

South Ayrshire Council

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

October 2010



 AUDIT SCOTLAND



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Key messages

Financial statements

We have given an unqualified opinion on the financial statements of South Ayrshire Council. However, we would like to draw attention to internal control weaknesses identified during the year with regards to the bank reconciliation process.

Financial position

The council's net operating expenditure of £255.7 million exceeded its total income from government grants and local taxation of £255.2 million, resulting in a small deficit of £0.5 million as at 31 March 2010. A deficit position on the income & expenditure account has been reported over several years. However, after the necessary accounting adjustments were made, the balance on the general fund to be carried forward at 31 March 2010 is a surplus of £5.9 million.

The council has acted to deliver savings in response to a reduction in income and the recession. At the end of the financial year the council achieved an uncommitted general fund balance of £7.5 million against the council's target of achieving a £2.0 million uncommitted general fund balance by 31 March 2010. The council has made a further commitment to achieving an £8.0 million uncommitted general fund balance by March 2013.

The measures the council has taken to reduce expenditure during 2009/10 are unlikely to be sufficient. The most significant challenge facing councils is a reduction in funding for years 2011 to 2014. The council has recognised this and has already agreed £3.4 million of savings for the 2011/12 budget.

Governance

There was some evidence of improvement within governance. For example, the risk management strategy has been revised and work is now underway in embedding a risk management culture across the council. Delivery on the annual capital programmes has been maintained and asset management is in the process of being integrated across council services and starting to support the development of an efficiency programme. Member/officer relations have continued to develop assisted by the introduction of the "Delivering Good Governance in Local Government Framework".

However, we have serious concerns over the lack of information initially provided to elected members to allow them to make an informed decision on the procurement of a road vehicles tracking system. The council did not comply with its standing orders with regards to this contract. The council needs to consider the wider risks relating to partnership working, and to ensure members are presented with all relevant information in order to allow them to make informed decisions.



Performance

The council made good progress in agreeing a corporate plan and related plans in autumn 2009. The objectives in these plans however are not prioritised. The agreement of priorities is vital in the current economic climate to ensure restricted resources are directed at the key priorities.

A follow up best value audit was carried out in spring 2010 and the progress report was published in June 2010. The Accounts Commission was pleased with the progress the council made in 2009/10. It acknowledged that many elements of best value were in place and a culture of continuous improvement was developing. The commission noted, however, that many activities and developments were still at an early stage and much still needed to be done.

The council is not yet managing and reviewing its performance effectively. A revised performance management framework was agreed in May 2010. This framework has yet to be fully rolled out and embedded. The council should ensure all the components included within the framework are implemented as soon as possible in order to ensure performance information is effectively collated, monitored, reviewed and reported.

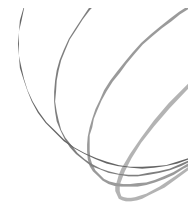
Shared services and improved partnership working are areas the council requires to focus upon to help identify and deliver on areas where efficiencies may lie.

Outlook

The exact size of central government funding reductions will not be known until later in the year. The council needs to take action now to anticipate significant cuts in its budget. The council has recognised the risks to its existing forecasts.

The council does not have medium or long term financial plans. This could make it difficult to assess the overall impact of reduced funding across the organisation and may make it difficult to identify potential savings in the future.

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



Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of South 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 make recommendations for improvements (see Appendix A).
2. The report uses the headings of the corporate assessment framework, which we and the other scrutiny bodies used as the structure for the recent shared risk assessment and assurance and improvement plan (AIP). The AIP was reported to the council on 1 July 2010 and considered by the scrutiny panel on 26 August 2010.
3. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:
 - Overview of best value audits 2004 -09.
 - Scotland's public finances.
 - Protecting and improving Scotland's environment.
 - The national fraud initiative in Scotland 2008/09.
 - Overview of local government in Scotland 2009.
 - Improving public sector efficiency.
 - Getting it right for children in residential care.
 - National scrutiny plan for 2010/11.
 - How councils work: roles and working relationships: are you getting it right?
4. All of these reports have been sent to the council for consideration and we do not consider them in this report. They are available on our website: www.audit-scotland.gov.uk.
5. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. What we 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.
6. 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 his annual overview of local authority audits to the Accounts Commission later this year.



Financial statements

Introduction

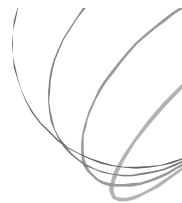
7. In this section we summarise key outcomes from our audit of the council's financial statements for 2009/10, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

Audit opinion

8. We have given an unqualified opinion that the financial statements of South Ayrshire Council for 2009/10 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
9. We were satisfied with disclosures made in the annual governance statement and the adequacy of the process put in place by the council to obtain assurances on systems of control. The council has a local governance framework based on the CIPFA/SOLACE "Delivering Good Governance Framework". This framework specifies corporate owners who have provided assurances on progress for 2009/10.
10. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2010. Working papers to support the 2009/10 accounts were available and officers were very helpful during the audit of the financial statements. Once again the extensive technical expertise of key finance officers greatly assisted the audit process. We have been impressed by the professional attitude of key officers throughout the process.
11. The accounts were certified by the target date of 30 September 2010 and are now available for presentation to members 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.

Internal control

12. During 2009/10 the council did not, in our opinion, operate satisfactory internal control activities with regard to timely and complete reconciliations of its bank accounts to the ledger. We first reported our concerns regarding bank reconciliations to officers in January 2010 and received assurances that the reconciliations would be brought up to date by the end of the financial year. All bank accounts were reconciled to the ledger as at 31 March 2010 with the exception of the No 2 account (main income)



which had a large number of unreconciled items and the unified benefit account which had a small number of minor unreconciled items. Both of these accounts were reconciled to our satisfaction prior to completion of the financial statements audit.

Risk area 1

Accounting issues

13. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice (the SORP). With effect from 2010/11, local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS). Local government has already adopted some aspects of IFRS, therefore we expect the transition to be fairly smooth, but there are still some issues to be addressed.
14. The council has restated its balance sheet on an IFRS basis as at 1 April 2009 and this balance sheet is currently being audited. 2009/10 shadow accounts are being prepared by the council. The council is well placed and key finance officers have the technical expertise to ensure the IFRS transition is relatively smooth.
15. We were satisfied that the council prepared its accounts in accordance with the 2009 SORP and have been adjusted to reflect all audit findings.

Prevention and detection of fraud and irregularities

16. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy; a whistle blowing policy; codes of conduct for elected members and officers; and defined remits for relevant panels.

NFI in Scotland

17. 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. The NFI has generated significant outcomes for Scottish public bodies (£21 million during the 2008/09 NFI cycle, and £58 million cumulatively up to end March 2010).
18. The most recent data matching exercise collected data from participants in October 2008 and the national findings were published by Audit Scotland in May 2010. The council took part in that exercise but has made limited progress in addressing the matches. It has concentrated on the recommended and high priority matches but has discovered only two frauds and three errors giving an annual saving of £10,600.



19. Instructions for the 2010/11 NFI exercise were issued by Audit Scotland in June 2010 and participants should be preparing to provide the requested data by autumn 2010. The council is preparing for the 2010/11 exercise, including gathering the required data. As in the previous tranche, the council will focus on the high priority groups of matches.

Risk area 2

Housing benefit

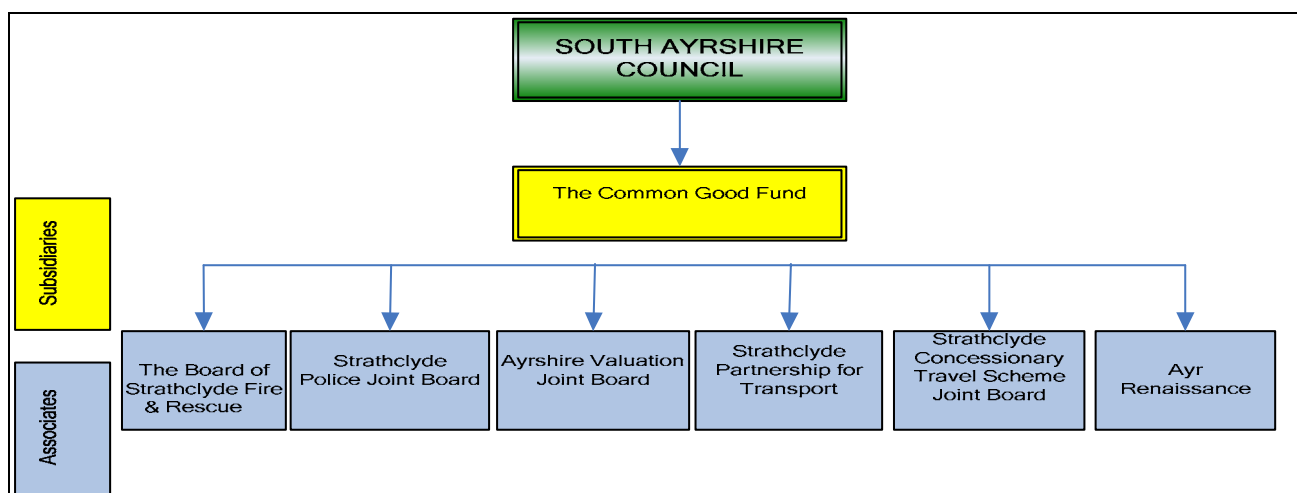
20. The risks to South Ayrshire Council's benefits service were assessed by our specialist team in July 2009 and a detailed report was issued in August 2009. The council has responded to the risks we identified with an action plan. The actions should make a positive contribution to improving the benefits service and we will monitor progress in the next inspection cycle, which starts in 2010.

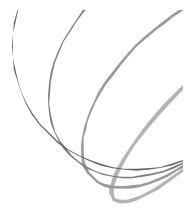
Group accounts

21. 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. The council has interests in one subsidiary and a total of six associates. They have been included in group accounts in accordance with the SORP (refer to exhibit 1 below). Audit assurances were obtained from the audited accounts of group members.

Exhibit 1

South Ayrshire Council group structure





22. We would like to highlight the following issues:

- All bodies within the group received unqualified audit opinions from their external auditors.
- In accordance with recommended accounting practice, key policies for component bodies, such as pension costs, have been aligned with the council where appropriate.

Trust funds

23. 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. The council has eleven registered charitable trusts at present.
24. OSCR feedback on the council's submission for 2008/09 was that it was in line with the minimum requirements. OSCR has commented that improvements could be made to the detail included in the trustee's annual reports.

Risk area 3

Common good fund

25. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. The guidance requires common good funds to be disclosed within the financial statements and a separate common good asset register to be in place by March 2009.
26. A separate account for the common good is disclosed in the council's financial statements and a separate fixed asset register is also maintained. During 2009/10, following a detailed review of specific title deeds for land and buildings, assets valued at £25,000 were transferred from the council's fixed assets to the common good. The council is now reviewing moveable assets, such as works of art, with a view to identifying any potential common good assets. This is a more difficult process as moveable assets do not have title deeds, unlike land and buildings. In view of the pressures on council resources, in our opinion, the council's approach is reasonable.



Pension fund

27. South 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.
28. The council's net pension liability has risen from £39.37 million at 31 March 2009 to £139.87 million at 31 March 2010. The reason for this is mainly changes in actuarial assumptions, principally in the assumed real discount rate, and the value of invested assets actually rose in the period by £124.50 million.

Legality

29. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Executive Director, Corporate Services, confirmed that, to the best of her 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.
30. An internal audit investigation into the tendering process for the contract for vehicle tracking systems has identified serious weaknesses. This is discussed further in paragraphs 89-99.

Financial reporting outlook

31. A number of changes to financial reporting are expected to apply from 2010/11:
- **Full compliance with IFRS.** The council has been working to prepare a shadow set of IFRS compliant statements, in preparation for full implementation in the 2010/11 financial statements. Overall the council's progress in this area has been satisfactory.
 - **Pension funds.** The Scottish Government is consulting on the requirement for a separate pension fund audit in place of the existing arrangements where it is carried out as part of the administering council's audit. Audit Scotland have already started to separate the internal and external planning for the pension fund from the administering authority and we will refine our approach following the outcome of the consultation.



- **Carbon trading.** From April 2011 a new and complex system for charging for carbon emissions was introduced by the EU. The council is required to purchase and account for carbon credits to cover all of its non transport related energy usage. The council should consider proposed changes recently announced in the recent UK Comprehensive Spending Review.



Use of resources

Financial results

32. In 2009/10, South Ayrshire Council spent £278.96 million on the provision of public services. Of this total, £23.29 million was spent on capital and the net operating expenditure was £255.67 million. The net operating expenditure was met by central government and local taxation of £255.19 million, resulting in a deficit of £0.48 million, 0.19% of the net expenditure for the year.
33. After taking account of statutory and non statutory adjustments, an accumulated surplus of £5.87 million was achieved. When added to the general fund balance brought forward from 2008/09, the resulting closing balance in the general fund was £13.33 million. After taking account of funds set aside for specific purposes, there remains an uncommitted general fund balance of £7.50 million which equates to 2.9% of the council's net operating expenditure. This is in line with CIPFA's best practice.
34. South Ayrshire Council has faced severe financial pressures in recent years and the current economic climate suggests this is likely to continue. The council had an accumulated deficit of £0.51 million on the general fund at 31 March 2007. The council agreed a financial recovery strategy with an aim of achieving a £2 million uncommitted general fund balance by 31 March 2010. We are pleased to report that the council has exceeded its target by reporting a £7.50 million uncommitted general fund balance at 31 March 2010. The council is well aware of the financial pressures it faces going forward. It has committed to achieving an £8 million uncommitted general fund balance by 31 March 2013.
35. While the council has an accumulated surplus, financial pressures will require them to make significant savings in future years. The council's 2010/11 budget reflected the need for £5.25 million in efficiencies and savings, and the council forecast that efficiency savings of at least 12%, approximately £35 million, will be required in the period 2011/12 onwards. The council has already agreed £3.41 million in savings for the 2011/12 budget. Exhibit 2 provides some information about the council's financial position. South Ayrshire Council's position in relation to other Scottish councils is shown in graphs in Appendix C.
36. These ratios indicate the liquidity and financing position of the council. In making comparisons between councils, there are a number of factors which affect the indicators. These include the council's group structure, asset management arrangements (e.g. housing stock transfers) and financial strategies. We have compiled this information for the first time this year and it establishes a starting point to enable the council's financial stability to be monitored in the future. The council should consider whether the ratios indicate any areas for further consideration within the context of its financial strategies.

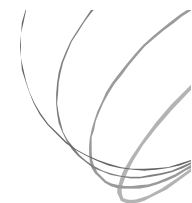


Exhibit 2

Financial ratios

Ratio	Description	Value for South Ayrshire Council (2009/10)
Working capital (Current assets as a percentage of current liabilities)	This is an indicator of the council's ability to pay its current liabilities in the short term	98%
Useable reserves as a percentage of net operating expenditure	This shows the proportion of revenue expenditure that could be met from reserves	13.5%
Long term borrowing compared to tax revenue	This percentage illustrates the proportion of a council's tax related income that would be needed to pay off long term debt	173%
Long term assets as a percentage of long term borrowing	This gives an indication of the ability to borrow to replace or repair assets	356%

Reserves and balances

37. Exhibit 3 shows the balance in the council's funds at 31 March 2010 compared to the previous year. Funds include a capital fund which was set up during 2005/06 to assist in funding the council's schools PPP project, an insurance fund to meet insurance premiums and payments in respect of uninsured losses, and a repairs and renewals fund which the council plans to review during 2010/11. At 31 March 2010, the council had cash backed funds of £34.48 million, an increase of £4.11 million on the previous year.

Risk area 4



Exhibit 3

Reserves

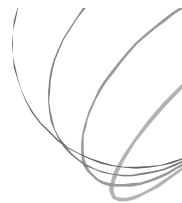
Description	31 March 2009 £ million	31 March 2010 £ million
General fund	7.45	13.33
Housing revenue account	20.52	18.97
Capital fund	1.46	1.24
Insurance fund	0.43	0.43
Repairs and renewals fund	0.14	0.14
	30.00	34.11

Housing revenue account

38. The housing revenue account (HRA) reported a deficit of £3.37 million for financial year 2009/10. Following the necessary statutory and non statutory adjustments, the decrease in the HRA balance for the year was £1.55 million. This compares favourably to the budgeted reduction of £3.12 million. The underspend is mainly due to lower spending on repairs partially due to delays in external maintenance due to severe winter weather, lower employee costs due to vacancies, and a saving on the amount set aside for job evaluation.
39. The in year decrease when added to the HRA balance brought forward from 2008/09 results in an accumulated surplus of £18.97 million. The council has agreed to set aside £10.63 million for specific capital and revenue projects, £0.56 million for the building of new council houses, £0.55 million for weather emergencies, and £1.22 million for unforeseen events. This leaves an uncommitted HRA balance of £6.01 million at 31 March 2010. The council plans to review the HRA balance as part of its current review of the housing business plan and the council's ability to meet the Scottish Housing Quality Standards (SHQS) by 2015.

Risk area 5

40. The council set itself a target to deliver 200 affordable homes each year in order to meet current and emerging needs. In 2008/09 only 58 affordable homes were completed. In 2009/10 the council improved its performance and delivered 232 new/replacement affordable homes.
41. The council has a 30 year business plan in place to upgrade the council's housing stock. At 31 March 2010 the council reported that 53.34% of the housing stock met the SHQS. The council's projections



estimated that by March 2010 68% of the housing stock would meet SHQS. Officers have explained that there are some houses which will not meet the standard by the 2015 target deadline due to the fabric of these buildings. The council has estimated that it may cost around £40-£45 million to bring the housing stock up to the required standard by 2015. As previously mentioned, the housing business plan is currently under review to establish more accurate projections of costs and associated funding options.

Group balances and going concern

42. 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 £210.87 million, mainly because of pension liabilities. However, all group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
43. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. Three of these boards (Strathclyde Police Board, The Board of Strathclyde Fire & Rescue and Ayrshire Valuation Joint Board) had an excess of liabilities over assets at 31 March 2010 due to the accrual of pension liabilities. In total these deficits amounted to £5.66 billion (2008/09 £3.65 billion), with the council's share being £233.09 million (2006/07 £150.11 million).

Capital performance 2009/10

44. General services capital expenditure totalled £15.38 million. The council achieved 94% of its annual capital programme in 2009/10 which is a slight improvement from 2008/09 when it achieved 93%, but a significant improvement on the 74% achieved in 2007/08.
45. The housing capital investment programme expenditure totalled £7.90 million against a budget of £8.24 million. This achievement of delivering 96% of the 2009/10 annual budget is an improvement on the 91% delivered in 2008/09, and again another significant improvement on the 69% delivered in 2007/08.
46. The council should continue to closely monitor capital programmes and continue to ensure the profiling of projects is accurately reflected in budgets. At present the council prepares annual capital programme budgets. Longer term capital programmes should be agreed and put in place to aid budgeting, planning, profiling and to provide the opportunity for advancing projects where any programme slippage occurs.

Risk area 6



47. The trend in capital investment and sources of funds is reflected in exhibit 4.

Exhibit 4

Sources of finance for capital expenditure 2007-2010

	2007/08 Actual £M	2008/09 Actual £M	2009/10 Actual £M	2009/10 Budget £M
Borrowing and capital funded from current revenue or funds	8.87	13.64	12.80	13.03
Fixed Asset Disposal	5.42	4.76	1.18	1.25
Government Grants/Other	7.97	8.68	9.31	9.71
Total	22.26	27.08	23.29	23.99

Treasury management

48. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as representing the best time for borrowing the amount required. This should be assessed without regard to temporary investment possibilities, otherwise the action may be judged to be unlawful or to have subjected public money to unnecessary speculation risk.
49. As at 31 March 2010, the council held cash and temporary investments totalling £28.62 million. We have received specific representation from the Executive Director, Corporate Services that all borrowing in advance of immediate requirements was made for a legitimate purpose in accordance with legislation and was on-lent in the interests of prudent cash management.
50. The current economic climate means that interest rates on investments are at a low. However the council reported that they achieved a return on investments of 1.47% for 2009/10 against a 0.73% benchmark which is based on the 3 month London Interbank Bid Rate (LIBID). Borrowing rates are also low, but the council has all of its debt at fixed rates. The average cost of borrowing over the year was 5.46%.
51. The council's capital financing requirement for 2009/10 was estimated at £22.53 million representing approximately £7.36 million for the capital programme and £15.17 million to refinance the repayment of external debt. The council, however, did not borrow any new money during 2009/10. The council's current strategy, due to the low interest rates on investments, is to fund current capital expenditure



and refinancing from cash balances. This resulted in a reported saving of £0.32 million in borrowing costs in 2009/10.

52. The crisis in the banking sector and the collapse of Icelandic banks in particular, prompted the council to review its treasury management practices. The council has taken steps to reduce investment risk by reviewing and reducing its approved lists of counterparties. The council has also revised its treasury management strategy with regards to the new Local Government Investment Scotland Regulations 2010.
53. The council had two investments of £3 million and £2 million with Landsbanki when the Icelandic Banks collapsed in October 2008. All money invested in the Icelandic banks are subject to administration and receivership processes administered under Icelandic law. The Icelandic government has transferred Landsbanki's domestic assets and liabilities to a new bank called New Landsbanki and placed the management of the bank's affairs in the hands of a resolution committee.
54. Recovery of the council's funds is subject to confirmation that the council is a preferential creditor. This is being tested through Icelandic courts. There are exchange rate risks associated with assets recovered by the resolution committee.
55. Following extensive discussion between CIPFA, Audit Scotland, the Accounts Commission, COSLA and the Local Government Association, it has been agreed that, for councils with deposits in Landsbanki, the 2009/10 accounts should be prepared based on the latest information ie - a recovery of 94.85%. This level of recovery equates to a potential ultimate financial loss to the council of £0.14 million, of which £0.10 million would be chargeable to "general services" and £0.04 million to the housing revenue account. The overall impairment loss is currently estimated at £2.03 million. However, failure to maintain preferential creditor status would have a significant impact upon the recovery of the council's investments.
56. The council, alongside all other affected Scottish local authorities, has taken advantage of the Scottish Government legislation to defer the impact of this loss on the general fund in 2009/10. The extent of the potential loss will require to be kept under review by the council when considering its overall financial position during 2010/11, as new information emerges from the bank's administrators.

Risk area 7

Financial planning

57. In 2010/11, the council again froze council tax in accordance with the concordat with the Scottish Government. The net revenue budget includes savings of £4.25m plus a £1 million payroll management target. Executive Directors have committed to management action to ensure all departments are on target to break even. However, in common with other councils, South Ayrshire is forecasting a reduction in funding of between 15% and 25% over the next four years.



58. The council does not have any medium or longer term financial plans. Once the outcome of the spending review is known, longer term financial plans should be considered. The financial plans currently in place are not well integrated with service plans. It may therefore be difficult to identify the impact of funding restrictions and possibly identify potential efficiency savings.

Risk area 4

Asset management

59. Effective management of council assets helps the council achieve its objectives and get best value from its investments in property and other assets. The current economic situation has implications for the management of the council's property assets.
60. The council made good progress in starting to develop a corporate asset management plan with the agreement of an interim asset management plan in June 2009. This plan has since been updated and further developed. The council has agreed milestones to ensure the corporate asset management plan is completed by 31 March 2012. Condition surveys have been carried out on council properties and used to inform the investment required in assets. The capital investment required for the period 2010-2016 is £122 million, with planned maintenance of £9.80 million required over the same period.
61. Asset management and capital planning are now being integrated across the council through the inter-departmental capital/asset group of senior officers which advises the corporate management team.
62. Asset management is starting to support the development of an efficiency programme through various initiatives including the identification and closure of buildings, demolition, and a disposal programme to help deliver capital receipts.

Risk area 8

Procurement

63. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement and to deliver value for money and increased efficiency through improved structures, capability and processes. In 2009, the Scottish Government promoted the use of an annual procurement capability assessment (PCA) to assess procurement performance in all public sector bodies and as a basis for the sharing of best practice and continuous improvement. Results are summarised as non-conformance, conformance, improved performance and superior performance.
64. All councils have been assessed by Scotland Excel and most scored as non-conformant. This means that councils are not achieving best value across their procurement activities. In response, in December 2009, councils agreed to participate in a national procurement improvement programme.

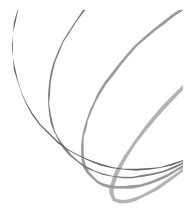


65. South Ayrshire Council scored 19% in the Scotland Excel assessment which is below the Scottish average of 22%. The council has also been working with officers from Scotland Excel to identify improvements. The council has responded by preparing an action plan to address weaknesses identified. A follow up assessment is planned for the end of 2010.
66. The council continues to work with partners in seeking to deliver collaborative procurement opportunities and related efficiency savings. For expenditure below £0.03 million, the council is in the process of implementing the Scottish Government Quick Quote system to allow competitive quotes to be obtained. Full roll out across all council services is planned in 2010/11.
67. The council has reported £0.41 million of procurement efficiency savings for 2009/10 and a further £0.25 million is included in the 2010/11 budget.
68. The council is in the process of implementing an i-procurement module within its Oracle financial system. The system has been rolled out across corporate services with full council wide implementation planned by spring 2011.

Risk area 9

Managing people

69. The council is in the process of developing a workforce strategy. Work is continuing and an action plan is in place detailing the milestones to be reached in the development of the strategy. The target date for completion is April 2011.
70. A new competency performance and development review scheme was put in place in 2009. All staff received a review on the new system by March 2010. The council should start to measure the quality, impact and effectiveness of the new system.
71. The council implemented single status and equal pay in August 2009. The council has made appropriate provision for future costs associated with single status and equal pay claims in the financial statements.
72. Staff absence has been an issue for the council in recent years. The council has responded with a strategic review of absence and the introduction of detailed sickness absence monitoring and reporting arrangements. Preventative measures such as physiotherapy and counselling have been introduced and the council recently approved a new framework for maximising attendance at work. Figures reported suggest sickness levels are showing signs of improvement. Reported absence rates have fallen from 5.84% in 2006/07 to 4.69% in 2009/10.
73. A staff survey was carried out in 2008 which reported issues such as staff not feeling involved and not being kept informed. An action plan was put in place to address issues raised and build on the



positive messages emerging from the survey. A further survey was carried out in April 2010 with an action plan to address weaknesses agreed in August 2010.

74. The council plans to implement an integrated Oracle HR and payroll system. A decision was made in July 2010 to develop a tender for the provision of the Oracle HR and payroll system. The implementation of the integrated system should help deliver future efficiency savings.

Risk area 10

Information & communication technology (ICT)

75. The council makes good use of ICT to support and deliver services. It has a clear strategy for the future development of ICT that is clearly linked to the council's objectives. Work is underway developing the ICT strategy for the next 3 years with annual updates if appropriate. The first version of the strategy will be available in October 2010. The council's website was named the top council website in Scotland and one of the top 20 in the UK in the annual Society of Information Technology Management (SOCITM) Better Connected survey. The continuing roll-out of Microsoft Communicator (an integrated communications packages consisting of instant messaging, Voice over IP, and video conferencing) will lower council communications costs and improve communications both within and out with the council.
76. The recently commissioned data centre in McCall's Avenue with fixed communications links to the existing data suite in the County Buildings will improve the operational set-up and business continuity provision within the council. A review of the data structure set-up within the council is also planned.
77. South Ayrshire Council continues to roll out Lagan (customer relationship management software, which is used by many Scottish Local Authorities). The council's new customer contact centre at the John Pollock Centre was commended for its use of call centre technology in the Contact Centre Technology category at the Good Communication Awards in London in August 2010. This is a good achievement as the contact centre has only been operational for a short space of time and work is on-going to expand the centre and improve the customer service experience.
78. The council has been in the process of implementing the Oracle e-financials system since 2003. As previously mentioned, the i-procurement module and HR/payroll modules are being progressed.
79. The council still relies on the previous Cfacs ledger as a feeder system to the Oracle ledger. The Cfacs system is no longer supported by any maintenance contract and there was an instance during 2009/10 when the system failed. Progress has been made during the last year with the council tax and non domestic rates feeders being transferred from Cfacs to Oracle. The feeders still being processed via the Cfacs system are the purchase ledger, payroll and inter departmental transfers. Implementation of the Oracle i-procurement and HR/payroll modules will remove reliance on Cfacs for payroll and purchase ledger entries.

Risk area 11



Data handling and security

80. 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, HM Revenue and Customs, 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, 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. It should be noted that from April 2010 the Information Commissioner's Office has been able to fine organisations up to £0.50 million for serious data protection breaches.
81. We carried out a review of data management security and we note that the council has started to put operational processes in place to improve and ensure effective data management including: the planned implementation of an information asset register; the use of information sharing arrangements; and the ongoing development and implementation of an information security classification system. Furthermore, the council has identified an appropriate encryption product and will deploy it to all council computers including laptops in calendar year 2011. There is however a need for service managers to take greater ownership of information security issues, raise awareness and develop formal linkages with the corporate information security team.

Shared services

82. The council has made limited progress with shared services. It has been working with North Ayrshire Council and East Ayrshire Council to put in place a shared service model for the regulatory service functions of environmental health, building standards and trading standards. There have been difficulties in overcoming legal issues. The three councils plan to establish a joint board to undertake the regulatory functions across Ayrshire, and aim to adopt the model by April 2011.
83. The establishment of joint services is anticipated to achieve financial benefits to all three councils. However, it will be the responsibility of the joint committee to agree the details of the new service and make recommendations to each of the constituent councils as to the appropriate staffing structures for the service, terms and conditions of employment, accommodation and financial arrangements for transfer of resources. In the longer term all three councils plan to set up a 'shared services joint board' to facilitate the increased sharing of services.

Risk area 12



Outlook

84. Clearly we are in a period of reduced economic growth with significant implications for the council's resources and the demand for 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 severe reduction in resources. The council needs to plan for reduced resources over the medium term. It needs to make decisions soon to be able to deliver cost reductions in a managed way.
85. Although the council's use of resources shows elements of good practice, it still has scope for significant improvement. In particular, we would suggest that there is scope for greater progress with shared services to deliver best value, procurement and asset management.



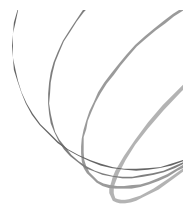
Governance and accountability

Introduction

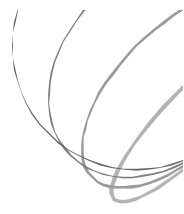
86. Corporate governance is about direction and control of organisations. Councils are large complex organisations and so good governance is critically important. The council has assessed its own arrangements against the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government*. The assessment has identified a number of areas for improvement, but overall, the results suggest that the council has a sound governance framework.
87. 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 Corporate and Community Planning Standing Scrutiny Panel carries out the role of the audit committee. The panel also has a wider role in terms of promoting, monitoring and developing continuous improvement. The chair is effective in his role and ensures all panel members have an opportunity to put forward their views. Panel members regularly challenge and question officers and auditors on reports presented to them, although on some occasions time has been spent on more operational areas rather than concentrating on the more strategic issues.
88. The panel is well attended and in overall terms its remit and working practices are in accordance with the good practice principles. For example, the panel:
- Is a formally constituted panel with clear terms of reference and meets in public.
 - Membership is in line with the political balance of the council and there is regular attendance by appropriate senior officers and the portfolio holder.
 - Considers internal and external audit plans and respective annual reports.
 - Panel members have access to all internal and external audit reports.
 - Reviews the proposed auditor's report (audit certificate) and considers matters arising from the audit of the annual accounts.

Contract for road vehicles tracking system

89. In 2008 South Ayrshire Council and North Ayrshire Council verbally agreed to enter into a collaborative arrangement to procure a vehicle tracking system for road service vehicles, with North Ayrshire Council acting as lead authority. There was no formally approved business case for procuring the system, and no formal agreement setting out the roles and responsibilities within the collaboration.



90. Nine tenders were received from the contract and all quoted a three-year lease arrangement. Seven of these tenders ranged from £0.07 million to £0.10 million which is in line with the initial estimate, with the other two tenders significantly higher at £0.22 million and £0.34 million. The highest bid was from Exactrak Ltd.
91. Following initial evaluation by North Ayrshire Council, five of the tenders were rejected as they were assessed as not fully meeting all of the essential requirements. A further two were also rejected on this basis after the second stage, having given presentations to a panel of officers from both councils. This resulted in the two tenders with the highest value being taken forward.
92. Internal control systems in South Ayrshire Council identified apparent irregularities in the contract procurement processes. South Ayrshire Council's internal audit section carried out a detailed review of the processes followed. A draft report (Collaborative Contract with North Ayrshire Council, Vehicle Tracking Equipment, 14 September 2010, Reference 2010/65) was in the process of being agreed with officers in September 2010 when a report by the Depute Chief Executive was presented to the Leadership Panel on 14 September 2010 asking for approval for the acquisition of a vehicle tracking system. Officers were aware of the serious flaws in the tendering process and failed to reflect the findings of the internal audit investigation in the report to the Leadership Panel. We are seriously concerned with the conflicting nature of the internal audit report and the report to the Leadership Panel on 14 September 2010.
93. Internal audit felt compelled to quickly complete and issue their report to elected members the day before the September 2010 Leadership Panel was due to meet in order to ensure members were aware of the issues surrounding this contract. It is not clear why chief officers, who were aware of internal audit concerns, did not withdraw the Leadership Panel report asking for approval of the contract.
94. South Ayrshire Council's internal audit section concluded that:
 - The council lacked procedures for collaborative contracts.
 - There was a lack of adherence to the council's standing orders.
 - No business case was prepared and therefore there was no justification for the acquisition of the vehicle tracking system.
 - There was no formal agreement with North Ayrshire Council, the lead authority.
 - European Union tendering rules were not adhered to.
 - South Ayrshire Council officers were not involved in tender evaluation processes.
 - No details were retained of South Ayrshire Council officers' involvement in post tender clarification processes.



- The letter of intent to award the contract was issued by North Ayrshire Council on behalf of both councils but South Ayrshire Council had not agreed to the final figures.

95. A separate internal audit investigation was carried out by North Ayrshire Council's audit section (Report on Contract for Roads Services Vehicle Tracking System, March 2010). The North Ayrshire Council Chief Internal Auditor provided an overall opinion as shown in Exhibit 5 below.

Exhibit 5

NAC Internal Audit Report on Road Services Vehicle Tracking Contract

Overall opinion

South Ayrshire Council has taken a hands-off approach throughout the procurement process and the resultant commitments have not been reached on a collaborative basis.

There has been a lack of adherence to North Ayrshire Council's Standing Orders relating to Contracts and related Contract Procedure Rules and advice provided by Corporate Procurement staff has been ignored.

The tender evaluation process has been seriously flawed and all tenderers have not been treated equally.

The Councils' exposure to the risk of legal challenge has been increased and they have been committed to unplanned expenditure.

Source: Report by the Internal Audit Section on Roads Services Vehicle Tracking Contract March 2010 – available at www.north-ayrshire.gov.uk committee reports and agendas for 6 April 2010 [Committee Reports and Agendas 07 :: 2 - Internal Audit Report Summaries & Action Plans Appendix](#) (page 49)

96. We have been advised that South Ayrshire Council had a contractual obligation to procure the equipment from Exactrak. The key officers from the roads department who were involved in the tender negotiations with North Ayrshire Council officers are no longer employed by the council. Only limited documentary evidence to support key discussions regarding this contract is available.
97. The Leadership Panel on 14 September 2010 referred the report on the vehicle tracking system contract to the Corporate and Community Planning Scrutiny Panel. The scrutiny panel considered the internal audit report and the weaknesses surrounding the tender process on 23 September 2010. There was a mature debate and the quality of the questioning and scrutiny carried out by elected members was detailed and of high quality. Elected members effectively challenged the relevant reports and key officers.
98. It is our opinion that officers should have presented members of the Leadership Panel with the full information relating to the contract to enable them to make an informed decision. The circumstances surrounding this event fell short of the expected high standards of openness, transparency and governance.



99. As part of the annual review of standing orders and taking into account the issues identified with the vehicle tracking contract, the council agreed revised standing orders on 7 October 2010.

Risk Area 13

Roles and relationships

100. The Accounts Commission recommends that councils give priority to the continuous professional development of its members. The council has developed role profiles and has training and development plans in place for all members.
101. The council agreed a framework for a joint leadership development programme between elected members and senior officers. Associated development activities were identified and delivered via self study packs, training sessions, “lunch and learn” sessions and “breakfast briefings”. Training sessions however, require to be better aligned to member role profiles. The council plans to review member role profiles and training to ensure linkage with the national political skills framework.
102. Member/officer relations have continued to develop over the last year. This has been helped by clearly setting out the respective roles of officers and members through the adoption of the “Delivering Good Governance in Local Government Framework”.
103. Over the last couple of years, as the Corporate Management Team and Heads of Service have grown into their roles, there has become a blurring of edges between what was previously known as the Extended Management Team and the Corporate Management Team. The Heads of Service have been active in corporate roles, for example, the change and transformational activity taking place within the council. As a result the council now regards the entire chief officer group of the Chief Executive, the Executive Directors and the Heads of Service as the Corporate Management Team. A smaller executive group of the Chief Executive and the three Executive Directors meets to focus more strategically on leadership, direction and performance of the organisation.

Partnership working

104. The single outcome agreement (SOA) has provided a focus for the community planning partnership (CPP). There have been improvements within the partnership in terms of arrangements and relationships. The council could make more use of the CPP to share and join up services in order to deliver efficiency savings and improved outcomes.
105. At present the council vision and the community plan are broadly aligned, but there are differences between the respective priorities. The council plans to consider the council’s priorities over the next few months to facilitate a revision to the corporate plan. Following the revision of the corporate plan, the council plans to enter discussions with partners over the fusion of the council vision and the community plan.



106. The council agreed its current SOA covering the period 2009-12 with partners in June 2009. The SOA links local outcomes to national outcomes, priorities from the council's vision and to the community planning strategic objectives. The SOA is not yet fully developed with baseline data and targets not agreed for all indicators. Targets included in the SOA are not specific but are often simply to "maintain" or "increase" performance. There have been data collection issues, for example with regards to the availability of data and also with data sources which have meant that results are not available for all SOA indicators. SOA progress reports are regularly presented to the Community Planning Board.
107. The CPP has reviewed its operations and has an improvement plan and implementation group in place to ensure delivery of improvements. A risk management workshop was delivered with external consultants. A revised risk register is now being prepared. Communications issues have been taken forward with community planning web pages currently under development and the circulation of a community planning newsletter. Community engagement was progressed by the South Ayrshire Youth Forum organising a "Fast Chat" session with community planning theme groups in June 2010.
108. The council has recently been short listed for the Association for Public Service Excellence Service Awards 2010 in the public/private partnership category. The council has taken an innovative approach to fleet management by forging a partnership with local company Kerr & Smith. The partnership was entered into following a review of the council's procurement and maintenance of vehicles. The council agreed a hybrid approach of contract management and lease arrangements with outsourced vehicle maintenance. The partnership is reported to have delivered improved service and costs efficiencies.

Risk area 14

Community engagement

109. South Ayrshire Council uses a range of methods for consulting and engaging with the community. In the autumn of 2009 it held a series of "community conversations" to engage the community with regards to budget issues and the council improvement agenda.
110. In spring 2010 the council agreed a communications strategy setting out the council's principles for communicating both internally and externally. It is too early to comment on the impact of this new strategy.
111. Arrangements for community engagement could be improved. The council plans to put a comprehensive approach to community engagement in place by October 2010 based on the National Standards for Community Engagement. It also plans to consider the development of an area based forum structure.



Customer service

112. The council agreed its customer service strategy in August 2009. The strategy sets out the council's commitment to customer service including details of a pilot customer service centre and a customer contact centre.
113. The telephone contact centre opened in Ayr in February 2010 and answers council tax, benefits, customer service and neighbourhood service related calls. The council has plans to expand the number of services delivered from the contact centre in the future.
114. The centre is not yet achieving its informal target of answering all calls within 60 seconds. No customer satisfaction information is available. The council recognises the need to focus on managing performance and customer satisfaction. The council should reflect on performance information prior to any decision to expand the contact centre.
115. The council opened a service centre in Girvan in autumn 2009 to allow the council to deal with customer enquiries in one visit and to standardise service provision. Again, performance and customer satisfaction information is not available to demonstrate the effectiveness of the service centre or to demonstrate if best value has been achieved. The performance of the Girvan service centre should be reviewed and considered prior to any decision to roll out further service centres.

Risk area 15

Public performance reporting

116. The council has published an annual calendar containing selective performance information and an annual newsletter. In May 2010 the council agreed a new performance management framework and public performance reporting arrangements are being reviewed as part of that framework. Revised arrangements are planned to be in place in autumn 2010.

Outlook

117. We recognise the challenges posed by the SOAs. 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. In 2010/11, we expect to see further developments in clarifying accountability, governance and public performance reporting.
118. 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

119. 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 backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council has a performance management culture which is embedded throughout the organisation. The assurance and improvement plan concluded that the council has some weaknesses in this area. This section provides a high level overview of performance management in South Ayrshire Council.

Vision and strategic direction

120. As previously mentioned, South Ayrshire Council's vision presents a broadly similar vision to the one in the community plan, but there are differences between the respective priorities.

121. The council made good progress and agreed a corporate plan and related directorate plans in autumn 2009. Previously there was no corporate plan bridging the gap between the vision and the directorate plans. The corporate plan details the council strategic objectives and related targets for the period April 2009 to March 2012. The objectives in the plan are not prioritised. As previously mentioned, the elected members are currently developing priorities and these are expected to be presented to council for agreement in autumn 2010. The agreement of priorities is vital in the current economic climate to ensure restricted resources are directed at the key priorities.

122. The council plans to revise the corporate plan once priorities have been agreed. As previously mentioned, it then plans to commence discussions with partners with regards to the fusion of the council vision and the community plan. The council's directorate plans were revised in April 2010 to reflect February 2010 budget decisions and risk assessments which had been carried out.

123. The council is aware that, despite plans now being in place linking the vision through to employee personal development reviews, there is still scope for improvement. There needs to be a clear link between the plans and resources. The council needs to ensure there are measurable targets which will facilitate effective monitoring and reporting of performance. Service plans still vary in format, quality and content. The council plans to link resource and directorate plans from spring 2011.

Risk area 16



Performance management

124. The council is not yet managing and reviewing its performance effectively. The revised performance management framework was agreed in May 2010. This framework sets out the main components which will help the council to identify, monitor, report and deliver its priorities. The council must ensure resources are directed to ensure the performance management framework is embedded in operational practices.

125. The council agreed in April 2010 to purchase the Covalent performance management system. Covalent is planned to be fully operational by April 2011. In May 2010, the council agreed to adopt the "How Good is our Council" self evaluation model. The council must ensure the implementation of both systems is effectively managed to ensure they are both fully operational as soon as possible.

Risk area 17

Overview of performance in 2009/10

126. The council reported good progress had been made for the majority of corporate aims. Two aims are reported as proving a challenge to deliver.

127. The first of these is the provision of appropriate personal support to all children and young people. Pupils in school have reported positively on the support they receive. However, the average attainment of the lowest achieving 20% of pupils has decreased where as the lowest attaining 20% of pupils nationally has increased.

128. The development of opportunities for access for the arts, culture, leisure libraries and information have proved to be challenging, as has the maximisation of access to services for those living in rural communities. The council recognises that further work is required in these areas.



Statutory performance indicators

129. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). The Accounts Commission changed the SPI Direction for 2009/10. The new approach introduced a significant shift in how councils are required to monitor and report on their performance, bringing SPI requirements closer in line with BV duties under the 2003 Local Government in Scotland Act, and significantly reducing the number of indicators councils require to report.
130. South Ayrshire Council reported on the 25 SPIs per the SPI Direction along with a suite of local performance indicators covering all council services. As previously mentioned, a set of 146 indicators was agreed as part of the council's performance management framework as being the key indicators reflecting the main commitments in council plans and the major service areas that the public recognise.
131. The council's internal audit section carried out a detailed review of 5 performance indicators. Three were found to contain errors. As reported in previous years, data collection, retention and care over data interpretation still require improvement to prevent inaccurate and unreliable performance information being reported.
132. The council reported on its 146 performance indicators in September 2010. The report detailed progress of each indicator against relevant corporate aims. The results reported do not appear to be consistent with the 2009/10 progress reported on the corporate plan. This is partially due to only some specific indicators being reported under each corporate aim rather than an overall view of performance and progress made on an outcome basis. In embedding the performance management framework, the council needs to ensure that reporting of progress made against each corporate aim is an overall picture of progress made and is supported by relevant performance indicator information.
133. The council reported 98 indicators which could not be assessed against a target. Again this is an area the council requires to develop as part of the embedding of the performance management framework. The council should improve its interpretation of trends in performance information to ensure the council is achieving what was planned or budgeted for. For example, some declines in performance may have been anticipated and planned due to budget or service decisions whilst others may be due to unexpected factors such as the downturn in the economy.

Risk area 17



Equality and diversity

134. Equality and diversity are currently being reviewed by the council. New legislation is due and thereafter the council plans to bring all its existing schemes such as the race, disability and gender policies together into one scheme.

Efficiency

135. The council reported £9.82 million of cash releasing efficiencies in its annual efficiency statement submitted to COSLA. These savings include £5.77 million of recurring savings from the previous 2 years. The council reports a 4.4% cumulative saving on the 2007/08 budget against a target of 4%.

136. The cash releasing savings were in the following areas:

- £6.17 million from reducing staff numbers and overheads with no reduction in service.
- £1.19 million from rationalisation of properties and transferring services to other locations.
- £1.73 million from an increased take up of services delivered with existing resources.
- £0.41 million from reduced costs through improved contract terms.
- £0.32 million from a reduction in the cost of borrowing.

Progress on delivery of the council's best value improvement plan

137. A full review of best value and community planning was published in April 2009. At that time the Accounts Commission noted their concern regarding the council's limited progress in delivering best value and with the council's financial position. The Accounts Commission requested a further best value review was carried out as at 31 March 2010. A follow up review was carried out in spring 2010 and the progress report was published in June 2010. The Accounts Commission was pleased with the progress the council made in 2009/10. It acknowledged that many elements of best value were in place and a culture of continuous improvement was developing. The commission noted however, that many activities and developments were still at an early stage and much still needed to be done.

138. The council responded to the April 2009 best value report by agreeing an improvement plan in July 2009. The plan was structured around the twelve improvement strands highlighted in the best value report. The plan included delivery milestones and details of the relevant responsible officers. Progress made against the improvement plan has been regularly reported to the leadership panel. The corporate and community planning standing scrutiny panel has also been considering individual improvement strands in more detail. There is now a need to review the improvement plan to take account of the 2010 best value progress report. The council has plans in place to review the improvement plan, best value progress report and the assurance and improvement plan.



139. The 2009 improvement plan included the need to improve the council's service review process as previous reviews were found to have had little impact on service performance. In October 2009 the council rationalised the number of reviews and linked them to budget savings. This revised programme was mainly a continuation of previous activities. The council has acknowledged that it needs a more systematic and strategic approach to reviewing and improving services. Draft guidance has been prepared. This remains a crucial area which requires to be developed and improved. Reviewing and improving services should feature in any revised improvement plan.

Outcomes

140. The first annual performance report on the 2009/12 SOA was presented to the CPP Board in May 2010. The overall assessment showed that 45 of the 67 high level indicators, where data was available, met or exceeded the target for 2009/10. A summary of the progress made in 2009/10 against each SOA theme is summarised below. As previously mentioned, there have been issues collecting data to allow reporting of all indicators. The summary below therefore only includes indicators where data was available.

Prosperity, learning and achieving - The current economic climate has presented challenges for this theme. Despite this, the CPP has reported positive outcomes for the following:

- The number of companies in South Ayrshire planning redundancies that are supported by the Economic Task Force.
- The mean gross weekly earnings.
- The area of retail space refurbished.
- The percentage of the road network considered needing maintenance treatment.
- The percentage of the working population with no qualifications.
- The formation of a new knowledge transfer partnership.

No data was available to report the number of new business start ups but the actions supporting the indicator show lower numbers of start ups in 2009/10.

Children, young people and families - Again positive outcomes have been reported in the majority of indicators. Positive outcomes were reported in the following areas:

- The number of young people participating in positive activities.
- The percentage of pupils who positively report their development as successful learners, confident individuals and responsible citizens.
- The percentage of school leavers going onto positive destinations.



- The number of participants in pupil and youth forums.
- The number of children living in poverty.
- The number of children re-registered on the child protection register.
- The number of children housed in temporary accommodation.
- Pupil achievements in the Scottish Credit and Qualification Framework has improved with the exception of the percentage of S4 pupils achieving 5 or more awards at level 4 or better by the end of S6.

Healthy and caring - This strategic objective has proved to be a challenge with mixed results emerging. Positive outcomes have however been reported in the following areas:

- The number of care home packages of over 10 hours per week for people aged over 65 years of age.
- The number of people receiving incapacity or severe disablement allowance.
- The percentage of homeless households assessed as having a priority need.

The following areas have not had positive outcomes:

- The rate of hospital admissions with a primary diagnosis of asthma, diabetes, coronary heart disease or chronic obstructive pulmonary disease.
- Premature mortality rates in the under 75 age group in relation to coronary heart disease.

Safe and supported - Once again a mix of outcomes has been reported. Again some areas have posed challenges. Positive outcomes have been reported in the following areas:

- The total number of crimes of violence.
- Detections for possession of knives.
- The number of domestic abuse incidents reported.
- The number of crimes of vandalism.
- The number of deliberately set fires.
- The percentage of residents stating that they feel very safe or fairly safe when walking alone in the neighbourhood after dark.
- The number of people killed or seriously injured in road traffic collisions.
- The number of fire related fatalities and casualties.



The following areas have not had positive outcomes:

- Detections for possession of offensive weapons.
- Detections for drug related crimes.

Clean, attractive and sustainable - Positive outcomes have been reported in the following areas:

- The number of schools achieving eco-school “Green Flag” status.
- The number of affordable new homes completed and occupied.
- The cleanliness of local streets.

There has however been a decline in the percentage of the population rating their neighbourhood as “very good”.

Risk management

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

142. The council has made good progress with risk management during 2009/10. External consultants assisted the council to revise the risk management strategy, strategic risk register and associated plans. Risk ownership has been established for the top thirteen strategic risks. Systems are now in place to ensure risks are being reviewed and managed. The council now must focus on embedding the risk management culture and ensure that responsibility, accountability, reporting and scrutiny arrangements included in the risk management strategy continue to be adhered to.

Outlook

143. We have already mentioned the importance of developing the governance aspects of the SOA; the performance management aspects are also important. The long term and complex nature of many of the outcome targets pose many challenges for performance management. We recognise the challenges and, whilst we have no plans to audit the outcome progress reports in 2010/11, we will pay attention to the systems in place to monitor progress and take remedial action.

144. The Accounts Commission approved a new approach to best value in July 2010. South Ayrshire Council received a follow up best value audit in June 2010. The timing of South Ayrshire Council’s next best value audit will be determined by a risk assessment.



Appendix A

External audit reports and audit opinions issued for 2009/10

Title of report or opinion	Date of issue	Date presented to the Corporate and Community Planning Standing Scrutiny Panel
Governance		
Review of internal audit	January 2010	18 February 2010
Annual audit plan	February 2010	18 March 2010
Assurance and improvement plan	June 2010	26 August 2010
Review of main financial systems	June 2010	26 August 2010
Data management audit	June 2010	26 August 2010
Financial statements		
Report to the Corporate and Community Planning Standing Scrutiny Panel in terms of the ISA 260 (communication of audit matters to those charges with governance).	23 September 2010	23 September 2010
Proposed audit opinion on the 2009/10 financial statements *	23 September 2010	23 September 2010

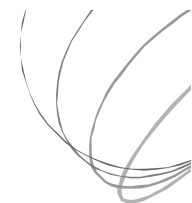
* Actual audit opinion (audit certificate) signed on 30 September 2010.



Appendix B: Action plan

Key risk areas and planned management action

Risk area	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	12	<p>Bank reconciliations</p> <p>During 2009/10 the council did not operate satisfactory internal control activities with regards to timely and complete reconciliations of its bank accounts to ledger.</p> <p>Risk: The financial statements are inaccurate and council funds may be misappropriated.</p>	<p>All bank reconciliations for 2009/10 were completed prior to conclusion of the audit and officers will ensure that all future reconciliations are completed timeously.</p>	Head of Corporate Resources	ongoing
2	17-19	<p>National fraud initiative</p> <p>Limited progress has been made in addressing NFI matches to date. The council has concentrated on high priority matches.</p> <p>Risk: The full potential savings may not be achieved and fraud is not identified.</p>	<p>The council has recognised the limited return from previous exercises and committed to reviewing only high priority matches. The council will be participating in the next NFI exercise.</p>	Head of Corporate Resources	ongoing
3	23-24	<p>Trust funds</p> <p>OSCR require that a full set of financial statements is prepared for each registered trust fund from 2010/11.</p> <p>Risk: There is a risk that the council does not comply with the financial reporting requirements of OSCR.</p>	<p>A full set of financial statements will be prepared for each OSCR registered trust fund.</p> <p>Officers are currently developing proposals to re-organise social trusts and bequests and improve the administration arrangements.</p>	Head of Corporate Resources	<p>June 2011</p> <p>December 2010</p>



Risk area	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	32-37 57-58	<p>Financial position</p> <p><i>Reserves</i></p> <p>The council must continue to review general fund reserves to ensure they are maintained at sufficient levels.</p> <p>Risk: The council is unable to meet unexpected events.</p> <p><i>Funding reductions</i></p> <p>The council is facing significant funding cuts over the next few years. The achievement of efficiency savings will be vital for the council.</p> <p>Risk: The council does not have sufficient resources to deliver its priorities.</p> <p><i>Repair and renewal fund</i></p> <p>The fund should be reviewed to ensure the balance is sufficient for the purposes intended.</p> <p>Risk: The fund is not used as intended. The fund may be insufficient to meet intended needs.</p> <p><i>Financial planning</i></p> <p>The council does not have any medium or longer term financial plans.</p> <p>Financial plans are not well integrated with service plans.</p> <p>Risk: The council is not able to adequately deal with funding restrictions and their implications for council services.</p>	<p>The council is committed to maintaining general fund reserves at sufficient levels.</p> <p>The council recognises the financial challenges ahead and will deliver the required reductions in line with the approved financial strategy.</p> <p>A review of the purpose and adequacy of all funds will be undertaken as part of the 2011/12 exercise and in the development of medium/long term financial plans.</p> <p>Medium/long term financial plans will be developed on receipt of 3 year settlement figures.</p> <p>Work will continue to integrate financial plans with service plans.</p>	Executive Director – Corporate Services	Sustained activity



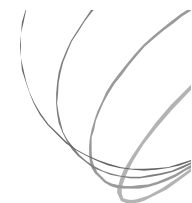
Risk area	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	38-39	<p>Housing <i>Housing revenue account</i></p> <p>The housing revenue account balance and the housing business plan require to be reviewed.</p> <p>Risk: The council does not make best use of its funds to improve the housing stock. There is a risk that the current level of funds is insufficient to meet unforeseen events.</p>	<p>The housing business plan is currently under review and the outcome will be presented to elected members prior to rent setting in January 2011.</p>	<p>Head of Community Care and Housing</p>	<p>January 2011</p>
6	44-46	<p>Capital programmes</p> <p>Delivery on the capital programmes has improved in recent years. There is a need to continue to closely monitor capital programmes and also to develop longer term capital programmes.</p> <p>Risk: Without longer term capital programmes in place, there is a risk that projects cannot be advanced when slippage or additional funding is identified.</p>	<p>The strategic capital programme management group will ensure the improvements in delivery are maintained and that a longer term programme is developed.</p>	<p>Head of Property and Neighbourhood Services/ Head of Corporate Resources/Head of Service and School Management</p>	<p>Ongoing</p>
7	52-56	<p>Icelandic bank investments</p> <p>The council should continue to monitor activities nationally regarding recovery of funds invested and take appropriate action.</p> <p>Risk: The maximum return is not achieved.</p>	<p>The council will continue to monitor the extent of any potential loss as new information emerges from the bank's administrators.</p>	<p>Head of Corporate Resources</p>	<p>Ongoing</p>
8	59-62	<p>Asset management</p> <p>The council has made good progress in starting to develop a corporate asset management plan. The council should ensure work continues to ensure the asset management plan is completed by the March 2012 deadline.</p> <p>Risk: Assets are not being used effectively.</p>	<p>The council will continue to develop the asset management plan in line with the agreed timetable.</p>	<p>Head of Property and Neighbourhood Services</p>	<p>Ongoing</p>



Risk area	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
9	63-68	<p>Procurement</p> <p>The council should ensure the action plan in place following the Scotland Excel assessment is progressed and relevant actions implemented.</p> <p>The council should continue to work with partners to seek collaborative procurement opportunities and related efficiency savings.</p> <p>Risk: Procurement activities are not achieving best value.</p> <p>Planned procurement efficiency saving are not achieved.</p>	<p>The council is taking steps to ensure conformance with the procurement capability assessment.</p> <p>The council continues to work with partners to seek collaborative procurement activities and deliver efficiency savings.</p>	Head of Corporate Resources	Sustained activity
10	69-74	<p>Managing people</p> <p><i>Workforce strategy</i></p> <p>The council is in the process of developing a workforce strategy.</p> <p>Risk: The council does not have the appropriate workforce in place to deliver desired outcomes.</p>	The council is committed to the delivery of a workforce strategy by April 2011.	Head of Human Resources and OD	April 2011
11	78-79	<p>ICT</p> <p><i>Oracle</i></p> <p>The council has been in the process of implementing the Oracle e-financials system since 2003.</p> <p>The council plans to implement the Oracle payroll/HR module in order to help deliver future efficiency savings.</p> <p>Risk: There is a risk that the module is not progressed on a timely basis and planned efficiencies are not achieved.</p>	<p>The council are committed to the roll out of I-procurement by spring 2011 which will significantly reduce the reliance on CFACS.</p> <p>Officers continue to progress the Oracle HR and payroll modules</p>	<p>Head of Corporate Resources</p> <p>Head of Human Resources and OD</p>	Ongoing



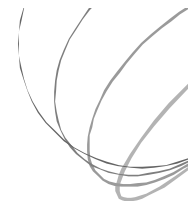
Risk area	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
12	82-83	<p>Shared services</p> <p>The council has made limited progress with shared services.</p> <p>Risk: The shared service agenda is not fully embraced and opportunities to achieve savings missed.</p>	<p>The council have agreed to the creation of a joint committee/joint board to undertake regulatory functions across Ayrshire.</p>	<p>Executive Director – Development and Environment</p>	<p>April 2011</p>
13	89-99	<p>Vehicle tracking system tender</p> <p>We have concerns over the lack of information provided to members regarding the above contract. Standing orders were breached regarding this contract.</p> <p>Risk: Members cannot make informed decisions to ensure value for money is achieved.</p> <p>The council may be exposed to legal challenge.</p>	<p>Officers acknowledge the need to ensure that elected members are provided with sufficient information on which to take decisions.</p> <p>Standing orders relating to contract have been updated – October 2010.</p>		
14	104-108	<p>Community planning and partnership working</p> <p>SOA</p> <p>The SOA is not yet fully developed and baseline data and targets are not yet agreed for all indicators. Targets in the SOA are not specific. Data collection issues have meant performance reporting is not as effective as planned.</p> <p>Risk: Outcomes are not achieved.</p> <p>Outcomes are not challenging.</p> <p>The CPP is unaware if outcomes are being achieved.</p>	<p>Following with the Scottish Parliament elections in May 2011, clarity is expected on whether the SOA approach is to continue being supported by Government, amended or replaced with something else. At that point, the SOA will be revisited with the Community Planning Board. In the interim, efforts will continue to ensure that data collection improves and that challenging targets are set.</p>	<p>Head of Policy, Performance and Communication</p>	<p>June 2011</p>



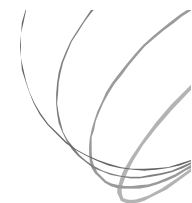
Risk area	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
15	112-115	<p>Customer service <i>Contact centre/service centre</i> The telephone contact centre is not yet achieving its performance targets. Performance information is not available to adequately assess the effectiveness of the centre. Risk: Customer service is below council standards.</p>	The council will continue to develop performance information.	Head of Customer and Community Services	Ongoing
16	120-123	<p>Vision and strategic direction <i>Vision</i> The council vision and the community plan are not yet fully aligned. Risk: The council and CPP objectives are inconsistent.</p>	A revised community plan will be drawn up next year which will fully reflect the council's vision.	Head of Policy, Performance and Communication	June 2011
		<p><i>Corporate plan</i> The corporate plan objectives require to be prioritised. Risk: Limited resources are directed to inappropriate activities.</p>	The council agreed priorities in October 2010. These will be used to shape the next versions of the corporate and directorate plans.	Executive Directors	April 2011
		<p><i>Resource alignment</i> There needs to be a clear link between resource plans and directorate, service, and corporate plans. Risk: Resources are not effectively distributed to council priorities.</p>	The next version of the corporate and directorate plans will start this process and it will be continually refined over subsequent planning cycles		April 2011
		<p><i>Service plans</i> Service plans are in place but vary in format and quality. Risk: Service plans do not effectively support the achievement of corporate objectives.</p>	Service plans are considered to be local documents and thus should be designed to meet local needs. It is not the intention to seek to standardise these. However, effort will be made to improve their quality.		April 2011



Risk area	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
17	124-125 129-133	<p>Performance management <i>Performance management framework</i></p> <p>The council must ensure resources are directed to ensure the performance management framework is embedded in operational practices.</p> <p>Risk: Performance management does not support the delivery of high quality services and provide meaningful and balanced reports on the council's performance.</p> <p><i>Systems</i></p> <p>The council has decided to implement the Covalent performance management system and the "How Good is our Council" self evaluation model. The implementation must be effectively managed to ensure both systems are fully operational as soon as possible.</p> <p>Risk: The council is unable to demonstrate if outcomes have been achieved.</p> <p>The council cannot carry out self evaluation effectively.</p> <p><i>Performance reporting</i></p> <p>In embedding the performance management framework the council needs to ensure that reporting of progress made against each corporate aim is an overall picture of progress made and is supported by relevant performance indicator information.</p> <p>Risk: Supporting information is not available for published performance information.</p>	<p>The council has agreed the "Performance Management Framework". Implementation of that framework is now underway commencing with Covalent which will become fully operational in April 2011.</p> <p>The council has begun mapping out its programme of self-evaluation beginning with a corporate assessment at the start of 2011.</p> <p>Improvements in the quality and robustness of performance reporting are key aspects of the "Performance Management Framework".</p>	Head of Policy, Performance and Communication	<p>April 2011</p> <p>January 2011</p> <p>Sustained activity</p>



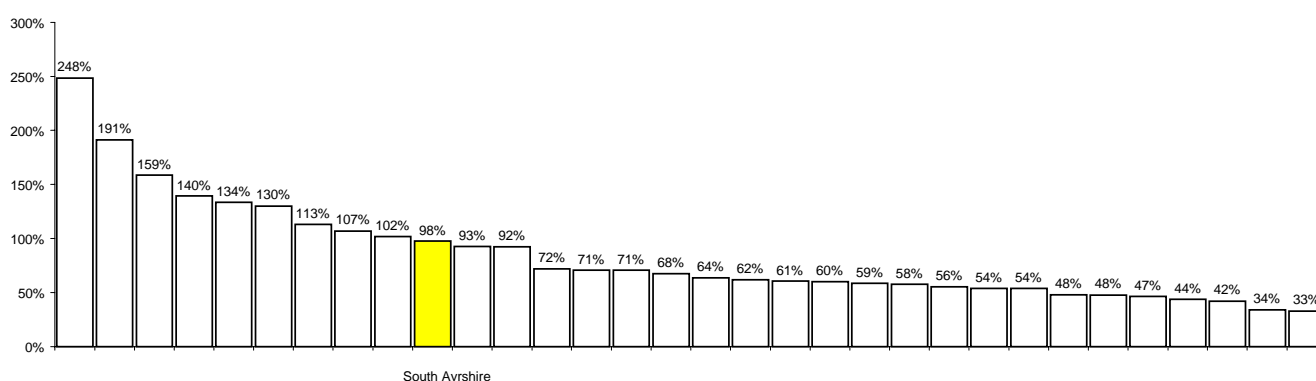
Risk area	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>Interpretation of performance information The performance measures report for 2009/10 includes 98 indicators which could not be assessed against a target. This is an area the council requires to develop as part of the embedding of the performance management framework. The council also requires to be able to better interpret trends in performance information to ensure the council is achieving what was planned or budgeted for.</p> <p><i>Risk: The council is unable to demonstrate if planned objectives and outcomes have been achieved.</i></p>	<p>Adopting Covalent will improve our ability to identify performance areas where data collection work needs to be considerably improved and will facilitate better use of performance information to drive up standards. We would expect to see considerable improvements in this area in the coming year.</p>		<p>Sustained activity</p>
		<p><i>Accuracy of performance indicators</i> As reported in previous years, there remains an issue around the accuracy of the performance information being reported.</p> <p><i>Risk: Inaccurate and unreliable performance information is published.</i></p>	<p>Adopting Covalent is expected to support officers' awareness of data accuracy. The opportunity will be taken to remind the performance and business managers of the importance of information being accurate.</p>		<p>Sustained activity</p>



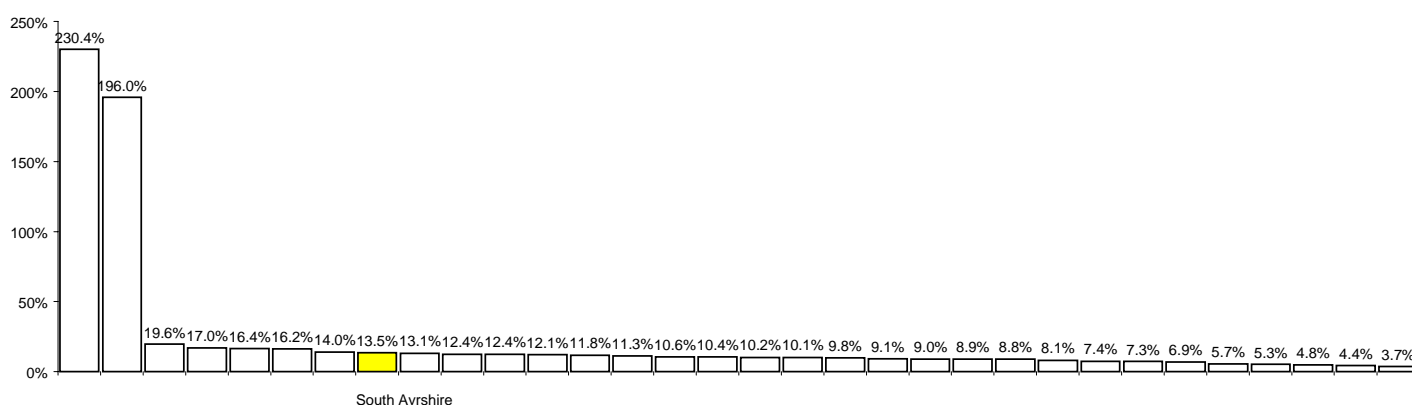
Appendix C: Accounting ratios

Each chart shows where South Ayrshire Council sits in the range of all 32 Scottish Local Authorities based on their audited 2009/10 financial statements.

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

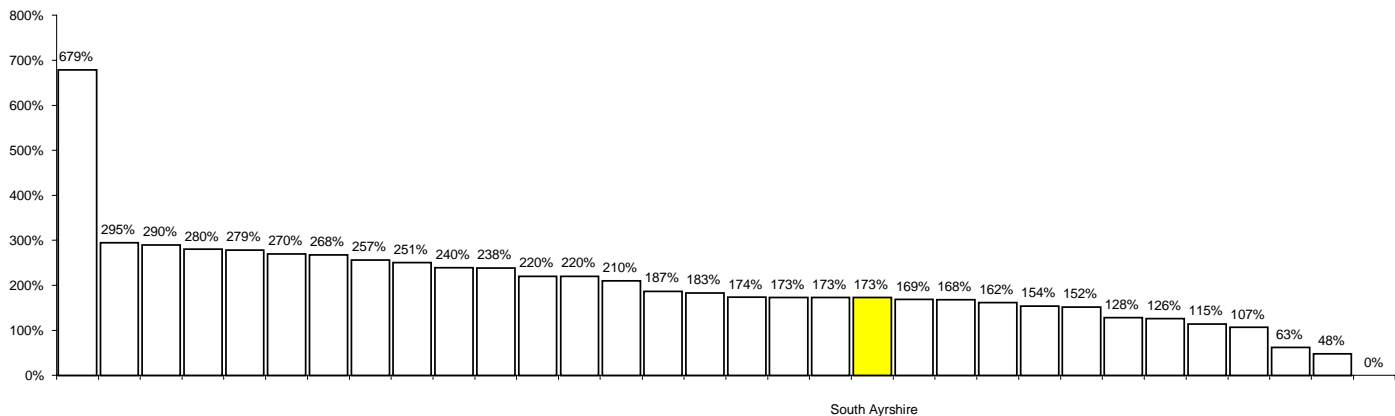


Useable reserves as a percentage of net operating expenditure





Long term borrowing as a percentage of council tax and NDR income



Long term assets as a percentage of long term borrowing

