

North Ayrshire Council

Report to Members and the Controller of Audit
on the 2008/09 Audit

October 2009



 AUDIT SCOTLAND



North Ayrshire Council

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on the 2008/09 Audit**

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Key messages

Scotland's economy is in recession and the public sector is coming under the greatest financial pressure since devolution ten years ago. It will be very challenging to sustain current levels of public services and meet new demands when resources are tight.

During 2008/09 we have looked at the key strategic and financial risks facing North Ayrshire Council ('the council'). We have audited the financial statements and reviewed the council's financial position, governance and performance management arrangements. This report sets out our main findings, summarising key outcomes from the 2008/09 audit and the outlook for the period ahead.

Financial statements

We have given an unqualified opinion that the financial statements of North Ayrshire Council for 2008/09 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 in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

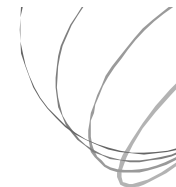
Financial position

The council's net general fund balance reduced by £0.8 million in 2008/09. This resulted in an overall unallocated balance of £9.5 million and balances on earmarked funds of £6.6 million, producing an overall general fund balance of £16.1 million at 31 March 2009.

While the council has an accumulated surplus, financial pressures have required them to make efficiencies and savings which will continue into future years. In 2009/10 the council's budget reflected the need for £8.7 million in efficiencies and savings. It is forecast that efficiency savings in excess of 10%, approximately £40 million, will be required over the next 3 years from 2010/11, largely as a result of the economic climate, constrained government support and increased service demand.

Governance

The council's governance arrangements are generally good, however there are a number of areas in which improvement could be made. The council need to consider the wider risks relating to partnership working, and need to ensure members are provided with relevant training and development opportunities. The council is also planning a review of the services it provides and how these services are delivered and funded. This change programme will set a vision for the council for the next five years.



Performance

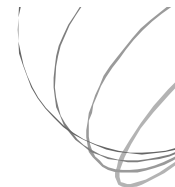
The council has purchased the Covalent performance management system, and plan to migrate performance reporting from the council business plan and single outcome agreement to the new system by the end of the 2009/10 financial year. The new system includes a web publishing module and will link to the 'North Ayrshire Performs' section of the council website, providing performance information to service users. The effectiveness and impact of the new system is to be assessed once fully implemented.

Outlook

The council continues to face significant challenge in matching expenditure commitments to available resources. Non-recurrent capital receipts which provided some respite in prior years are less likely to arise in future. The council's corporate management team have recognised this with planned capital expenditure being deferred at an early stage.

As with all other councils, North Ayrshire Council remains exposed to financial risk from the economic climate. The council had £15m deposited in two Icelandic banks, Glitnir and Landsbanki, when the countries banking system collapsed in October 2008. The impairment loss for the two deposits is currently estimated to be £2.0 million. However, failure to secure preferential creditor status would have a significant impact upon the recovery of the council's deposits, and would result in a larger impairment having to be recognised in the council's accounts. The council continues to work with the Scottish and UK governments to maximise the recovery of these deposits.

The co-operation and assistance given to us by North Ayrshire Council members, officers and staff is gratefully acknowledged.



Introduction

1. This report is the summary of our findings arising from the 2008/09 audit of North Ayrshire Council ('the council') and other relevant work carried out by Audit Scotland. A number of detailed reports have already been issued in the course of the year in which we highlight the risks facing the council (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 new corporate assessment framework, which is being developed for best value 2 (BV2) and for joint scrutiny work. The framework is founded on the characteristics of a best value council using evidence gathered in the course of the audit, supplemented by other work by Audit Scotland and other scrutiny bodies.
3. It must be stressed that our comments are made on the basis of information made available in the course of the annual audit. We do not offer an overall best value judgement because we do not have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time and for that to form the basis of a proportionate best value audit. This report is the first step towards that goal.
4. BV2 represents a new approach which will involve close co-operation between local audit teams and best value auditors as well as other inspectorates, for whom the Accounts Commission is now serving as scrutiny 'gate keeper'.
5. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:
 - the impact of the race equality duty on council services
 - improving energy efficiency
 - asset management in councils
 - overview of drug and alcohol services
 - mental health overview
 - civil contingencies planning
 - improving public sector purchasing.



6. We mention the key findings from some of these reports and the implications for the council in various sections of this report. Full copies of the studies can be obtained from Audit Scotland's website (www.audit-scotland.gov.uk).
7. 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 are expecting 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.
8. This report is addressed to members and the controller of audit. It will be published on our website after consideration by the council. The controller of audit may use the information in this report for her annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the local government and communities committee of the Scottish Parliament.



Financial statements

Introduction

9. In this section we summarise key outcomes from our audit of the council's financial statements for 2008/09, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

Audit opinion

10. We have given an unqualified opinion that the financial statements of North Ayrshire Council ('the council') for 2008/09 provide 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 in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
11. We were satisfied with disclosures made in the statement on the system of internal financial control (SSIFC) and the adequacy of the process put in place by the council to obtain assurances.
12. On 12 August 2009 we received an objection to the accounts under section 101(2) (a) of the Local Government (Scotland) Act 1973. The objection was from one elector who has raised a number of issues, the majority of which were raised in previous years. Officers have advised us that their view regarding the issues raised in previous years has not changed. The objector has met with us in accordance with statutory guidelines and we have no significant issues to report at this time.
13. The council's unaudited financial statements were submitted to the controller of audit prior to the deadline of 30 June 2009. Final accounts preparation processes and working papers were satisfactory, which enabled the audit to progress smoothly. All officers in the finance department were knowledgeable and helpful throughout the audit process.
14. Audited accounts were finalised prior to the target date of 30 September 2009 and are now available for presentation to the council and publication. 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.



Accounting issues

15. 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'). No major changes were introduced by the 2008 SORP with the exception of amended disclosures for pension costs. We were satisfied that the council prepared the accounts in accordance with the 2008 SORP.
16. The council adjusted the financial statements to reflect our audit findings. There were no unadjusted errors. Significant accounting issues were reported to the assistant chief executive (finance) and the scrutiny committee via our report issued in line with the international standard on auditing 260 (ISA 260) – communication of audit matters with those charged with governance. These are summarised below.

Financial position

17. The council's net general fund balance reduced by £0.8 million in 2008/09. This resulted in an overall unallocated balance of £9.5 million and balances on earmarked funds of £6.6 million, producing an overall general fund balance of £16.1 million at 31 March 2009. While the council has an accumulated surplus, financial pressures have required them to make efficiencies and savings which will continue into future years.
18. The level of surplus not earmarked to any specific purpose is 2.75% of the net budget and falls slightly below the council's target of 3%. The council will review its level of balances as part of the 2010/11 budget process.

Risk area 1

Removal of ring fenced funding

19. The introduction of the Concordat with the Scottish government resulted in £41.2 million of previously ring-fenced grants being consolidated within the revenue support grant in 2008/09. This change may limit the comparability of income and expenditure with the previous year.

Icelandic banks

20. The council had deposits of £10m with Glitnir and £5m with Landsbanki when the Icelandic banking system collapsed in October 2008. All monies within the various Icelandic banks are subject to administration and receivership processes administered under Icelandic law. Recovery of the council's funds is subject to various risks including confirmation that the council's deposits are preferential creditors. This is likely to be tested through the Icelandic courts. There are also exchange rate risks associated with the value of assets recovered by the resolution committee.

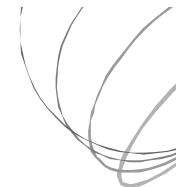


21. The council used the most recent estimate from the Icelandic banks' resolution committee in assuming a recovery rate on the priority claims of 83% from Landsbanki and 100% from Glitnir. The council has also taken a prudent view and assumed that no interest will be received in respect of either deposit.
22. The council has taken advantage of statutory guidance from the Scottish government to defer the impact of the loss in the 2008/09 accounts, and a sum of £0.4 million has been transferred to the financial instruments adjustment account. It is assumed from estimated repayment tables available that repayment will be in instalments from March 2010 until December 2012.
23. The impairment loss for the two deposits is currently estimated to be £2.0 million. However, failure to secure preferential creditor status would have a significant impact upon the recovery of the council's deposits, and would result in a larger impairment having to be recognised in the council's accounts. A more detailed summary of the timeline in relation to these deposits, and actions taken by the council to address related risks, is included in the 'treasury management' section of this report (page 17).

Risk area 2

Group accounts

24. Within the group financial statements, Strathclyde Police Joint Board and Strathclyde Fire and Rescue are consolidated as associates. Proper accounting practice requires a charge to be made to the income and expenditure account for pension costs based on FRS 17 retirement benefits. The Local Government Pension Reserve Fund (Scotland) Regulations 2003 provides the statutory basis for removing the FRS 17 charge from the general fund so that only the actual pension payments are charged. However, this legislation does not cover the new pension schemes established with effect from 6 April 2006, by the Police Pensions (Scotland) Regulations 2007 and the Fire-fighters Pension Scheme (Scotland) Order 2007.
25. The auditors of Strathclyde Police Joint Board qualified their audit opinion in relation to this issue, while Strathclyde Fire and Rescue agreed to make the necessary adjustments of £2.4 million to their financial statements. The council agreed to include a disclosure note within the group accounts concerning the qualification in the audit certificate of Strathclyde Police Joint Board, and to make the required adjustments of £0.2 million to the group accounts to reflect the council's share of Strathclyde Fire and Rescue's adjustment.



Statutory trading accounts

26. CIPFA's '*A best value approach to trading accounts*' advises that local authorities should set parameters in respect of both financial and non-financial criteria when determining the significance of trading operations. The guidance suggests that non-financial criteria should include such factors as the importance of the trading account to demonstrating service improvement and achievement of targets; the exposure to the risk of service or reputational loss in carrying out the operation; and the service areas likely to be of interest to its key stakeholders and their needs.
27. A review of trading accounts was submitted to the Executive of North Ayrshire Council in May 2009. This assessed the size of turnover relative to the council's net revenue budget as the sole factor in determining the significance of trading operations.
28. The review concluded that only building services turnover was above the 3% provision level, with services previously provided as statutory trading operations including catering, roads and transport falling below the revised test of significance. The review presented to members did not detail non-financial factors which had been considered. We will continue to review and monitor developments in this area.

Year-end cut-off testing

29. Our review of invoices and credit notes around the year end identified a number of instances where it was not possible to confirm that items had been posted to the correct accounting period. Where it was possible to identify the accounting period, our testing did not identify any material errors. While we were satisfied that there was no material misstatement, this is an ongoing issue and the council need to take steps to ensure that all invoices and credit notes clearly identify the period to which the associated goods or services relate.
30. We will undertake additional testing in this area as part of the 2009/10 audit. In the case of creditors, the council is in the process of implementing PECOS (purchase to pay software) and we understand that this should resolve the issue when fully utilised.

Risk area 3

Audit testing

31. As part of our work, we took assurance from key controls within the council's financial systems. The results of our review of key controls were reported to the council in our internal controls management report in July 2009. With the exception of the following, all key internal controls identified were found to be working in a satisfactory manner. None of these weaknesses had a significant impact on the accuracy and completeness of the financial statements:



- there is no physical or electronic evidence of formal review and agreement by service officers within budget monitoring reports
 - testing of cash & bank highlighted that, due to significant staff absences during the year, the same member of staff had been involved in both cash handling and the preparation of bank reconciliations. The council agreed to review its segregation of duties in light of any future absences
 - due to limited resources payroll staff often run reports and check their own input, with no independent verification
 - procedures for documenting receipt of a goods received note and invoice in creditors, and matching these to authorised purchase orders, vary across departments. In some cases there was no evidence that a goods received note had been received prior to payment being processed. The council has advised us that the introduction of PECOS will help to alleviate this issue
 - bonds held by the council are not input to the treasury management Logotech system, and are therefore not automatically fed into cashflow reporting. There is a risk that cashflow reporting statements may be incomplete, and that there is inefficient use of staff time as bond investments are input manually to the reporting system.
32. In arriving at these conclusions on key controls we relied on the work of internal audit. This included identification of controls considered 'key' within each system and an integrated and complementary process of testing these controls. We continue to work together to improve this process further and to avoid any potential duplication of audit resource. In each case we considered the impact of the identified weaknesses in planning our work on the financial statements.

Prevention and detection of fraud and irregularities

33. At a 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 whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant committees.

NFI in Scotland

34. 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. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£40 million to 2008). If fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.



35. The most recent data matching exercise was carried out in October 2008 and national findings will be published by Audit Scotland in May 2010.
36. North Ayrshire Council participated in the 2008/09 exercise and has made savings as a result. To the middle of September 2009, the council reports that 4 frauds and 40 errors have been discovered giving a total saving of £17k. This exercise continues and further savings are expected.
37. In addition, two additional series of matches were offered to the council and were considered as part of the 2006/07 exercise but are reported as part of the 2008/09 savings. These consisted, firstly, of matching those receiving a single person discount (SPD) on their council tax against the electoral roll and, secondly, those people who are approaching 18 years of age ('the rising 18s') and potentially becoming liable to council tax.
38. Due to difficulties experienced by a number of councils, the exercise was not able to be started in the expected timescale. Work on the SPD matches has yet to commence but a good start has been made to the rising 18s and this has generated the bulk of savings made by the council.
39. While the council has made a start on the 2008/09 exercise, a considerable number of matches have yet to be addressed. The council has assessed the risk of each set of matches and is concentrating on those that are high risk. Extra resources are being utilised to target the high priority matches with both benefit fraud and internal audit staff involved.
40. It is the council's intention to take part in a further tranche of NFI matches to be run during the current financial year.

Group accounts

41. The diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to give a true and fair view of a council's income and expenditure.

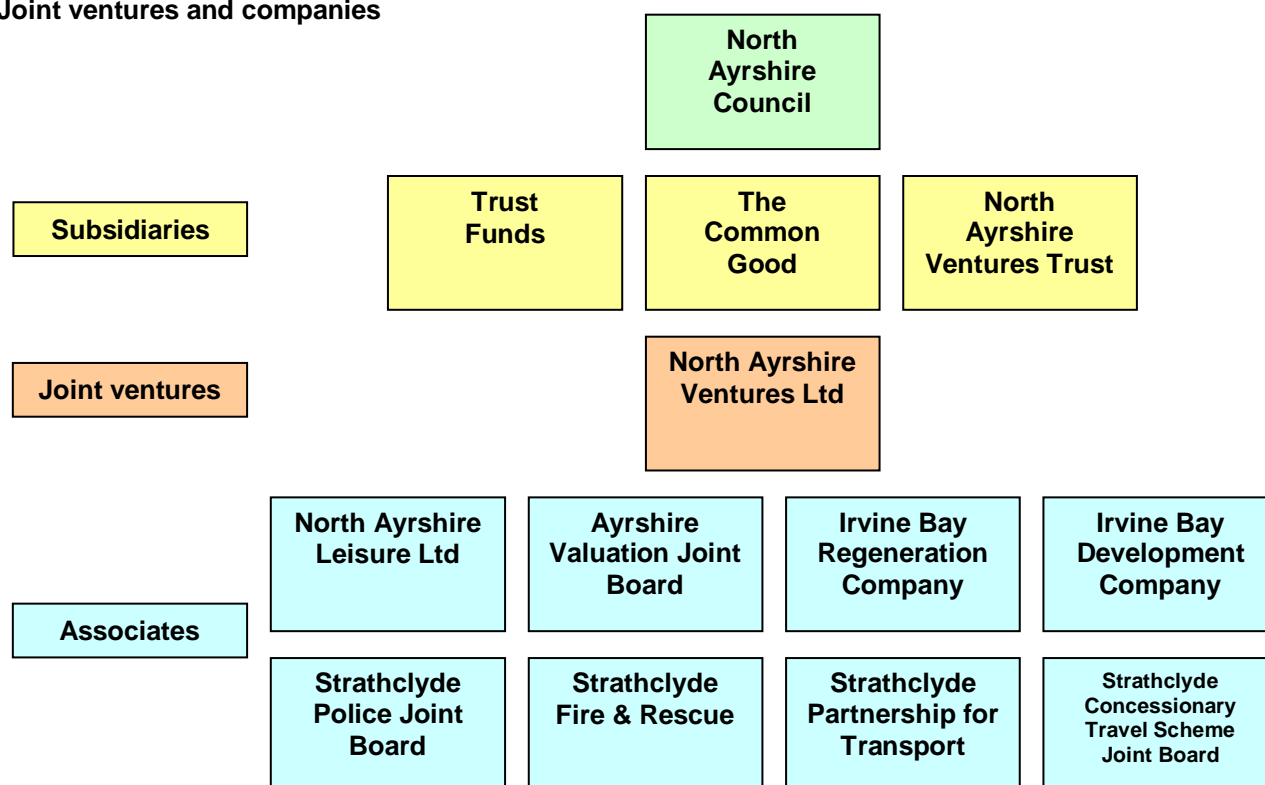
Joint ventures and companies

42. The council has interests in three subsidiaries, one joint venture and eight associates. These bodies have been included in group accounts in accordance with the SORP (Exhibit 1).



Exhibit 1

Joint ventures and companies



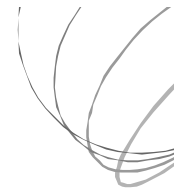
43. We would like to highlight the following:

- all bodies within the group received unqualified audit opinions from their external auditors with the exception of Strathclyde Police Joint Board (page 7)
- in accordance with recommended accounting practice, key policies for component bodies such as pension costs and the valuation of fixed assets at market value have been aligned with the council.

Trust funds

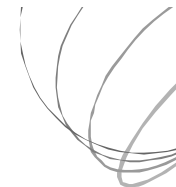
44. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred the date of full implementation until 2010/11. This means that reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers.

45. In a letter dated 15 April 2009, OSCR rated the council 'average' in terms of information submitted for 2007/08. Of the 30 local authorities with charities, 10 were rated above average, 13 were rated as average and 7 were below average or poor.



Common good fund

46. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (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. A separate account for the common good is disclosed in the council's financial statements.
47. The guidance note says that local authorities should take reasonable steps to ensure that common good fixed asset registers support the assets shown in the common good balance sheet. An asset register has been prepared by the council that agrees with the values in the common good balance sheet at this time. When any other asset is identified for disposal, the title deeds are checked to see if they indicate whether or not it is a common good asset. The council's view is that reviewing the title deeds at point of sale represents 'reasonable steps' for maintaining the fixed asset register. A title deeds search of all council assets would be time consuming and prohibitively expensive, and therefore may not represent best value to the council.
48. As part of the 2008/09 audit a review was undertaken of arrangements for the common good funds at the council. The findings concluded that generally officers are complying with guidance and expected good practice, and that reasonable progress is being made. The following issues were highlighted, however, where arrangements could be improved.
- **Asset management (ARMS) system:** The ARMS asset management system estates model is live and has all identified common good assets (buildings and land) recorded in it. However, there is a risk that the common good funds have unidentified assets still to be confirmed. This increases the risk that common good assets are not being recognised or fully disclosed, and that potential benefits are not being realised.
 - **Alternatives to disposal:** The standing orders for contracts apply to common good asset disposals, however there is no requirement for consideration of alternatives to disposal, for example leasing. The council is currently developing guidance on the layout and content of reports to members to ensure that reports outline the options for decisions, including alternative courses of action.
 - **Moveable assets:** There are currently no moveable assets identified in the common good funds, although no attempt has been made to identify a list. The council has cited resource implications in engaging council staff or other professionals to identify moveable assets, but will take a proportionate approach and is willing to consider evidence produced on moveable assets which may have common good origins.
 - **Performance reporting:** Common good transactions and the performance and benefits arising from the funds are not part of the council's wider performance management and public reporting arrangements. There is consequently a lack of transparency for members and the public regarding the operation and activities of the common good.



49. The council has agreed actions to address each of the above issues, and we will be conducting follow-up work during 2009/10 to identify progress made.

Risk area 4

Pension fund

50. North Ayrshire Council is a member of the Strathclyde pension fund. A full actuarial valuation was undertaken as at 31 March 2008 and the actuary's final report was presented in early 2009. This recommends the employer contribution rates required for 2009/10 to 2011/12 in order to ensure that sufficient funds are available to pay future benefits. As at 31 March 2008 the pension fund had a funding level of 95% and the actuary recommended for the council an employer contribution rate of 17.3% of payroll costs for 2009/10, rising to 18.2% in 2010/11 and 19.3% in 2011/12. The aim is to bring the funding level back to 100% over an eleven year period. The next full actuarial valuation will be as at 31 March 2011.

Risk area 1

Legality

51. Through our planned audit work we consider the legality of the council's financial transactions. In addition the assistant chief executive (finance) 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

52. Local government will move from UK generally accepted accounting principles to international financial reporting standards (IFRS) with effect from 2010/11. Local government has already adopted some aspects of IFRS and we expect the transition to be fairly smooth. Indeed, next year councils will be expected to account for private finance initiative (PFI) projects on an IFRS basis, and it is important that the council starts the transition period in 2009/10. A comparative balance sheet as at 1 April 2009 will be required, while whole of government accounts will also be required on an IFRS basis from 2009/10.
53. The introduction of the IFRS based accounting code of practice in 2010/11 is likely to require separate pension fund reports and accounts, a view also supported by LASAAC. This is something we will be discussing with the CIPFA directors of finance group.



54. The council has appointed CIPFA and PricewaterhouseCoopers as advisers in managing the transition to IFRS.

Risk area 5

Carbon trading commitment

55. From April 2010 a new and complex system of charging for carbon emissions will be introduced by the European Union. The council will be required to purchase and account for carbon credits to cover all of its non transport related energy usage, with incentives and penalties built into the system to encourage a reduction in carbon emissions. The council are at an early stage in planning for the introduction of this scheme, and we will monitor progress in preparing for its implementation during the 2009/10 audit.



Use of resources

Financial results

56. In 2008/09, the council spent £446.2 million on the provision of public services and £44.5 million on capital projects. The council's net operating expenditure of £331.1 million exceeded its total income from government grants and local taxation of £315.0 million, resulting in a deficit of £16.1 million as at 31 March 2009. After the necessary accounting adjustments were made, the balance on the general fund to be carried forward at 31 March 2009 is a surplus of £16.1 million.
57. While the council has a substantial accumulated surplus, financial pressures will require them to make significant savings in future years. In 2009/10 the council's budget reflected the need for £8.7 million in efficiencies and savings, and it is forecast that efficiency savings in excess of 10%, approximately £40 million, will be required over the next 3 years from 2010/11.

Reserves and balances

58. Exhibit 2 shows the balance in the council's funds at 31 March 2009 compared to the previous year. Funds 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 fixed assets. At 31 March 2009, the council had total funds of £33.5 million, an increase of £1.8 million on the previous year.

Exhibit 2

Funds and balances

Description	31 March 2008 £ m	31 March 2009 £ m
General fund	16.877	16.109
Housing revenue account	1.923	1.731
Repair and renewal fund	3.208	3.197
Capital fund	6.491	9.321
Insurance fund	3.252	3.183
	31.751	33.541



Capital performance 2008/09

59. Gross capital expenditure in 2008/09 totalled £44.5 million, of which £22.8 million related to the general fund and £21.7 million to the housing revenue account. By the year end actual expenditure related to general services was £4.8 million below the revised budget, while capital expenditure related to the housing revenue account was £1.1 million in excess of the revised budget.
60. While the slow down in the land and property market has impacted on capital receipts, the council continues to underperform in the delivery of its planned capital programme.

Risk area 6

61. The trend in capital investment and sources of funds is reflected in Exhibit 3.

Exhibit 3

Sources of finance for capital expenditure 2005/10

	2005/06 Actual £m	2006/07 Actual £m	2007/08 Actual £m	2008/09 Actual £m	2009/10 Budget £m
Borrowing	17.1	17.8	12.0	25.2	26.7
Fixed asset disposal	13.9	12.2	18.7	5.2	2.7
Government grants/other	13.6	14.2	16.2	14.1	12.5
Total	44.6	44.2	46.9	44.5	41.9

Housing revenue account

62. The council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. The budget set for 2008/09 was based on an average weekly rent level of £50.59, an increase of 7% on the previous year. The council embarked on a 30 year housing business plan which resulted in rent increases of 7% each year for the first 5 years, with 2008/09 being the fourth year of these increases.
63. The HRA balance for the year decreased by £0.2 million after a refund of £1.9 million from the building services trading operation surplus to the client. When this movement is added to the surplus brought forward on the housing revenue account, it shows an accumulated surplus of £1.7 million at 31 March 2009.



Group balances and going concerns

64. The overall effect of inclusion of all of the council's subsidiary and associates on the group balance sheet is to reduce net assets by £183.0 million, mainly because of pension liabilities. However, all group bodies' accounts have been prepared on a going concern basis. Pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
65. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. Two of these boards (Strathclyde Police Joint Board and the Board of Strathclyde Fire and Rescue) had an excess of liabilities over assets at 31 March 2009 due to the accrual of pension liabilities. In total these deficits amounted to £3.7 billion (2007/08: £3.6 billion), with the council's share being £195.8 million (2007/08: £194.7 million).

Treasury management

66. As at 31 March 2009, the council held cash and temporary investments totalling £49.0 million (£46.2 million at 31 March 2008). The current economic climate means that interest rates on investments are low and the council received £0.9 million in investment income this year compared to £1.1 million last year. Borrowing rates are also low, but the council have a significant proportion of its debt at fixed rates and its average cost of borrowing over the year was 5.49% on long term borrowing, or 4.54% including short term borrowing. The council did take advantage of the drop in interest rates to reschedule £10.0 million and repay £24.5 million of debt. This has resulted in a net annual interest saving of £1.2 million.
67. The treasury management function within the council has faced significant challenges during the 2008/09 financial year, including key staffing changes and the collapse of the Icelandic banks. These difficulties were not directly related to any foreseen weaknesses within the control environment, although the council has since taken a number of steps to tighten controls as a result of the issues identified.
68. As a result of the Icelandic banking crisis the council took the decision to review its treasury management strategy with the assistance of their treasury advisers, Sector. A review by internal audit undertaken in October 2008 investigated the operation of the treasury management function, specifically in respect of the investments with Glitnir and Landsbanki. Exhibit 4 summarises the timeline of the situation as it developed.



Exhibit 4

Timeline of Icelandic bank deposit events

Timeline	Event
22 January 2008	£10m deposited with Glitnir.
24 January 2008	£5m deposited with Landsbanki.
February 2008	Sector reported that Moody's had downgraded long term ratings of both banks.
April 2008	Fitch placed both banks on rating watch, anticipating a change of rating.
June 2008	Fitch downgraded Glitnir's rating for long and short term investments. Fitch put Landsbanki's rating for long term investments on negative outlook – rating remained the same.
July 2008	Glitnir was removed from the counterparty list.
7 October 2008	Both banks went into receivership.
8 and 9 October 2008	Fitch issued further rating downgrades for both banks.
14 November 2008	Maturity date of Landsbanki.
21 January 2009	Maturity date of Glitnir.

69. In June 2009, the Executive of North Ayrshire Council approved the treasury management strategy 2009/10. The strategy included revisions to the council's investments counterparty list, as well as changes to the maximum investment in any one counterparty. This has been set at £10 million for all approved counterparties with the exception of Clydesdale Bank, the council's main corporate bank, which has an investment limit of £15 million.
70. While these revisions were not in place during the 2008/09 financial year they do tighten the controls in place, with only banks covered by the UK government's guarantee scheme now included on the counterparty list.
71. However, at 31 March 2009 the council had investments that were taken out before the collapse of the Icelandic banking sector in October 2008, and which met the council's investment counterparty criteria at the time. All of these investments have now been redeemed.

Financial planning

72. The council continues to face difficult financial pressures in 2009/10. The economic climate has resulted in a decrease in income from a range of sources, for example lower capital receipts, lower planning fee income and a decline in investment income due to low interest rates. The impact of this is considerable when combined with additional cost pressures which include an inflationary 2.5% pay settlement to staff, an increase in employer superannuation costs, and other costs associated with an economic downturn.



73. The council is party to the Concordat with the Scottish government which means, amongst other things, that council tax will not be increased in the current year. This means that the council has had to look at other sources of income and reductions in expenditure to balance its budget.
74. As part of the housing services budget for 2009/10, rent levels have increased by 7%. This will be the last year of a five year increase programme required to meet the Scottish Housing Quality Standard.
75. The Scottish government has made it clear that public expenditure will be constrained for the medium term. This means that councils need to plan now for a future where there is no real growth in funding. The council has not produced medium or long term financial plans for general services revenue, and this could make it difficult to understand the impact of reduced funding and to make sufficient savings in the future.

Risk area 7

76. The council has plans for service development and improvement. This reinforces the need to explore different resource scenarios to help the council decide its priorities at a time when resources are constrained.

Asset management

77. Effective management of council assets helps the council achieve its objectives and get best value from its investment in property. Effective asset management will benefit service delivery by making council buildings work better for staff and service users now and in the future. It also reduces the opportunity cost of money locked up in surplus property and reduces the council's carbon footprint.
78. In 2009, we published '*Asset management in councils*'. Our study found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, 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.
79. The report was based on data submitted by council officers and identified that:
 - over 90% of the council's properties were assessed as in good or satisfactory condition (*above average*)
 - over 90% of the council's properties were assessed as having good or satisfactory building suitability (*above average*)
 - less than 10% of the council's properties had both poor condition and poor suitability (*above average*)



- over 40% of the council's building maintenance budget is used on reactive maintenance (*above the Public Audit Forum benchmark of 40% or less*)
- asset maintenance costs per square metre were just under £10 per m² (*slightly lower than average*)
- property costs were under 10% of gross revenue budget (*slightly lower than average*).

80. Asset management at North Ayrshire Council is progressing but remains in a state of development. Phase 1 of the asset register management system (ARMS) implementation process was completed when, with the exception of the works ordering module, the system went live on 31st August 2008. The council expect to complete phase 2 by 30 November 2009, and this will see the launch of 'Enterprise', a live web based version of the system.

Risk area 8

81. A key challenge for the council is deciding what to do with surplus and low occupancy buildings. The Scottish Housing Regulator report, issued in August 2008, while generally positive identified a number of weaknesses in the delivery of services. It identified the lack of a strategic approach to asset management, as well as unreliable stock condition data and under-development in the planning and management of programmes to deliver the Scottish Housing Quality Standard (SHQS).
82. The council is currently working to address these issues, and aims to implement an asset management plan by the start of the 2010/11 financial year. The council is also undertaking a conditions survey of its housing stock which will enable it to identify the work required to achieve the SHQS.

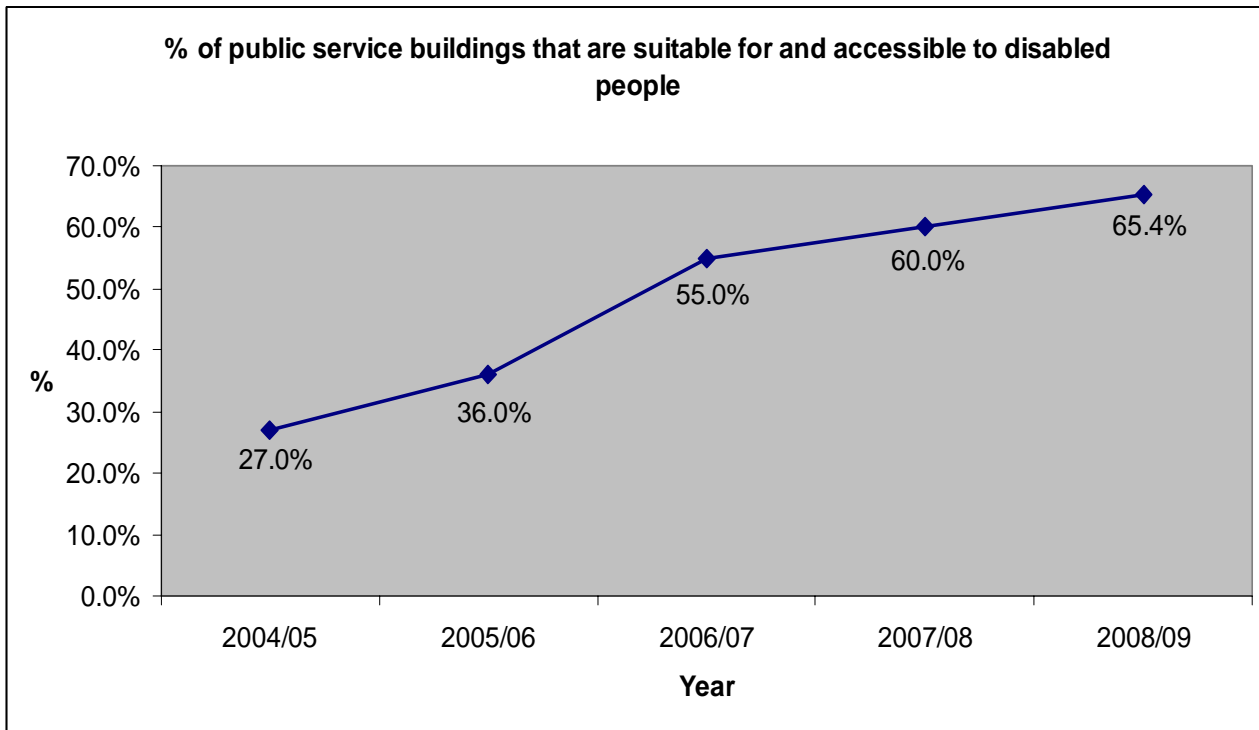
Risk area 9

Disability discrimination act

83. Since 2004/05, through the statutory performance indicator, the council has had to report on the percentage of their service buildings which are suitable for, and accessible to, disabled people. Exhibit 5 illustrates the progress that the council has made over this five year period. We are pleased to report that in 2008/09 the council have continued to show improvement, with over 65% of buildings meeting the required minimum standard. The requirement to report on this indicator is being maintained under the new 2009/10 approach and we will continue to monitor the council's progress.



Exhibit 5 Public access



Procurement

84. In a climate of limited resources and challenging economic circumstances, it is essential that all organisations maximise the benefit they get from external spending. This was reflected in Audit Scotland's national report "*Improving public sector purchasing*" which was published in July 2009. The report found that while the Scottish public sector has made significant savings since 2006 from better purchasing, there is still considerable potential to deliver more, particularly from increasing the use of collaborative contracts. Other high level recommendations highlighted the good purchasing practice that public bodies should adopt to demonstrate best value. These have been summarised in Exhibit 6.

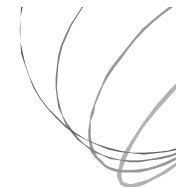


Exhibit 6

Improving public sector purchasing

Extract from Audit Scotland report 'Improving public sector purchasing'

To demonstrate best value when purchasing goods and services public bodies should:

- have high-quality purchasing strategies and plans in place, including a plan to meet future workforce needs;
- have up-to-date information on their purchasing activities such as supplier details, volume of transactions, value and type of spend;
- ensure all purchasing practices, including control of spending, comply with good practice as set out in national and centre of expertise guidance;
- work with the Scottish government and centres of expertise to identify and develop opportunities for collaboration and improved purchasing practice;
- use procurement best practice indicators to assess their performance and to continually improve how they buy goods and services; and
- report savings and other benefits on a regular and consistent basis.

85. The council set up a corporate procurement unit (CPU) in 2005 to deliver best value in its procurement activities. The CPU prepares the council's procurement strategy and reports progress to the council management team every two months. An annual procurement report is presented to the Executive of North Ayrshire Council.
86. The use of e-procurement is a central part of the procurement strategy. The PECOS system has been implemented across a number of services, with the level of orders placed using the system increasing by 14% from 2007/08. Further roll out of the PECOS system is expected to take place during 2009/10.
87. As a result of recommended best practice from the McLelland report, the council's procurement strategy specifically encourages the use of collaborative working and the use of national contracts. As a result a number of contracts have been entered into with East and South Ayrshire councils with more planned.
88. In October 2008 we issued a report on our tendering audit. The report highlighted a number of areas of good practice as well as areas of risk exposure. The council agreed to address the risks identified, and during our 2008/09 interim testing we followed-up progress made and noted that agreed actions had been completed.
89. Discussions with the corporate procurement manager during the interim audit also identified further control weakness and risk within the 'All Ayrshire approved list of contractors'. Where a contractor on the approved list tenders for a contract, they are not obliged to submit annual accounts for scrutiny by the council. This is in line with Regulation 27 of the Public Contracts (Scotland) Regulations 2006. The council is therefore unable to reject a bidder, included on the approved list, on the basis of their financial standing where annual accounts are not submitted. There are also differing ways of evaluating the financial standing of organisations across the three councils, and consequent inconsistencies within the approved list.



90. The corporate procurement manager has issued a report highlighting the risks associated with the approved list of contractors, and made recommendations as to how the process can be improved.

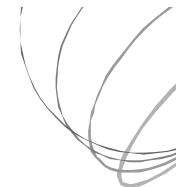
Risk area 10

Managing people

91. The council has made good progress in developing workforce planning during the year. The council's workforce strategy 2009-12 was issued on 11 February 2009, and this includes a strategic workforce plan detailing actions to be completed throughout the period 2009-12.
92. A major challenge for the council is succession planning. The workforce strategy aims to ensure that the organisation has 'the right people with the right skills in the right jobs at the right time' while delivering improved services to customers. To help achieve these objectives the corporate planning group has:
- identified employees within grades 11-17 who will be aged 60 years or more within the next 5 years. This process has included meeting senior officers to identify the consequences of such employees leaving and assessing the options for succession planning
 - met with all heads of service and corporate directors to identify anticipated retirement dates of the senior management team. The purpose of these meetings is to enable effective management of the departure and succession process to ensure service continuity and facilitate organisational change
 - identified employees within grades 10 and below who will be aged 60 years or more within the next five years. This review was to assess any particular function which may experience turnover of 33% or higher due to potential retirements. The findings of this review have been fed into the succession planning process.
93. All services are to receive updated age profile information on an annual basis to enable a review of the succession planning proposals. This will help to ensure focus on succession planning requirements and allow appropriate training and development activities for potential successors as required.

Risk area 11

94. The implementation of personal development review (PDR) had a target of ensuring 100% of employees had participated in the process by 31 March 2009. At that date, 95% of reviews had been completed and plans are now in place to achieve the target.



95. While progress has been made in this area, the organisation continues to work towards implementing a staff appraisal system to support the PDR system. There is a risk that in the absence of a robust appraisal system poor performance is not being identified, while good performance is not being adequately recognised. The council has established a working group, which has union representation, to examine the best options for developing performance appraisal.

Risk area 12

Equal pay and single status

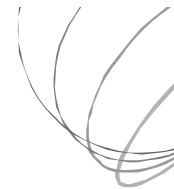
96. In terms of equal pay there are 300 equal pay claims lodged against the council, including additional claims lodged since the implementation of single status. The council has made adequate provision for these claims in the financial statements. A court date for these claims is currently set for 10 November 2009, although our understanding is that the council may reach an out of court settlement before this date.

Risk area 13

97. With regards to single status there were 714 appeals against grades awarded as at 4 August 2009. The council does not expect the majority of these appeals to be successful, and does not anticipate many successful appeals to result in a change of grade. It is therefore unable to make reliable estimates of any potential obligation. As a result no provision has been created for single status and a contingent liability is disclosed in the financial statements.

Data handling and security

98. Data handling and security has received increased public and media attention recently as a result of a number of 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 significant failure of controls could lead to loss of stakeholder confidence and opt out from services; an investigation from the information commissioner; higher compliance costs due to enforcement action; withdrawal of third party services such as payment card processing; and legal fees relating to civil and criminal litigation.
99. We conducted a review of the council's data handling arrangements last year and found a number of areas where weaknesses in control required to be addressed. Further work in this area found that the council is making steady progress with the previously agreed action plan. However, additional work is required to ensure that the risks identified are adequately addressed. In particular the data stored on some laptops and mobile devices is unencrypted and work is continuing to complete the information asset register.



Shared services

100. The Accounts Commission commented on the lack of progress in developing shared services in its overview of the local authority audits 2008. They recommended that councils should give this high priority in light of financial pressures and the drive for efficiency.
101. To date an Ayrshire wide emergency planning team has been established and agreement has recently been reached with South and East Ayrshire councils in terms of regulatory services. Several working groups have been established to take shared services initiatives forward. The continued development of shared services and shared premises initiatives should be progressed to help identify potential efficiency savings for the council.

Risk area 14

Outlook

102. Clearly we are in a period of reduced economic growth with significant implications for the council's resources and the demand for services. The council needs to remain alert to the impact of the recession on the community it serves and what that means for its own objectives and services. At the same time as the council tries to support its local economy and provide best value services, it is likely to face a reduction in resources.
103. Although the council's use of resources shows elements of good practice, it still has scope for significant improvement. In particular, the continued close monitoring of budgets and the introduction of medium and long term financial planning for general services revenue are essential actions to the delivery of best value. The council needs to review its delivery of services to the public within the constrained resources that are presently available.



Governance and accountability

Introduction

104. 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 exercise authority within the organisation, supported by mature and effective relationships between members and officers. An effective council is also 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.

Structure and policies

105. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. The council has assessed its own arrangements against the CIPFA/SOLACE guidance 'Delivering good governance in local government'.

106. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. The scrutiny committee is responsible for monitoring the financial performance of the council and its trading operations, the performance of audit and inspection and for promoting the observance by councillors of high standards of conduct. The scrutiny committee is chaired by an experienced independent councillor, is well attended, and:

- is a formally constituted committee with clear terms of reference which reports directly to the Executive of North Ayrshire Council and meets in public
- membership is in line with the political balance of the council and there is regular attendance by appropriate senior officers of the council
- considers internal and external audit plans and respective reports
- reviews the audit certificate and considers matters arising from the audit of the annual accounts.



Roles and relationships

107. The Accounts Commission recommends that councils give priority to the continuous professional development of its members. The council have a project plan in place to identify personal development objectives for members and provide relevant training. Some members have already undertaken a personal development review (PDR), and all members are to be given the opportunity to have a personal development planning session by the end of 2009. We will monitor the progress of action in this area throughout the 2009/10 audit.

Risk area 15

Partnership working

108. The council facilitated a governance review of North Ayrshire Community Planning Partnership (CPP), which detailed how the CPP could best deliver the single outcome agreement (SOA). The review proposed to amend the CPP structure and membership, and develop new terms of reference. The proposals were accepted by the CPP Board on 11 December 2008.

109. The CPP's only dedicated funding comes from the Fairer Scotland Fund, which remained ring-fenced in 2008/09. However, from 2010/11 this will form part of the council's overall budget and will no longer be reserved specifically for the CPP. There is a risk that as budget pressures inevitably increase, the council may give priority to other activities and this could present significant financial difficulties for the CPP and its ability to deliver funded programmes. We will continue to monitor this situation.

110. The community plan action plan has been replaced by the SOA. Performance is to be monitored and managed within the Covalent system which the council recently purchased, with the new system due to take over from April 2010.

111. A proposal has also been submitted to the corporate management team (CMT) to consider the wider risks of partnership working, and how risks can be identified, managed and documented. We will monitor any progress made by the council resulting from these proposals as part of our 2009/10 audit.

Risk area 16

Community engagement

112. The community engagement review group was established as a short term working group to update the community engagement strategy (2004) and community engagement working group report (2005). The group reported to the CPP board in June 2008.

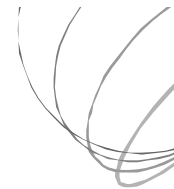
113. The report identified a number of positive aspects of community engagement in North Ayrshire including a good understanding of community engagement amongst many services, a developing performance framework for community engagement and strong partnership working arrangements.



114. It also identified areas for improvement which were included in an improvement plan proposed within the report. The plan recommends improvements in areas including training and awareness raising for public and community/voluntary organisations, information sharing and communication, support for workers and communities, involvement in strategic planning and evidence of the impact of engagement.
115. One aspect of community engagement which has been suspended is the community newspaper – North Ayrshire Now. The newspaper, which was published three times per year, is no longer issued, with the Executive deciding to establish a new annual publication. The new publication is likely to have substantially different content from North Ayrshire Now, with the first edition expected to primarily include key messages from the leader and chief executive about budget availability and performance, along with elected member and other key contact details.

Risk area 17

116. The council and its partners also engage with the community through the CPP's people's panel. Lowland Market Research manage the panel on the council's behalf and are contracted to deliver two surveys and four focus groups per annum. The panel is selected randomly from the electoral roll and consists of 1,000 people from regeneration areas and 1,000 people from the rest of North Ayrshire. This enables comparison between the regeneration areas and the rest of the council area.
117. The most recent survey available, from December 2008, identified the top five issues that respondents stated would be most effective in making North Ayrshire a better place to live as:
- 1) More people in work and training
 - 2) Improved transport links and services to and from North Ayrshire
 - 3) Improved health and well-being through life
 - 4) Reduced fear of crime and anti-social behaviour and increased crime detection
 - 5) More young people leaving schools for positive destinations.
118. The council also carries out its own household survey every four years. The next 4-yearly household survey is due to be undertaken in summer 2011, while a survey examining the impact of the economic recession is also planned. We will continue to monitor and review the results of future surveys.
119. Further community engagement is planned through the establishment of 'North Ayrshire Performs'. This section of the website is currently under construction, but will link to the Covalent performance management system and aims to provide the public with comprehensive and up-to-date performance information on the council.



Public performance reporting

120. Over the past year the introduction of the SOA and purchase of the Covalent system has resulted in a number of changes to how performance is monitored and reported across the council. The community plan action plan and council plan actions have been replaced by an SOA action plan, with the SOA annual report 2008/09 presented to the scrutiny committee in August 2009.
121. In terms of the council plan action plan, the council expected the relevant indicators to be included within the SOA. However, on inspection it was identified that the SOA was more externally focused, and as a result the council have established a council business plan to monitor actions and performance on local targets. A summary of the council's performance against these action plans is included in the 'performance management' section of this report (page 31).
122. Both the SOA and council business plan will be monitored within the Covalent system, with phase 1 of the implementation process due to be completed by April 2010. We will monitor progress on the introduction of Covalent and the impact upon performance management and monitoring throughout our 2009/10 audit.

Risk area 18

Outlook

123. We recognise the challenges posed by the SOA, and the Accounts Commission acknowledges that SOAs are still at an early stage of development. At this stage in the evolution of this new approach to planning we are interested in the processes rather than the outcomes. The council has kept pace with its peers in its approach to the SOA, and we expect to see further developments in clarifying accountability, governance and public performance reporting in the future.
124. As the SOA demonstrates, partnership working is critical 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 shall increasingly be looking at the contribution of partners as well as the council's own contribution to the delivery of outcomes.



Performance management and improvement

Introduction

125. An effective council has a clear and ambitious vision for what it wants to achieve for its locality and communities to secure high quality services and effective outcomes for local people. The vision is effectively promoted by the member and officer leadership of the council and supported by staff and partners. It is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council also has a performance management culture which is embedded throughout the organisation.
126. The council is in the process of developing a new performance management framework. Once fully implemented, the aim is that this will be fully integrated with service planning and delivery, enabling the council to demonstrate performance improvements to service users.

Vision and strategic direction

127. A key challenge for the council in delivering its strategic objectives is succession planning. A number of senior officers within the organisation are nearing retirement age, and the council are being proactive in managing the potential problems that this may cause. A confidential report was presented to the staffing and recruitment committee in February 2009, detailing senior officers who intend to retire in the short term and the strategy for managing the timetable of these departures. We will monitor the management of the succession planning process.
128. The Concordat has been identified as a useful development by the council, however the cost pressures associated with the agreement are putting a strain on resources. Senior officers at the council are hopeful that changes will be made to the Concordat at a national level from 2010/11 as a result of the ongoing economic crisis, and that these changes may ease the financial pressures impacting on the organisation.

Performance management

129. Performance reporting is based on two main areas - the commitments in the SOA and the council business plan. As outlined in the 'public performance reporting' section of this report (page 30), there have been a number of changes in performance management and reporting over the last year. The council business plan replaced the council plan while the community action plan is included within the SOA indicators.



130. The SOA annual report 2008/09 was presented to the scrutiny committee in August 2009 and contained 34 outcomes and 109 indicators. The final community plan progress report to 31 March 2009, which preceded the SOA annual report, was presented to the scrutiny committee on 8 June 2009 and showed 116 actions being assessed using a traffic lights system where progress is classed in one of the following three categories:

- **green** – on or ahead of target
- **amber** – slightly adrift of target
- **red** – significantly adrift of target.

131. The final council plan progress report as at 31 March 2009 was also presented to the scrutiny committee on 8 June 2009, with details of progress against 133 actions being assessed using the above traffic lights system.

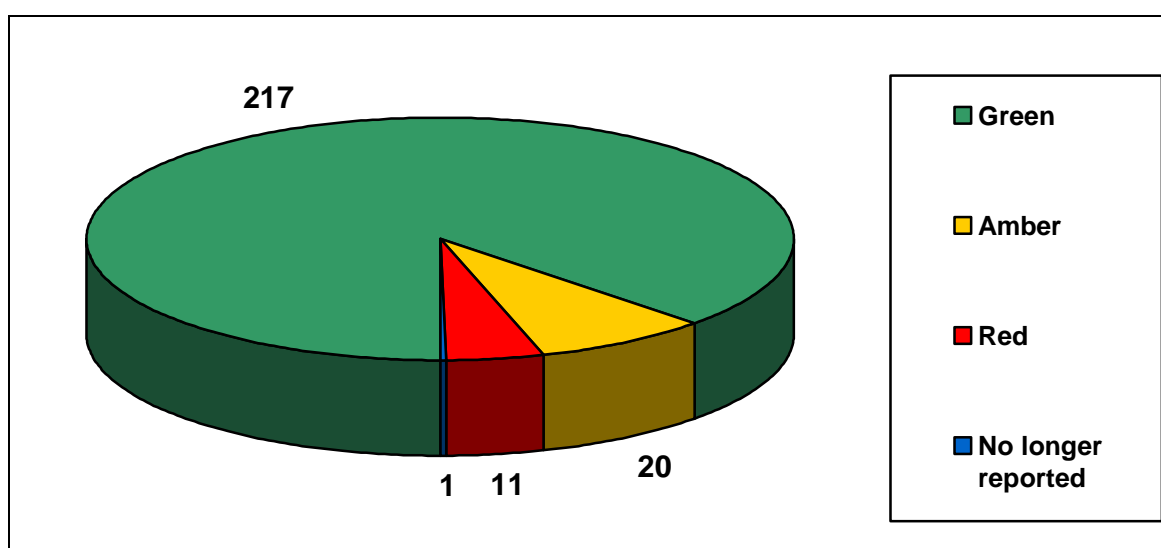
132. Individual service performance reports are produced every six months and published on the council's website.

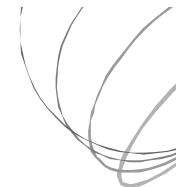
Overview of performance in 2008/09

133. Exhibit 7 summarises progress in 2008/09 against the 249 actions identified in the council plan and community plan action plans.

Exhibit 7

Achievement of North Ayrshire council's targets 2008/09





134. Exhibit 7 shows that the overwhelming majority of actions (87%) were on or ahead of schedule as at 31 March 2009, with 8% slightly adrift of target and 4% significantly adrift of target. The six actions significantly adrift of target within the council plan action plan were:

- **Capital programme:** Implementation of a capital programme involving some £103m of expenditure over the 3 years to 2010/11. Significant changes to the ongoing capital programme have been necessary as a result of the economic recession, and as a result the capital plan from 2009 onwards (agreed on 12 February 2009) is for a much reduced level of spend.
- **Children's residential units:** The investment in four new children's residential unit homes from 2008 to 2010 has been delayed as part of the rescheduling of the capital programme detailed above.
- **Establish adult protection committee:** No chairperson was appointed following interviews in February 2009, with the three Ayrshire councils looking to have secured a permanent appointment by the initial meeting held in April 2009.
- **Fee based foster carers:** The council experienced difficulties recruiting staff and carers in the initial two years of the process. However, the number of carers was projected to be on target by December 2009 'due to an accelerated process of recruitment'.
- **Implement kinship carers strategy:** The council only agreed partial implementation of the scheme due to cost implications.
- **Managing absence:** Sickness absence rates for the nine month period to 31 December 2008 were significantly adrift of target rates.

135. Actions in the community plan which were significantly adrift of target all related to the priority of caring and supporting. The 2008/09 annual report for the SOA, which has replaced the community plan, contains 34 outcomes, with 109 actions measuring progress against these outcomes. The SOA annual report identified that of the 109 indicators:

- 47% have met the target for 2008/09
- 34% have not met the target for 2008/09
- 19% are not yet available.

136. The report also highlighted that 6% of the total number of indicators, whilst not meeting their target, have improved from the baseline. We will continue to monitor the council's progress against the SOA and the council business plan throughout the 2009/10 audit.

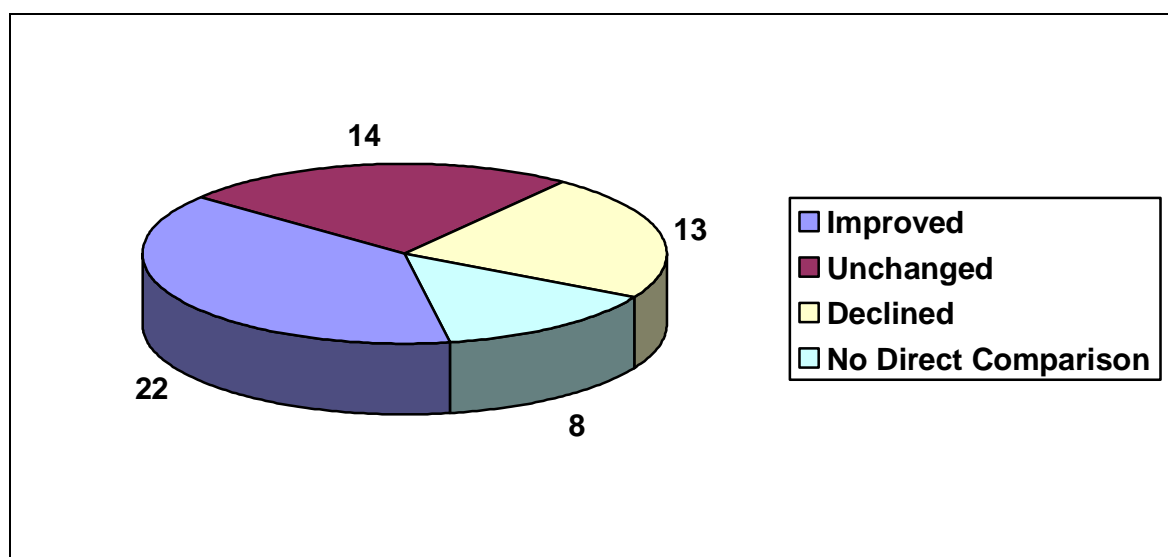


Statutory performance indicators

137. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). With regard to 2008/09, a total of 57 SPIs were published by 30 September 2009. 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 8 confirms that the council has made improvement in a number of areas.

Exhibit 8

Improvements demonstrated by SPIs



138. Significant improvement (15% or more) was reported in a number of elements of the SPIs including:

- percentage of care staff in local authority (LA) residential homes, who have appropriate qualifications, for older people (aged 65+)
- percentage of the highest paid 2% of earners among council employees that are women
- number and percentage of children's hearing reports requested by the reporter that were submitted within target time
- number and percentage of children looked after away from home attaining at least one Scottish Credit and Qualifications Framework (SCQF) level 3
- number and percentage of children looked after away from home attaining at least SCQF level 3 in English and maths
- percentage of care staff in LA residential children's homes who have appropriate qualification for the level of post held
- total hours daytime respite provided per 1,000 population for children aged 0-17 with disabilities.



139. Areas where SPI performance declined by 15% or more since 2007/08 included:

- number and proportion of new probationers seen by a supervising officers within one week
- number and percentage of looked after children living at home attaining at least SCQF level 3 in English and maths
- the average time between the time of complaint and attendance on site for domestic noise complaints requiring attendance on site
- total overnight respite nights provided to children with disabilities per 1,000 population
- number of refuse collection complaints per 1,000 households.

140. Each year we review the reliability of the council's arrangements to prepare SPIs. The council has a co-ordinated approach to producing and reviewing performance against SPIs and has sound procedures in place for generating SPIs and supporting documentation. Internal audit were also involved in the review to the extent that we were able to place reliance on their work. None of the indicators produced were considered to be unreliable.

141. For 2009/10 the Accounts Commission have changed the SPI Direction. There are now two statutory SPIs which require the council to publish performance information on a range of corporate issues, revenue and service cost management and delivery of front line services. In order to retain a degree of commonality of reporting across councils the Commission's 2008 Direction has retained a range of 25 specified indicators. The council have advised services of the changes, and of the Commission's expectations for a wider range of performance and cost-based indicators which demonstrate best value. Services have agreed to incorporate these into the current performance management cycle.

Equality and diversity

142. In 2008, Audit Scotland published a study examining how councils responded to their race equality duty – '*The impact of the race equality duty on council services*'. The study found that all councils have developed policies and processes on race equality. A number of initiatives are in place to meet the diverse needs of local communities, such as the provision of interpretation and translation services, and information packs for recent migrants. However, councils lack information about minority ethnic communities, their needs and experiences. Councils are also unable to show how race equality is routinely built into the design and delivery of services.

143. A single equality scheme was submitted to the Executive of North Ayrshire Council in September 2008, consolidating the council's race, disability and gender equality schemes. This is an emerging area of importance, and we will be conducting detailed work in future years.



Efficiency

144. The council produces an annual efficiency statement which reports and assesses any efficiency gains during the year and identifies key targets for 2009/10.
145. During 2008/09, the efficiency programme delivered cash and non cash savings of £4.2 million and £0.3 million respectively. Progress has been made in the following areas:
- procurement savings of £0.6 million have been achieved by renegotiating contracts and entering into collaborative procurement contracts with East and South Ayrshire councils
 - a wide range of joint working arrangements with other public sector service providers have been established
 - by rationalising and reducing levels of staffing, savings of £1.7 million have been achieved
 - the 2008/09 budget exercise identified £1.9 million of savings.
146. The council has adopted the public service improvement framework (PSIF) self-assessment tool as a means of measuring efficiency. This approach will allow the council to conduct its own review of service quality and performance and address improvement in a proactive way.
147. Tackling climate change and making the best use of resources require the efficient use of energy. In 2008, we published a report on this subject – *‘Improving Energy Efficiency’*. Our report concluded that the public sector in Scotland has made progress in using energy more efficiently, recording a 5% decrease in energy consumption in councils for the three years to March 2007. However, the amount spent on energy over the same period increased by 47% due to price increases.
148. Public bodies are recommended to develop and implement robust energy strategies, and to encourage the necessary changes to culture and behaviour. In the case of North Ayrshire Council, an energy management strategy and implementation plan is in place to monitor progress made in energy efficiency.

Other scrutiny and inspections reports

149. The **Social Work Inspection Agency (SWIA)** published a follow-up inspection report in July 2009. SWIA identified that social services had made ‘some progress’ on many of their recommendations, and were ‘pleased to note the changes made regarding the creation and use of chronologies and more significantly the positive view of basic grade staff on this issue’. The report highlighted progress on a number of other recommendations including mental health training, workload management and partnership working with the police and children’s panel.



150. SWIA also highlighted that further work was required in areas which involved partnership work with the NHS, particularly in relation to the development of the community health partnership (CHP) agenda. SWIA are to monitor the progress of its recommendations through its ongoing work with the council.

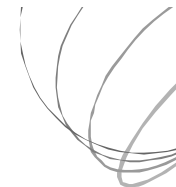
151. **Her Majesty's Inspectorate of Education (HMIE)** provided a joint inspection of services to protect children and young people in May 2008. The report gives an overall positive picture of the quality of the service across partner agencies, with seven aspects judged as 'very good', five as 'good', three as 'satisfactory' and one as 'weak'. Inspectors found the following key strengths:

- housing services exemplified best practice
- campus police officers provided positive role models and made children feel safer
- innovative work by the child protection committee (CPC) development team raised public awareness
- support provided by the 'Children 1st' advocacy service for all children over eight years of age on the child protection register (CPR)
- inter-agency staff development improved the quality of child protection services
- leadership of the CPC.

152. Areas for improvement included the strengthening of the collective leadership between elected members, chief officers and senior managers in order to protect at risk children. Operational planning was the only indicator regarded as 'weak' as not all partners were fully involved in the plan and it did not set out a clear vision for children's services. A follow-up visit will be made by HMIE inspectors to assess any progress on the recommendations made in the report.

153. **HMIE** published an inspection report on the council's education function in April 2009. The report was mainly positive, with seven quality indicators judged as 'very good', two judged as 'good' and one as 'satisfactory'. Inspectors identified the following key points for action:

- improve the level of pupils' attainment, particularly in the performance of secondary pupils
- improve the overall quality and consistency of learning and teaching in secondary school
- continue to work to further improve the proportion of school leavers proceeding to positive destinations
- further strengthen the joint working of schools and other local authority staff.



154. **HMIE** also published a report on the evaluation of the educational psychology service in April 2009. All aspects were judged as 'excellent', 'very good' or 'good'. There were two points for action:
- continue to develop its services so that it has more impact on policy and practice nationally
 - extend its assessment services to ensure equality of service.
155. Inspectors advised that due to the high level of performance and service no further reports would be produced in relation to this area.
156. The **Scottish Housing Regulator** undertook a review of the council's housing service under section 72 of the Housing (Scotland) Act 2001 on behalf of Scottish ministers. The purpose of the review was to provide an independent external assessment of the effectiveness of housing services delivery and make recommendations to help improve services. Grades were awarded for housing management, asset management and delivery of repairs and homelessness services with an A being 'excellent' performance, B being 'good', C being 'fair' and D being 'poor'.
157. The inspection took place between April and May 2008 and the findings were reported in August 2008. The council achieved an A for housing management, a B for services to homeless people and a C for asset management. The regulator identified that while the council has major strengths in the delivery of housing services which are outlined in the report, there are also a number of weaknesses, some of which it considered significant.

Risk management

158. The council has an adequate approach to managing risk. Strategic and service risks are established by the corporate management team (CMT) with the assistance of the risk and insurance manager. An updated risk management strategy was implemented for 2008/09, with the aims and objectives linked to the 'integration of risk management throughout the council and its use as a general management tool within operational activities'.
159. Ongoing changes to the council's performance management systems, as outlined elsewhere in this report, have required the council to consider the risk management strategy. Part of this review will relate to the use of Covalent as a recording and reporting tool for risk management.
160. The council have responded to risks in their strategic risk register and our strategic audit risk analysis, highlighting a need for greater transparency in papers to members on what risks need to be considered during the consultation process. The template for committee reports now includes a section requiring the author to consider human resource, legal, equality, environmental and financial implications of their report, as well as the implications on the key priorities of the council.



161. A report has also been submitted to the CMT on business continuity arrangements at the council. The report concluded that while a number of areas for improvement were identified, there has been significant progress made in developing business continuity plans. We will monitor progress towards implementing these plans throughout our 2009/10 audit.

Outlook

162. The development of performance management arrangements to support the delivery of quality services, and provide meaningful and balanced reports, is essential in enabling the council to demonstrate performance improvement and make informed decisions on future strategy.

163. We are currently developing our approach to BV2 by working with five pathfinder councils. From April 2010, we shall be rolling out the new approach to all Scottish councils. Part of this approach will include a risk assessment of the council.

164. The risk assessment will be carried out in conjunction with other scrutiny bodies. It will determine the timing and scope of the BV2 audit of councils and identify the timing and scope of other scrutiny work. Along with the other bodies, we intend to publish a scrutiny plan for each council covering all scrutiny activity over a three year period.



Appendix A

External audit reports and audit opinions issued for 2008/09

Title of report or opinion	Date of issue	Date presented to Scrutiny Committee
Governance		
Strategic audit risk analysis	30/3/09	11 th May 2009
Internal audit reliance	28/1/09	Not presented
Internal controls management report (including follow-up of previous years findings)	22/7/9	Not presented
Follow-up of data handling review	11/9/09	Not presented
'Your business @ risk' security questionnaire	21/1/09	Not presented
The common good	12/6/09	Not presented
Performance		
PRF position statements	5/3/09	Not presented
Statutory PIs	10/8/09	N/A
Financial statements		
Financial statements matters arising schedule	TBC	N/A
Report to Scrutiny Committee in terms of ISA 260	23/9/09	28 th September 2009
Independent auditor's report on the financial statements	28/9/09	28 th September 2009



Appendix B: Action plan

Key risk areas and planned management action

Action point	Risk identified	Planned management action	Responsible officer	Target date
1	<p>Financial pressures</p> <p>The council continues to face significant challenge in matching expenditure commitments to available resources.</p> <p>Risk – The council may find it difficult to meet increased service demands due to constrained funding and increased revenue pressures.</p>	<p>Council budgets will be set against the anticipated background of a reduction in resources from the Scottish government as a result of the current recession.</p> <p>The council will continue to monitor service and other pressures against available resources through stringent budgetary control procedures. The issue of non earmarked surplus will be addressed as part of the budget setting process for 2010/11 to 2012/13.</p>	Ace (Finance)	April 2010
2	<p>Icelandic banks</p> <p>The council may fail to recover expected amounts from deposits in Icelandic banks.</p> <p>Risk – There will be increased pressure on council budgets should these funds not be recovered.</p>	<p>The council has been pro-active in its pursuit of these claims as part of the national campaign to recover the funds. Provision has been made in the Accounts based on advice from CIPFA (following discussions at governmental level). Future provision will be made in accordance with further advice nationally and the outcome of discussions with the banks.</p>	ACE (Finance)	Ongoing
3	<p>Year-end cut off testing</p> <p>It is not always possible to identify the correct year to which invoices and credit notes should be posted.</p> <p>Risk – Balances may be posted to the incorrect financial year.</p>	<p>The roll out of PECOS will assist in the correct identification of expenditure within the relevant year.</p> <p>Services will again be reminded of the need to correctly allocate expenditure and income. Debtor and creditor testing will be carried out at the end of the financial year.</p>	Chief Accountant	March 2010



Action point	Risk identified	Planned management action	Responsible officer	Target date
4	<p>Common good</p> <p>The council may not have identified all common good assets.</p> <p>Risk – The council may be failing to make adequate disclosures within the common good.</p>	<p>The council has an asset register which identifies properties forming part of common goods. Consideration is currently being given to a more comprehensive examination of all title deeds for those former burghs where common goods exist. Resources for such an exercise will be identified.</p>	ACE (Legal & Protective Services)	Dec 2010
5	<p>IFRS</p> <p>The council may not be adequately prepared for the introduction of international accounting standards.</p> <p>Risk – The council may fail to fully comply with accounting standards following the introduction of IFRS and this could result in a qualified audit opinion.</p>	<p>The council has signed up with CIPFA and PWC (as have most other local authorities) to provide advice and guidance through the IFRS transition. Working groups are being attended to identify and resolve the potential areas of concern. External audit will be advised of progress.</p>	Chief Accountant	Ongoing
6	<p>Capital performance</p> <p>The council failed to deliver its planned general services capital programme in 2008/09.</p> <p>Risk – There is a risk of continued slippage which may adversely impact on service provision.</p>	<p>The council will endeavour to meet its capital programme through regular budgetary control reporting with slippage being identified and reported at an early stage.</p>	ACE (Finance)	April 2010
7	<p>Financial plan</p> <p>While the council has a medium term plan for capital, and longer term business plan for housing, it does not produce a medium or long term financial plan for general services revenue.</p> <p>Risk - The council's lack of medium and long term financial planning in general services revenue could have an adverse effect on service provision.</p>	<p>Whilst the council only agree a one-year budget for revenue, indicative figures have always been produced for years two and three.</p> <p>The council is, at present, considering its budget options for the three years 2010/11 to 2012/13 as a result of the potential reduction in government support, although this will be constrained by a lack of figures for Scottish government support for years two and three.</p>	ACE (Finance)	April 2010



Action point	Risk identified	Planned management action	Responsible officer	Target date
8	<p>Asset management</p> <p>The council do not have a robust asset management plan in place.</p> <p><i>Risk – The council may be unable to effectively manage the asset management strategy resulting in poor value for money for taxpayers.</i></p>	<p>The council are drafting an asset management plan which will be submitted for corporate approval.</p>	<p>Manager (Design & Maintenance)</p>	<p>June 2010</p>
9	<p>SHQS standard</p> <p>The council are undertaking a conditions survey which will provide details of the level of work required to achieve the Scottish Housing Quality Standard by the target date of 2015.</p> <p><i>Risk - The council may not have sufficient resources to achieve the Scottish Housing Quality Standard within the required timescale.</i></p>	<p>Following inspection by the Scottish Housing Regulator, an improvement plan for housing asset management is being carried out and assessment of SHQS compliance forms part of the plan.</p>	<p>Manager (Housing Assets & Investment)</p>	<p>2015</p>
10	<p>Procurement</p> <p>Contractors on the approved list are not obliged to disclose relevant financial information during the tendering process for contracts.</p> <p><i>Risk – The council may enter into contracts with organisations that are not financially stable.</i></p>	<p>The use of an approved contractors list is currently being reviewed in light of current experience. It is anticipated that the three Ayrshire councils will move towards financial appraisal of all contractors by an external advisor.</p>	<p>All Services</p>	<p>June 2010</p>
11	<p>Succession planning</p> <p>The council may not have robust handover procedures in place to ensure that information is adequately transferred as senior officers leave the organisation.</p> <p><i>Risk – The council may lose intellectual resources if robust handover procedures are not in place.</i></p>	<p>The council's existing arrangements have proved adequate for the handover of intellect and / or resources to new employees. Notwithstanding this, ongoing workforce planning should further strengthen the approach.</p>	<p>ACE (Human Resources)</p>	<p>Ongoing</p>



Action point	Risk identified	Planned management action	Responsible officer	Target date
12	<p>Performance appraisal system</p> <p>There is no performance appraisal system in place for staff.</p> <p><i>Risk - There is a risk that good performance is not being acknowledged, and poor performance is not being identified.</i></p>	<p>Existing systems do identify poor performance and this is dealt with by service managers. As part of workforce planning, however, the council is preparing for the introduction of a performance appraisal system.</p>	ACE (Human Resources)	2011
13	<p>Equal pay</p> <p>The council may not have sufficient provision for equal pay claims should they be ruled upon in a court of law.</p> <p><i>Risk - There is a risk that the council do not have sufficient provision for equal pay claims.</i></p>	<p>Recent discussions with the claimants' representatives may result in a negotiated settlement which will fall closer to the anticipated funds available. Negotiations are continuing.</p> <p>The risk of further claims will continue for some years. At the end of each financial year the council will reassess the adequacy of the current provision and consider the requirement for an increased provision based on experience at that time.</p>	Chief Accountant	April each year
14	<p>Shared services</p> <p>The continued development of shared services and shared premises initiatives should be progressed to help identify potential efficiency savings for the council.</p> <p><i>Risk – The council may not be achieving best value or realising potential efficiencies from this specific initiative.</i></p>	<p>Although there are current examples of shared services, the council will continue to explore the possibility of developing services with other bodies as part of its 'change agenda'.</p>	All services	Ongoing



Action point	Risk identified	Planned management action	Responsible officer	Target date
15	<p>Member training</p> <p>Members may not be provided with sufficient training and development opportunities for the duties they are required to undertake.</p> <p><i>Risk – Members may have insufficient training on specialist topics which could reduce their ability to challenge and scrutinise effectively.</i></p>	<p>The Executive agreed on 31 March 2009:</p> <p>(a) to approve the introduction of a personal development planning system for elected members;</p> <p>(b) that the future training programme for elected members be developed from the training needs analysis carried out; and</p> <p>(c) that the training attended by elected members be published on the council's website annually, with effect from April 2010.</p> <p>CMT and political group leaders subsequently agreed an elected members development project plan and protocol to ensure all elected members who wish it will have a personal development plan in place by 31 March 2010.</p> <p>The CMT received a progress report on this issue on 14 Oct 2009. The report noted that there has been some slight slippage on this project, but that we fully expect to achieve the project outputs by the target date of 30 April 2010.</p> <p>The project plan will be carefully monitored to ensure the target date is met.</p>	General Manager (Chief Executive's Service)	30 April 2010 / Ongoing
16	<p>Partnership working</p> <p>The council have not assessed the wider risks of partnership working.</p> <p><i>Risk – The council do not achieve a full range of benefits and efficiencies through work with partner organisations.</i></p>	<p>The service planning process identifies significant risks impacting upon service priorities. The process is further developed through risk workshops with the CMT identifying the strategic risks impacting upon council priorities. At both levels risks associated with partnership working are acknowledged.</p> <p>Within the CPP a similar process identifying risks associated to partnership work is adhered to.</p> <p>Future work will consider the need for a separate risk register to identify, record and prioritise significant risks associated with partnership working.</p>	Risk Manager / Community Planning Coordinator	June 2010



Action point	Risk identified	Planned management action	Responsible officer	Target date
17	<p>Community engagement</p> <p>A key tool in the council's community engagement procedures, the triennial North Ayrshire Now newsletter, is no longer published and is to be replaced by an annual publication.</p> <p><i>Risk – The council may be failing to effectively engage with the community.</i></p>	<p>This risk is being mitigated by the development of a revised communications strategy to underpin the council's change programme. The revised strategy will involve a number of channels for engaging with the community, and will have a greater focus on electronic communications, using new media. It is expected to be complete by March 2010.</p> <p>The CPP's community engagement network was also established as part of the CPP governance review agreed in December 2008. Its activities will be monitored via regular reports by the community planning coordinator into the CPP management group and CPP board.</p>	General Manager (Chief Executive's Service)	31 March 2010 / ongoing
18	<p>Public performance reporting</p> <p>The Covalent system may not be ready for use by the target date of 31st March 2010.</p> <p><i>Risk –The transfer of performance management to the Covalent system is unsuccessful and the council are unable to report on key performance information as scheduled.</i></p>	<p>This risk is being mitigated by the robust use of PRINCE2 project management disciplines, which involve the establishment of project governance structures, a project initiation document and related project progress reporting mechanisms.</p>	General Manager (Chief Executive's Service)	31 March 2010 (phase 1); 31 March 2011 (phase 2); 31 March 2012 (phase 3).