

# East Ayrshire Council

## Annual report on the 2012/13 audit



Prepared for East Ayrshire Council and the Controller of Audit  
October 2013

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# Key messages

## Introduction

This report summarises the findings from our 2012/13 audit of East Ayrshire Council. As part of the audit we assessed the key financial and strategic risks being faced by the council. We audited the financial statements and reviewed the council's financial position and aspects of governance, best value, the use of resources and performance.

## Financial Statements

We have given an unqualified opinion on the financial statements of the council and its group for 2012/13. In our opinion they give a true and fair view of the financial transactions for the year to 31 March 2013 and the financial position at that date.

## Financial position

The financial management arrangements have operated effectively during the year.

Key figures within the financial statements include:

- The council generated an accounting surplus of £0.788 million in the year. When combined with movements in earmarked balances the council transferred a total of £4.138 million to the uncommitted general fund.
- Total usable reserves decreased by £0.869 million to £59.703 million at 31 March 2013. The decrease was mainly due to using the capital fund to finance capital expenditure. The reserves balance, as a proportion of annual spend, is above the average for Scotland.
- The reserves have been built up over time to fund the council's transformation strategy and smooth spending levels in response to reduced financial settlements.
- The general fund balance increased by £0.788 million to £35.446 million at 31 March 2013. Of the year end balance, £23.873 million is committed to earmarked projects, an increase of 36% since 2009/10. The uncommitted balance of £11.473 million is in accordance with the council's reserves strategy to retain 2-4% of budgeted expenditure.
- The council incurred capital expenditure of £62.856 million during the year against a budget of £71.178 million for the combined general services and HRA capital programme. All major capital projects, including variations from budget, are subject to regular scrutiny by the Governance and Scrutiny committee and regularly reported to members.
- The council has total borrowings of £334.456 million compared to £320.466 million at 31 March 2012. The average interest rate paid on borrowings reduced from 4.97% at 31 March 2012 to 4.68% at 31 March 2013.

The council demonstrates a strategic approach to its use of resources and has a mature corporate approach in place regarding asset management, procurement and workforce planning.

Two opencast coal mining operators with significant interests in East Ayrshire were placed into liquidation in April 2013 and May 2013 respectively. The implications of this for the council are being worked through, and members are regularly informed of key developments. The complexity and uniqueness of the current legal situation means that it is currently not possible to give a definitive view on the likely financial outcome for the council. The council is taking all appropriate steps to respond to the issues arising from the liquidation of the coal mining operators including the impact on local communities.

## Governance and accountability

Overall, we are satisfied with the council's governance arrangements and internal controls have operated effectively during the year.

## Performance and best value

The council has well established performance management and self evaluation arrangements in place, including regular reporting of performance to members. All services carry out annual self assessments using accredited self-evaluation tools. A third council wide strategic self assessment was completed in 2012. This demonstrated that the council had scored better in all areas assessed compared to the previous council wide review in 2008 and brought out a number of areas where further progress was required. An action plan was agreed and progress has been reported to members.

## Outlook

Scotland's public bodies will continue to face increasing demand and cost pressures for their services in the foreseeable future. East Ayrshire Council recognise this and a 5 year Transformation Strategy is in place which incorporates ten strategic imperatives that enable spending and savings proposals to be tested against.

The council moves forward from a sound financial base in terms of reserves and a clear picture of their medium term financial position. The council's Transformation Strategy identified a funding gap of £34.004 million over the period 2013/14 to 2016/17. The council has identified savings of £24.974 million leaving a funding gap of £9.030 million that requires to be identified over this period. This is reviewed regularly and the gap has now increased to around £12 million as a result to changes to contracted out arrangements for national insurance contributions.

Welfare reform will continue for several years and from October 2013 the Universal Credit will begin to be rolled-out nationally. It is important that the council continues to monitor the impact of these reforms and develop effective strategies that address them.

The Public Bodies (Joint Working) (Scotland) Bill will result in the integration of adult health and social care in Scotland and the creation of a Health and Social Care Partnership (HSCP) with NHS Ayrshire and Arran. The HSCP is planned to be in place in shadow mode by April 2014 and become fully operational by April 2015. It has been agreed which services in East

Ayrshire will be managed within the partnership. The structures, financial and governance arrangements are being developed taking cognisance of national guidance.

On 1 July 2013 East Ayrshire Leisure Trust was established in the form of a Scottish Charitable Incorporated Organisation registered with OSCR to provide alternative service delivery models for elements of Leisure, Community Learning and Development Services. A formal services and finance agreement is in place. Procedures have been developed to monitor services provided by the trust.

# Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of East Ayrshire Council. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the council.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to members and the Controller of Audit and should form a key part of discussions with the Governance & Scrutiny Committee, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be available to the other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

# Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
  - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
  - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the annual governance statement and the remuneration report. Auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

## Audit opinion

10. We have given an unqualified opinion that the financial statements of East Ayrshire Council for 2012/13 give a true and fair view of the state of affairs of the council and its group as at 31 March 2013 and of the income and expenditure for the year then ended.

## Legality

11. 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 has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's corporate management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

## Group accounts

12. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.
13. The overall effect of inclusion of all of the council's subsidiaries, associates and common good fund on the group balance sheet is to reduce both reserves and net assets by £268.637 million. The group balance sheet as at 31 March 2013 discloses an excess of assets over liabilities of £208.732 million (2011/12 £320.516 million) due to the accrual of pension liabilities in accordance with International Accounting Standards.
14. Police and Fire functions transferred to the Scottish Police Authority and the Scottish Fire and Rescue Service on 1 April 2013. This will have the effect of improving the group balance sheet

position in future years, as the council will no longer be required to accrue the pension liabilities of Police and Fire into its group accounts.

## Annual governance statement

15. As part of our annual audit we review the disclosures made in the Annual Governance Statement included in the financial statements, and the process for obtaining sufficient assurances to inform the content of the statement.
16. We are satisfied with the disclosures in the Annual Governance Statement are in line with the guidance contained in the CIPFA publication *Delivering Good Governance in Local Government*. Also, we are satisfied with the adequacy of the process put in place to obtain the necessary assurances for the Annual Governance Statement.

## Remuneration report

17. The remuneration report has been prepared in accordance with the relevant legislation. The disclosures within the 2012/13 financial statements include all eligible remuneration for the relevant council officers and elected members for a number of categories including pension benefits.

## Accounting issues

18. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code). Overall we are satisfied that the council prepared the 2012/13 financial statements in accordance with the 2012/13 Code.

## Accounts submission

19. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2013 together with a comprehensive working papers package. This enabled us to conclude the audit and certify the financial statements prior to the target date of 30 September 2013. The financial statements are now available for publication.

## Presentational and monetary adjustments to the unaudited accounts

20. All adjustments required as a result of the audit process have been reflected in the accounts. There was one monetary adjustment arising from a reclassification of a creditor's balance which increased the surplus recorded in the comprehensive income and expenditure account by £0.515 million. The general fund and the net assets recorded in the balance sheet have also increased by this amount.
21. In addition, there were a few presentational adjustments required to the unaudited accounts that the council have now amended. These were mainly minor adjustments that form part of the normal audit process.

## Pension costs

22. East Ayrshire Council is a member of Strathclyde Pension Fund which is a multi employer defined benefit scheme. In accordance with pension accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation as at 31 March 2013 provided by the scheme's actuaries increased the council's share of the deficit from £121.072 million last year to £156.294 million this year. The large increase is due to poorer than expected financial assumptions, such as the rate for discounting scheme liabilities, which were partially offset by better than expected returns on assets.
23. It is important to note that the additional liability in 2012/13 does not have any immediate impact on the council's financing requirements. The council will continue to make annual contributions to Strathclyde Pension Fund in accordance with triennial valuations carried out by the actuaries, which provide assurance that the pension scheme is adequately funded. The volatility over recent years is highlighted in Exhibit 1 and is due to factors outwith the council's control such as changes in assumptions used by the Actuary regarding discount factors, life expectancy etc and due to future liabilities from 2010/11 being updated on the basis of inflation using CPI rather than RPI.

### Exhibit 1: Movement in Net Pension liability 2008/09 - 2012/13

	2008/09	2009/10	2010/11	2011/12	2012/13
	£ million	£ million	£ million	£ million	
Liability	57.252	184.333	76.951	121.072	156.294

Source: East Ayrshire Council audited financial statements

## Equal pay provision

24. 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, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay and are dissatisfied with the council's proposed resolution or compensation can elect to have a case heard before an employment tribunal.
25. The council's equal pay provision at 31 March 2013 is based on full provision for all known claims against the council. Actual settlements are subject to the outcome of several national test legal cases and could be settled at an amount that is less than this. The council have disclosed a contingent liability for any additional future claims that may potentially arise pending the outcome of the test legal cases.
26. The ultimate cost to the council remains uncertain and it is likely that resolution of the issue will take some time. As the tribunal process unfolds the extent of the council's eventual liability will become clearer.

**Refer to Action Point No. 1**

## Whole of government accounts

27. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. Problems were experienced by the Scottish Government in issuing the guidance and template for WGA resulting in all councils being unable to meet the scheduled deadline of 7 August. The council submitted the consolidation pack to support its 2012/13 WGA return to the Scottish Government on 29 August 2013. We aim to complete our audit of the WGA claim by the revised deadline of 26 October 2013.

## The Charities Accounts (Scotland) Regulations 2006

28. A full audit is required from 2013/14 for all registered charities where the local authority is the sole trustee irrespective of the size of the charity. This is due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with the Charities Regulations.
29. The Assistant Auditor General (AAG) wrote to Local Government Directors of Finance in June 2013 advising them of these new arrangements and the Accounts Commission's decision to appoint the auditor of each council as the auditor of its relevant charities. This is likely to result in an increase in audit costs and will form part of the fee discussions as part of the 2013/14 audit planning process.
30. Also, the AAG has indicated that councils that have not made any progress in reducing the number of registered charities using the reorganisation provisions of the charities legislation and might want to consider doing so in order to reduce the number of separate audits required. Furthermore, the AAG also suggested that councils might wish to consider whether they can use the connected charities provisions in the regulations to reduce the number of separate reports and accounts required to be submitted to OSCR.
31. The council is taking steps to comply with the OSCR timetable and is looking at ways, including using the 'connected provisions' in the regulations, to reduce the number of registered charitable trusts. There are currently 11 registered trusts that will require accounts and an audit for the first time in 2013/14.

**Refer to Action Point No.2**

## Outlook

### Local Authority Accounts (Scotland) Regulations

32. A consultation exercise is currently underway in terms of the Local Authority Accounts (Scotland) Regulations. It is likely that for 2013/14 local authorities, if they do not already do so, will require an Audit Committee or similar to approve the audited accounts by 30 September 2013.

# Financial position

33. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
34. Auditors consider whether audited bodies have established adequate arrangements and examine:
  - financial performance in the period under audit
  - compliance with any statutory financial requirements and financial targets
  - ability to meet known or contingent, statutory and other financial obligations
  - responses to developments which may have an impact on the financial position
  - financial plans for future periods.
35. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

36. In 2012/13, as recorded in the comprehensive income and expenditure statement, the council spent £475.489 million on the provision of public services. Its income totalled some £449.217 million, resulting in an accounting deficit of £26.272 million. However, this includes certain elements of income and expenditure that are accounted for to comply with the Code of Practice on Local Authority Accounting, which are then adjusted to show their impact on statutory council reserves. Following these adjustments there is a general fund surplus of £0.788 million.
37. The Housing Revenue Account generated a surplus of £0.958 million. Expenditure met from other reserves means that total usable reserves reduced by £0.868 million during the year.

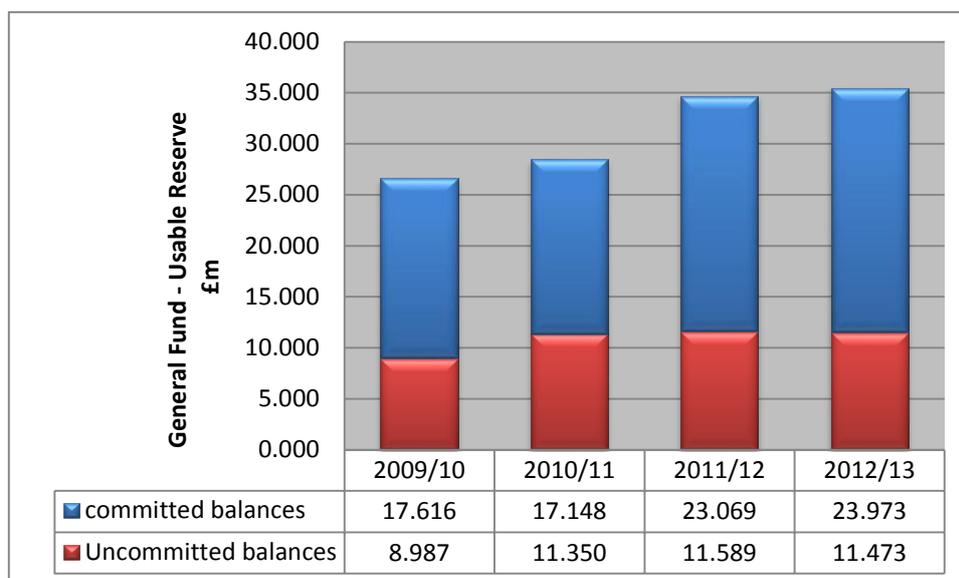
## Budgetary control

38. The council set a break even budget in 2012/13. The actual outturn for the year was a surplus of income over expenditure of £0.788 million. This surplus, combined with a net movement in earmarked funds of £3.350 million incorporated within the 2012/13 budget, resulted in a largely planned in-year underspend of £4.138 million against the available budget.
39. The underspend of £4.138 million is largely attributable to:
  - £1.069 million savings in the Neighbourhood Services budget due to the accounting treatment for the distribution of police and fire reserves.
  - £1.305 million underspend in Central Services due to a contingency that was not required and due to funding for the change fund where outcomes were financed from within departmental resources.

- £1.486 million additional council tax income due to changes to the bad debt provision, additional houses within the council tax yield, and a reduction in second home discounts awarded.
40. The budgetary process enables departments to earmark funds for spending in the following financial year. This forms part of the committed element of the general fund balance (this is discussed in more detail at Exhibit 2). These commitments are identified for specific purposes: either due to differences in the timing of expenditure; or where there are plans for service delivery which will be delivered at a later date. The 2012/13 budget utilised £6.013 million from the uncommitted balance. Further departmental and committed balances of £8.940 million were also spent during 2012/13.
  41. The council identified £3.350 million from the 2012/13 budget that will be carried forward to 2013/14.
  42. The Housing Revenue Account produced a surplus of £0.958 million providing a closing balance for 2012/13 of £3.283 million. This surplus arose due to release of a provision for legal costs which is no longer required, which was partly offset by an increase in expenditure associated with the housing investment programme. The balance of £3.283 million has been earmarked in full for future investment in the housing improvement programme.
  43. The Council has a robust financial review process for the use of earmarked funds and performance against budget allocation. This includes scrutiny by Members at the Cabinet and Governance & Scrutiny Committees as well as the Corporate Management Team. We are satisfied that the council has demonstrated a strong commitment to its fiscal responsibilities in the current year and has taken appropriate steps to ensure that services are appropriately funded in future years.

## Financial Position

44. The general fund surplus for 2012/13 of £0.788 million increased the general fund balance to £35.446 million as at 31 March 2013. The balance is made up of earmarked commitments of £23.973 million, including £4.254 million to bridge the 2013/14 budget gap, leaving an uncommitted general fund balance of £11.473 million. This is within the council's stated strategy to retain uncommitted reserves of between 2% and 4% of net annual expenditure (approximately £7 million to £14 million).
45. Exhibit 2 shows the yearly movement of both the committed and uncommitted general fund balance over the past four years. This shows that the uncommitted element has remained fairly static over the last four years, in line with the council's strategy, whereas the committed element of the balance has increased by 36% since 2009/10. This is reviewed annually.
46. The council will need to ensure that it continues to keep the use of committed/ earmarked funds under review and if it is identified that they are not required for their earmarked purpose, their use is reconsidered in future budgets, in the context of the councils service priorities.

**Exhibit 2: Yearly movement in total usable reserves**

47. Exhibit 3 shows the usable reserve balances in the council's funds at 31 March 2013 compared to the previous year. These include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing assets. The council's funds at 31 March 2013 totalled £59.703 million, a decrease of £0.869 million on the previous year.

**Exhibit 3: Summary of Usable Reserves**

Reserve	Balance as at 31/03/2012 £m	Balance as at 31/03/2013 £m	Movement in year £m
General Fund	34.658	35.446	+0.788 (+2%)
HRA	2.325	3.283	+0.958 (+41%)
Repairs & Renewals	9.104	8.280	-0.824 (-9%)
Capital Grants Unapplied	0.084	nil	-0.084 (-100%)
Capital Fund	14.401	12.694	-1.707 (12%)
<b>Total Usable Reserves</b>	<b>60.572</b>	<b>59.703</b>	<b>-0.869 (-1.4%)</b>

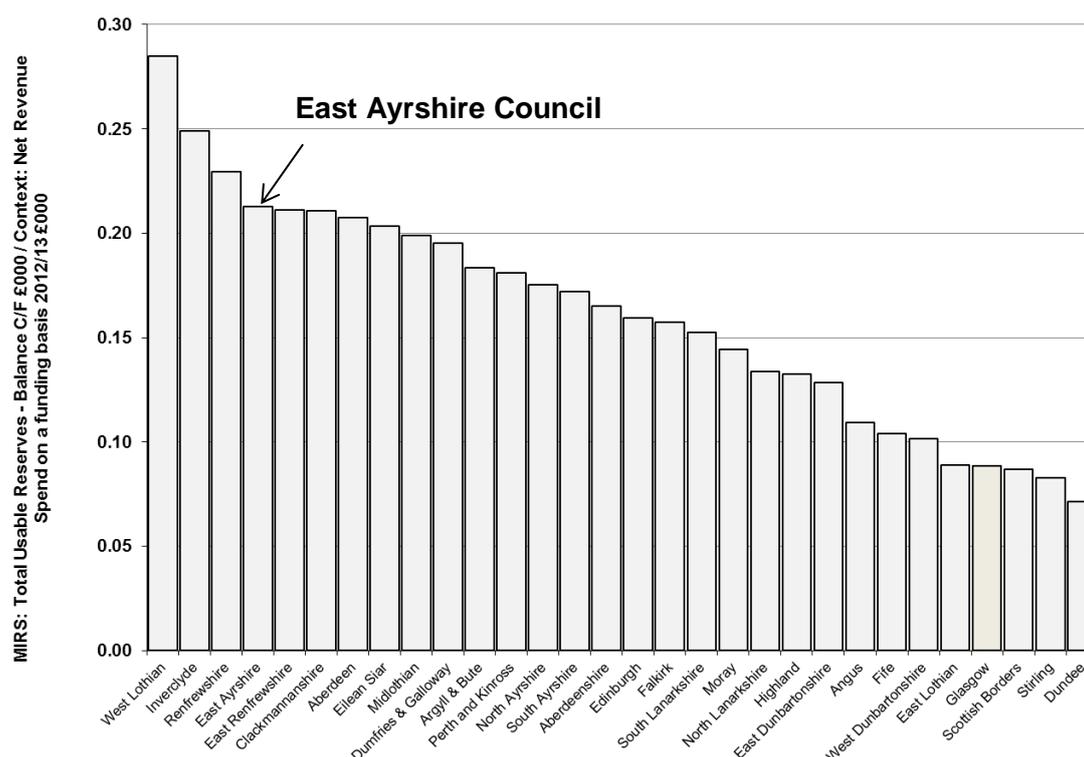
Source: East Ayrshire Council 2013

48. Across the country, the majority of mainland Scottish local authorities (23/30) reported an overall increase in total usable reserves in 2012/13 as demonstrated in Exhibit 4 below. In contrast East Ayrshire Council's total usable reserves decreased by 1.4% from the previous



51. The Chief Executive and Executive Director of Finance and Corporate Support undertake a review of service balances immediately following the conclusion of the annual financial statements audit. This exercise is now an annual feature of the council's budget process. As part of the budget process, members review the council's level of reserves so that they can make informed decisions about future service delivery options. This is facilitated by an annual review of the reserves strategy.

### Exhibit 5: Total usable reserves (as recorded at Exhibit 3) carried forward as a proportion of net revenue spend



Source: Audit Scotland; Local Government in Scotland; Analytical Review of 2013 unaudited accounts (excluding Orkney & Shetland Councils)

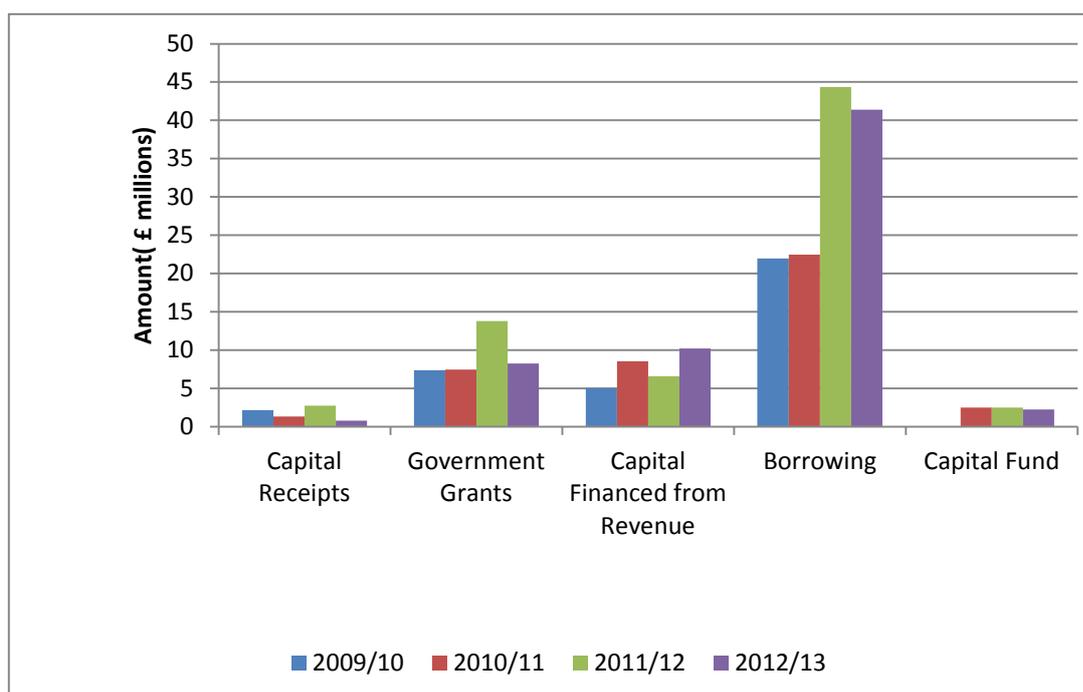
## Capital investment and performance 2012/13.

52. The 2012/13 financial statements detail capital expenditure of £62.856 million split between the housing revenue account (£14.399 million) and the general services programme (£48.457 million). The housing revenue account includes areas such as the building of new houses, external upgrading, refurbishments and meeting the Scottish housing quality standard. The general services programme is aligned to the council's strategic objectives and includes investments in the schools estate, regenerating town centres, improving road links and improving sports and leisure facilities. Projects completed in 2012/13 included the Ayrshire Athletics Arena and the Opera House office development.
53. The council continues to demonstrate a high level of monitoring of annual capital spend via: periodic monitoring reports to the Cabinet and the Governance & Scrutiny Committee; being

able to bring contracts forward where difficulties have arisen in others (due to having a 10 year programme); and being able to maintain high values of expenditure while, at the same time, demonstrating a low level of overspends.

54. The General Services capital monitoring report for 2012/13 reported budgeted expenditure of £57.405 million (including some projects brought forward from the previous year). Actual in year expenditure was therefore £8.948 million less than budget. The main reasons for this were due to:
  - Willowbank School spent £2.494 million less than was budgeted in 2012/13. This was due to a number of complications during the project resulting in the school being opened in August 2013 – a year later than originally planned.
  - Moorfield Business Park - Phase 2 spent £1.878 million less than was budgeted in 2012/13. This was completed in September 2013 in accordance with the original timeline.
  - Vehicle Procurement was £2.491 million less than budgeted for in 2012/13. This was due to vehicles being leased rather than purchased outright due to more favourable lease terms. This could not have been envisaged when setting the budget.
55. The actual HRA capital expenditure of £14.339 million in 2012/13 was 4% above budget (£13.773 million).
56. shows the sources of finance for capital expenditure in the four years to 2012/13. The graphical presentation shows the continuing downward trend in funding from capital receipts and a decline in government grants in the past year. It also highlights an increase in capital financed from current revenue which mainly affects HRA and may not be sustainable in future years given the impending budget reductions.
57. Despite significant general fund and HRA capital expenditure in the last two years totalling £131.816 million, the council's external debt (excluding PFI) has increased by only £60.753 million since 31 March 2011. This has been possible due to the utilisation of internal sources to fund capital expenditure. Consequently, short term investments and cash/ cash equivalents, as shown on the balance sheet, have decreased in 2012/13 due to the decision to utilise balances in lieu of borrowing.
58. By 31 March 2013 the council had incurred approximately 64% of the ten year £200 million general services capital investment programme to 2017/18. Going forward, the council have extended the existing capital expenditure programme to 2022/23 ( it is now a 15 year programme totalling £300 million) to reflect proposed revisions to the existing programme and to include projects deemed necessary to ensure the programme is aligned to overall strategic priorities.
59. The council has a £89.848 million housing investment programme covering 2013/14 to 2017/18. Capital expenditure requirements are identified through stock information, technical knowledge and life expectancy of the main components. The housing investment programme includes £22.605 million to cover the new build programme.

### Exhibit 6: Sources of finance for capital expenditure 2009/10 - 2012/13

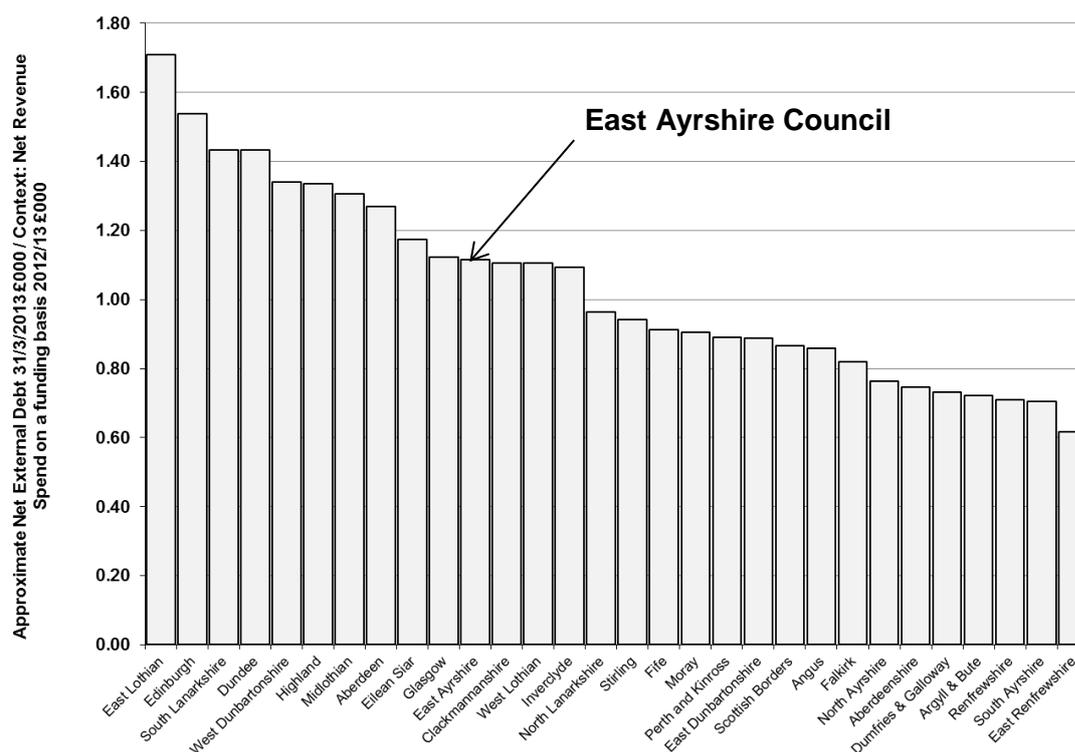


Source: East Ayrshire Council; Financial Statements;

## Treasury management

60. The council's level of borrowing in 2012/13 increased. Exhibit 7 shows that the council's net external debt as a proportion of net revenue spend is now just above the average, relative to other Scottish councils. At 31 March 2013 the council had total borrowings of £336.353 million (2011/12: £320.466 million). This included the PFI capital balance of £67.071 million. Also, during the same period the council's short term investments and cash/cash equivalents reduced from £43.592 million to £24.254 million.

### Exhibit 7: Net external debt as a proportion of net revenue spend



Source: Audit Scotland; Local Government in Scotland; Analytical Review 2013 (excluding Orkney & Shetland Councils)

61. The Prudential Code is a professional code of practice designed to support local authorities in taking capital investment decisions. The Code's objectives aim to ensure that, within a clear framework, the capital investment plans of local authorities are prudent and sustainable. The Executive Director of Finance & Corporate Support reviews the capital financing requirement on an annual basis and reports to the council on a series of prudential indicators as recommended by the Prudential Code. This helps the council to plan its capital investment prudently and to demonstrate to the public that it is doing so.
62. Interest rates on investments remain low, and the council received only £0.559 million in investment income this year (£0.944 million 2011/12). This is unlikely to improve in the near future. While long term borrowing rates are also low, the council has a significant proportion of its historical debt at fixed rates. The average loans pool rate at 31 March 2013 was 4.68% compared to 4.97% at 31 March 2012.
63. East Ayrshire Council had three deposits totalling £5 million with Icelandic banks when their banking system collapsed in October 2008. Currently, the recovery of these sums varies between each bank and is subject to the respective administration processes. Recovery of between 86p and 90p in the pound of the investments in one of the banks is expected; and between 81p and 86p in the pound in the other. The outstanding expected recovery of £0.489 million is included in the council's balance sheet at 31 March 2013.

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## Financial planning to support priority setting and cost reductions

### Transformation strategy

64. The council's transformation strategy is a significant review of the council's strategic and corporate direction, designed to address the financial challenges both economical and service demand led. The strategy, agreed by the council in June 2012, defines the council's three priorities to:
- Raise educational attainment and equip our young people for the world of work
  - Support older people live independently in the community
  - Promote town centre living.
65. The council recognises these changes require to be governed by a clear framework which is approved by the council. Ten strategic imperatives have been identified to ensure that the transformation strategy is in line with the council's vision of how it will look by 2017. These include:
- Outcomes Based
  - Services Built around People and Communities
  - Preventative Spend and Early Intervention
  - Equality
  - Sustainability
  - Alternative Delivery Models
  - Shared Services
  - Organisational Development
  - Asset Management
  - Engagement
66. These imperatives will be used to ensure spending and savings proposals can be tested against pre-agreed criteria and will ensure that proposals being presented for consideration by Members are in line with expectations.
67. A Transformation Board has been formed and comprises members of the corporate management team along with the Head of Finance and Head of HR. The Transformation Board is currently identifying and examining a range of areas where change may be proposed as part of the transformation strategy. The work of the board is brought forward to members as appropriate.
68. This is a significant business transformation process which will influence the shape and delivery of services within East Ayrshire over the medium to longer term. This approach illustrates the council's managed response to the future financial environment facing the council. We will continue to monitor the implementation and development of the strategy in future years.

## Asset management

69. The council has a strategic approach to capital planning, which is integrated with asset management planning. The council's asset management strategy formalises a framework of responsibility for the management of both operational and non-operational property assets.
70. As part of the transformation strategy, the council has recognised that property assets must be employed to maximum effect and surplus and underperforming assets disposed of. A total school occupancy target of 85% has been set and incorporated into the schools estate management plan. The Scottish Futures Trust target reduction of 25% of the national estate has been adopted by the council for other properties. Good progress has already been made in respect of office accommodation with large numbers of staff being consolidated into a smaller number of town centre offices.

## Procurement

71. The public procurement reform programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. In 2012 the council achieved a PCA score of 52%, which is classed as 'improved' performance and demonstrates a significant improvement on the 2011 score of 44%. It should also be noted that the council's score met the national PCA target of 50% by March 2013. The council's PCA score for 2013, assessed in October 2013, showed further improvement to 59%.
72. The council recognise that improvement in PCA scores, on their own, do not fully demonstrate improvements in procurement practices. The council, therefore, have a Procurement Transformation Programme. This combines actions identified within the 2012 Procurement Capability Assessment and Corporate Procurement Strategy 2011 - 2013 aimed at improving the standards and quality of procurement processes within the council to ensure they are more efficient, better planned, better managed and better delivered.
73. Progress has been reported to members regarding many of the identified workstreams. This includes enhanced technology to improved speed of processing, the training of 104 contract administrators in contract and supplier management and the establishment of nine Category Managers to oversee the strategic procurement activities. The current strategies cover around 82% of the annual council procurement spend (i.e. approximately £116 million).
74. Efficiencies derived through the procurement of goods and services deliver a significant part of the council's wider Transformational Strategy 2012 - 2017.

## Workforce reduction

75. Council employee numbers reduced during the year. A total of 74 employees left under exit package arrangements in 2012/13 (83 employees in 2011/12). This was partly due to the implementation of the Transformation Strategy which identified opportunities for a reduction in the numbers of staff as part of the redesign of service delivery models.

76. The reduction in employee numbers and the potential impact on council services is monitored by management via existing performance management and quality systems. The council has not identified any noticeable effect on the quality or availability of services from these reductions this year.

## Partnership working

77. The three Ayrshire Councils agreed to establish a Shared Services Joint Committee which will be known as The Ayrshire Councils' Joint Committee. This will assume responsibility for all specific, agreed shared council services in Ayrshire. An overarching Shared Services Minute of Agreement was approved in March 2013 by the three councils and the functions of the Joint Committee have been agreed. Joint arrangements include the out of hours social work service and tourism.
78. If a council has no involvement in a particular shared service, then it will have no involvement in the Joint Committee's governance of that service. For example only representatives of East and South Ayrshire Councils will participate in Joint Committee work in relation to the shared roads service.
79. East Ayrshire Council and South Ayrshire Council agreed to establish a shared roads service from 1 April 2014. This will be known as the Ayrshire Roads Alliance. This is forecast to save £8.634m over the first 10 years and will involve the transfer of approximately 90 roads staff from South Ayrshire Council to East Ayrshire Council under TUPE. Recruitment to the head of the joint roads service is currently progressing and the financing arrangements are being developed.
80. Other recent proposals include the following:
- joint working relationships with Dumfries & Galloway council regarding a Galloway & Southern Ayrshire Biosphere Partnership.
  - an Ayrshire-wide joint equipment service with North and South Ayrshire Councils and NHS Ayrshire and Arran to have a single service delivering the minor aids and adaptations to assist people to stay in their own home.
  - a joint social work sensory impairment service in partnership with North and South Ayrshire Councils and NHS Ayrshire and Arran as well as national and local voluntary services including RNIB and action for Hearing Loss.

## Outlook

### 2013/14 budget

81. In setting its 2013/14 budget the council agreed to freeze its council tax. The net revenue expenditure budget set for 2013/14 of £328.2 million shows a decrease of 4.1% on that set for 2012/13 (£342.4 million).
82. At the time of approving the budget, an initial funding gap of £11.877 million was identified. In order to fund this gap, budget holders identified £7.622 million savings, which are now

reflected in each service's base line budgets and the council approved the use of £4.254 million from the uncommitted general fund to meet the remaining balance.

83. At July 2013, the general fund budget is projected to underspend by £1.754 million<sup>1</sup> for 2013/14. This is mainly due to anticipated savings on waste disposal costs arising from new contractual arrangements and council wide management of vacancies. The Housing Revenue Account is forecast to overspend by £0.170 million due to an increased bad debt provision, possibly reflecting the early impact of changes to the welfare system. This is offset by increased occupancy rates, lower debt charges and savings from vacancy management.

### Financial forecasts beyond 2013/14

84. The current economic climate is resulting in significant pressures on the overall level of public sector spending. Continued reductions in funding for all local government bodies meaning that recurring savings in overall net expenditure will need to be found either from base budget allocations or from finite reserves. The use of reserves in the short term may stem the gap but will only push savings requirements into future years.
85. The council has previously forecast a funding gap between the cost of services and the available funding for future years as shown in Exhibit 8.

#### Exhibit 8: Indicative Budget Gap

	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m
Expenditure	328.2	334.3	342.8	353.5
Income	316.4	317.9	317.9	319.5
<b>Budget Gap</b>	<b>11.8</b>	<b>16.4</b>	<b>24.9</b>	<b>34.0</b>

Source: East Ayrshire Council, Transformation Strategy; 2012

86. The council has approved financial plans and is in the process of identifying savings to address the budget gaps. The transformation strategy will govern the council's best value review strategy over the next four years. This programme of transformational change aims to reduce budget gaps and to identify the £34.004 million of sustainable savings required. The council has identified opportunities for savings of £24.974 million leaving a funding gap of £9.030 million that requires to be identified over this period. This is reviewed regularly and the gap has now increased to around £12 million as a result to changes made to the UK budget to contracted out arrangements for national insurance contributions.
87. Continuing to deliver vital public services with a reducing budget will remain a significant challenge for the council.

**Refer to Action Point No. 3**

<sup>1</sup> East Ayrshire Performs 28 July 2013

# Governance and accountability

88. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
89. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance, including audit committees, in monitoring these arrangements.
90. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
- corporate governance and systems of internal control
  - the prevention and detection of fraud and irregularity
  - standards of conduct and arrangements for the prevention and detection of corruption.
91. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

92. The meetings of the Council, Cabinet, and Governance & Scrutiny Committees are well attended by members, executive directors and heads of service. The Governance & Scrutiny Committee operates in accordance with CIPFA's guidance, *Audit Committee Principles in Local Authorities in Scotland* in that it is not chaired by a member of the ruling administration.

### Member training

93. 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 into the Elected Member Development Strategy documentation.
94. The training and development needs of elected members are supported by the Elected Member Development Strategy. This programme, in partnership between Democratic Services and the Human Resource Service, delivered a range of events and activities throughout the year.

## Internal control

95. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by our assessment of risk and our wider understanding of the various business activities of the council.
96. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
97. As part of our audit work, we obtained assurance from our audit testing of the key controls within the council's financial systems. The controls within the payroll system were satisfactorily tested by internal audit. The results of our review of key controls were reported to management in September 2013. Areas where key control improvements could be made have been discussed with officers and have either already been implemented or will be implemented in due course.
98. The annual assurance report presented by the Chief Internal Auditor to the Governance & Scrutiny Committee concluded that reasonable assurance can be placed on the council's overall framework of controls for the year to 31 March 2013.
99. We are therefore satisfied that the council had appropriate systems of internal control in place during the course of the year.

## Internal audit

100. 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.
101. From April 2013, the Public Sector Internal Audit Standards will replace the existing Code of Practice for Internal Audit in Local Government 2006. The revised standards are the result of a collaboration between CIPFA and the Institute of Internal Auditors (IIA) which has led to the development of a set of internal audit standards applicable to all areas of the UK public sector. The Internal Audit Section within East Ayrshire Council has been proactive in considering and evaluating the impact on these standards on their established working practices. We will use the revised standards as the basis of our annual review of internal audit from 2013/14.

## Public Services Network

102. The council exchanges data with many other public bodies and in so doing makes use of Cabinet Office sponsored arrangements to share electronic data with other public sector bodies. For example, the council shares benefit information with the Department of Works and

Pensions while social work and education departments exchange information with the police, Criminal Justice Partnership and Children's' Hearings.

103. The Government Secure Intranet (GSI) is the mechanism that allows the council to share data and services. The council must re-apply annually to the Cabinet Office to be allowed to connect to the government secure network. This year the government is replacing GSI with the Public Services Network (PSN).
104. From November 2012 all applicants have to apply to connect to PSN which means complying with the stricter PSN Code of Connection. The new code of connection is challenging and uncompromising about security measures and aims to provide a substantial level of trust between organisations. Compliance requirements have been changed a number of times over the recent months and councils have had to change and adapt their processes and procedures to comply with these additional requirements.
105. The council's initial application was not successful and in common with most other councils, it continues to work with Cabinet Officer Assessors to progress the transition to PSN. If this is not resolved there could be a risk of interruption to the existing data-sharing arrangements.

**Refer to Action Point No. 4**

## Housing and council tax benefits performance

106. A review of the council's benefits service was carried out in early 2012 as part of Audit Scotland's housing benefit/council tax benefit risk assessment programme. The key objective of the risk assessment was to determine the extent to which the benefits service is meeting its obligations to achieve continuous improvement in all its activities. The review focussed on the service's business planning, performance reporting, how it meets the needs of users and the community, and the extent to which it is delivering outcomes.
107. At the time of our audit we noted that the council's speed of processing performance was declining and the performance information published by DWP for quarter two of 2011/12 showed the council's new claims performance as 30 days, which was below the Scottish average of 26 days, and in position 23 of 32 when compared to all other Scottish councils.
108. We issued a report in May 2012 to assist the benefits service to improve its delivery of outcomes and help meet the needs of the community and its customers. Our report identified 17 risks to continuous improvement. Following this, management submitted an action plan that sets out how the service will address the risks identified and the timescale for achieving this.
109. In December 2012 the council upgraded its system for the processing of benefits. This resulted in six weeks of downtime to convert to the new system, during which time a backlog of claims built up. To address this, an additional twelve processors were employed and the council also outsourced some work to agencies in an effort to clear the backlog.

110. As a result in the 4th quarter of 2012/13 the council took 66 days to process new claims and 45 days to process changes. This was well in excess of the Scottish average for the same period, which was 28 days and 10 days respectively.
111. The DWP are monitoring the position and requested an update for the first quarter of 2013/14. The council reported this as being 48 days for new claims and 33 days for changes. This shows an improvement on earlier performance but is still in excess of the Scottish average. The council has demonstrated further improvement in quarter two of 2013/14, when the average time to process new claims was 44 days and the time taken to process changes was 30 days.
112. Audit Scotland plan to carry out a further risk assessment of the housing benefits service. This will be commenced prior to the end of the 2013/14 financial year.

**Refer to Action Point No. 5**

## Prevention and detection of fraud and irregularities

113. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. The council has arrangements in place to address this including: an anti-fraud and corruption policy and response plan; a whistleblowing policy; codes of conduct for elected members and staff; and defined remits for committees.
114. The council's internal audit function has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud. The Chief Internal Auditor continues to discuss the Council's readiness against Serious and Organised Crime with Police Scotland who have been appreciative of the Council's efforts in this area.
115. Overall, we have concluded that the council's arrangements are adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely as fraudsters continue to devise highly sophisticated schemes for defrauding public sector organisations.

## NFI in Scotland

116. East Ayrshire Council participates in the National Fraud Initiative (NFI). The NFI uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
117. NFI allows public bodies to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
118. NFI is co-ordinated by a working group chaired by the Head of Finance although services are responsible for the initial investigation of data matches. The most recent data matching

exercise collected data from participants in October 2012 with matches identified for follow-up in February 2013.

119. The current NFI data exercise identified 4,351 data matches of which 879 are considered high quality and recommended for investigation. Good progress has been made in the investigation of these data matches with 309 high quality matches investigated to date. This has identified two cases of fraud.
120. The council completed a self-appraisal checklist which accompanied the national report on NFI. Our discussions with officers confirmed that the council is proactive in investigating data matches. Members of the Governance & Scrutiny Committee receive regular reports on NFI activity.
121. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

## **Standards of conduct and arrangements for the prevention and detection of corruption**

122. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.
123. The council has a Code of Conduct for both members and officers with specific sections for each group. This Code covers a number of areas including gifts and hospitality, expenses and allowances, use of council resources and tendering.
124. The council also has an Anti-Fraud Strategy which includes reference to all relevant policies and procedures aimed at preventing fraud and corruption. The policy was recently updated in June 2013 and reflects the strategic approach adopted by the council to combat potential fraud and corruption which may affect aspects of its operations.
125. We consider that these arrangements are satisfactory.

## **Welfare Reform**

126. The implementation of the Welfare Reform Act 2012 will continue to have an impact on the council. A questionnaire was issued by Audit Scotland in February 2013 to all 32 councils which aimed to assess their views on the significance of welfare reform and their preparedness for the upcoming changes. Results showed that all 32 councils are placing due importance on the upcoming changes and have already carried out a significant amount of work to plan for and mitigate against the impact of the changes arising from the welfare reform agenda.
127. East Ayrshire Council highlighted their concerns regarding reduced benefits payable to customers, the subsequent increase in the amount of rent to be collected and consequently an increase in the value of rent arrears. The council reported that in respect of the

accommodation size criteria, 2,055 council tenants will lose 14% of their housing benefit with 351 losing 25% of their housing benefit. This results in an estimated reduction in benefit of approximately £1.5 million per year, and a possible increase in rent arrears of approximately £0.500 million.

128. As at the end of period 3, rent arrears for current council tenants were £1.144 million, an increase of £0.477 million since the end of March 2013 (£0.677 million).

**Refer Action Point No 6**

129. Regular reports are prepared for Cabinet to keep members apprised of the risks arising from welfare reform to the delivery of housing services and homelessness functions. These reports also recognise the impact that this could have to the council in achieving its corporate priorities. Action taken to date to help mitigate this includes:
- The development of a financial inclusion strategy that is led by the multi agency/ partnership Financial Inclusion Group. This group focuses on improving partnership working to ensure citizens can access information, advice and support.
  - Assisting with debt management, access to other services including DWP and the Citizens Advice Bureau.
  - Additional staffing within the neighbourhood housing teams.

### Opencast mining in East Ayrshire

130. Two opencast coal mining operators with significant interests in East Ayrshire were placed into liquidation in April 2013 and May 2013 respectively. This has a number of serious implications for the council and its communities, including the impact on the landscape, the environment and the economy within East Ayrshire as well as any potential financial consequences for the council.
131. The council approved an independent review into the processes and procedures regarding the management, implementation, monitoring and review of the planning processes in relation to opencast coal operations. This includes a review of the circumstances that resulted in the failure by the Coal Operators to restore their opencast coal sites on an ongoing basis in accordance with the restoration plans approved as part of the planning consent. This review is due to report to the council by the end of December 2013.
132. The total value of bonds in place to address restoration work totals £28.656 million, however, it is unclear whether any or all of the bonds will be honoured. Independent mining engineers' report estimates the total notional cost of restoration as £161 million. The council has made it clear, however, that there is no intention that it will bear this cost or any sum of this nature.
133. The council has appealed the Court of Session Judicial Review which enabled the liquidator of the two coal companies (who are effectively the owner/occupier) to disclaim/abandon their ownership and responsibility for the sites which remain unsold. The council has taken legal advice regarding whether it has any legal obligation to carry out restoration work or address hazardous/statutory nuisance areas connected to the vacant mines. This advice has

confirmed that the council has no legal liability and that the owner/ occupier are legally responsible under all relevant acts. The council is not a landowner.

134. Regular reports have been presented to members to keep them fully briefed of developments as they unfold. This includes details of proposed steps to recovery, which include the facilitation of negotiations among stakeholders to develop alternative restoration plans and their funding.
135. There are other councils and government bodies who have been affected by this albeit not in some respects, to the same degree as East Ayrshire, reflecting the extent of the coalfield area. The complexity and uniqueness of the current situation means that it is not possible to give a definitive view on the likely outcome for the council. Any impact on the council's finances will have a consequent impact on the level of resources available for other council services.
136. In our opinion the council is taking appropriate steps to respond to the issues arising from the liquidation of the coal mining operators. We will continue to monitor developments and, in particular, review the financial implications and accounting treatment should the council incur costs in relation to this issue.

## Equality Act 2010

137. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. One of the key requirements of the legislation is for public bodies to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.
138. The council's Equality Mainstreaming Report 2013 - 2017 was developed in consultation with community planning and other public sector partners. This sets out the council's approach to mainstreaming equality and provides details of quality outcomes and employee information.
139. The council also has a number of initiatives to embed the quality agenda in its work. These include, for example:
  - An elected member has been allocated portfolio responsibilities for equalities.
  - A Corporate Equality Strategy Group has been established since 2006. This group has strategic responsibility for equality issues and for ensuring consistency is applied across the council with particular emphasis on the continuation of mainstreaming equalities.
  - Departmental equalities groups have been formed to ensure that equalities are considered at the service level.
  - An Equalities Forum meets twice a year which brings together a wide range of representatives with a vested interest in the subject.
  - East Ayrshire Community Planning Residents' Survey includes information on equality monitoring.

- A wide range of methods are utilised to develop and maintain awareness within the council, including briefings to Members and officers. Articles are available to all staff via the council intranet.
- The council's quality impact assessment process has now been refreshed as an Equality & Poverty Impact Assessment.
- A diversity calendar has been established which aligns events within the council to national equality events.

140. The council is proactive in promoting the equality agenda and is well placed to mainstream equality within everyday work.

## Outlook

### A new model for delivering leisure services

141. The council has registered a Scottish Charitable Incorporated Organisation with OSCR that will provide alternative service delivery models for elements of Leisure and Community Learning and Development Services (notably museums, libraries, some outdoor facilities, golf courses, Dean Castle, and the Palace Theatre). The new organisation was established on 1 July 2013 and a three year financial arrangement has been set up with the new entity. It is estimated that this will save £2.1 million over three years. We will consider the impact that this new arrangement has on the governance and financial reporting arrangements for the council in 2013/14.

### Health and Social Care Partnership

142. The Scottish Government published its Bill for the integration of adult health and social care on 28 May 2013 (entitled Public Bodies (Joint Working) (Scotland) Bill). It was agreed that the integration model for Ayrshire would be one of a Health and Social Care Partnership (HSCP) for each council area, with variations regarding the range of services directly managed by each partnership.

143. It is intended that the HSCP with NHS Ayrshire and Arran will be in place by April 2014 and fully operational by April 2015. An option appraisal was undertaken on the two possible models for integration, namely that of a delegation to a body corporate and of delegation between partners. The outcome of the option appraisal recommended adopting the body corporate model.

144. Proposals from the Scottish Government specify the minimum services which require to be integrated. In East Ayrshire, it is intended that older peoples' services will be included in the functions of the integrated body. A detailed option appraisal highlighting the strengths, weaknesses and opportunities arising from the inclusion of additional services has been carried out and the council have decided to include children's' services within the HSCP.

145. The Chief Officer of the Transition Integration Board is scheduled to be in place by the end of 2013. A key duty of the Board is to establish a shadow Health and Social Partnership for the

area and transition arrangements. It is also essential that financial and governance arrangement for the partnership are in place.

# Best Value, use of resources and performance

146. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors are also required to review and report on audited body's progress against its Best Value improvement plan.
147. Additionally, auditors of local government bodies have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
148. Furthermore, as part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
  - an examination of the implications of a particular topic or performance audit for an audited body at local level
  - a review of a body's response to national recommendations.
149. This section includes a commentary on the Best Value/ performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports and the council's response to these.

## Management arrangements

### Best Value

150. The arrangements for ensuring best value are co-ordinated by the Policy, Planning and Performance division. This service co-ordinates a variety of linked functions to support the management and reporting of key performance activities. The division has responsibility for co-ordinating arrangements for the production and review of the community plan, which is the key strategic document for the delivery of public services in East Ayrshire.
151. The division co-ordinates and participates in the identification and conduct of best value service reviews across all council departments. The service reviews are an integral part of the redesign of council services in recent years. These reviews have contributed to the council's financial efficiency savings whilst ensuring that services are capable of meeting the needs of users within available resources. The role performed by the Policy, Planning and Performance

Division is a key element in the achievement of the council's strategic objectives set out in its Transformation Strategy for 2012 - 2017.

### Self-evaluation arrangements

152. All services of East Ayrshire Council undertake annual EFQM assessments. There are two exceptions that use more service specific self-evaluation tools. The Education Service uses the Quality Management in Education 2 (QMIE2) framework to self-assess. Similarly the council has adopted the Care Inspectorate's Self Evaluation Model in Social Services. Subsequent to the assessment each service is required to create an improvement action plan for implementation during the following year.
153. The council has carried out three council-wide strategic self-assessment of performance in recent years. The most recent of these was completed in 2012. The ensuing report demonstrated that the council had scored better in all areas assessed compared to the previous council wide review in 2008.
154. The report also highlighted a number of areas where further progress could be made, including the need for the council to consider whether or not its overarching vision as detailed in the 2011- 2014 Single Outcome Agreement and Community Plan 2011- 2015 remains relevant and fit for purpose. Following this, an action plan was agreed and progress has been reported to members.

### Performance management

155. The Policy, Planning and Performance division co-ordinates the council wide performance management system and reporting arrangements. The council uses an electronic performance management system (EPMS) to monitor performance over all services which feeds the corporate management team's assessment of performance and risk. This is used across the council for the monitoring of performance against local and national indicators and plays a key role in measuring the council's success against its corporate plans.
156. The system currently holds around 600 indicators. Scorecards for all executive directors and heads of service are used. The scorecards, which can be accessed electronically at any time, are updated on a monthly basis. The council's periodic performance reporting "East Ayrshire Performs" is regularly reported to Cabinet and the Governance and Scrutiny committee. This contains selected performance indicators as well as the periodic monitoring information for revenue and capital budgets, treasury management, health and safety and the corporate risk register.

### Community/user engagement

157. The council has progressed its "Transforming our relationship with the communities we serve" which underpins the refreshed approach that the council adopted as part of its Transformation Strategy. This provides a council wide response to a number of national policies and strategies, including "The development of Getting It Right for Every Child"; "Strategic Guidance for Community Learning and Development"; "Re-shaping Care for Older People"

and "The Road to Recovery - A New Approach to Tackling Scotland's Drug Problem". In addition it addresses many local challenges facing the council arising from uncertainties on future levels of funding, changing demographics, high levels of health inequalities, poverty and deprivation.

158. The aim of the strategy is that it "will ensure that there is focus on delivering services **with** rather than **for** communities and recognising and identifying the knowledge, skills and experience which local people have and which can be channelled into positive, collective community action"<sup>2</sup>.
159. An example of this strategy in action is the recent approval by cabinet of the Community Asset Transfer Policy. The essence of this policy is to facilitate the transfer of the responsibility for an asset from the Council to a voluntary or community organisation through either a transfer of management responsibility, short or long term lease or through the transfer of outright ownership. This is seen as an enabling policy, promoting the sustainability of community facilities within local communities.
160. Traditional and well established methods of engagement continue to be considered by the council. This includes the council's annual budget consultation, which is well developed. Consultation for the 2012/13 budget took place with a range of representative groups, including tenants and residents associations, leisure groups, community council's youth groups, business representatives, parent and equalities groups.
161. Overall, we consider that the council has robust arrangements in place for monitoring its own performance and the quality of the services it provides.

## Overview of performance in 2012/13

### East Ayrshire Council performance measurement outcomes

162. East Ayrshire Council publishes an annual performance report. This includes performance in relation to the Statutory Performance Indicators (SPIs) as well as a range of indicators and activity to demonstrate performance in relation to the Community Planning/Single Outcome Agreement Annual Performance. The performance outcomes have been presented to members and the annual report will be published on the council's website.
163. The council reported 66 statutory performance indicators in 2012/13, comprising 25 national performance indicators and 41 local indicators. A total of 134 performance measures related to these indicators were reported this year. Compared to performance in 2011/12, the council reported that 74 (55%) of performance measures demonstrated improvement, 44 (33%) demonstrated improvement required and 16 (12%) demonstrated broadly similar performance.
164. 117 indicators measuring performance against the 16 National Outcomes contained in the consolidated Community Planning/Single Outcome Agreement Annual Performance Report 2012/13 were reported. Of the 105 indicators reported this year, 80 (approximately 76%)

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<sup>2</sup> Transforming our relationships with the communities we serve strategy - Proposed community Asset transfer policy, East Ayrshire Council, October 2012.

indicators demonstrated improvement compared to the 2009/10 baseline position, 20 (19%) demonstrated improvement required, and 5 indicators (5%) demonstrated broadly similar performance. 12 indicators were not published where there was no comparable data or the information is no longer collected.

165. Overall the council continues to provide a steady level of performance in most areas with a number of local indicators demonstrating a positive trend or remaining at a comparative level to previous years. Proposals to address areas which, from a council perspective, require improvement were discussed at an elected members seminar in August 2013. Remedial action to address these areas was considered by the CPP Board in October 2013 and, subsequently, the finalised Single Outcome Agreement Improvement Plan will be presented to the Council's Governance and Scrutiny Committee.

### Statutory performance indicators

166. In 2012/13, a total of 25 SPIs were reported and these indicate a mostly consistent or slightly improving picture of performance.

167. A total of 53 performance measures are covered by these 25 SPIs in 2012/13. Compared to performance in 2011/12, progress is reported as follows:

- Improving performance: 65% (33 performance measures)
- Areas for improvement: 31% (16 performance measures)
- Maintaining performance: 4% (2 performance measures).

Two performance measures in relation to planning applications were revised in 2012/13 and therefore data are not comparable with the previous year. None the indicators were identified as unreliable.

168. Some of the measures of performance in 2012/13 which reported improved performance include:

- Assets - improvements were seen in both the proportion of operational accommodation that is in a satisfactory condition - 97.5% (94.3% in 2011/12) and the proportion of operational accommodation that is suitable for its current use - 82.3% (78.9% in 2011/12).
- Council housing standards - Proportion of the council's housing stock which meets the Scottish Housing Quality Standard - 86.1% (78.1% in 2011/12). There has been a 47% improvement to this SPI since 2009/10. (58.4% council dwellings met SHQS in 2009/10.)
- Invoices - payment of invoices by the council within 30 days has improved consistently over the past four years. In 2012/13, 90.6% (88.1% in 2011/12) of invoices were settled within 30 days compared to 80.7% in 2009/10. This represents a 12% increase in efficiency in the payment process over the period and demonstrates the council's ongoing commitment to supporting businesses and economic development.

- Trading Standards - the overall percentage of consumer complaints completed within 14 days improved from 67.7% in 2011/12 to 75.7% in 2012/13. This is despite the overall number of complaints received from both consumer and business increasing by 35%.

**169.** Declining indicators included :

- Tenant arrears - Arrears are worsening over the past year - current arrears as a proportion of the net amount of rent due in the year has increased from 2.8% in 2011/12 to 4.7%. Similar increases in arrears have also been identified in longer term rent with the number of tenants owing more than 13 weeks rent at the year end (greater than £250) increased from 1.4% in 2011/12 to 2.6% in 2012/13. Despite the increases in relation to rent arrears, East Ayrshire Council continues to maintain top quartile performance in 2012/13.

**170.** As the major aspects of welfare reform are implemented between 2013 and 2017, this clearly presents significant issues for all local authorities, which could impact on tenant arrears. The abolition of Housing Benefit and the introduction of Universal Credit together with a new Council Tax Benefit scheme will have consequences not only for council tenants but for those with social landlords and in the private rented sector in respect of housing policies, homeless strategies and discretionary housing payments. The council continues to work with a range of public sector and community and voluntary sector organisations to mitigate the effects of welfare reform on individuals and in communities.

## Local performance reporting

### Scotland's Public Finances: addressing the challenges a targeted follow-up report.

**171.** 'Scotland's public finances: Addressing the challenges', published in August 2011 is a national Audit Scotland report which provides an overview on the scale of budget cuts facing the public sector and the response of public bodies to this. We carried out follow-up work during the year to assess how East Ayrshire Council is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability.

**172.** Our report highlighted a number of good practices including:

- A comprehensive package of budget papers has been produced which are aligned to its Transformation Strategy 2012-2017. This is designed to ensure that council services can remain financially sustainable in the current financial climate.
- A thorough process of consultation and engagement with members of the public, employees and key stakeholders has been carried out.
- A programme of extensive service reviews has been undertaken and the council participates in benchmarking in order to identify areas for improvement and determine where costs savings could be made.
- The council have identified alternative means of delivery for key services.
- The council has a track record of meeting its efficiency saving targets.

173. The following points were identified for the council to continue to monitor:

- The council's Transformation Strategy identified a projected funding gap of £34.004 million over the period 2013/14 to 2016/17. This gap is based on various assumptions and projections that may alter, perhaps significantly, as events unfold.
- The council has identified £24.974 million of savings to address the projected budget gap. However this leaves £9.030 million which still requires to be identified. This gap has subsequently increased to around £12 million due to changes to contracted out arrangements for national insurance contributions. As assumptions and projections become clearer this funding gap may increase further. The use of uncommitted general fund balance to help address this gap in 2013/14 is unsustainable over the longer term.
- The council carried out an impact assessment on each of the planned efficiency savings in the Transformation Strategy. This identified instances where the proposed saving will have an impact on service delivery and could increase pressure on existing staff.

174. We have agreed an action plan of improvements with management that will address the issues outlined above. We will monitor the council's progress in implementing the action plan.

## National performance reporting

175. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland reports of direct interest in 2012/13 are outlined in Exhibit 9 below.

### Exhibit 9: A selection of National performance reports 2012/13

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Responding to challenge and change - An overview of local government in Scotland 2013</li> <li>• Improving community planning in Scotland</li> <li>• Major capital investment in councils.</li> </ul> | <ul style="list-style-type: none"> <li>• Protecting consumers</li> <li>• Using cost information to improve performance - are you getting it right?</li> <li>• Health inequalities in Scotland</li> <li>• Reducing reoffending in Scotland.</li> </ul> |
|--|---|

Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

176. Audit Scotland encourages local authorities to review national reports, consider key findings and assess local, performance against them and, identify local improvement actions where appropriate. The national reports are accompanied by checklist which officers can use to carry out a self-assessment of performance. The expectation is that Audit Scotland's performance reports are presented to an audit or scrutiny committee for members to consider and hold management to account for local performance.

177. From our discussions with a management and a review of council minutes we are aware that officers prepare a summary and position statement on each of the national reports produced by Audit Scotland and that a formal arrangement in place for reports to be scrutinised by the Governance & Scrutiny. This is in line with good practice.

## Assurance and improvement plan update 2013-16

178. The Local Area Network (LAN) of scrutiny partners for the council, conducted a Shared Risk Assessment (SRA), and produced an Assurance and Improvement Plan (AIP) covering the period 2013 to 2016. This was published on Audit Scotland's website and was submitted to the Governance & Scrutiny Committee on 23 May 2013 for information and consideration by members.
179. The AIP did not identify any areas requiring specific scrutiny work by the LAN. The AIP did, however, draw attention to the Scottish Housing Regulator (SHR) requirement for further information to support management of voids, sustainability of tenancies, and verification of SHQS figures. The SHR plans to meet with the council later in 2013/14 to agree the scope of a self assessment inquiry which will address each of these areas. In addition, a forthcoming housing and council tax benefits risk assessment is scheduled to commence in January 2014. This will review information regarding how the benefits service is performing and will consider the impact of welfare reform on the processing and payment of benefits.

## Outlook

180. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth the Accounts Commission has led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by Community Planning Partnerships (CPP). A number of councils will receive a CPP audit in 2013/14. These include Falkirk, Moray, West Lothian, Orkney and Glasgow City. There is no specific timetable yet for a CPP audit in East Ayrshire Council.

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to G&S Committee
Review of the Adequacy of Internal Audit	19 February 2013	25 March 2013
Annual Audit Plan	22 February 2013	25 March 2013
Assurance and Improvement Plan	21 March 2013	23 May 2013
Internal controls management letter	October 2013	o/s
Scotland's Public Finances - local follow-up audit	23 May 2013	20 June 2013
Report on financial statements to those charged with governance	26 September 2013	26 September 2013
Audit opinion on the 2012/13 financial statements	26 September 2013	26 September 2013
Audit opinion on the 2012/13 Whole of Government accounts consolidation pack	By 26 October 2013	n/a
Report to Members on the 2012/13 audit	By 30 October 2013	5 December 2013

# Appendix B: action plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	26	<p><b>Equal Pay Provision</b></p> <p>The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases.</p> <p><b><i>Risk: the ultimate cost to the council is significantly different from that anticipated.</i></b></p>	<p>The equal pay provision will continue to be reviewed regularly as part of the council's established risk management arrangements.</p>	Head of Human Resources	30 June 2014
2	31	<p><b>Charities Accounts</b></p> <p>Separate financial statements and an audit are required, from 2013/14, for registered charities where the council is the sole trustee.</p> <p><b><i>Risk: the council may not comply with OSCR's financial reporting and audit requirements for 2013/14.</i></b></p>	<p>The council are in the process of complying with the OSCR timetable and are looking at ways, including using the 'connected provision' approach to reduce the number of trusts to a manageable level.</p>	Head of Democratic Services	31 March 2014
3	87	<p><b>Financial Forecasts Beyond 2012/13</b></p> <p>Continuing to deliver vital public services with a reducing budget will be a significant challenge for the council. The council identified a funding gap of £34.004 million for the</p>	<p>The transformation strategy 2012- 2017, sets out a range of work-streams designed to address the estimated budget gap for the period to 2016/17. This is reviewed regularly.</p>	Head of Finance	December 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>period 2012 – 2017 and savings of £24.974 million to address this. The net funding gap of £9.030 million has subsequently increased to around £12 million due to changes to contracted out arrangements for national insurance contributions.</p> <p><b><i>Risk: There is a risk to the sustainability of the council's services.</i></b></p>			
4	105	<p><b>Public Services Network (PSN) - Code of Connection</b></p> <p>The council has yet to have its application to connect to PSN approved.</p> <p><b><i>Risk: the council may not be able to share or access data held by other public sector bodies.</i></b></p>	The Council continues to work closely with the UK Cabinet Office to ensure that the new requirements can be complied with.	Head of Corporate Infrastructure	December 2013
5	112	<p><b>Housing and council tax benefits performance</b></p> <p>The council have poor performance regarding the time taken to process new claims and changes.</p> <p><b><i>Risk: the benefits service may not meet user requirements and there could be an impact on rent collection levels.</i></b></p>	Additional staffing resources are now in place and changes to procedures introduced to improve performance. This will be kept under close review.	Head of Finance	March 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6	128	<p><b>Welfare reform</b></p> <p>The councils rent arrears are continuing to rise and this is likely to be exacerbated by future changes to welfare reform.</p> <p><b><i>Risk: the council may not be able to prevent rent arrears from increasing further leading to a significant loss of income.</i></b></p>	<p>Regular updates on Welfare Reform will continue to be presented to Cabinet and to the Governance and Scrutiny Committee. Housing Officers will provide support and advice to tenants who have difficulty paying rent due. Recent announcements by the Scottish Government to increase funding for Discretionary Housing Payments will assist some affected tenants.</p>	Head of Housing and Environment Services	March 2014