published on the council website and made available in all local offices.

The impact of budget cuts will inevitably affect the partnership's ability to deliver some of the outcomes articulated in the single outcome agreement. Implementation of the council's efficiency strategy will be crucial in ensuring that available resources are directed towards the council's key priorities. The council has previously revised its service plans to align with the single outcome agreement and this should provide a firm base from which the council will be able effectively to assess the impact of budget cuts on service activity and the delivery of agreed outcomes.

Economic downturn

Recessionary pressures in the wider economy led to a drop in development activity in East Ayrshire. This resulted in a reduction in development and other property related income. The council is, however, pushing ahead with its major regeneration projects for Kilmarnock and Cumnock town centres.

Outlook

The financial challenges facing the Scottish public sector are well documented. Public bodies face deep and prolonged cuts in funding. In June 2010 the new UK Government set out an Emergency Budget, planning for a period of significant fiscal consolidation. It immediately implemented £6 billion of UK budget reductions. The Scottish Government agreed that it would defer its share of these 2010/11 cuts (estimated as £332 million) until 2011/12, and will have to implement these alongside continuing reductions in the Scottish budget.

The UK government published its comprehensive spending review (CSR) on 20 October and the Scottish Government will publish the results of its own review in late November. A key issue will be the extent to which some priority services, particularly health, may be protected from budget reductions and the consequential impact on funding for other areas of the public sector. The final settlement for local government is not expected to be known until January 2011. There only remains uncertainty on the magnitude of the funding reduction for the council.



As well as addressing the anticipated reduction in funding, the council understands that it will also have to manage a range of cost pressures and consider the extent to which it can fund new developments, priorities and obligations. Moving forward, the council has a clear understanding of what its spending priorities are, developing them in partnership with its community planning partners.



October 2010



Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of East Ayrshire Council and other relevant work carried out by Audit Scotland. A number of detailed reports have already been issued during the course of the year, within which we make recommendations for improvements (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.
2. The report uses the headings of the corporate assessment framework, which we and the other scrutiny bodies used as the structure for the recent shared risk assessment (SRA) and assurance and improvement plan (AIP) http://www.audit-scotland.gov.uk/work/scrutiny/docs/East_Ayrshire.pdf. Where relevant, we comment on issues identified in the AIP for investigation or monitoring by the local auditor.
3. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:
 - Making an impact – overview of best value audits 2004 -09
 - Scotland's public finances – preparing for the future
 - Protecting and improving Scotland's environment
 - The national fraud initiative in Scotland 2008/09
 - Overview of local government in Scotland 2009
 - Improving public sector efficiency
 - Getting it right for children in residential care
 - National scrutiny plan for local government 2010/11
 - How councils work: an improvement series for councillors and officers - Roles and working relationships: are you getting it right?
 - East Ayrshire Council: Best Value 2 pathfinder audit
4. All of these reports have been sent to the council for consideration and we do not consider them in this report. They are available on our website <http://www.audit-scotland.gov.uk>. The council has made all national reports available to members via the members' portal.



5. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. What we expect to see is that the council understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented.
6. This report is addressed to members and the Controller of Audit. It will be published on our website after it has been considered by the council. The Controller of Audit may use the information from the report for his annual overview of local authority audits to the Accounts Commission later this year. The overview report is published on our website and is also presented to the Local Government and Communities Committee of the Scottish Parliament.
7. The co-operation and assistance provided by the members, officers and staff of East Ayrshire Council are gratefully acknowledged.



Financial statements

Introduction

8. In this section we summarise key outcomes from our audit of the council's financial statements for 2009/10, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

Audit Opinion

9. We have given an unqualified opinion that the financial statements of East Ayrshire Council for 2009/10 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
10. We were satisfied with disclosures made in the Statement on the System of Internal Financial Control and the adequacy of the process put in place by the council to obtain assurances on systems of control.
11. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Working papers to support the 2009/10 financial statements were of generally good quality and were provided in early July.
12. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. The financial statements were certified by the Controller of Audit's target date of 30 September 2010 and are now available for presentation to members and publication.

Accounting issues

13. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice (the SORP). East Ayrshire Council has prepared its financial statements in accordance with the 2009 SORP.
14. The council has adjusted the financial statements to reflect audit findings. As is standard practice at East Ayrshire Council, this included adjusting for non-material errors, meaning that we have no such errors to report.



Prior year adjustments

15. In accordance with the 2009 SORP and the decision to adopt some IFRS accounting requirements early, the council restated its opening balance sheet and comparative information in the financial statements. Note 2 to the financial statements provides a full reconciliation. Briefly, these changes to the prior year were a consequence of the following:
- PPP assets were accounted for in accordance with International Financial Reporting Interpretations Committee Service Concession Arrangements (IFRIC 12). In essence, schools PPP assets are now included in the council's balance sheet and a charge has been made to the income and expenditure account.
 - The 2009 SORP changed the accounting requirements for non-domestic rates. Collection of non-domestic rates is now treated as an agency activity. The amount due from ratepayers at the year end has been removed, as a separate category of debtor, and replaced with a corresponding increase in the amount due from the Scottish Government.
 - Application of International Financial Reporting Standards in respect of leases required a number of operating leases to be reclassified as finance leases. The impact is to increase both assets and liabilities by similar amounts.

Post balance sheet events

16. In June 2010, the Chancellor of the Exchequer announced that from April 2011 the consumer prices index (CPI) rather than the retail prices index (RPI) will be the basis for future public sector pension increases. The CPI tends to be lower than the RPI both because it excludes most housing costs and because it is calculated differently, such that even if baskets of goods were the same, it would be lower than the RPI. The impact of the change will be, all else being equal, to reduce the council's pension liability in the balance sheet. Actuarial estimates suggest that the change will reduce an average employer's FRS17 liabilities by approximately 6-8%.

Council tax bad debt provision

17. The council makes provision against the non-collection of various types of debt. The increase/decrease in council tax provision is charged or written back to the council tax account each year, directly impacting on the charge borne by the local taxpayer. Our view is that the level of bad debt provision in the balance sheet for council tax could be reduced. This is supported by the collection rates already available for 2009/10 and the council's improved performance in collecting council tax. This was the subject of comment in 2006/07 and 2007/08. Officers revised the calculation in 2008/09 which brought it into line with comparable councils. For 2009/10 it has been increased to 93.7% of the net debtor outstanding, which is back to levels seen in 2006/07 and 2007/08. The level of this provision is considerably above the Scottish average and in advance of the other two Ayrshire councils (both circa 89%).

Action point 1



Equal pay

18. The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an employment tribunal. In common with other UK councils, East Ayrshire Council faces a substantial number of equal pay compensation claims. The ultimate cost to the council remains uncertain. It is likely that resolution of the issue will take some time. What is highly probable, based on previously decided cases and advice we have received from legal and human resource practitioners, is that the council will be required to pay compensation to a proportion of claimants. The Executive Director of Finance and Corporate Support has retained a provision within the accounts in anticipation of a proportion of the claims being successful. This estimate has been prepared using information and assessments of likely outcomes provided by the council's Legal Service and Human Resource Service. In addition a note to the accounts indicates the existence of a contingent liability in the event of further claims arising.

Action point 2

Icelandic banks

19. In October 2008 Kaupthing, Singer & Friedlander Limited (a UK subsidiary of Kaupthing Bank hf, the largest bank in Iceland) and Heritable Bank plc (a UK subsidiary of Landsbanki Islands hf, the national bank of Iceland), two banks in which the council had placed three short term investments totalling £5m, were placed in administration. Administrators have made a series of announcements over the past year updating the expected quantum of recovery. Of the initial deposit of £5 million, and based on the mid point range of percentages indicated by the administrator, the expected recovery is some £3.890 million of which £2.182 million has already been received.

Audit testing

20. As part of our work, we took assurance from a number of the council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

- | | |
|------------------------------------|-----------------------|
| ▪ Payroll | ▪ Accounts payable |
| ▪ Housing rents | ▪ Accounts receivable |
| ▪ Housing and council tax benefits | ▪ Treasury management |
| ▪ Cash and Bank | ▪ Capital accounting |

21. Seven issues were identified as a result of our review and an action plan was agreed to address them. We will monitor progress against the action plan in 2010/11. We were able to conclude that overall, controls are operating satisfactorily in the systems reviewed.



22. We relied on internal audit's reviews of financial ledger and non-domestic rates system to obtain assurance on their effective operation.

Prevention and detection of fraud and irregularities

23. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a recently updated whistle blowing policy; codes of conduct for elected members and staff; and defined remits for committees.
24. During the year a number of allegations of fraud and irregularity were received and investigated by the council. These were investigated by the Internal Audit Service and action taken as appropriate.

NFI in Scotland

25. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Areas investigated include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant returns for Scottish public bodies (£21 million during the 2008/09 NFI cycle and £58 million cumulatively up to end March 2010). If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
26. The most recent data matching exercise collected data from participants in October 2008 and the national findings were published by Audit Scotland in May 2010. The council concentrated mainly on the high priority and recommended matches but, where it saw a greater risk factor, it checked up to 100% of matches. Where the council assessed the risk as minimal, it declined to check those matches. The results obtained are shown at exhibit 1:



Exhibit 1

NFI results 2009/10

Category	Total matches	Processed	In progress	Fraud identified	Error identified	Amount saved (£)
Blue Badge Parking	247	247	0	0	0	0
Housing benefit	1236	627	1	31	16	190,508
Payroll	170	152	3	0	0	0
Housing Rents	26	26	0	0	1	1,137
Right to Buy	80	70	0	0	0	0
Insurance	10	10	0	0	0	0
Procurement	2	0	0	0	0	0
Council Tax	2542	391	0	0	66	17,854

27. Council tax matches are still being processed. The council anticipates that it will have completed the exercise by the end of November 2010. Around half of the council tax matches were addressed using the NFI methodology and the council engaged the services of Experian, a commercial credit reference agency, to process the balance of council tax matches. The results from the latter are not included in the data above.
28. Of the potential frauds identified one case resulted in an administrative penalty being applied, with a further 17 cases referred to the Procurator Fiscal. In the one case heard by the court so far the claimant was found guilty. The Procurator Fiscal has decided to proceed with a number of further cases and some hearing dates have been set.
29. Instructions for the 2010/11 NFI exercise were issued by Audit Scotland in June 2010 and participants should be preparing to provide the requested data by early October. The national report published in May 2010 included a self-appraisal checklist that all participants were recommended to use prior to the 2010/11 NFI exercise. The council has made preparations for undertaking this exercise and has used the self-appraisal checklist to assess compliance with the requirements.

Group accounts

Joint ventures and associates

30. The council has consolidated within the group accounts five associates, comprising five joint boards and two joint venture companies. They have been included in group accounts in accordance with the SORP although, setting aside the impact of the police and fire pension schemes, they do not materially impact upon the accounts. A contingent liability is disclosed within the single entity accounts in respect of one of the joint venture companies.



31. In respect of the group entities the following observations are made:

- all entities within the group received unqualified audit opinions from their external auditors
- in accordance with recommended accounting practice, key accounting policies such as those for pension costs and the valuation of fixed assets at market value, have been aligned with those of the council.

Trust funds

32. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. However, the Office of the Scottish Charities Regulator (OSCR) has deferred the date of full implementation, meaning that the current disclosures remain satisfactory for the 2009/10 accounts.

33. In an April 2010 letter to the Chair of LASAAC (Local Authority Scotland Accounts Advisory Committee) from OSCR, the 2008/09 disclosures of 30 Scottish local authorities are assessed in terms of their compliance with the regulations. East Ayrshire Council is one of the ten councils judged “above average”. OSCR maintained the filing requirements for 2009/10 at the same level as 2008/09 and the council have produced a summary account to the same standard as 2008/09.

34. The Office of the Scottish Charities Regulator has taken what it describes as “a proportionate and pragmatic approach” to the production of charities’ accounts but has explicitly stated the expectation that councils move to a position fully compliant with statutory requirements. OSCR is keeping the position under review and will inform councils of the filing requirements for 2010/11 in due course.

Common good fund

35. In December 2007, LASAAC issued a guidance note for practitioners. The guidance requires the common good fund to be disclosed within the financial statements and a separate common good asset register to be in place by March 2009. Although the council is concerned about the time and cost involved, against the benefits to council taxpayers in reviewing title deeds, a process was put in place to review significant assets. The Executive Director of Finance and Corporate Support has indicated that the conclusion of this process is imminent.

Action point 3

Legality

36. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Executive Director of Finance and Corporate Support confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's management team, the



financial transactions of the council were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

IFRS adoption

37. Local government will move from UK Generally Accepted Accounting Principles (UKGAAP) to International Financial Reporting Standards (IFRS) with effect from 2010/11. Because local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth. Indeed, the Corporate Finance team at East Ayrshire Council have been proactive in engaging with the transition and have appended to the 2009/10 financial statements a set of accounts prepared on an IFRS basis, although it should be noted that these accounts were not subjected to the statutory audit process this year.

Pension funds

38. Glasgow City Council is the administering authority for the Strathclyde Local Government Pension Scheme. Currently the audit of pension funds is performed as part of the audit of the administering authority's annual financial statements. The Scottish Government is consulting on the requirement for an annual audit of pension funds separate from the audit of the administering authority's accounts. The proposals will not directly affect East Ayrshire Council in terms of the preparation of annual financial statements, however, it is a development of which members, officers and staff will wish to be aware.

European Union Emission Trading Directive

39. From April 2010 a new and complex system for charging of carbon emissions was introduced by the European Union. The council is required to purchase and account for carbon credits to cover all of its non-transport related energy usage. Incentives and penalties are built into the system to encourage a reduction in carbon emissions. The ultimate cost to the council will depend on a number of factors and has yet to be established. Officers have estimated that this will cost the council around £0.250 million in 2010/11.



Use of resources

Financial results

40. East Ayrshire Council spent £460.758 million on the provision of public services, of which £424.099 million was spent on revenue services while the balance was spent on capital. The council's net operating expenditure in 2009/10 was £319.053 million, which was met by central government funding and local taxation amounting to £274.473 million. Exhibit 2 shows the recent history of underspending against budget by the council. It should be noted that some underspend was spent in the following financial year.

Exhibit 2

Underspends against budget 2006/07 - 2009/10

Year	Underspend £ million
2009/10	7.378
2008/09	7.354
2007/08	8.177
2006/07	4.154

41. Two clearly identifiable central elements of the underspend were a saving on debt charges of some £0.964 million which was largely offset by an unbudgeted charge for severance payments (split across all services) of some £0.946 million. Other notable variances contributing to the overall surplus were:
- a reduction of £1.672 million in employee costs within the Education and Social Work Services
 - an underspend of £0.818 million in the central repairs budget within the Finance and Asset Management Service
 - slippage in committing the Zero Waste Fund and underspend on homeless accommodation costs (as a consequence of an in-year policy decision to constrain bed and breakfast costs) within Neighbourhood Services. The service underspends was to some extent reduced by increased spending on winter roads maintenance activities.



Exhibit 3 summarises the budget versus outturn position for the major departments of the council:

Exhibit 3

Departmental underspends 2009/10

Department	Underspend 2009/10 £ million	Underspend 2008/09 £ million
Education and Social Services	1.461	1.782
Neighbourhood Services	1.328	0.714
Corporate Support	1.474	1.630
Finance and Asset Management	1.381	1.282
Central Services (Other)	1.502	(0.400)
Debt charges	0.964	1.704

42. Exhibit 4 provides some information about the council's financial position compared to other Scottish councils:

Exhibit 4

Ratio	Description	East Ayrshire Council	
		2008/09	2009/10
Working capital (Current assets as a ratio of current liabilities)	This is an indicator of the council's ability to pay its current liabilities in the short term	1.22	1.07
Useable reserves as a percentage of general revenue expenditure	This shows the proportion of revenue expenditure that could be met from reserves	16.2%	17.0%
Long term borrowing compared to tax revenue	This ratio illustrates the proportion of a council's tax related income that would be needed to pay off long term debt	2.16	2.10
Long term assets as a percentage of long term borrowing	This gives an indication of the ability to borrow to replace or repair assets	389%	408%

43. These ratios indicate the liquidity and financing position of the council. In making comparisons between councils, there are a number of factors which affect the indicators. These include the council's group structure, asset management arrangements (for example, housing stock transfers) and financial strategies. We have compiled this information for the first time this year and it establishes a starting point to enable the council's financial stability to be monitored through future trends. The council should consider whether the ratios indicate any areas for further consideration



within the context of its financial strategies. Appendix C provides a picture of where the council sits in relation to the other Scottish councils.

Housing revenue account

44. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to, at least, cover the costs of its social housing provision. The council's strategy on rent levels was set by the Housing Committee in April 2005. In order to fund the achievement of the Scottish Housing Quality Standard by the target date of 2015 the Committee agreed that rents should increase annually by the retail prices index plus 1%.
45. The budget for 2009/10 was approved by the Cabinet in February 2009. The budget approved estimated income and expenditure at £36.793 million. This budget was set based on a rent increase of retail prices index plus 1% modified by a savings requirement of some £0.394 million, yielding a rent increase of 4.6%.
46. Before statutory adjustments the housing revenue account shows a deficit of £14.580 million for 2009/10. Following adjustment to the statutory basis this becomes a surplus of £1.653 for the year. This surplus was achieved after charging the HRA with some £1.163 million in excess of budgeted capital contributions from revenue (CFCR).
47. The most significant to this outturn was an underspend of some £1.622 million on repairs and maintenance. As part of the council's Efficiency Strategy (see paragraph 68 et seq.) this budget will be reviewed for future years.
48. The Building and Works statutory trading account (STO) effectively ceased to exist during 2009/10. In previous year the substantial surpluses made by the STO were transferred to the general fund. These annual transfers, arising from surplus on repairs work, are estimated at between £1.2 - £1.4 million in each of the previous three years, although latterly a rebate scheme ameliorated the impact (£0.300 million 2008/09). As part of the winding up arrangements of the STO the HRA was rebated with the full amount of the surplus made by the STO on housing repairs in the period to its final closedown at 31 March 2010.

Reserves and balances

49. Exhibit 5 shows the balance on the council's cash-backed funds at 31 March 2010 compared to the previous year. At 31 March 2010, these funds totalled £54.071 million, an increase of £2.555 million on the previous year.



Exhibit 5

Reserves

Description	31 March 2010 £ Million	31 March 2009 £ Million
General Fund	26.603	27.009
General Fund HRA balance	3.879	2.226
Repair and Renewal Fund	7.310	6.569
Capital Fund	16.279	15.712
	54.071	51.516

50. Of the £26.603 million general fund balance carried forward, £17.616 million (66%) is specifically earmarked by services for what are described as future known commitments. A total of £20.408 million was brought forward as earmarked by services from the prior year of which £2.781 million was redesignated as uncommitted reserves during the year leaving £17.627 million of which £6.050 million was spent with a further £6.039 million added to the balance at the year end. A comparison of earmarked balances brought forward and net amounts applied over the last three years is shown at exhibit 6.

Exhibit 6

Movement in earmarked reserves 2007/08 - 2009/10

Year	Opening balance b/fwd £ m	Redesignated as uncommitted £ m	Applied in year £ m	Added in year £ m	Closing balance £ m
09/10	20.408	(2.781)	(6.050)	6.039	17.616
08/09	26.630	(1.983)	(13.926)	9.687	20.408
07/08	14.771	n/a	(4.020)	15.878	26.630

51. For 2010/11 the amounts earmarked by services equates to some 5.5% of the council's net operating expenditure (6.4% 2008/09). We recognise that included within the earmarked balances are specific sums, like the PPP sinking fund, which it is prudent to set aside and other sums like unspent grant income. However, a significant element of this balance is unspent budget carried forward.



52. The Executive Director of Finance and Corporate Support was previously mandated by cabinet to undertake a review of service balances immediately following the conclusion of the annual financial statements audit. As a result of this exercise in 2009 cabinet approved the re-allocation of some £2.781 million to uncommitted balances. This exercise is now an annual feature of the council's budget process. As part of our audit work for 2010/11 we will review the council's arrangements for the presentation of budget monitoring information.

Group balances and going concern

53. The overall effect of inclusion of the council's associates and joint ventures on the group balance sheet is to reduce net assets by £245.659 million, mainly because of associates' pension liabilities. However, all group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.

Capital performance 2009/10

54. The council's prudential indicators for 2009/10 were set in February 2009. Estimated expenditure at that point was set at £44.824 million, of which £16.478 million was to be funded internally through capital receipts, grants, capital fund and contributions from revenue. The balance was to be met through borrowing externally, for which a cumulative capital financing requirement indicator of £234.369 million was approved. Long term debts outstanding at 31 March 2010 totalled £204.305 million.



55. The outturn on the capital programme for 2009/10 is shown at exhibit 7:

Exhibit 7

Capital programme - 2009/10

	Allocation £ million	Actual £ million	Percentage achieved %
General fund services	27.381	24.000	87.7
Housing	15.616	14.163	90.7
Total	42.997	38.163	88.8

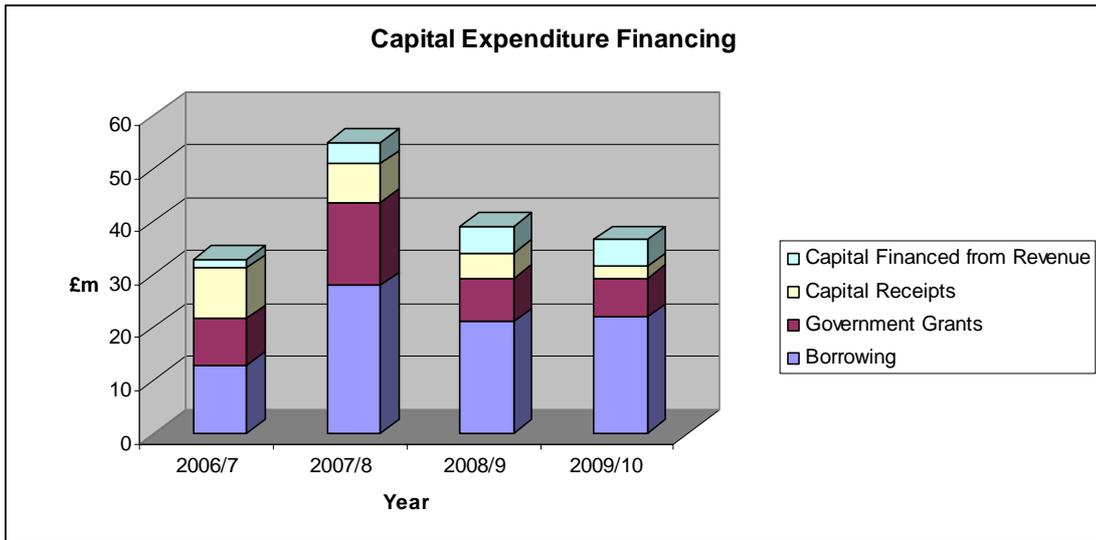
56. The shortfalls reported in general services capital spend are due to various slippages and do not appear to share any common factor. The main slippage in the Education and Social Service programme arises from the fabric upgrade and refurbishment schemes included within the programme, this was also the principal reason for slippage in 2008/09. Neighbourhood Services' slippage arose, in the main, from delays to facilities improvement, cemetery extensions and traffic and road safety schemes. There was slippage of some £0.720 million in the Finance and Asset Management Service attributable to corporate office accommodation, this was offset by a decision following option appraisal, to purchase, rather than lease, vehicles costing some £1.082 million.
57. On the housing capital programme the main components of the underspend are external envelope enhancement, modern facilities and services and efficient heating. The council is required to meet the Scottish Quality Housing Standard by 2015. Continuing slippage in these important areas will jeopardise the achievement of the required standard. The council is committed to meeting the Scottish Quality Housing Standard and should continue to review and reformulate its strategy, as necessary, to ensure that the 2015 target is met.

Action point 4



58. The council's sources of funding for the capital programme for the years 2006/07 to 2009/10 are shown at exhibit 8. A key feature of note is the decline in capital receipts over the past four years. This has been partly offset by increasing the contributions made from the revenue budget.

Exhibit 8



Treasury management

59. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as representing the best time for borrowing the amount required. This must be assessed without regard to temporary investment gains, otherwise the action may be unlawful.
60. As at 31 March 2010, East Ayrshire Council held cash and temporary investments totalling £39,190 million. We reviewed the position as part of our audit of the financial statements and concluded that the current level of investment is largely attributable to the usable reserves held on the balance sheet.
61. The current economic climate means that interest rates on investments are low – the council received £0.698 million in investment income this year compared to £2.341 million in 2008/09. While short term borrowing rates are also low, the council has a significant proportion of its historical debt at fixed rates with an average cost of borrowing over the year of 5.79%.
62. The crisis in the banking sector and the collapse of Icelandic banks in particular, prompted the council to review its treasury management practices. The main change was to take advantage of the protection afforded by the UK Government's bank deposit guarantee scheme through a review of the counterparty list. The contract to provide treasury management advice to the council came up for



renewal in 2008/09. The contract was put out to tender during the year and Arlingclose succeeded Butlers as the council's treasury advisors.

Social Work Services sustainability

63. The Social Work Service, in particular children and older people's services, continue to present resourcing challenges to the council. During 2008/09 a "sustainability board" was constituted to identify resource issues and address service challenges, the board has continued in operation and has brought forward a number of changes to ensure sustainability into the future. A number of reviews into providing social work services have been undertaken and various challenges, including organisational capacity, workforce planning, workforce development and professional practice, were identified. A programme of change and improvement is underway within the Social Work Service. The work on redesigning services will remain under continual review to ensure that efficiencies and improvements are realised.

Action point 5

Financial planning

64. The Executive Director of Finance and Corporate Support has presented a number of papers to cabinet clearly setting out the impact of the anticipated changes in central funding to the council. The council has responded to the new funding climate by formulating its forward financial strategy to address constraints to funding. In 2010/11 the council again froze the council tax in accordance with the concordat with the Scottish Government, in doing so some £7 million of savings were factored into the year's revenue budget. The most recent Finance and Service Strategy Report, covering the period to 25 July 2010, indicates that a modest surplus is being forecast.
65. In preparing its forward budgets the council used Glasgow University's Centre for Public Policy for Regions (CPPR) assumptions noting that this report may have presented an overly optimistic view. Accordingly, the council has adopted what it considers to be a more prudent forecast of a 12% reduction in real terms funding. Based on this assumption the council is forecasting a budget gap of £25 million over the next three financial years. The outcome of the UK Government's Comprehensive Spending Review (CSR) was announced on 20 October 2010. The CSR is now being considered by the Scottish Government. A clearer picture of the funding available to local government in Scotland will emerge over the coming months.
66. The council has undertaken wide consultation with key service users, community representatives and employees. In doing so the council also recognises that it is the council's responsibility to lead the process and take difficult decisions on how to allocate available resources.
67. The keystone of the council's response to the funding constraints is its Efficiency Strategy 2011/12-2013/14. This approach is well embedded in the council and is a reprise of the council's



previous Strategic Review of the Revenue Budget (SRRB) on which we have previously made favourable comment. This approach will also draw on the good practice and checklists highlighted in Audit Scotland's Improving Public Sector Efficiency report (published in February 2010).

68. Efficiency Strategy consists of a series of six distinct but interrelated strands, as follows:
- **Business review programme** – a substantial programme of reviews of specific service provision, including some arising from the budget consultation process.
 - **Budget management and review** – a line by line, service by service examination of budgets to ensure that spend is geared towards key themes and priorities.
 - **Fairer Scotland Fund review** – a review of projects to ensure that they remain the most efficient and effective way to achieve specific outcomes.
 - **Budget and performance working group** – comprising East Ayrshire Council and seven other councils, the group will explore comparative spend and performance to identify best practice.
 - **Workforce planning review** – the development of plans to manage a reduction in headcount and support and encourage more flexible ways of working.
 - **Continuing engagement arrangements** – further enhance communication with key partners, stakeholders and the public.
69. The council recognises that to deliver the cost reductions forecast whilst continuing to provide statutory services and address key priorities will, inevitably require service re-design and transformational change. The steps it has put in place thus far will provide a sound foundation to achieve the necessary reductions. We will continue to monitor the position during the remainder of the audit engagement.

Action point 6

Asset Management

70. By effectively managing their assets, councils are better able to achieve their objectives while obtaining best value from the investment which assets represent. Effective management benefits service delivery by making council buildings work better for staff and service users. It should also reduce the opportunity cost of money locked up in surplus property and can reduce the council's "carbon footprint" which will result in financial benefit under the carbon emissions trading scheme.
71. In 2009 Audit Scotland/Accounts Commission published *Asset Management in Councils*. The study found that strategic asset management was not well developed in most councils. Nationally, over a



quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them.

72. In November 2009 the council approved an updated Asset Management Strategy. The strategy also formalises a framework of responsibility for the management of both operational and non-operational property assets. The key objectives which the strategy is designed to achieve are to ensure that:

- The property portfolio is suitable for current use and supports the council's objectives.
- The performance of assets are monitored and reported.
- Comprehensive asset management data to support decision making is collected.
- Property is managed as a corporate resource.
- Future investment decisions are based on robust options appraisal.

The Asset Management Strategy is supported by an implementation action plan which has, among other actions, the development of performance information scorecards and the adjustment of the ratio of reactive:planned maintenance to 30:70.

73. The council's has, in addition to the statutory PIs, a number of local indicators including energy performance and condition of the school estate which are reported in its annual performance report.

74. The council's office accommodation strategy was approved in October 2009. A number of new developments are either underway or at an advanced stage of negotiation, the purpose being to rationalise the office space available to the council. Once these developments have been completed it is anticipated that there will be a reduction in office space of some 64,000 ft².

Procurement

75. The Public Procurement Reform Programme was set up following the McClelland review of Procurement in 2006. The programme aimed to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency through improved structures, capability and processes. In January 2009, the Scottish Government promoted the use of a single procurement capability assessment (PCA) to assess procurement performance in public sector bodies and as a basis for the sharing of best practice and continuous improvement across the public sector in Scotland. The assessments were coordinated and conducted by Scotland Excel.

76. All of the 32 councils in Scotland took part in the first round of PCAs in late 2009. In line with the McClelland report recommendations, the PCA had clearly defined descriptions for each level of performance. These were non conformance, conformance, improved performance and superior

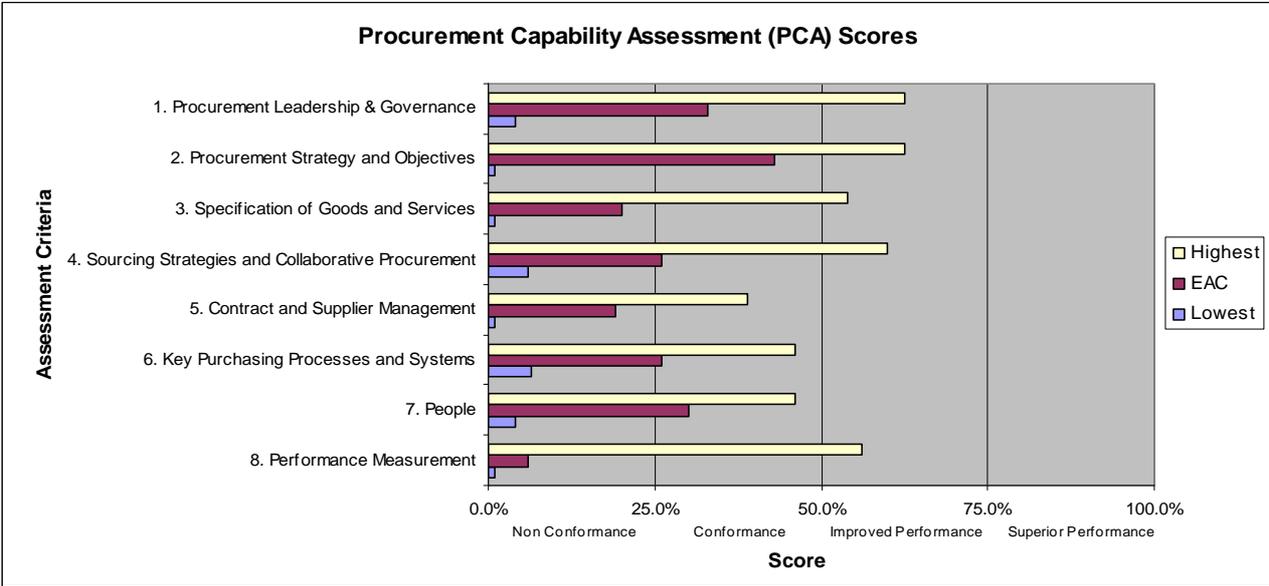


performance. Assessments were of procurement across organisations, not just of a corporate procurement teams. The process assessed capability against each of the following criteria:

- Procurement leadership and governance
- Procurement strategy and objectives
- Specification of goods and services
- Sourcing strategies and collaborative procurement
- Contract and supplier management
- Key purchasing processes and systems
- People
- Performance measurement

77. The results of the first PCA process assessed the local government sector overall as non-conformant (22.6% compliant). While this initial score for the local government sector is modest, the measure of success of each individual council’s procurement performance should be judged on the improvement from one PCA to the next. This will rely on the improvement activities councils undertake between assessments. Exhibit 9 shows the comparative results of the national exercise.

Exhibit 9



78. Overall East Ayrshire Council scored an average of 25% which places it on the cusp of conformance. In relative terms the council is, overall, operating marginally above the average for local government sector (22.6%). This score ranks it 9th of the 32 Scottish councils. However, it remains some way below the average for the Scottish public sector as a whole. The council needs to build on the solid foundations that it has in place to achieve better value.



79. The council was scored as conformant in “Procurement strategy and objectives”, “Procurement leadership and governance”, “Sourcing strategies and collaborative procurement”, “Key purchasing processes and systems” and “People”. The council were assessed as non-conformant in “Specification of goods and services”, “Contract and supplier management” and “Performance measurement.
80. There is significant room for improvement in each of the eight criteria assessed. In recognition of the need to improve practices the council is revising its procurement strategy and officers have indicated that a local improvement plan will be prepared at the same time. It is anticipated that the strategy will be taken to committee in November 2010.

Action point 7

Managing People

81. The recent Best Value 2 report noted that the council had made progress in how it manages its people. The Cabinet agreed a workforce strategy in May 2008 and workforce planning has been introduced into service planning arrangements. The council recognises the need for further progress and development of this area and is currently implementing an improvement programme.
82. Staff appraisals (EAGER, East Ayrshire General Employee Review) are carried out annually. Heads of Service have confirmed that all EAGER reviews were carried out during 2009/10. The purpose of the EAGER review is to ensure that employee development and training requirements, through the completion of a personal development plan, are aligned with the demands of the employee’s post. The council’s Human Resource Service is currently undertaking a comprehensive review and relaunch of the EAGER process, centred around a competency-based framework.
83. The council undertook a staff survey in 2005 and in 2008. The findings of the surveys show an overall positive response from staff. For example, 83.8% responded that they support the council’s attempts to achieve best value, 68.8% are familiar with the council’s statement on its core values and vision, and 80.1% reported they are able to admit mistakes to their line management. Although 60.3% rate their morale as high there was a slight decline from 63.3% in 2005. There was also a slight decline in the results across a number of areas including questions relating to work-life balance and enjoyment of work. Management are implementing improvements in response to the survey findings, including strengthening communication and employee development arrangements.
84. The council has refreshed a number of its human resource policies in the light of the possibility of staff reductions. These include a revision of the redeployment and severance arrangements.
85. Performance indicators for sickness absence levels present a mixed picture. A pattern of deterioration (from a previously relatively good position) had set in, however, following a number of actions to



address this issue including a DVD presentation fronted by the Chief Executive, the council's position shows signs of improvement.

ICT

86. The council is maintaining good progress in establishing a sound information management environment. Sound management is being achieved through the implementation of policies, guidance, standards and training needed to improve information governance. The information security policy has recently been updated with the aim of maintaining the security and confidentiality of information, information systems, applications and networks owned by the council.
87. The council makes good use of Information Communication Technology (ICT) to support and deliver services. It also recognises the need for continuing capital investment in its ICT infrastructure to ensure its continued effective operation. As part of that investment the council is upgrading its data centres and is developing the council website to improve service provision and accessibility.
88. The ICT Disaster Recovery / Business Continuity plan has been refreshed and it is recognised by the council that planning in this area is a continuous process especially with the regular changes to technology and with the changes currently being made to the data centres.

Data handling and security

89. Data handling and security has received increased public and media attention recently as a result of a number of high profile national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a failure of controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to litigation and criminal prosecution.
90. The council's updated information security policy along with the other planned changes to the council's information management regime is being used in the provision of a robust, reliable data security within the council. On completion and approval of new and revised policies, procedures and work practices it is planned to create a corporate information security management team comprising members of departments and services. The main tasks of the team will be to create an information asset register (IAR), identify asset owners, carry out risk assessments to support the corporate risk register and ensure the importance of security awareness is understood by all staff.
91. In conjunction with new policies and to promote greater awareness among staff an information security awareness video based programme for all staff is to be launched. The programme has been successfully piloted and is now being tailored to accommodate the council's specific requirements.



92. The work being carried out to progress the council's information management plans, include:

- IAR to be presented to Executive Directors and authorised before being rolled out to identified services as an extended pilot.
- The Information Classification Policy is to be presented to Executive Directors and authorised for Corporate use.
- The Data Transfer Policy is to be presented to Executive Directors and authorised for Corporate use.
- A new policy / procedure to include the Information Officer responsibilities in all projects is to be created and passed to CMT for Corporate approval.

93. The council use the Government Secure Extranet Code of Connection to provide secure interactions between local authorities and central government departments and national bodies. Due to demands to continually increase the security level compliance requirements of the Code of Connection, councils have to find the time and the funding to try and comply with the new and updated controls to maintain accreditation. All councils, including East Ayrshire Council, are working towards compliance.

Shared Services

94. The Accounts Commission commented on the limited progress in developing shared services in its report '*Overview of the local authority audits 2009*'. It recommended that councils should give this high priority in the light of financial pressures and the drive for efficiency. This topic was given renewed impetus by the publication of the Clyde Valley Review by Sir John Arbuthnott which again made the case for accelerated joint working between councils and other public sector partners. A report to Cabinet on 15 September 2010 set out the Council's position in respect of the Clyde Valley Review recommendations.

95. Since inception the council has worked collaboratively with North and South Ayrshire Councils. In April 2006 a "pan-Ayrshire Group" was formalised with the neighbouring Ayrshire councils and the local health board. By working jointly with the neighbouring councils and other partners, the council continues to explore options for joint delivery of services.

96. The council are involved in the delivery of shared services in a number of areas. The pan-Ayrshire Civil Contingencies Team has been in operation for some time providing emergency planning services. The Ayrshire Joint Strategic Waste Management Project Group was also formed some time ago and a procurement process has commenced for the provision of a waste treatment facility for all of Ayrshire, with full service commencement anticipated from April 2013.



97. In August 2009 it was agreed by cabinet that a Joint Ayrshire Regulatory Service was to be developed. This joint initiative would see Building Standards, Environmental Health and Trading Standards come together as a single service across Ayrshire. It has been decided that governance arrangements will be by way of a joint committee/joint board structure. Such a body would fall within section 106 of the Local Government (Scotland) Act 1973. The council and its partners should be mindful of the implications of constituting a joint committee/joint board and the potentially costly compliance in producing financial statements and their subsequent audit.
98. The pan-Ayrshire Shared Services Group has agreed to establish a small dedicated Project Board to drive forward the shared services agenda across Ayrshire. The Project Board, comprising of a senior officer from East Ayrshire Council, North Ayrshire Council, South Ayrshire Council, and NHS Ayrshire and Arran, is remitted to ensure that all work forms part of an action plan which details current and future areas of shared services work, and sets out suitable timeframes. The Board will, for example, oversee commissioning, monitoring and reporting of the following workstreams:
- Roads and Transportation.
 - Social Services standby arrangements.
 - Public Sector Property Group.
99. The council's signal success in the arena of joint working is the co-location of services in custom designed area centres from which council, health, dental and policing services are delivered to local communities.

Action point 8

Outlook

100. The financial challenges facing the Scottish public sector are well documented. Public bodies face deep and prolonged cuts in funding. In June 2010 the new UK Government set out an Emergency Budget, planning for a period of significant fiscal consolidation. It immediately implemented £6 billion of UK budget reductions. The Scottish Government agreed that it would defer its share of these 2010/11 cuts (estimated as £332 million) until 2011/12, and will have to implement these alongside continuing reductions in the Scottish budget.
101. The UK government published its comprehensive spending review (CSR) on 20 October and the Scottish Government will publish the results of its own review in late November. A key issue will be the extent to which some priority services, particularly health, may be protected from budget reductions and the consequential impact on funding for other areas of the public sector. The final settlement for local government is not expected to be known until January 2011. There only remains uncertainty on the magnitude of the funding reduction for the council.



102. The Centre for Public Policy and the Regions (CPPR) estimate of the potential impact on the government funding has been revised upwards. Current projections are that a 14% real terms reduction will be experienced over 2011/14, heavily weighted toward 2011/12 reflecting the deferral of 2010/11 cuts. In cash terms this is equivalent to annual reductions in grant of 4%, 1.7% and 1.7% respectively. The updated forecast provides a revised baseline for financial planning and understanding of the level of savings that the council will require to make to balance future budgets.
103. As well as addressing the anticipated reduction in funding, the council will also have to manage a range of cost pressures and consider the extent to which they can fund new developments, priorities and obligations. Moving forward, it is important that the council and its community planning partners have a clear understanding of the spending priorities for East Ayrshire.
104. The immediate challenge is to balance the 2011/12 budget, particularly given the extent to which cuts may be frontloaded. On current projections real terms grant reductions are expected to continue until 2015/16 and the council and its community planning partners will continue to face tough decisions about spending and priorities. The efficient, effective and economic use of available resources will be a central theme in mitigating the impact on local communities. The council is making progress in its use of resources on a number of fronts and its efficiency strategy will be the cornerstone of its response to the new economic reality.



Governance and accountability

Introduction

105. We believe that an effective council is committed to high standards of probity and can demonstrate high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between members and officers. An effective council is committed to public performance reporting as a key element of public accountability. It clearly sets out service standards which reflect the needs of local people and other stakeholders, and is balanced in its presentation of the council's strengths, weaknesses and challenges for the future.

Scrutiny

106. Corporate governance is about direction and control of organisations. Councils are large, complex and publically accountable organisations. Good governance is, therefore, critically important. The council has adopted a local Code of Corporate Governance and assessed its own arrangements against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government*.

107. The conclusion of the review of the council's code for 2009/10 was that the code complied in full with the terms of the CIPFA/SOLACE framework. The review identified a number of key areas where the council exhibits best practice. The council has also identified some aspects where further improvement was possible and has prepared a comprehensive improvement action plan to bring these areas up to best practice. The Best Value 2 Pathfinder Audit report concluded that "Governance arrangements are well developed and, on the whole, effective."

108. Effective scrutiny is central to good governance, and members have a significant role in scrutinising performance, holding management to account and supporting the improvement agenda. This is among the responsibilities of the Governance and Scrutiny Committee, which also monitors risk management, corporate governance, performance, best value and audit. The committee operates in accordance with CIPFA's guidance, *Audit Committee Principles in Local Authorities in Scotland*. The committee does have a wide range of responsibilities and members should be alert to the possibility that this may dilute the time it has to focus on its audit and scrutiny roles.

Roles and relationships

109. The Accounts Commission's *Overview of Local Authority Audits 2009* recommends that councils continue to give priority to the continuous professional development of its members. The Scottish Local Authorities Remuneration Committee, in its September 2008 report, similarly recognised that



members should have a role description and participate in a training needs assessment leading to a personal development plan.

110. The council has developed role profiles for office bearers and for members in general, as well as for members of the Governance and Scrutiny Committee, the Provost and the leader of the main opposition. These have been incorporated within the Elected Member Learning and Development Strategy documentation.

111. The Elected Member Learning and Development Strategy includes a programme established around six key themes:

- Induction
- Leadership development
- Community plan, including partnership working
- Corporate development
- Community leadership and engagement
- Code of conduct, including ethics and standards

112. Individual training needs analyses were undertaken and completed in June 2010 for all members and personal development plans (PDP) put in place as required. PDP activity is delivered either on a one to one basis or in groups. The target for completion of current development activity is March 2011.

113. In addition a programme of seminars has been developed and all members have the opportunity to participate in the wider development activity made available to them. Analysis of member training records indicate uneven take up of training and development opportunities, however, some 60% of members have attended at least four training events per annum over the last two years.

114. Relationships between members and officers are good and business is conducted in a courteous and respectful manner. The council has now matured and the dynamics between the party groups has changed. In September 2010 Audit Scotland published its report "How councils work: an improvement series for councillors and officers - Roles and working relationships: are you getting it right?" This report includes a checklist for councillors and officers to measure their relationships. The council is currently considering this report and how it compares to its current working practices and processes.

Partnership Working

115. East Ayrshire Council demonstrates evidence of excellent partnership working, having been an early enthusiast for integrating council and community planning objectives. Community planning structures are well developed at council and local levels with appropriate political, partner and community representation on each.



“The themes and aims identified in the community plan, and echoed in the SOA, clearly reflect the challenge and issues for the East Ayrshire area.”

“The community planning priorities are visible in the council’s strategic and service level initiatives.”

“Partnership working in East Ayrshire is well established and effective. The council and its partners work together to understand the challenges faced by the community and address these actively. This is evident in initiatives across all of the thematic priorities in the CPP.”

**Best Value 2 pathfinder audit: East Ayrshire Council
Audit Scotland/Accounts Commission April 2010**

116. The council and its community planning partners produced its single outcome agreement (SOA) on a community planning basis from the first year. This is consistent with the council’s use of the community plan as its “sovereign planning document”. The SOA links strategically to the community plan and the priorities and measures within it were derived from the thematic action plans, strategic priorities and current reporting requirements of the council and its partners.

Community engagement

117. The Community Planning Partnership (CPP) has a track record of listening and responding to the things that matter to local people. Community representatives are involved at a strategic level of community planning, as well as being closely involved in specific initiatives more locally.

118. The council and its community planning partners also sought the views of the community through its three yearly residents’ survey, which was undertaken in 2008 and reported to the CPP Board in September 2009. The results, which suggest that residents continue to be generally positive about the aims and activities of the partners, were subsequently published on the East Ayrshire Community Planning website.

119. A Community Planning Residents’ Panel, comprising over 900 East Ayrshire Residents is also in operation, to gain an increased understanding of residents’ views and increase community consultation in relation to the planning and development of services. The panel members represent a pool of residents with particular interests and concerns who are then contacted for consultation about developments in those areas.

120. The council’s annual budget consultation is now well developed. The council implemented an enhanced budget consultation process to support the development of its 2010/11 budget. We are advised that the process was developed in consultation with the Federations of Community Groups and a range of representative groups, including tenants and residents associations, leisure groups,



community council's youth groups, business representatives, parent and equalities groups. In addition a dedicated "budgetline" telephone contact number was made available to the public as was a dedicated budget email address. We are advised that the council received over 1,000 returns as a result of its consultation processes. This effort earned the council a certificate of achievement award for consumer engagement in decision making about local services from Consumer Focus Scotland.

Public performance reporting

121. The council produces an annual performance report which is published on its website and available in local offices. The report is structured around the main community planning themes, and is thereby able to record progress in delivering key outcomes during the year. The 2009/10 report is a reasonably well balanced, readable and informative account of the council's activity over the year, combining key service developments and items of local or general interest. The report also includes a compendium of local and statutory indicators and summarised information from the financial statements.

Governance and internal control

Building and Works

122. During 2009/10 an improvement action plan was put in place in Building and Works to address issues arising from the investigation in 2008/09. The improvement actions have now been completed. However, further work remains to be done to fully implement some aspects of the work underlying the improvement agenda. This work is currently being taken forward by the Single Business Unit under the oversight of the Depute Chief Executive/Executive Director of Neighbourhood Services.

Housing Benefit

123. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team are carrying out a programme of risk assessments of benefits services in all councils.

124. The risks to East Ayrshire Council's benefits service were assessed in January 2010 and a detailed report was issued. The council has responded to the risks identified with an action plan. We believe that implementing the actions will make a positive contribution to improving the Benefits Service and we will continue to monitor the progress in the coming years.

Housing rent setting policy

125. In order to ensure that the council's rent is set on a fair basis, adequately and transparently reflecting the value received by tenants, it is important that the council has a single rent setting policy. This should state the council approved method of setting rent for different council houses based on size, type or any other accepted methodology. Although the local adjustments necessary to harmonise rent



in each constituent former district were approved in 1996 this was not followed by the establishment of a specific rent setting policy. The council should establish a common policy for setting council house rents at the earliest opportunity.

Action point 9

Internal audit

126. Internal audit provides an independent appraisal service to management, by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the council's internal audit arrangements against the CIPFA Code of Practice for Internal Audit in Local Government 2006. We found that the function continues to deliver quality work in accordance with a risk based framework.

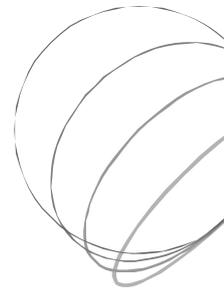
Outlook

127. The council and its community planning partners have in place good governance arrangements to review the delivery of the community planning single outcome agreement (CPSOA). It will be important that the regular progress reports on the thematic action plans underpinning the SOA are pro-actively monitored to ensure delivery of local outcomes in an economic environment where all partners are subject to continuing budgetary pressures.

128. Governance and accountability issues are likely to be more prominent as the council and its partners' operating environment and economic position becomes more difficult. We expect to see further developments in clarifying accountability and governance arrangements as joint working becomes more prevalent in service delivery.

129. The council continues to develop its performance management system and is exploring ways to extend this to partners. The continuing use of good quality performance information will enhance the council's governance arrangements and provide the council with assurance that resources from its own services and partner organisations are being used properly and such expenditure is making a contribution to the CPSOA priorities.

130. The CPSOA affirms the centrality of partnership working to the council's success. We are developing our approach to the audit of partnerships through the new approach to best value. In future, we anticipate increasingly viewing the council's activity as contributing to the partnership-wide delivery of services to the local community and positive outcomes for the local population.



Performance management and improvement

Introduction

131. We believe that an effective council has a clear and ambitious vision for what it wants to achieve to secure high quality services and effective outcomes for local people. The vision is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council has a performance management culture which is embedded throughout the organisation. The Best Value 2 Pathfinder Audit reported that the council had an embedded culture of continuous improvement and a well established and comprehensive approach to self-evaluation and review. The assurance and improvement plan concluded that the council did not have any significant weaknesses in this area.

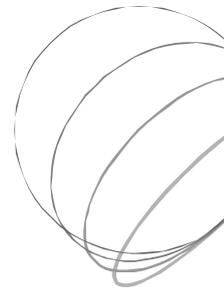
Vision and Strategic Direction

132. The community plan is the cornerstone of the council's planning framework. East Ayrshire Council along with its community planning partners, have set out a vision which seeks to ensure that East Ayrshire will be a place with strong, vibrant communities where everyone has a good quality of life and access to opportunities, choices and high quality services which are sustainable, accessible and meet people's needs. The Best Value 2 Pathfinder Audit reported that "the council and its partners have a clear and ambitious vision for East Ayrshire based on a sound understanding of the area and the needs of local communities".

133. The Chief Executive provides strong and clear leadership for the council and there is evidence of good relationships between elected members and officers. Appropriate scrutiny is essential to ensure that the council is delivering the best possible service outcomes in the most efficient and effective way. The Best Value 2 report found that although, elected members have a sound understanding of their communities, they need to continue to develop their skills to allow them to provide strong strategic leadership, and to challenge and hold officers to account. The Council's arrangements to support members individually via Personal Development Plans and collectively through the Learning and Development Strategy will assist in this regard.

Performance management

134. The council procured an electronic performance management system (EPMS) to consolidate and streamline its performance management arrangements. The EPMS went live in April 2009 and has now been rolled out across the council. The system currently holds around 600 indicators and in the past year, scorecards for each Executive Director and Head of Service have been developed and are



in use. The scorecards, which can be accessed electronically at any time, are updated on a monthly basis. Further development work is being undertaken to automate the publication of these scorecard reports to ensure they are delivered by email to each senior manager on a timely basis.

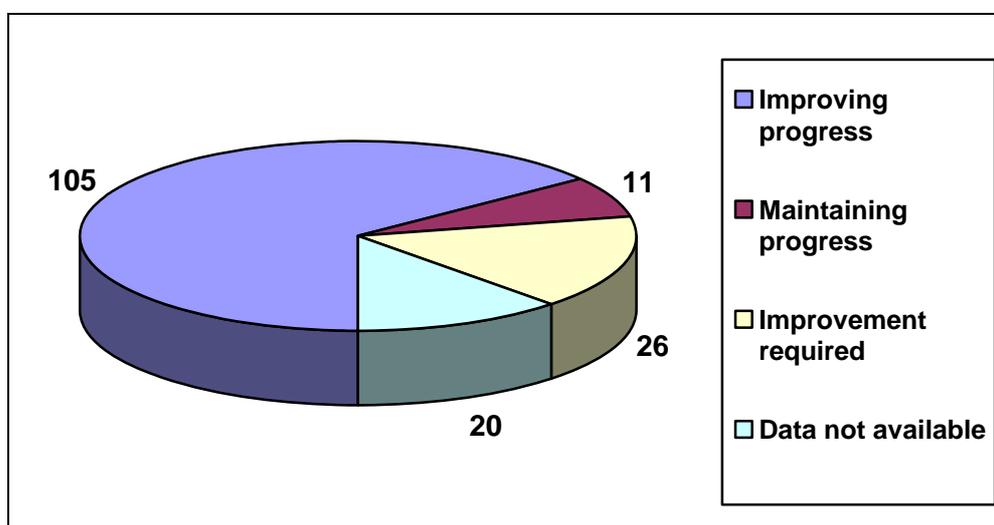
135. Performance is reported to the Chief Executive, Executive Directors and Heads of Service on a real-time basis. A finance and service strategy report is presented to cabinet quarterly and this contains a range of performance information as well as budget monitoring information. An elected member scorecard has also been developed through the EPMS and this was presented to members at a recent development/training seminar which demonstrated the capability of the new system. The council refreshed its public performance reporting for 2010 and produced a new style annual performance report for 2009/10. This was published on the council website and made available in all local offices.

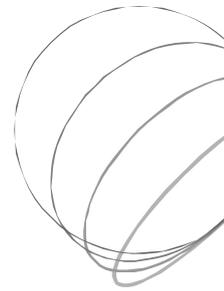
136. The performance management system is still developing and the Project Board has a number of plans in place for the next 18 to 24 months. The Project Board plans to pilot community plan partner access, implement the risk management portal, further develop members' scorecards create live action plan reporting and develop a suite of indicators to inform service plans, EFQM assessments and business reviews.

Overview of performance in 2009/10

137. The second Community Planning Single Outcome Agreement annual performance report was submitted to the Scottish Government by the 30 September 2010. East Ayrshire Council has identified 162 local outcomes. Exhibit 10 summarises reported progress in 2009/10 against these 162 outcomes:

Exhibit 10
Achievement of Community Planning SOA outcomes 2009/10





138. The council reported improving progress during 2009/10 in most outcomes including:

- increased education and skills attainment in schools
- increased waste recycling and reduction in waste taken to landfill
- increased satisfaction amongst public transport passengers on the reliability of services
- the development and promotion of early education and childcare services to support children and families.

139. There were a number of outcomes during 2009/10 where improvement is required, these included:

- increasing the cumulative attainment of National Qualifications by all S4 pupils in publicly funded secondary schools
- a reduction in the percentage of hectares of vacant and derelict urban land.

The council and its community planning partners developed a SOA Improvement Plan to ensure that appropriate action is taken to ensure effective progress against outcomes.

Statutory performance indicators

140. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). East Ayrshire Council published an Annual Performance Report 2009/10 which included 77 performance indicators, 25 of these were the statutory performance indicators designated by the Accounts Commission. SPIs provide a consistent form of measurement for councils to review their performance over time and to make comparisons with other councils. In overall terms, Exhibit 11 indicates that the council has made improvement in most areas:

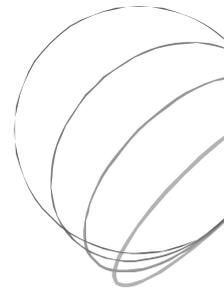
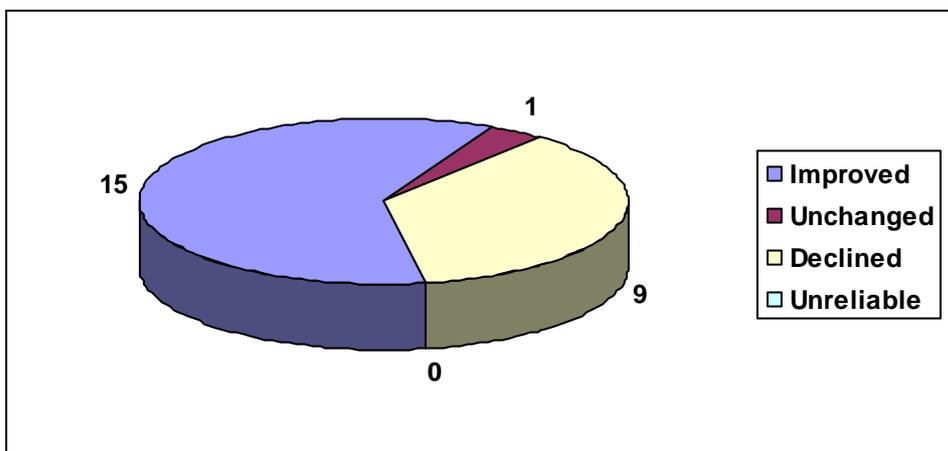


Exhibit 11

Improvements demonstrated by SPIs (Total 25 indicators)



141. Each year we review the reliability of the council's arrangements to prepare SPIs. Overall, we concluded that the arrangements were satisfactory.

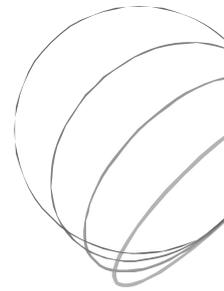
142. The council also publishes a range of local performance indicators. We considered these along with the SPIs in making the comments which follow.

143. Examples of PI's exhibiting improvement are:

- benefits processing times and administration costs per case
- grounds maintenance costs per hectare
- percentage of council buildings with full disabled access.

144. Some indicators show a marginal decrease in performance. The movements in most of these are so small that sustained performance can be reasonably concluded. The CMT should however, be alert to the possibility that these marginal variations do not represent the start of a downward trend. Be that as it may, one decreasing set of indicators of note is the continuing rise in the cost per premise of refuse collection and disposal.

145. We have previously commented adversely on the council's poor performance on response repairs. The council re-designed the service with the object of improving quality and responsiveness. In the first full year of the 'repairs by appointment' system (2008/09) initial results were encouraging with 81.5% of repairs completed within the appointed time. Improvement was noted in 2009/10 with 86.7% of repairs completed within the appointed time.



146. Of particular note is the sustained collection of council tax rate at 94.1%, given the economic climate this is a good result. This indicator had plateaued at around 92% in previous years and the council implemented measures to improve performance during 2007/08.

Progress against the Assurance and Improvement Plan (AIP)

Improving Community Regeneration

147. As part of the LAN shared risk assessment we identified the strategic priority 'Improving Community Regeneration' as an area to be monitored. The council has established clear objectives for this outcome, however, the achievement of this aim is likely to be influenced by a number of external factors. The unemployment rate for the council area is higher than the national average and, in common with other parts of Scotland, job creation and business start up rates have declined in recent years.

Improving Health and Well-being

148. The strategic priority for improving health and well-being was noted as an area of uncertainty within the AIP. The council and its partners have a number of strategies in place to improve health and to tackle health inequalities. The success of these strategies can only be judged in the longer term. The AIP noted that more information was required in relation to progress against many of the objectives including, tobacco cessation support, breastfeeding, sexual health awareness, safer alcohol levels, dietary requirements and drug awareness.

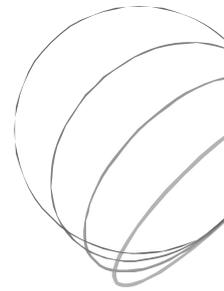
Planning and Economic Development

149. This service was highlighted in the AIP as an area of uncertainty. There has been a significant reduction in the service's workload and the value of work being processed as a consequence of the economic downturn. The 2009/10 Single Outcome Agreement performance report highlights that the indicators relating to increasing the business start up rate and reducing the percentage of economically active working age people with no qualifications still require improvement.

Equality and Diversity

150. East Ayrshire Council aims to ensure that all of its activities comply with best practice in the field of equality and diversity. The council has established an equalities strategy group (chaired by the Chief Executive) and framework and further development in this area will be achieved through developing partnership wide arrangements for addressing and promoting plans.

151. The council has developed a training programme for the implementation of equality impact assessments and this has been rolled out across the organisation. The council has established



equality networks covering disability, older people, gender and black and ethnic minority communities and these have supported the equality forum and allowed further advanced community engagement.

Efficiency

152. Each year the council submits an Efficient Government Statement to CoSLA for incorporation into a Scotland-wide report for the Scottish Government. The statement is not certified by external audit however, we are advised by management that it was prepared in accordance with the guidance provided by CoSLA. The 2009/10 statement was submitted to cabinet in June 2010 and reports that the council achieved £6.457 million of cash releasing efficiencies and £1.160 million of non-cash releasing efficiency savings.

Progress on delivery of the council's Best Value improvement plan

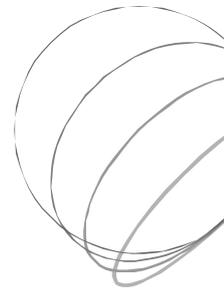
153. The Local Government in Scotland Act 2003 introduced statutory duties relating to Best Value and Community Planning. In response to the Act, the Accounts Commission implemented the audit of Best Value and Community Planning. Best Value 2 (BV2) is the next phase of Best Value audit. It is carried out and reported under the same legislative framework, but the approach has moved on significantly. BV2 audits are:

- more proportionate and risk-based
- founded on a shared risk assessment process
- more focused on impact and outcomes
- designed to provide a more rounded view of partnership working in a local area.

154. A Best Value 2 Pathfinder Audit on East Ayrshire Council was published in April 2010. The report found that East Ayrshire Council was 'improving well' in relation to its statutory duties on Best Value and Community Planning, and that the council was well placed to deliver improvement.

155. The council was assessed as 'improving well' in a number of areas. In particular:

- having a clear and ambitious vision, along with its partners, for East Ayrshire, based on a sound understanding of the area and the needs of the local communities
- improving the impact and outcomes for communities, particularly in areas of community safety and lifelong learning
- engagement with local communities
- managing its resources well and continuing to develop its approach to making the most of its people, money and property in support of delivering strategic priorities.



156. The council was assessed as being 'well placed' to deliver future improvement. In particular the council has:

- an embedded culture of continuous improvement and a well established and comprehensive approach to self-evaluation and review
- highly effective the council's partnership working helping to deliver improved services
- effective working between elected members and senior officers
- a good awareness of what needs to improve.

157. The report highlighted that the council needed to improve performance in some aspects of social services and planning. Performance in some outcome indicators, including economic regeneration and health remains below the national average and sustained action is required. A reduction in citizen satisfaction has been noted with regard to repairs to roads, street cleaning and refuse collection. The council acknowledges weaker performance in these areas and has plans in place to make progress.

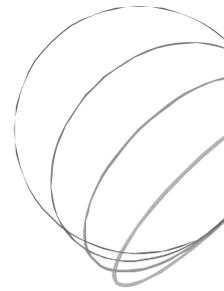
Risk Management

158. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks. Risk management supports decision making and contributes to performance.

159. The council has a sound approach to managing risk. The risk management strategy is currently being reviewed and a new updated strategy will be developed. The risk management processes are well developed and the council has developed a risk management database which maintains each of its service, department and corporate risk registers. The risk management groups meet on a quarterly basis with the Corporate Management Team having responsibility for overseeing the corporate risk register and Departmental Risk Management Teams maintaining their own registers.

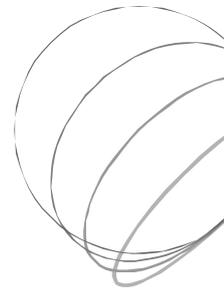
160. The performance management system includes an integrated risk management module and this, once it has been brought into operation, should greatly assist in further embedding risk management into operational and strategic decision making. The risk management team have considered modifications and updates required to the current risk management database in preparation for this future change. Initial meetings have taken place to discuss requirements of the new system.

161. During 2008/09 the council's Risk Management Centre was formally opened. This state of the art facility meets national security industry standards and provides a range of services for East Ayrshire communities, including CCTV surveillance and emergency response. The services within the centre are continuing to develop and expand and a new initiative to increase the safety of lone workers is to be piloted in the near future.



Outlook

162. The council was proactive in establishing a community planning based SOA from the outset. The impact of budget cuts will inevitably affect the partnership's ability to deliver some of the outcomes articulated in the SOA. Implementation of the council's efficiency strategy will be crucial in ensuring that available resources are directed towards the council's key priorities. The council has previously revised its service plans to align with the single outcome agreement and this should provide a firm base from which the council will be able effectively to assess the impact of budget cuts on service activity and the delivery of agreed outcomes.
163. The long term and complex nature of many of the outcome targets, pose many challenges for performance management. We recognise the challenges and whilst we have no plans to audit the outcome progress reports in 2010/11, we will pay attention to the systems the council has in place to monitor progress and take any necessary corrective action.
164. East Ayrshire Council participated as one of the five Best Value 2 pathfinder sites. The BV 2 audit was undertaken between June and December 2009, with the report published on 1 April 2010. The timing of East Ayrshire Council's next Best Value audit will be determined by future shared risk assessments carried out in conjunction with other scrutiny bodies.



Appendix A

External audit reports and audit opinions issued for 2009/10

Title of report or opinion	Target date	Date of issue
Annual Audit Plan	19/2/10	19/2/10
Strategic Audit Risk Analysis	30/06/10	30/06/10
Internal Audit Review	30/4/10	29/4/10
Governance and Internal Control	30/6/10	22/6/10
IT Review	31/8/10	24/8/10
Report on financial statements to those charged with governance	30/9/10	24/9/10
Audit opinion on the 2009/10 financial statements	30/9/10	24/9/10
Audit opinion on the 2009/10 whole of government accounts	01/10/10	29/09/10

Appendix B: Action Plan

Key Risk Areas and Planned Management Action

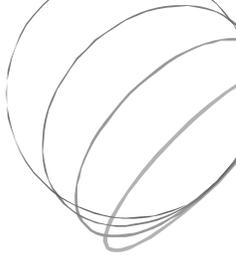
Action Point	Refer Para No	Risk Identified	Management Response / Planned Action	Responsible Officer	Target Date
1	17	<p>Council tax bad debt provision</p> <p>The council tax bad debt provision requires to be reviewed.</p> <p>Risk: An excessive charge is being made to the income and expenditure account.</p>	<p>The calculation in relation to bad debt provision is reviewed on an annual basis.</p> <p>This will again be reviewed as part of the annual accounts process and a level commensurate with our collection history will be applied.</p>	Head of Finance	31 March 2011
2	18	<p>Equal pay</p> <p>The full cost of the compensation liability is unknown. There are a number of claims pending and latent.</p> <p>Risk: Liabilities could be in excess of the amount provided.</p>	<p>Provision has been made in the accounts for a sum in relation to equal pay claims. This is based on the best information we have available to us, and will be reviewed on an ongoing basis as further information becomes available.</p>	Head of Finance / Head of Human Resources	ongoing
3	33	<p>Common good fund assets</p> <p>The classification of common good fund assets is as yet incomplete.</p> <p>Risk: Assets inadvertently disposed off. Challenge by local residents.</p>	<p>Common Good fund assets are under review and will be completed during 2010.</p>	Head of Finance	31 December 2010
4	57	<p>Scottish Quality Housing Standards</p> <p>Capital slippage on key elements of the Scottish Quality Housing Standards by 2015.</p> <p>Risk: The council fails to meet the standard by the due date.</p>	<p>The Council has plans in place to ensure it will make the 2015 target for achievement of the Scottish Quality Housing Standard. The strategy will be reviewed and reformulated on an ongoing basis to ensure the target is met.</p>	Depute Chief Executive / Executive Director of Neighbourhood Services	Ongoing until 2015



Action Point	Refer Para No	Risk Identified	Management Response / Planned Action	Responsible Officer	Target Date
5	63	<p>Social Work Services expenditure</p> <p>The service faces significant challenges in respect of elderly and children's care costs.</p> <p>Risk: Present levels of service are not sustainable.</p>	<p>The Cabinet has approved a long term Social Work Sustainability Plan which includes the allocation of additional resources to Social Work in the current year and over the next two years with a view to reducing future costs whilst taking account of increasing demand.</p> <p>Service delivery changes are being reflected in organisational structures with budget decisions aligned to the sustainability agenda.</p>	Head of Community Care / Head of Children and Families	Ongoing
6	69	<p>Financial planning</p> <p>Predicted real reductions in RSG and demand pressures as a consequence of the recession and demographic factors will present the council with difficult challenges in the coming years.</p> <p>Risk: The council cannot reconcile service demand and available resources.</p>	<p>Significant planning work has gone into ascertaining potential gaps in future funding compared to service demands. Departments are working to identify efficiency measures in all aspects of service delivery. Service redesign will be a key aspect of the response to falling grant levels.</p>	CMT	Ongoing
7	80	<p>Procurement</p> <p>The council's procurement capability needs to be improved.</p> <p>Risk: The council is not obtaining best value from its procurement activities.</p>	<p>Process and procedural improvements will continue to be implemented in support of our procurement activities.</p> <p>A follow up compliance assessment will take place in November 2010, and an improvement plan will be developed in response to the outcomes of the assessment.</p>	Head of Legal, Procurement and Regulatory Services	Plan developed by 31/03/2011



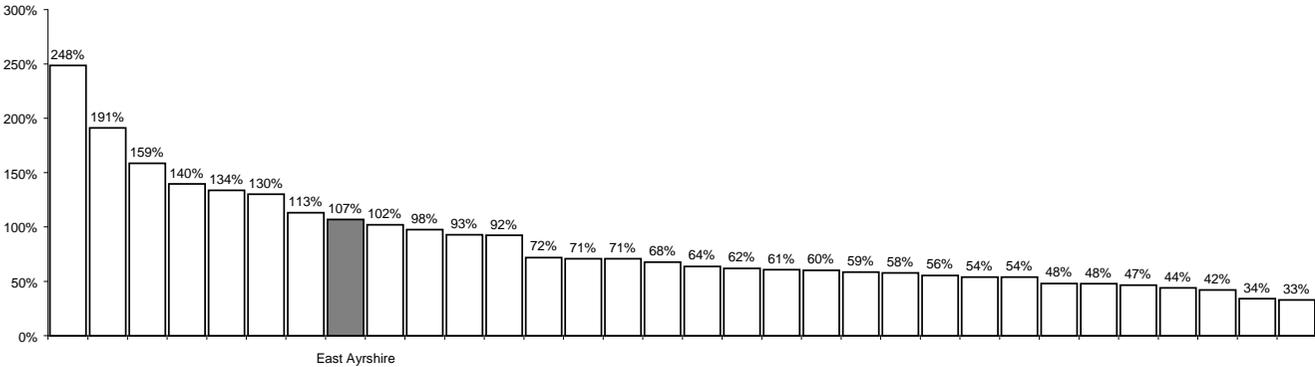
Action Point	Refer Para No	Risk Identified	Management Response / Planned Action	Responsible Officer	Target Date
8	98	<p>Shared services</p> <p>The Council has made some progress on the shared services agenda but further opportunities should be identified and pursued.</p> <p>Risk: The council is not taking advantage of potential savings by sharing services.</p>	<p>Service redesign will allow new opportunities to be identified and explored as appropriate. All relevant options will be considered including shared services where appropriate.</p> <p>The Council is involved in the Integrated Resource Framework (IRF), developing closer working between NAC, SAC, EAC and the NHS. Alternative service delivery models will be developed with the aim of improving efficiency and patient care.</p>	CMT	Ongoing
9	124	<p>Rent setting policy</p> <p>The basis of the council's rent setting policy requires to be reviewed.</p> <p>Risk: There is no clear reference for rent setting of new housing. Rents for different property types are perceived to be lacking transparency.</p>	<p>Work has commenced on this area, and will be subject to extensive tenant consultation.</p> <p>The outcome of the consultation exercise will feature in a revised policy which will be agreed in the later part of 2011.</p>	Head of Housing Services	December 2011



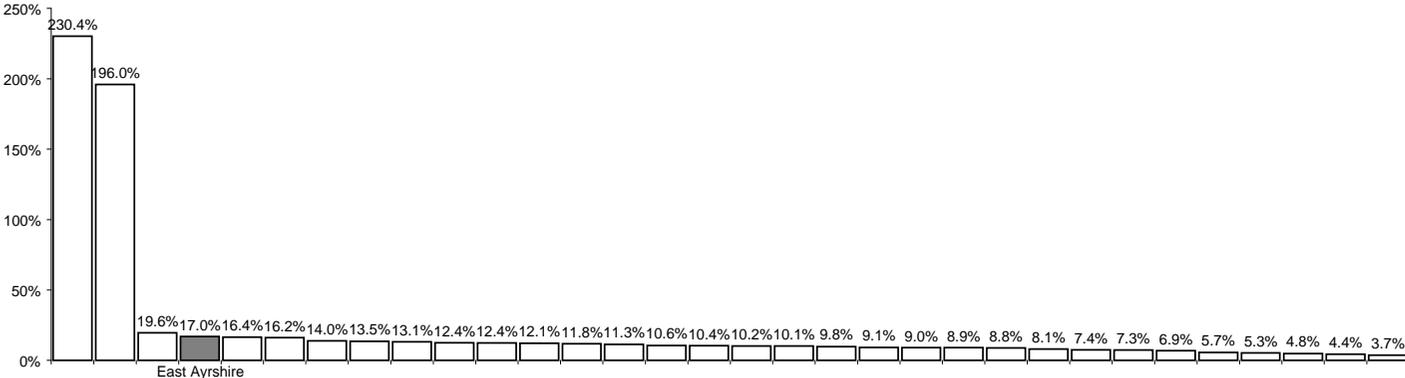
Appendix C: Accounting Ratios

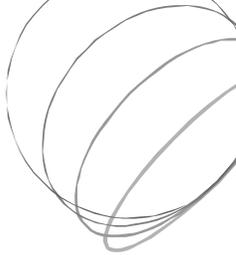
Range for all Scottish councils

Working capital (Current assets as a percentage of current liabilities)

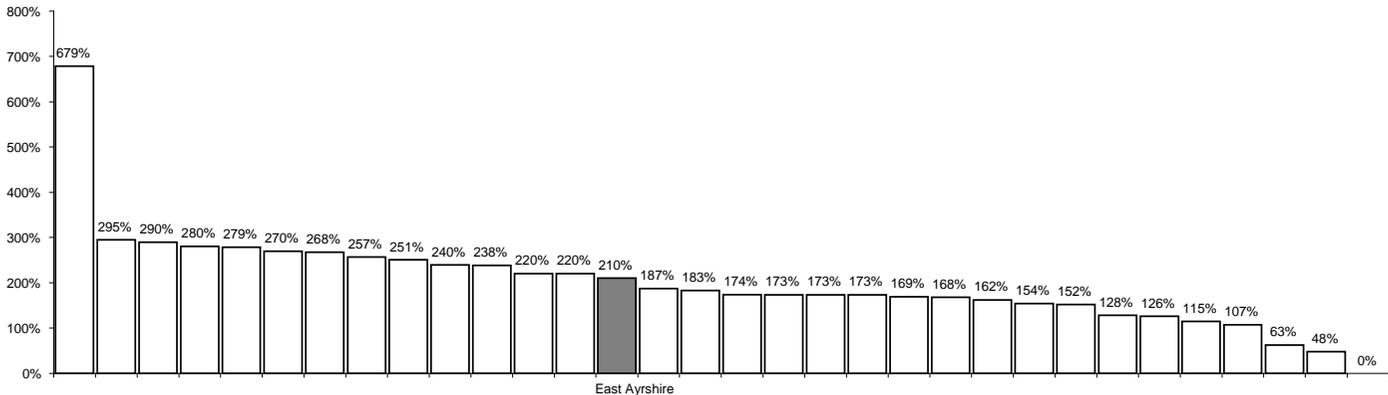


Useable reserves as a percentage of net operating expenditure





Long term borrowing as a percentage of Council Tax and NDR income



Long term assets as a percentage of long term borrowing

