

South Ayrshire Council

Report to Members and the Controller of Audit

on the 2006/07 Audit



October 2007



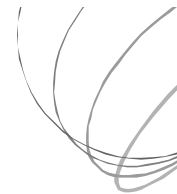
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Key messages

Introduction

In 2006/07 we looked at the key strategic and financial risks being faced by South Ayrshire Council “the council”. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our main findings, summarising key outcomes in 2006/07 and the outlook for the period ahead.

Key outcomes from 2006/07 audit

We are pleased to have given an **unqualified** opinion on the 2006-07 financial statements and we were able to conclude that the ‘Annual Accounts’ presents fairly the financial position for the period to 31 March 2007.

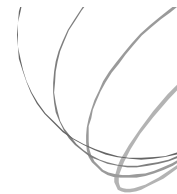
There are significant concerns regarding the council’s financial position. Despite service departments under spending by £4.9 million against budget in 2006/07, a general fund deficit of £1.735 million for 2006/07 was achieved, mainly due to equal pay act claims and staff severance costs. This deficit position when added to the general fund balance brought forward from previous years resulted in an overall deficit of £0.507 million in the general fund.

The council has agreed to build up the general fund balance to achieve an uncommitted balance of £2 million by 2009/10. Officers have a recovery strategy in place to return the general fund back into surplus and meet the council objective of having a £2 million uncommitted general fund balance by March 2010. This strategy will however require difficult decisions to be implemented.

The general services capital programme and the housing capital investment programme experienced slippage totalling £9.1 million against budgeted spending of £23.65 million in 2006/07. Slippage of this level (38%) has a significant impact upon plans to improve services through the purchase of new assets or enhancing existing assets as agreed by elected members. It also has an adverse effect upon the council’s ability to demonstrate good asset management.

There is a lack of business continuity and disaster recovery planning as well as the omission of an information and communications strategy. The council has taken steps to address these issues.

In order to claim efficiency savings under the Scottish Government’s efficient government initiative, councils are required to demonstrate that service outcomes have been maintained or improved. At present the council does not have a plan in place to address the efficient government agenda. An officer group has been set up to look at this area however, it will be extremely challenging for the council to deliver savings while managing the impact on services, service users and the council’s overall objectives.



The council faces significant challenges ahead with limited resources and severe budget pressures. Following an initial self-assessment process the council produced a best value improvement plan. The plan requires significant work before the council can claim to promote best value principles. Elected members and senior officers must provide strong leadership so that the council can start to attempt to meet its aspiration of being “the most dynamic, vibrant and sustainable community in Scotland”. (policy and resource committee 4/4/07)

The council agreed a new vision and overall direction in April 2007, however there is an absence of a strategic framework in place to support this vision. Whilst the council has recognised the need to put long term strategies in place, these are at various stages of development. At present, there are no robust and demonstrable processes in place to ensure that corporate strategies and objectives are supported by service, workforce, information technology, financial and asset management plans.

The council does not currently have a corporate performance monitoring system in place which measures performance based on outcomes for service users. Key stakeholders therefore have difficulty in establishing a link between resources applied, performance levels attained and if efficiencies have been achieved. This area is of prime importance as the new Scottish Government expects outcome agreements to be put in place for all Scottish councils by April 2008.

Outlook for future audits

In the course of our work we identified some of the strategic risks that the council will need to manage in delivering on its stated objectives and priorities. These can be grouped into the following themes:

- Managing performance to achieve best value.
- Ensuring the future affordability and sustainability of services.
- Good governance and real accountability.
- Community planning and effective partnership working.
- Securing the efficient use of resources.

Significant risks

The council's general fund reported a deficit position at the end of 2006/07 and whilst a recovery strategy is in place, the projected financial position in future years is extremely challenging. In addition, it is not clear what impact the government's new comprehensive spending review will have in relation to the local government settlement and council tax levels. Budgets will need to be closely monitored to adapt to such pressures.

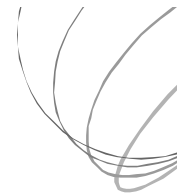


In common with many other Scottish councils, South Ayrshire Council has sought to limit its exposure to the financial risk associated with equal pay claims by agreeing to offer payments to specific groups of employees as part of a compensation package. While moves to agree compensation payments will help to reduce financial risk in this area to some extent, some risk remains while existing pay and reward structures are in place. The implementation of the single status agreement in the council has been delayed and this represents some financial risk to the council during a period of limited resources and severe budget pressures.

This report and the other outputs from the 2006-07 audit will be considered during the best value audit review scheduled to begin in 2007-08.

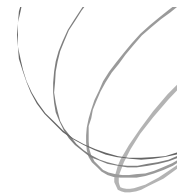
The co-operation and assistance given to us by members and officers over the last year is gratefully acknowledged.

Audit Scotland
October 2007



Introduction

1. South Ayrshire has an attractive environment with a number of local tourist attractions bringing in visitors to the area. The area has a good infrastructure network with effective road and rail links to Glasgow as well as having its own local airport providing daily flights to many European destinations.
2. This report summarises the findings from our 2006/07 audit of South Ayrshire Council, “the council”, the first year of a five year appointment. Findings are drawn together within four sections, namely, performance, financial position, governance and financial statements. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the council going forward.
3. The scope of the audit was set out in our audit risk analysis and plan (ARAP), which was submitted to the council's leadership panel on 5 June 2007. Under the following strategic themes, the ARAP set out our views on the key business risks facing the council and described the work we planned to carry out:
 - Managing performance to achieve best value.
 - Ensuring the future affordability and sustainability of services.
 - Good governance and real accountability.
 - Community planning and effective partnership working.
 - Securing the efficient use of resources.
4. Overall conclusions about the council's management of key risks are discussed throughout this report.
5. We also undertook a number of detailed exercises which resulted in separate audit reports, for example, a review of progress made in implementing the council's “Strategy for Success” improvement programme, as well as a computer services review and a review of the main financial systems. Within this report, we highlight key messages from those separate reports for the consideration of members. Appendix A of this report sets out the key risks highlighted in this report which we wish to draw to the attention of members and the action planned by management to address them.
6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members during the course of our audit work.



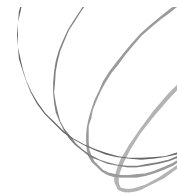
Performance

Introduction

7. In this section we summarise key aspects of the council's reported performance during 2006/07 and provide an outlook on future performance, including our views on the current status of identified risks. We also comment on the forthcoming best value audit and the findings of national performance audit studies.

Corporate objectives and priorities

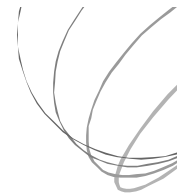
8. The council's business plan for 2005-2008 was refined following the change in administration in December 2005. In refining the plan, it was agreed that a new vision for South Ayrshire Council was required which would positively address the likely challenges and opportunities for the next ten to fifteen years. The current business plan is set out in five themes, which cut across a variety of services:
 - A prosperous South Ayrshire.
 - A healthy and caring South Ayrshire.
 - A safe South Ayrshire.
 - A learning and achieving South Ayrshire.
 - A clean and attractive South Ayrshire.
9. A review of the business plan in May 2006 indicated there was a need to address a wide range of key management issues over the next twelve to eighteen months, including the development of a new vision and subsequent revision of the business plan and service plans for South Ayrshire Council. In response the chief executive prepared a strategy to address these key issues entitled "Taking the Council Forward- a Strategy for Success" (the strategy). The key issues to be addressed by the strategy are as follows:
 - Establishing a new vision for South Ayrshire.
 - Developing leadership capacity to deliver that vision.
 - Ensuring that planning arrangements flow cohesively from that vision.
 - Ensuring resource management reflects that vision and optimises their utilisation.
 - Revitalising review processes to ensure policies and services are delivered effectively.
 - Developing performance management arrangements to evaluate our effectiveness.



10. The original strategy agreed in September 2006 included sixteen actions, one of which was to undertake a best value self assessment exercise. This resulted in an additional nine themes being added into the work programme, to ensure that it reflected a comprehensive best value improvement plan. The nine additional themes are as follows:
 - Values and culture.
 - Innovation and joint working.
 - Procurement strategy.
 - Sustainable development
 - Follow up of the council restructuring exercise.
 - Accountability.
 - Consultation.
 - Equalities.
11. As part of the strategy, a new vision statement was agreed on 4 April 2007. This has been developed since the May 2007 elections, to produce a draft vision document, which is being advanced as a cross party document, following workshops and discussions involving all councillors. It is expected that this draft document, containing priorities, strengths and challenges will be formally agreed by the leadership panel in December 2007. Following approval, the business plan and services plans require to be reviewed and redirected to ensure all plans reflect corporate priorities.
12. At present comprehensive service plans are not fully in place for all departments, other than for development, safety and regulation. Social work, housing and health have a rolling working draft service plan which is being used to populate service plan templates. We have been advised that these will be monitored through the council performance management system from November 2007 onwards. Education, culture and lifelong learning have developed a draft service plan for 2007/08. We understand that this has recently been finalised by the departmental management team and again from November 2007 onwards, will be monitored via the corporate performance monitoring system. The chief executive's department are currently reviewing service plans in response to the new corporate vision and have a target date for completion of December 2007. It is important that progress is made in ensuring there is linkage between service plans and corporate plans to corporate priorities.

Key risk area 1

13. The achievement of the council's best value improvement plan will require a significant amount of work, drive, commitment and collaboration by the members, the chief executive and chief officers in



the council. The council faces significant challenges ahead with limited resources and effective leadership will be required to enable the council to deliver its objectives.

Key risk area 2

14. Going forward, the council requires to develop an integrated approach to improvement. The council's resource and capacity issues could possibly be managed by improving engagement with staff, communities and partners.

Overview of performance in 2006/07

Performance reporting

15. Being able to assess the council against its corporate priorities and objectives and being able to easily identify if service outcomes are improving or declining is vital for members, management and stakeholders in order that they can hold the council to account for its performance. This area is of prime importance as the new Scottish Government expects outcome agreements in place for all 32 local authorities in Scotland by April 2008. Initially these agreements may contain high level outcomes and councils are expected to follow this by putting in place detailed local outcomes for service users. Performance monitoring systems which measure and monitor outcomes therefore require to be in place.
16. In South Ayrshire Council, it is not easy to establish if the business plan objectives have been achieved. The only comprehensive performance report provided to members is the annual report on the statutory performance indicators. The current business plan requires to be updated and it is not supported by comprehensive departmental service plans. The service plans that are in operation are not fully integrated with resources and performance monitoring and performance measurement does not compare cost against quality across all departments. In order to address these issues, a "Balanced Scorecard" methodology is being developed based on the recommendations of a member officer working group. The group reviewed the way that progress against the business plan had been previously reported, agreed that an outcome based focus was required, and undertook initial hands on work of what a balanced scorecard against selected business plan priorities would look like.

Key risk area 3

17. This matter is being addressed as part of progress against the best value improvement plan with continuing development of an updated business plan with interlinked service plans and a comprehensive performance monitoring system using balanced scorecard methodology.
18. The council have a public performance reporting strategy in place. An annual council calendar is produced reporting the performance of services on each page. In addition a twice yearly "South



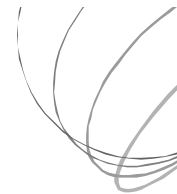
Ayrshire Update” is published in a newsletter format providing performance information. The last update was published in July 2007 and contained details of the new decision making structure in the council as well as performance statistics. The public reporting strategy has a third level of reporting which has yet to be developed even although the strategy was agreed in 2004. This third level would report the council's performance in more detail.

19. The current public performance reporting could be improved. The calendar is not delivered to all households due to the cost implications but is available for collection at council offices. The South Ayrshire Updates have in the past tended to concentrate on the areas of good performance rather than to provide a comprehensive overview of performance across all services. Detailed reporting of performance to ensure full accountability and transparency is expected to be achieved following the implementation of the balanced scorecards to all departments.

Key risk area 4

Statutory performance indicators (SPIs)

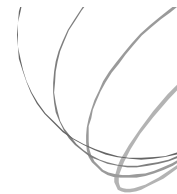
20. The indicators are one way of measuring the council's comparative performance against both previous year's performance and the performance of other Scottish local authorities.
21. Each year we review the reliability of the council's arrangements to prepare SPIs. Overall, the quality of working papers provided to support the SPIs was good, however, two indicators were classified as unreliable for 2006/07. Insufficient information was available to support the indicator measuring the usage of museum services and we were unable to verify the number of people visiting museums and the number of enquiries made to museum staff. The indicator measuring the percentage of abandoned vehicles removed by the council within fourteen days of being reported was also deemed unreliable as the information provided to verify this indicator was incomplete.
22. Overall when comparing performance in 2006/7 with that over the two year period from 2004/05, the council's performance worsened by 5% or more in fifteen SPIs and performance improved by 5% or more in twenty one indicators. Thirteen of these indicators improved by 15% or more over this period. Significant areas where performance improved by more than 15% over the two year period were:
 - The cost of refuse disposal per property and the percentage of waste recycled by the council.
 - The level of current tenant arrears, as a percentage of the net amount of rent due in the year.
 - The percentage of homeless cases reassessed as homeless or potentially homeless within twelve months of previously being homeless.
 - The percentage of council and privately owned bridges which were assessed and failed to meet the European standard of being able to carry forty tonnes.



- Benefits processing times and administration costs per benefit application.
- The average number of hours taken to complete community service orders.
- The percentage of the highest 2% and 5% of paid earners within the council which are women.
- The number of users of council information technology services and the number of time these computer terminals are accessed.
- The number litigation claims per 10,000 population.

23. Performance has declined significantly, by 15% or more from 2004/05 in ten indicators. The areas of concern are:

- The percentage of residential care places occupied by older people that have en-suite facilities has deteriorated.
- The number of complaints regarding refuse collection per 1,000 households. Officers have attributed this deterioration to the difficulties experienced in servicing new private housing estates prior to their completion along with the impact of the disaggregation of the former environment and infrastructure department on the workforce.
- Sickness absence - the percentage of working days lost through sickness for chief officials and local government employees. In addition, the same indicator for craft employees has also worsened by more than 15% since 2004/05 although there was a slight improvement in 2005/06 followed by a fall again in 2006/07. This is an area the council realises must be addressed and has been identified as a risk in the strategic risk register where actions have been identified to control and improve absence levels. Large amounts of sickness absence may have an adverse effect upon the council's ability to provide optimum levels of services and deliver on corporate objectives.
- The percentage of current tenants owing more than thirteen weeks' rent and over £250 at 31 March 2007. We have been informed that work is being undertaken to maximise the recovery of arrears.
- The percentage of council house sales completed within twenty six weeks. We have been advised that the actual average time to sell council houses is currently twenty seven weeks.
- The average time between presentation of homeless applicants and completion of the council's duty to house homeless applicants. Officers have advised that the average time to house homeless people has increased for several reasons. The first reason is due to a policy change that requires homeless applicants to receive two offers of accommodation instead of one offer as in the past. The demand from homeless applicants for limited numbers of one and two bedroom properties has also lead to delays in providing suitable accommodation. In addition, there has been an increase in the number of appeals from applicants against the offers of accommodation



made. Homeless applicants also experience difficulty in securing alternative accommodation whilst in temporary accommodation.

- The percentage of the national target for replenishment of library lending stock for adults and children has declined. Preparation for an upgrade to the library management system is currently underway which we have been advised is resulting in a review being undertaken of all library stock.
- The number of borrowers of library books measured as a percentage of the resident population. Although the number of borrowers is down, the number of visits to libraries is high which may indicate that the libraries are being used not just to borrow books.

Best value audit

24. The Local Government in Scotland Act 2003 established best value and community planning as statutory duties for local authorities. In response the Accounts Commission introduced new arrangements for the audit of best value based on a full review by a specialist team once every three years. In the intervening years short follow-up reviews are carried out by the local auditor.
25. South Ayrshire Council has not yet been subject to a best value audit. We anticipate that the council will receive an audit in 2008. A number of the areas to be covered by the best value audit have been discussed throughout this report.

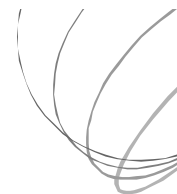
Performance outlook – opportunities and risks

Introduction

26. In the course of our audit work we identified some of the strategic risks to the council delivering on its stated objectives and priorities in the years ahead. These risks were set out in our ARAP and grouped into five risk themes. In the following paragraphs, we comment on the progress made by the council during the year and the key risks yet to be fully addressed. Where appropriate, matters arising in a number of these areas are also reported in more detail elsewhere in this report. Risk exists in all organisations which are committed to continuous improvement and, inevitably, is higher in those undergoing significant change. The objective is to be “risk aware”, and have sound processes of risk management, rather than “risk averse”. Indeed, organisations that seek to avoid risk entirely are unlikely to achieve best value.

Managing performance to achieve best value

27. The council is facing requirements to provide more responsive, joined up services often in partnership with other agencies. The Scottish Government’s efficient government initiative expects savings to be

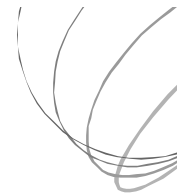


generated through service design, streamlining bureaucracy and shared service support. Failure to deliver improved services and outcomes could place pressure on resources.

28. During June 2007, we reviewed progress made in addressing the issues identified in the council's 'Strategy for Success / the council's best value improvement plan' and reported that whilst progress had been made there was still a considerable amount of work required in order that all issues from both the original strategy and the best value service review process are addressed. Slippage was noted on several of the key improvement areas and it was recommended that the council does everything possible in order to bring the strategy back on track.
29. As already mentioned the council business plan and related service plans require to be reviewed and updated. Performance monitoring is focused on processes rather than outcomes for service users. These issues are being addressed as part of the best value improvement plan and are essential to ensure resources plans and performance measurement all work towards the corporate priorities. These areas are covered in more detail at paragraphs 11 to 17.
30. In order to claim efficiencies under the Scottish Government's efficient government initiative, the council needs to demonstrate that service outcomes have been maintained or improved. Performance monitoring is not based on outcomes for service users and it is not easy to demonstrate whether outputs and outcomes have been maintained, improved or deteriorated and if efficiency savings have been achieved. The balanced scorecard methodology is being piloted and will be rolled out to all departments. This will be the main vehicle used by the council to measure outcomes and performance.

Key risk area 5

31. One of the main efficiency saving areas in the efficient government initiative is procurement. The council does not yet have an approved procurement strategy in place. Without a procurement strategy, supporting policies and procedures, and the availability of detailed management information on procurement activities it will be difficult to identify efficiency savings from this area. The council is developing its procurement arrangements. Procurement is covered in more detail at paragraph 126.
32. As already mentioned at paragraph 16, performance monitoring is not consistent across the council. The only overall performance reported to members is based on the statutory performance indicators. There are many local performance indicators but these are not fed into any overall framework. There is a risk that members, management and stakeholders are unable to assess outputs and outcomes adequately and respond accordingly to address any weaknesses. The council plan to address this issue through the introduction of the balanced scorecard methodology which has been piloted in the development, safety and regulation department. The corporate management team (CMT) and heads of service plan to review the next steps required to take balanced scorecard forward in October 2007.



This will involve creating strategy maps at service level along with service scorecards to include outcome statements and local performance indicators.

Key risk area 3

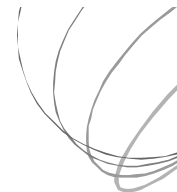
33. Communities Scotland identified weaknesses in service planning and performance management within landlord homelessness activities. They also noted that the council does not always meet its statutory duty to provide homeless people with temporary accommodation. The council put in place an improvement plan to address these issues. Progress has been continuing with a significant number of actions either completed or on target. A detailed update on the improvement plan accompanied by relevant evidence of improvement will be submitted to Communities Scotland in January 2008.

Ensuring the future affordability and sustainability of services

34. As already mentioned at paragraph 11, the council has developed a draft vision document 'securing the future for South Ayrshire', which it will use to reshape and redirect its plans. This outlines the longer term priorities of the council under four overall themes, which will be used to articulate the commitments it intends to progress within a revised business plan and updated service plans. At present there is considerable work required to ensure that these plans and strategies are introduced and performance is adequately monitored. Part of this exercise will include ensuring that corporate strategies are supported by service, workforce, financial, information technology and asset management plans and strategies. A significant amount of commitment will be required by both senior officers and elected members over the next few months to ensure that inter related corporate plans and strategies are put in place and thereafter performance is adequately monitored and reported.

Key risk area 1

35. In order to start to address some of the long term planning issues, a scoping paper to "develop updated resource management arrangements" has been drawn up. An exercise is underway which will be informed by business plan and service plan priorities once these have been reviewed, to ensure resources are being used to best effect as well as to scrutinise the resource implications of business plan priorities. The resources being reviewed in this exercise are financial, property, information technology and human resources.
36. The budget setting process and budget restrictions are the biggest challenge facing the CMT and problems exist in trying to match expectations to available resources. This area is covered in more detail in the "Financial Position" section of this report starting at page 21.



37. In order to address budget pressures, detailed savings proposals totalling £12 million were included in the 2007/08 budget. Whilst budgets are being closely monitored reports to committee have identified that a £2 million budget over spend is projected for 31 March 2008. We understand corrective action is currently being undertaken to address this issue.

Key risk area 6

38. We reported earlier this year in our ARAP that the sustainability agenda was not fully embedded in organisational structures and processes. We acknowledge that progress has been made and workshops have been held on climate change and carbon management. A carbon management project plan is in place and a draft climate change action plan is ready to be submitted for approval to the leadership panel. The council is aware that the sustainability agenda continues to require significant attention to ensure it is integrated into all processes and structures. The sustainability agenda is being monitored as part of the council's best value improvement plan.
39. We reported in our ARAP that whilst there was a strong commitment to asset management from both officers and members, an asset management strategy has not been put in place. We are aware however that an officer group is in the process of developing an asset management strategy. Asset management is covered in more detail at paragraphs 127 - 129.

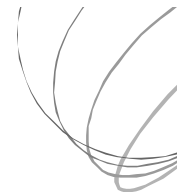
Key risk area 7

40. The council's workforce is of prime importance for the delivery of services. A strategic workforce plan linking corporate business plan objectives, financial plans and workforce plans is essential to ensure efficient use of employee resources. The strategic workforce plan has still to be agreed. Succession planning has traditionally been weak and this was also planned to be addressed as part of the implementation of the workforce plan. This is another area where progress has been delayed due to the lack of resources within the human resources department.

Key risk area 8

Good governance and real accountability

41. Forward planning prior to the May 2007 elections, meant the council was able to roll out an extensive programme of training for elected members as well as getting new decision making structures and standing orders for meetings in place immediately after the elections. This area is covered in more detail starting at paragraph 161.



42. The chief executive's department was restructured after the May 2007 elections in order to allow the chief executive to directly manage on the following four key priorities for the council:

- Strategic planning.
- Performance management.
- Change management.
- Joint working.

Three new senior officer positions have been created as part of this restructuring process. The assistant chief executive post will be responsible for finance, information technology, procurement and revenues and benefits together with the day to day HR operations. A new human resources strategist post will develop, review and monitor human resource policies and procedures. Finally a new corporate performance and change management officer will assist the chief executive in developing and co-ordinating the council's business plan, the performance management agenda and change management agenda.

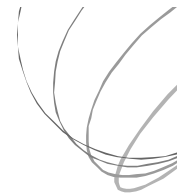
43. The council has a local code of corporate governance in place. A compliance statement is included within the annual statement of accounts signed by the chief executive and leader of the council. Progress made against the local code priorities are reported to the standards and governance panel.

44. Risk management is an essential component of the governance framework of the council. We previously reported in our ARAP that whilst a corporate risk register was in place, departmental risk registers required to be fully developed. As noted in the audit services/programme review manager's 'annual statement on internal controls', departmental risk registers are still not fully implemented in all departments. The council has committed to ensuring that risk registers are in place across all departments by 31 March 2008.

Key risk area 9

45. Our ARAP noted that due to budgetary restrictions, the council has difficulty in managing the expectations of stakeholders and the available resources in terms of funds, skills and relationships with partners. Following our report, the council agreed that public performance reporting and community engagement will be required to ensure the council gives an account and is held to account for its decisions. A public consultation officer network has been formed to develop standards and protocols, improve coordination, reporting and overall management of consultation processes across the council. The leadership panel agreed in September 2007 that the national standards for community engagement are the minimum standards to be adopted in all community engagement exercises and that the public consultation officer network will be responsible for disseminating these standards across departments.

Key risk area 6



Community planning and effective partnership working

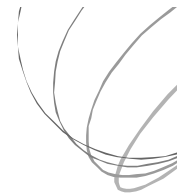
46. Increasingly councils are dependant on partnership working to deliver service improvements. This will become increasingly important with the Scottish Government's focus on outcome agreements as in many cases outcomes cannot not be improved solely through council provided services but require joint service provision with partners. There is a risk that partners are unable or unwilling to work effectively in a joined-up manner and as a result the best value of public resources and optimum service provision is not achieved.
47. The council's community plan, "A Better Future Together" was published in 2006 and outlines five high level targets designed to make South Ayrshire a better place in which to live and work. The plan covers the period 2006 to 2010.
48. The Audit Scotland report "Community Planning: an initial review" reported that while community planning partnerships had made progress, more work was required to show the positive impact upon public services. The council has carried out a review of its partnership to ensure best practice is achieved in relation to areas such as performance measures, joint risk registers and reviewing the effectiveness of operating as a partnership. The result of this review was an improvement plan which was considered by partners in September 2007. The partnership has recognised that they require to become less focused on processes and more on outcomes. They have recognised that partners must specify not just what they want to achieve, but what actions will be taken by each partner, the resources committed and the timetable for results. It is planned that these decisions and actions would be summarised in a formal agreement. Financial planning and risk management would become integral parts of the plans drawn up.

Key risk area 10

49. Good relationships have been developed with some of the community planning partners; however work is required to ensure good relationships are built with all partners to achieve optimum results. The self assessment exercise undertaken by the partnership acknowledged that partners were only "building effectiveness" rather than performing well. An improvement action point has been agreed and further discussions are due to take place in October 2007 to finalise how this issue is going to be addressed.

Key risk area 10

50. Community planning partners have identified that the governance arrangements and working structure were not organised in the most efficient way. They have also raised issues around the membership and governance of the thematic groups. A review of the structure of the partnership was proposed as



part of the improvement action plan. This now requires to be taken forward and relevant governance and structural changes implemented as soon as possible.

Key risk area 10

51. We note progress has been made in developing a financial framework for the co-location of joint premises with health service partners as well as a joint funding bid having been submitted for the creation of a resource centre in North Ayr. However, further work is required to develop financial planning systems with all partners to support future joint working.
52. The partnership have recognised that it is vital that the community planning partnership evaluation and improvement plan is progressed and appropriate action taken as soon as possible to allow best practice to be introduced into areas such as performance measures and joint risk registers and to improve the effectiveness of the partnership.

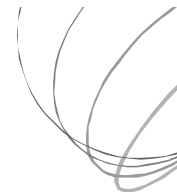
Key risk area 10

Securing the efficient use of resources

53. Local government is working in an environment of major change which poses significant challenges for all members and officers working in the sector. South Ayrshire Council continues to face severe financial pressures and therefore it is vitally important for the council that it uses all resources available to it in the most economic, efficient and effective way possible.
54. The key resource of the council is its staff. It is important to recognise and reward high performing officers and equally to address areas of poor performance quickly. A corporate appraisal scheme is one vehicle which can be used to address this issue as well as providing information on skills and performance to ensure there is a match between the staff member and the job description. A corporate appraisal scheme is still not in place. We have been assured however that training has been undertaken in respect of the chief officer appraisal scheme and hopefully following the approval of the scheme it should be put in place before the end of 2007.

Key risk area 11

55. The council are in the process of addressing the fact that there has been no head of human resources for over two years. As previously mentioned, the restructuring within the chief executive's department has seen the development of a new position entitled "human resources strategist". This officer will be responsible to the chief executive for human resource strategies, policies and compliance with guidelines. HR staff will remain in departments under the responsibility of a departmental human resource officer pending a review of HR delivery models. The HR strategist post has been advertised externally and an officer has been appointed. In the meantime the assistant chief executive has been



responsible for human resource issues and has been progressing issues such as equal pay and single status.

Key risk area 8

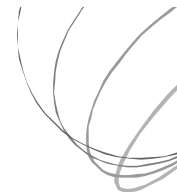
56. In order to develop human resource plans to make best use of staff resources, it is vital that complete, accurate and up to date information is use to inform decisions. The corporate human resources system has not been used by all departments in the past and therefore the standard of information on the system varies considerably between departments and in some cases has been found to be unreliable. Whilst the leadership panel requested in July 2007 that departments took steps to allow them to place reliance on the corporate system improvements cannot yet be claimed until the results of a data check taken on 30 September 2007 are known. This matter will be followed up as part of the 2007/08 audit.
57. Successful project implementations require good project management as well as having a project champion with the relevant drive and strategic freedom to deliver projects. The council have been implementing the “new” Oracle eFinancials system since 2003. Whilst it is acknowledged that progress is being made although at a much slower rate than anticipated, four years after commencement it is still not fully implemented. Severe slippage has occurred due to poor project management and a lack of resources committed to the project. The latest target completion date is March 2008 but we have serious concerns about this target date and do not think it is achievable with the current expertise in the project team and resources currently deployed to the project. The officer with the most Oracle eFinancials experience left the council during the spring of 2007. We acknowledge that the council attempted to recruit an Oracle specialist but the exercise was unsuccessful as the salary offered was not attractive to suitably qualified specialists.

Key risk area 12

58. The current project team have limited Oracle eFinancials experience. In addition as more of the functionality of Oracle eFinancials becomes live, the project team are finding it necessary to set aside time to handle support issues rather than concentrating fully on systems development. We feel that if the right resources are put in place and there is serious commitment to the project, then full implementation should be possible by March 2008.

Key risk area 12

59. As a result of the delayed implementation of Oracle eFinancials, the council has required to keep the old CFACS ledger system operational. At present this system acts as a feeder system to Oracle eFinancials. The CFACS system is not supported by any service or maintenance agreement to resolve any operational issues. Failure to meet the March 2008 implementation deadline will require a review of the risks of CFACs remaining on a server which may not be able to be supported by a



maintenance agreement and for which spare parts may no longer be available due to the age of the server. We understand that reliance on CFACS is being reduced as various interfaces are moved from CFACS to Oracle.

Key risk area 12

60. In addition to the support issues caused by the delay in the implementation of Oracle eFinancials, the e-procurement module which may help to achieve procurement efficiency savings has been delayed. The delayed implementation of this module may be delaying efficiency savings which may ease some of the financial pressures on the council.

Key risk area 12

61. Assets are key resources for service provision and it is therefore important that the necessary assets are in place and in the required condition to allow the council to meet its objectives. Asset management is important for all local authorities and is an area where efficiency savings may be possible through shared assets with partners. A previously mentioned, an asset management strategy which ties into corporate business plan objectives has not yet been put in place. At present the council cannot demonstrate that assets are being used in the most economic, efficient and effective way.

Key risk area 7

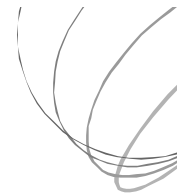
62. The Scottish Government's efficient government initiative and progress made by the council in supporting and addressing this agenda are discussed in more detail starting at paragraphs 117. Whilst there is support expressed towards the initiative by members, the council has yet to approve an efficient government plan.

Key risk area 5

63. Procurement is one of the efficient government work streams and again as with asset management and efficient government, the council does not have a strategy in place for procurement. A draft strategy has been drawn up but this area that has still to be progressed, the strategy agreed and appropriate detailed policies and procedures introduced.

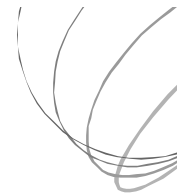
National studies

64. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports of direct interest to the council are set out below. Further information on these studies and reports can be obtained from Audit Scotland's web page at www.audit-scotland.gov.uk



Sustainable waste management

65. There is an increasing awareness of the need to protect the environment and to promote the sustainable use of resources. As a result of UN conventions and EU Directives, the UK government introduced a landfill tax to discourage the disposal of waste in landfill sites and set a (non-statutory) target that local authorities should recycle 25% of household waste by 2000. This target was not achieved.
66. Further EU Directives required member states to “take appropriate steps to encourage the prevention, recycling and processing of waste” and to set out details of measuring processes within waste management plans. Subsequently a series of targets was set over the period to 2020 to reduce the amount of biodegradable waste going to landfill. The EU can impose a fine on the UK of up to £350,000 per day if it fails to meet its targets.
67. The purpose of Audit Scotland’s study was to examine the performance of local authorities, the Scottish Environmental Protection Agency (SEPA) and the Scottish Government in reducing the amount of municipal waste being disposed of as landfill, including the impact and value for money achieved by the investment in this area.
68. The key findings from Audit Scotland’s national report published in August 2007 highlighted that:
- Scottish councils need to achieve rapid reductions in the amount of biodegradable municipal waste disposed of in landfill sites. This is being made more difficult by the increasing amount of waste being generated by Scottish households.
 - Significant progress has been made in meeting interim recycling targets but increasing the recycling rate further will provide great challenges.
 - Increases in the amount of recycling have led to increased costs. The cost of recycling increases with the recycling rate and the value of materials collected falls. Waste management expenditure by councils would need to grow from £351 million in 2005/06 to an estimated £580 million per year by 2009/2010 if current targets are to be met.
 - In contrast to the progress on recycling, the slow progress in developing residual waste treatment facilities means there is a significant risk that the landfill directive targets may not be met.
 - Councils, the Scottish Government and other agencies need to work more effectively together to make rapid progress in waste minimisation, recycling and waste treatment to achieve landfill directive targets. There is an urgent need to build capacity within councils and the Scottish Government to achieve these targets. Public sector bodies should consider working with each other and the waste industry in order to meet targets.



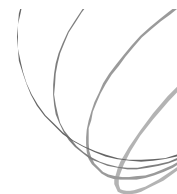
69. South Ayrshire Council has recycled 39.3% of municipal waste collected during 2006/07 compared to 36.9% in 2005/06. The percentage of waste composted during 2006/07 rose by 2.75% compared to the previous year and now stands at 15.45%. In addition, approximately 50% of all special uplifts of waste are recycled. The introduction of community recycling centres has contributed to the improvement in recycling results for the council over the last year.

Dealing with offending by young people

70. Audit Scotland published reports on “dealing with offending by young people” in December 2002 and November 2003. Audit Scotland undertook a follow-up study review to ascertain improvements in performance since 2002 of agencies who deal with young people who offend in the context of a changing policy landscape.
71. Since 1999, the Scottish Government has shown a consistent commitment to improving youth justice services. It has substantially increased funding for youth justice services from £235 million in 2000/01 to over £330 million in 2005/06 and provided a range of practical support and guidance for these services.
72. The key findings from the study are:
- The impact of this activity and additional funding on improved services and outcomes is not yet demonstrated, and limited progress has been made over the last five years on taking forward several key recommendations from our earlier reports.
 - Important questions have been raised about the extent to which the new investment offers value for money and in demonstrating effective use of resources.

Scotland's school estate

73. This is a national review of how effective recent investments in the Scottish school estate have been in terms of improving the quality of the learning and teaching environment. The performance of the Scottish Government and local authorities in improving the schools estate within the context of the 2003 strategy 'Building our Future' – Scotland's school estate will be considered. This work is currently in progress and is due to be reported in December 2007.



Financial position

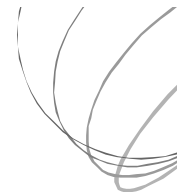
Introduction

74. In this section we summarise key aspects of the council's reported financial position and performance to 31 March 2007, providing an outlook on future financial prospects, including our views on potential financial risks. Under the strategic theme of 'ensuring the future affordability and sustainability of services', our ARAP recognised the significant challenges being faced by the council both in relation to delivery of services but also with regard to managing ongoing financial pressures such as equal pay and implementing single status. Our findings and key messages are set out in this section.

Council tax and the general fund

Long term financial planning

75. The council does not have any medium or long term financial plans in place apart from the thirty year housing business plan and the school public private partnership project, which again covers a thirty year period. At present the budget setting process is not clearly linked to service plans and the business plan. These issues are of utmost concern as the council has a deficit position in the general fund mainly due to a lack of forward planning and not setting funds aside to meet future unexpected events.
76. The budget setting process and budget restrictions are the biggest challenge facing the CMT and problems exist in trying to match expectations to available resources. The council needs facilities and infrastructure that are suitable and sufficient to meet the requirements placed on them in the provision of services and the delivery of council objectives both now and the future. Significant investment has occurred in a range of areas including the school's public private partnership project. Whilst plans are in place to fund the public private partnership project and restore the general fund deficit balance, there is still concern over financial and budget pressures. There is potential for equal pay claims to be taken to employment tribunals and single status has still to be introduced which again may have significant financial implications.
77. Financial pressure also comes from the requirement to fund children in residential schools which has resulted in significant pressures on the education and social work budgets. The council is looking at making improvements to fostering schemes as well as looking at funding for a local residential unit as possible ways of reducing these financial pressures. A waiting list for people entitled to free care under the Scottish Government's "Free Personal Care Initiative" is currently in operation. Any judicial review in this area may result in this waiting list having to be cleared which again poses difficult financial decisions for the council. These financial pressures mean that any restrictions on future



council tax levels placed on local authorities or central funding allocations being less than expected will have additional budgetary pressures on the already restricted financial position. This may affect the delivery of council services particularly given the existing commitments to the general fund recovery strategy and the school public private partnership project.

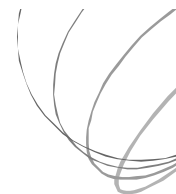
Key risk area 6

Operating performance 2006/07

78. Changes to accounting practices to comply with new accounting standards have required 2005/06 balances and financial statements to be restated in a new format. An income and expenditure account has replaced the former consolidated revenue account and a new statement of movement in the general fund balance and a statement of total recognised gains and losses have been included for the first time.
79. The council's net operating expenditure in 2006/07 was £208.324 million. This was met by government grants and local taxation of £205.012 million, resulting in an income and expenditure account deficit of £3.312 million. This deficit when adjusted for amounts required by statute and non-statutory proper accounting practice resulted in a decrease of £1.735 million on the general fund balance for the year. This decrease when added to the £1.228 million general fund surplus brought forward from the previous year resulted in a cumulative deficit of £0.507 million on the general fund at 31 March 2007.
80. A recovery strategy is in place to bring the general fund deficit back into surplus and to meet the council objective of having £2 million of uncommitted funds in the general fund by 31 March 2010. This strategy requires an additional £1.059 million to be generated from council tax income each year over the period 2007/08 to 2010/11. In addition to this, £2.7 million has been included in the 2007/08 budget for equal pay and severance costs which have already been paid out in 2006/07. Notwithstanding these items, additional funds require to be set aside in the future if the council is to meet its target of having £2 million uncommitted funds in the general fund by 31 March 2010. This is likely to require difficult financial decisions having to be made over the next four years.

Key risk area 6

81. Within the overall outturn for 2006/07, there were a number of under-spends against budget. In total the council's departments under-spent by £4.952 million against a £210.427 million budget. This overall under-spend against budget includes the following departmental under-spends:
- £2.304 million in education, culture and lifelong learning.
 - £0.778 million in the chief executive's department.



- £0.795 million in development, safety and regulation.
- £0.746 million in social work housing and health.

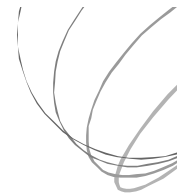
Reserves and balances

82. At 31 March 2007 the council had total cash backed reserves and funds of £19.809 million, including an insurance fund that is used to defray any uninsured losses and for paying excesses on insurance policies. A repair and renewal fund is also in place to finance expenditure incurred in repairing, maintaining, replacing and renewing fixed assets.
83. The council also has a capital fund which was set up during 2005/06 primarily to assist in the funding of the council's schools public private partnership project. The council plans to make further contributions to the fund throughout the lifetime of the public private partnership project. The fund will start to be used to fund appropriate expenditure during 2007/08.

Reserves and Funds

Description	31 March 2006 £ Million	31 March 2007 £ Million	Change £ million
General fund	1.228	-0.507	-1.735
General fund – Housing revenue account balance	12.660	17.735	5.075
Repair and renewal funds	0.117	0.123	0.006
Insurance fund	0.735	0.632	-0.103
Capital fund	0.901	1,826	0.925
	15,641	19,809	4.168

84. Changes to the local government pension scheme permit employees retiring on or after April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual payments. On the advice of the council's actuaries it has been assumed that 25% of employees retiring after 6 October 2006 will take advantage of this change to the pension scheme. The actuaries have advised that this will reduce the council's pension liabilities by £4.681 million. The pension commutation figure is sensitive to individual preferences and could fluctuate in the future resulting in a significant impact on the council's accounts and reserves.



Housing revenue account

85. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. The budget set for 2006/07 was based on a rent increase of 3.7% on the previous year. This rent rise was to provide a contribution of £1.468 million to the housing revenue account balance for future capital investment on housing revenue properties. The actual surplus at 31 March 2007 was £5.075 million. A £3.607 million under-spend on the housing revenue account during 2006/07 was mainly due to a £2.153 million under-spend in the housing capital programme. Capital receipts were higher than expected due to the sale of the land at Lochside in Ayr to Ayrshire Housing during 2006/07 with the result that revenue funds were not required to fund capital expenditure in 2006/07. Interest received on housing revenue balances was also higher than anticipated.

Group balances and going concern

86. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. Some of these boards (Strathclyde Joint Police Board, Strathclyde Fire Joint Board and Strathclyde Passenger Transport Authority) had an excess of liabilities over assets at 31 March 2007 due to the accrual of pension liabilities. In total South Ayrshire Council's group share of these liabilities amounted to £189 million. These are significant amounts as the pension schemes for police officers and fire fighters are unfunded and met entirely from current and future council tax payers as payments fall due.
87. The overall effect of inclusion of all of the council's subsidiaries and associates on the group balance sheet is to reduce net worth by £161.173 million, substantially as a result of these pension liabilities. All group bodies' accounts have been prepared on a going concern basis.

Common Good Fund

88. The council's group accounts include the common good fund as a subsidiary of the council. The fund comprises five distinct sub-funds, Ayr, Prestwick, Troon, Maybole and Prestwick. The council controls the fund and administers it for the interest and benefit of people in the aforementioned areas. Common good assets are contained in the council's asset register and are included in the council's 5 year rolling asset revaluation programme.

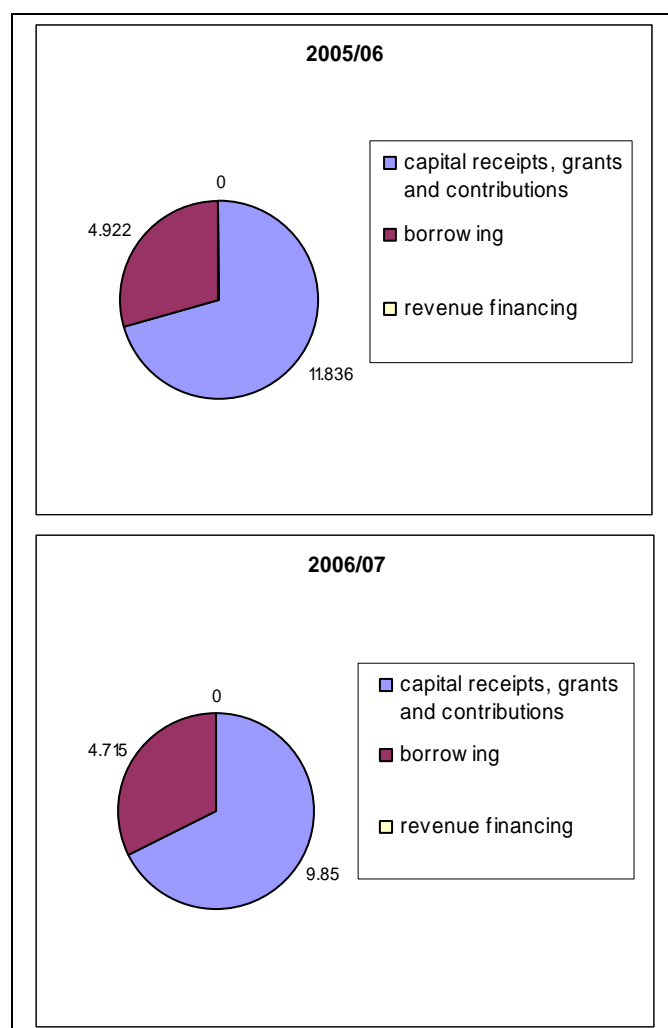


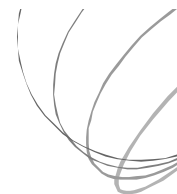
Spending on assets and long-term borrowing

Capital performance 2006/07

89. Following the introduction of the prudential code in April 2004 the council can decide locally on a capital investment strategy which must meet best value requirements as well as being affordable. The council's prudential indicators for 2006/07 were set in May 2006.
90. General fund capital expenditure in 2006/07 totalled £7.148 million, falling from £8.155 million in 2005/06. The housing investment programme expenditure was £7.417 million again falling from £8.603 million in 2005/06. Capital investment in the last two years has been funded as shown in the diagram below. As the council has decreased its capital spending, the amount funded by debt has also decreased with aggregate long-term borrowing of £4.715 million at 31 March 2007, a decrease of £0.207 million on the previous year.

Sources of finance for capital expenditure 2006/07





91. The council experienced severe slippage (44%) on its capital improvement programmes during 2006/07. General services capital outturn reports show capital spending of £7.148 million in 2006/07 against a programme of £12.797 million. As a result, the general services programme will carry forward £3.9 million of funding into 2007/08.

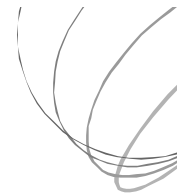
Key risk area 13

92. The housing capital investment programme suffered similar slippage problems (31.6%). Expenditure in the programme was £7.417 million during 2006/07 against a programme budget of £10.851 million. The 2006/07 housing capital programme included £2.3 million brought forward from uncompleted projects in the 2005/06 budget. Officers have agreed that the reasons for slippage in both capital investment programmes require to be investigated to establish if poor project management, unrealistic budgets or a lack of relevant resources are to blame.
93. Delay in completing capital projects may result in the assets required for service delivery either not being in place or not being of the required standard. This may lead to the corporate objectives and priorities not being achieved. In addition, severe slippage such as has occurred in 2006/07, makes the financing of capital programmes very difficult as finance officers are unable to accurately match the timing of the supply of capital funds to project managers' requirements. This could result in borrowing being undertaken prior to the funds being required and paying loan interest before it is necessary.

Key risk area 13

94. The council's treasury portfolio position as at 31 March 2007 was as follows:

Treasury portfolio	As at 31 March 2006 £000	As at 31 March 2007 £000	Change in year £000
Long term borrowing			
PWLB – fixed rate	139,142	144,007	4,865
PWLB-variable rate	0	0	0
Market bonds	42,285	38,985	(3,300)
Euro Investment Bank	201	144	(57)
Covenant	592	452	(140)
Total external borrowings	182,220	183,588	1,368
Investments	(36100)	(39,575)	(3,475)



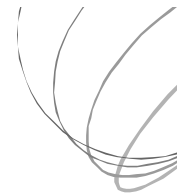
95. The council committed to one new loan during 2006/07. This was a £5 million PWLB fixed rate loan agreed to be repaid over 47.5 years. This loan was taken out to fund capital programme spending. Almost 80% of long-term borrowing at the year-end matures after more than 10 years. The council has actively managed its exposure to variable interest rate movements with only 10% of debt exposed to variable rate risk.

Forward capital programme

96. The general services capital programme for 2007/08 anticipates capital expenditure of £10.514 million. This is expected to be funded by a number of sources including prudential borrowing of £1 million and hypothecated grant funding of £3.364 million.
97. The 2007/08 housing capital budget anticipates £8.59 million of capital expenditure. Officers expect to fund this programme from capital receipts from the sale of 150 council houses, revenue funding of £3.990 million and grant income of £0.4 million. It is not expected that there will be any requirement for new borrowing in 2007/08.
98. At present the council does not have a long term capital plan. Officers have advised that it is planned to put a three year capital plan covering the period 2008-2011 in place. However this plan cannot be completed until the council's business plan and asset management plan have been reviewed to ensure the long term capital plan adequately addresses the priorities of these other plans.

Borrowing in advance of need

99. In recent years, a number of councils have disclosed significant amounts under investments largely as a result of decisions to take advantage of favourable interest rates when considering borrowing requirements to fund planned capital programmes. In these instances, councils are still required to demonstrate their consideration and compliance with the conditions set out in Audit Scotland's long standing Note for Guidance No. 96/5.
100. This guidance sets out the key factors to be considered by a council when determining whether the decision to borrow in advance of need and lend on temporarily is reasonable. From our review of South Ayrshire Council's borrowing activities, we found that the council had undertaken two loans during 2006/07. One was to refinance a £10 million loan saving £60,000 per year in interest payments and the other was a £5 million loan to fund the 2006/7 capital programme spending. The council had £39.575 million of short term investments on the Balance Sheet at 31 March 2007 which officers have advised was due to cash flow management rather than borrowing in advance of need.



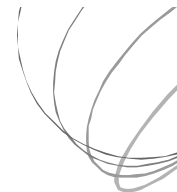
Significant trading operations

101. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations (STOs), which are required to break even over a three year rolling period. The first three year period ended in 2005/06.
102. In financial year 2006/07 the council had one STO, 'Property and Design'. The STO made a surplus of £0.155 million in 2006/07 and a three year rolling surplus of £0.426 million. The 2006 SORP required that notional interest should no longer be applied to council services and trading accounts. However to ensure comparability with external companies, a notional interest charge has been included to the trading account surplus to reflect the use of council assets. This results in a £0.135 million surplus for 2006/07 and a rolling three year surplus of £0.398 million.
103. The council had seven STOs in 2005/06 which were reduced to one following a consultant's review of the former environment and infrastructure department. The other six STOs were disaggregated into other departments.
104. The identification of statutory trading accounts is the responsibility of the council. LASAAC guidance suggests three tests should be applied to determine whether a trading operation falls within the ambit of the Act. These are:
- whether the service is provided in a competitive environment
 - whether the service is provided on a basis other than recharge of cost
 - a test of significance.
105. If all three conditions are met then the service should be accounted for as a statutory trading account. Officers are aware that they require to revisit services to establish potential trading activities and to then carry out an assessment based on the aforementioned LASAAC guidance. We understand this review will be undertaken by the CMT with the results reported to the leadership panel.

Key risk area 14

Financial outlook

106. The lack of uncommitted reserves will place the council at risk from unforeseen events and circumstances which could result in severe financial difficulties. Further delays in the implementation of single status as well as financial pressures placed on the council due to free personal care and residential school provision may lead to significant unanticipated costs to be met and funds and reserves not being in place to meet such costs. A number of employees have rejected the equal pay



compensation package offered by the council. There is the possibility that these employees may take their case to an employment tribunal and that this may result in significant future costs for the council.

107. The council has a good budget monitoring system in place which is sufficiently detailed at departmental level. It is transparent and departmental output reports produced are easily understood by officers, members and stakeholders. Close budget monitoring and being reactive to any variances noted will be of prime importance over the next few years if the council is to achieve financial recovery.

108. In January 2007, work commenced by the contractor, Education for Ayrshire (E4a) on two new secondary and three new primary schools together with an annex to an existing primary school. This is a public private partnership (PPP) project with a thirty year contract. The council have a funding strategy in place for this project which is covered in more detail starting at paragraphs 182. Funding of the PPP project will require to be reviewed each year when setting the annual budget.

Equal pay

109. The 1970 Equal Pay Act makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an employment tribunal. Following cases pursued against English councils, the extent of exposure of Scottish councils arising from individual pay claims began to emerge during 2005/06.

Key risk area 15

110. The council offered compensation payments to specific groups of employees to try to limit its exposure to the financial risk associated with equal pay claims. In 2005/06, the council made a provision in the financial statements of £5.295 million which was followed by another £1.272 million being set aside in 2006/07 in respect of an additional year's equal pay compensation to employees. This was required as single status has yet to be implemented. The council continues to face potential additional equal pay claims from further groups of employees as well as from employees who have rejected the settlement offered to them and take their case to employment tribunals.

Key risk area 15

Single status

111. In 1999, a single status agreement was reached between Scottish local authorities and trades unions to harmonise the terms and conditions of manual and administrative, professional, technical and clerical workers (covering pay, working hours, leave and negotiating mechanisms). There was a



presumption that single status would be cost neutral with any increased costs being offset by savings arising from changes to other conditions of service or from efficiencies.

112. The original national single status agreement specified that implementation should take place by April 2002 but, following difficulties in establishing a model job evaluation scheme, was extended by agreement between local authorities and unions to April 2004.
113. South Ayrshire Council has not yet implemented single status. The council have had difficulty in making progress due to a lack of resources in the human resources department. The assistant chief executive took over responsibility for driving the exercise forward in April 2007. As a result a new pay and grading model and terms and conditions package were agreed in September 2007 however, agreement has still to be sought from the relevant trade unions prior to implementing single status.

Key risk area 15

114. The council originally proposed to implement the revised pay and grading models and terms and conditions in October 2007 with the new pay grades backdated to April 2007. However due to the delay in agreeing a pay and grading model and terms and conditions package, it is now proposed that if agreement is reached with trade unions, the new model and conditions will be backdated to 1 October 2007.
115. Provision for the new pay and grading and terms and conditions has been made in the council's 2007/08 budget. Negotiations are required with employees and trade unions to try to reach agreement as soon as possible in order that single status can be implemented.
116. Until single status is implemented the initial and continuing costs to the council cannot be finalised. This represents some financial risk to the council. Evidence from other councils is that variation in the level of potential costs can be up to 10% of the current pay-bill on a continuing basis. Officers are aware that single status requires to be implemented as soon as possible and in implementing the agreement, the council needs to maximise the value for money from its investment in staff.

Efficient government

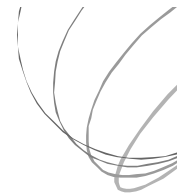
117. As part of the continuing drive to improve the efficient use of resources committed to delivering public services, the Scottish Government expect public sector organisations to apply the principles of the efficient government initiative in their day-to-day operations with an aspiration to achieve recurring efficiency gains of £1.5 billion by 2007/08. In the case of councils, efficiency savings have been incorporated into the annual financial settlement provided to councils by the Scottish Government. The principles of the efficient government initiative encourage the delivery of services for lower unit cost without compromising the quality of the service provided.



118. During 2006, councils across Scotland recognised that as part of their partnership arrangement with the Scottish Government, they had a responsibility to report efficiencies on the five key operational themes as set out in the Government's "Building a Better Scotland" (procurement, absence management, asset management, shared services and streamlining bureaucracy) on a consistent basis. As a result, the improvement service was commissioned to devise a set of standard measures which would allow councils to publish unaudited efficiency statements on a common basis.
119. Whilst members in South Ayrshire Council support the efficient government initiative, an efficient government plan as to how the council will contribute to the national initiative is not in place. In the past the focus has been on budget cuts and as yet there are no incentives in place for departments to identify efficiency savings.
120. An officer group chaired by the assistant chief executive is in the process of drawing up an efficient government plan and efficiency statement. The original deadline for the plan has now passed but the group continue to take forward this remit and are ensuring the efficiency agenda is addressed in undertaking the 2008/09 revenue budget setting process. Officers are aware that this area is vital as efficiency savings may become extremely important due to the restrictive budget resources available to spend on services.
121. The council's efficiency statement for 2006/07 has been submitted to COSLA. The reports states that efficiency gains of £2.913 million were achieved in 2006/07. These are summarised against the efficient government themes as follows:

Efficient Government Theme	Cashable efficiency £ million	Non cashable efficiency £ million	Total efficiency £ million
Procurement	0.06	0	0.06
Streamlining bureaucracy	2.707	0	2.707
Asset management	0.146	0	0.146
Total efficiencies	2.913	0	2.913

122. The efficiencies reported for 2006/07 have been achieved through removing the management structures and associated overheads in the former environment and infrastructure department. A reduction in the fees charged by sheriff officers has contributed to procurement savings of £60,000 of savings. In addition, a number of relocations and amalgamations of offices resulted in £0.146 million of savings. Officers are of the opinion that once an asset management strategy is put in place, it should help to identify future potential savings in the use of assets.
123. A review of the statutory performance indicators covering the service areas where there has been a reduction in staffing and/or bureaucracy in 2006/07 has been undertaken. These indicators provide a starting point for assessing the overall impact upon service provision in these areas. The



performance indicators have not improved or been maintained in all areas. The response time for housing repairs has increased, the quality of roads have deteriorated (arguably due to the level of investment rather than levels of service provision), the street cleanliness index has declined and there have been increased levels of complaints with regards to waste management.

124. Officers are of the opinion that the statutory performance indicator information is not truly reflective of how levels of service have changed in the longer term as a result of delivering efficiencies. This raises the issue regarding the importance of performance measurement in the council and how critical it is to have baseline performance and financial information in place to allow accurate comparisons to be made to establish if performance has actually improved or not.

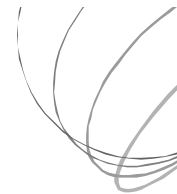
125. Procurement is one of the efficient government work streams as it is an area where it is perceived that efficiencies may lie. At present the council does not have a procurement strategy. The £0.5 million target for procurement efficiencies in 2006/07 was not achieved.

126. Officers expect that once a procurement strategy is put in place this will allow savings to be targeted and achieved in future years. A draft strategy has been drawn up but this area requires to be progressed and the strategy introduced along with appropriate detailed policies and procedures. The delayed implementation of the Oracle eFinancials system includes the delay in implementing an e-procurement module which may also help to achieve procurement efficiency savings. Again this emphasises the importance of ensuring the Oracle system is implemented as soon as possible.

Key risk area 5

Asset management

127. Scottish councils control land, property and equipment valued at around £22 billion. Capital assets are the second highest cost incurred by local authorities after staffing. Prior to 2004, the legislation that controlled capital investment by local government did not contribute towards good asset management. Part 7 of the Local Government in Scotland 2003 Act introduced the *Prudential Code* which gave local authorities freedom to invest as long as their capital spending plans are affordable, prudent and sustainable. The Code is a fundamental component of an authority's financial governance and management which requires authorities to have regard to option appraisal, strategic planning and asset management planning.



128. The efficient government initiative identified asset management as one of five key areas for achieving efficiency improvements. Proper asset management is a vital part of being an efficient organisation including arrangements to ensure there are:

- strategies to reduce maintenance costs
- proactive asset disposal policies
- long-term capital planning and budgeting
- robust asset management monitoring information.

129. As previously stated in paragraph 39, our 2006/07 ARAP highlighted that although there is a commitment to asset management from both officers and elected members, an asset management strategy has not been put in place to prioritise actions to ensure assets are put to best use through activities such as the sharing of premises. We are aware that an officer group is in the process of developing an asset management strategy, which is due to be considered by the corporate management team in November 2007. This should dovetail with the work undertaken to prepare an asset management position statement. Following the strategy being agreed and put in place, plans to ensure assets are used in the most efficient ways will be required along with relevant performance measurement processes. This area is of prime importance to the council as it is an area where potential efficiency savings may lie which may be able to relieve some of the council's severe budget pressures.

Key risk area 7

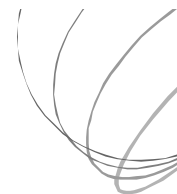
Pension liabilities

130. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. A recent Audit Scotland report on public sector pension schemes highlighted that the combined funding shortfall and unfunded liabilities of the six local government pension schemes in Scotland may be as high as £53 billion. There are proposals to amend the local government pension scheme which are designed to reduce the ongoing cost, although these will not be fully implemented until April 2009.

131. In accounting for pensions, Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in very large future liabilities being recognised in the annual accounts.



132. The council's estimated pension liabilities at 31 March 2007 exceeded its share of the assets in the Strathclyde Pension Fund by £40.941 million, reducing from £77.271 million in the previous year. A full actuarial valuation of the Strathclyde Pension Fund was reported in March 2006. Factors such as the volatile stock markets and increasing life expectancy have resulted in the funding level, calculated as the ratio of fund assets to past service liabilities, falling from 108% at 31 March 2002 to 97% at 31 March 2005.
133. The actuary is required to make a three-year assessment of the contributions that should be paid by the employing authorities from 1 April 2006 to maintain the solvency of the fund. The contribution levels are based on percentages of employee contributions and budgeted employer contributions are expected to rise from 260% of employee contributions in 2006/07 to 270% in 2007/08 and 280% in 2008/09.



Governance

Introduction

134. In this section we comment on key aspects of the council's governance arrangements during 2006/07. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2006/07

135. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. The council has systems in place to identify and monitor progress made with governance issues
136. A local code of corporate governance compliance statement is included within the annual financial statements. The statement provides a commentary by the leader of the council and the chief executive on progress made during the year in taking forward issues to be addressed to comply with the local code. Improvement actions have been identified and are being monitored using the council's performance management system (CPMS) with regular updates reported to both the CMT and the standards and governance panel. The council has identified that they require to look at how the current arrangements can be upgraded in order to meet the "Delivering Good Governance in Local Government" framework from 1 April 2008.

Disaster recovery and business continuity

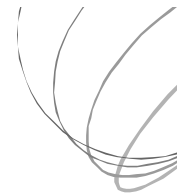
137. We have previously reported our concerns regarding the lack of disaster recovery and business continuity planning within the council. Failure to have plans in place to address these issues could result in disruptions to council services, injury to stakeholders, damage to assets and adversely effect the council's reputation. In order to start to address these issues, the council has agreed to create a new post to take forward the issues of business continuity planning.

Key risk area 16

Information and communications technology strategy

138. We have also previously reported that we were very concerned and about the lack of an information and communications technology strategy. Whilst we understand that the development of such a strategy is made difficult without an up to date comprehensive business plan, with linked service plans and strategies such as efficient government plans in place, we have recommended that consideration should be given to the creation of such a strategy. A draft strategy has now been prepared and was discussed by the CMT in August 2007. We understand this is now being progressed.

Key risk area 16

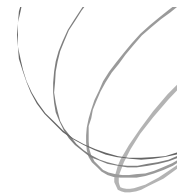


The resources and performance standing scrutiny panel

139. Following the local government election in May 2007, the council reviewed its decision making structures. The role of the audit committee was previously carried out by the policy and resources sub committee on performance appraisal and audit. This committee was chaired by the previous leader of the council and being part of the decision making group, the leader could be viewed as scrutinising his own administration. Following the election, the audit committee function has been placed under the remit of the resources and performance standing scrutiny panel. In order to address the issue regarding the chair scrutinising part of his own administration this new panel is chaired by the leader of the opposition.
140. Effective scrutiny is central to good governance, with a significant role for councillors to scrutinise performance, hold management to account on service delivery and support the reform and modernisation agenda. Being a relatively new committee with new members, we are unable at this time to fully evaluate the effectiveness of the resources and performance standing scrutiny panel in carrying out its audit committee functions. We are however able to report that the committee has improved its scrutiny function and now receives all external and internal audit reports in full. The new panel also receive regular reports on progress made by internal audit against the annual internal audit plan. Again this gives the panel the opportunity to scrutinise the delivery of the internal audit service.

Internal Audit

141. The environment in which internal audit functions operate has changed markedly since the publication of CIPFA's code of practice for internal audit in local government in 2003. To ensure that the code's requirements, which are mandatory for all local authorities and other relevant bodies under Section 95 of the Local Government (Scotland) Act 1975, continue to be fit for purpose, CIPFA's audit panel published a revised Code in December 2006. In general, the code was brought in line with existing good practice and current professional standards.
142. Such changes to the code have expanded internal audit's role and status within the council's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system.
143. We carry out an annual review of the council's internal audit arrangements and found that the function continues to deliver work in accordance with their five year strategic plan as well as their annual plan. Audit work is carried out each year in each main system with the objective that each system will have been reviewed in its entirety over the five year period.



144. The 2007/08 internal audit plan includes twenty days to complete the 2006/07 planned audit activities. We believe this backlog has been caused by a reduction in the number of internal audit staff as well as sickness absence.

145. Auditing standards require internal and external audit to work closely together to make optimal use of available audit resources. As part of the audit process, we reviewed thirteen internal audit activities and were able to take assurance from the work carried out. This allowed us to direct our audit work to the other areas of the relevant systems not covered by internal audit in 2006/07.

146. Further strengthening of the relationship with internal audit will help optimise the council's audit resources and continue to improve audit services for the council.

Risk Management

147. The identification and subsequent management of risks is an essential component of the governance framework of any well managed organisation. As already mentioned in this report the council introduced a corporate risk register in 2006. However, this register requires to be fully embedded in the processes of the council and risk registers require to be introduced in all departments. Once fully introduced risk registers will require to be regularly monitored and updated with relevant action taken to address risks identified if appropriate. As already mentioned, the council has committed to ensuring that risk registers are in place across all departments by 31 March 2008.

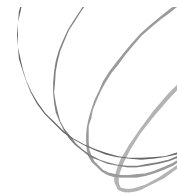
Key risk area 9

Systems of internal control

148. In his annual report for 2006/07 the audit services/programme review manager provided his opinion that, based on the internal audit work undertaken during the year, the council's corporate governance arrangements were adequate and operating effectively, with one exception. He drew attention to the lack of risk registers in all departments of the council. He stressed the need for departments to have risk registers in place containing financial and non-financial risks to assist in the effective achievement of the council's and departments' objectives.

149. As part of our work to provide an opinion on the annual financial statements we assessed the extent to which we could gain assurance on a number of the council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

- Main accounting system.
- Budgetary control.
- Payroll.
- Creditors payments.
- Housing and council tax benefits.



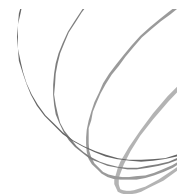
150. We concluded that although the main accounting system would provide us with the necessary level of audit assurance, there were no reconciliations between the REMIT cash receipting system and the CFACs ledger or between the servitor housing repairs system and the CFACs system. Other reconciliations carried out between the main accounting system and feeder systems were not signed by the preparing officer in all cases and reconciliations were not subject to a secondary review by senior officers.
151. Budget monitoring by the finance team is robust; however the council business plan is in the process of being updated therefore there is no linkage between the business plan and the budget setting process. The council has also recently undergone a restructuring process. Departmental service plans require to be reviewed to ensure there is linkage between service plans and the council business plan.
152. The benefits system provided us with adequate assurance however reconciliations were not consistently signed by the preparing officer and then countersigned by an independent officer who reviewed the reconciliation. We would normally expect benefit reconciliations to be carried out on a regular basis however whilst reconciliation were correctly performed, they were only prepared on an annual basis. The benefits procedure manual and benefits fraud policy were both found to be out of date and require to be updated.

Prevention and detection of fraud and irregularities

153. At the corporate level, the council has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption. These arrangements include a whistle blowing policy, codes of conduct for elected members and staff, and defined remits for relevant scrutiny panels.

NFI in Scotland

154. In 2006/07 the council again took part in the National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. For 2006/07 councils were asked to submit further specified datasets where the risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27M to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.



155. The NFI 2006/07 results (data matches) were made available to councils on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the council's involvement in NFI 2006/07 during the course of our audit.
156. The council has taken a positive approach to the ongoing NFI exercise and significant progress has been made in following up referrals and, where appropriate, taking action to prevent further loss and to recover fraudulent payments. Matches have been prioritised and the council has concentrated on the higher priority cases. Lower priority risk-based matches, where the returns are likely to be small in relation to the effort required, have not yet been examined. The council will consider the likely benefits and the costs of the exercise before examining such matches and may well conclude that further work is not cost effective.
157. A total of 2250 matches were made including 303 individuals who appeared more than once. At 5 October, 453 referrals had been investigated with 42 in the process of being followed up. Four frauds have been discovered totalling £2,093. At this stage, it would appear that savings will be well down on those achieved in the previous exercise possibly due to the preventative effect of previous work.
158. Members and senior managers are aware of the exercise and reports will be submitted once it is completed. Progress reports can be accessed direct from the NFI web-based application by staff involved and by audit.

Governance outlook

Impact of the 2007 elections

159. Following the May 2007 elections, the council remained under a Conservative administration although unlike prior to the election, no party has overall control of the decision making process. There are now twelve Conservative, nine Labour, eight Scottish National Party and one Independent councillors.
160. The council's traditional committee style of has been revised in favour of a cabinet style with a leadership panel and standing scrutiny panels. The leadership panel consists of five Conservative councillors including the leader of the council. The scrutiny panels can "call in" and question leadership panel decisions. The new panels have been developing and gaining agreement of their work plans for the year. It will take some time for the new decision making structure to be fully embedded.
161. It is important that members fully understand their role and responsibilities as well as understanding the elected members' code of conduct and how to deal with governance and scrutiny issues.



Following the election in May 2007, the council began intensive induction training for all members using both internal and external trainers. The induction training courses carried out to date include: -

- The Scottish Parliament – an awareness seminar for new councillors.
- Essentials of governance and the Code of Conduct.
- Scrutiny for elected members and the application of Audit Committee principles.
- Media awareness.
- A brief on planning for councillors.
- Introduction to local government finance.

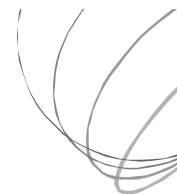
Changes at senior officer level

162. The council carried out a restructuring exercise in 2006 and the former environment and infrastructure department was dissolved and the services provided by this department were disaggregated into other departments. This disaggregation along with an outstanding council commitment to review the heads of service salaries, following a perceived increase in responsibilities resulted in a review of the heads of service salaries being carried out. The exercise has now been completed and four salary bands have been put in place with heads of service salaries linked to directors' salaries.

163. As previously mentioned, the chief executive's department restructured in August 2007 with the creation of three new roles –an assistant chief executive, a new corporate performance and change management officer and finally, a human resources strategist.

164. The council decided in September 2007 that the chief executive will leave the council in August 2008. In the meantime he will remain in post and carry on with the development of the chief officer appraisal scheme.

165. Members will require to work closely with officers to ensure the appointment process is carried out in plenty of time to aid the smooth handover to a new chief executive. Care will also be needed to ensure there is minimum disruption to services, the corporate management of the council and progress in implementing the council's best value improvement plan during the recruitment and handover period.



Financial statements

Introduction

166. In this section we summarise key outcomes from our audit of the council's financial statements for 2006/07. We comment on the significant accounting issues faced and provide an outlook on future financial reporting issues. We audit the financial statements and give an opinion on:

- whether they present fairly the financial position of the council and its expenditure and income for the year
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

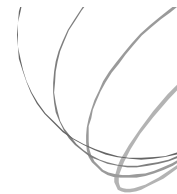
167. We also review the statement on the system of internal financial control and the corporate governance compliance statement by considering the adequacy of the process put in place by the council to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the council.

168. In addition we also report if, in our opinion, the explanatory foreword is not consistent with the financial statements, if the council has failed to keep proper accounting records, or if information and explanations required for the audit were not provided.

Overall conclusion

169. We have given an **unqualified** opinion on the 2006-07 financial statements of South Ayrshire Council and we were able to conclude that the 'Annual Accounts' presents fairly the financial position for the period to 31 March 2007.

170. The council's un-audited financial statements were submitted to the controller of audit prior to the deadline of 30 June 2007. Final accounts preparation processes and working papers were generally good and this enabled the audit to progress smoothly. Officers in the finance department were very knowledgeable and helpful throughout the audit process. Audited accounts were finalised prior to the target date of 30 September 2007 and are now available for presentation to the council and publication. The financial statements are an essential means by which the council accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.



Accounting practice

171. 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'). The 2006 SORP required a number of significant changes to be made to the 2006/07 financial statements to make them more consistent with the accounts of other public and private sector entities. These included:

- replacement of the consolidated revenue account with a traditional income and expenditure account
- a new statement that reconciles the income and expenditure account surplus or deficit for the year to the general fund surplus or deficit
- replacement of the statement of total movement in reserves with a statement of total recognised gains and losses
- similar changes to the housing revenue account
- parallel changes to the group accounts that result in them being easier to understand and have a common format to single entity statement of accounts.

172. The council adopted three significant new accounting policies in the 2006/07 accounts as a result of changes required by the 2006 SORP. These policy changes have an impact on the comparative figures for 2005/06 in the income and expenditure account as follows:

- Capital financing charges which were previously charged to services for the use of assets are no longer made to services. These charges have been replaced by a depreciation charge which is deemed to be a practical methodology for estimating the rate at which resources are being consumed.
- Credits for deferred government grants are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item.
- Gains and losses on the disposal of fixed assets are recognised in the income and expenditure account.

173. In addition to changes required by the 2006 SORP, the council also restated the trading services figures in the 2005/06 accounts. This was required due the council reviewing trading services at the end of 2005/06 and the number of statutory trading services falling from seven to one.



174. The 2006 SORP changes and the review of the trading services had the following impact on the comparative figures for 2005/06:

	Consolidated Revenue Account 2005/06	Trading Services Adjustment	Removal of capital financing charges	Relocation of government grants deferred credits	HRA & other adjustments	2005/06 comparatives in the 2006/07 income and expenditure account
Impact on Net Cost of Services	£208,452	£268	(£10,515)	(£2,287)	£5,274	£201,192
Interest payable (formerly AMRA)	£2,621		£10,537	£2,287	(£4,653)	£10,792
Trading Services	£84	(£268)	(£22)			(£206)
Interest & investment income	(£667)				(£621)	(£1,288)
Pension interest cost and expected return on pension assets	£221					£221
Impact on net operating expenditure	£210,711	£0	£0	£0	£0	£210,711

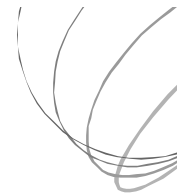
175. Overall, we were satisfied that the council had prepared the accounts in accordance with the revised SORP. There were several adjustments made to the figures included in the un-audited accounts provided for public inspection. These changes were made by officers and following the adjustments, the financial statements were re-signed and re-dated. Details of significant adjustments and other significant accounting issues arising in the course of our audit are summarised below.

Explanatory foreword

176. The council has an overall general fund deficit of £0.507 million as at 31 March 2007. The explanatory foreword included in the unaudited accounts expanded upon the reasons for this deficit and the proposed recovery strategy. We felt that parts of the foreword could be easily misinterpreted by readers of the accounts to mean that the council had a £3.492 million surplus in the general fund at 31 March 2007. The explanatory foreword has been reworded in the audited accounts.

Mainholm Academy

177. Significant health and safety issues were identified in the school building during 2006/07. This resulted in pupils being decanted into other local schools. We were unhappy with the accounting treatment in the unaudited accounts where the downward valuation of the property was accounted for through reserves in the balance sheet. After discussion with officers, the accounting entries were



amended and the £9.66 million impairment accounted for through education services in the income and expenditure account. The 2006 SORP required a corresponding credit to be processed through the statement of movement on the general fund balance to ensure there is no effect on the amount required to be funded from council tax income.

Fixed assets

178. Depreciation totalling £12.1 million has been charged to the income and expenditure account for assets in use in 2006/07. We were able to verify this amount to both the financial ledger and asset register. Accumulated depreciation of £29.9 million has been charged to the gross book value of the council's assets in prior years. Whilst officers have provided assurances that the accumulated depreciation in the balance sheet is correct, we were unable to verify this accumulated depreciation figure to the asset register. We understand a software issue resulted in incorrect accumulated depreciation calculations in the asset register. Officers have agreed to resolve this issue in 2007/08.

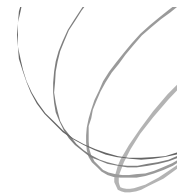
Group Accounts

179. Modified arrangements for the preparation of group accounts were mandatory for the first time in 2005/06. The widening diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to present fairly the activities of an authority. The council prepared group accounts in accordance with the new requirements following a review to determine its interest in subsidiaries, associated entities and joint ventures.

180. The group accounts include the 2006/07 results from the unaudited accounts of the Common Good Fund which is controlled by the council, as well as the results of:

- Strathclyde Police Joint Board.
- Strathclyde Fire Joint Board.
- Strathclyde Passenger Transport Authority.
- Strathclyde Concessionary Travel Scheme Joint Board.
- Ayrshire Valuation Joint Board.

181. The auditors of these bodies have confirmed that there are no planned material changes to the draft accounts. We have also been assured by the assistant chief executive that the council is not aware of any matters which would significantly affect the council's group accounts.



Public Private Partnership (PPP)

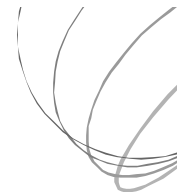
182. Financial closure on the South Ayrshire schools public private partnership project was achieved in December 2006. Construction work on two new secondary and three new primary schools, together with an annex to an existing secondary school commenced in January 2007.
183. We concluded in October 2006 that the accounting treatment adopted by the council in respect of the PPP was reasonable although we noted there was the potential risk that the fixed assets are not recognised on either the purchaser or the contractor's balance sheet. We also recommended that the council should consider whether demand for the new schools along with forecasted occupancy levels demonstrates best value.
184. The council have a strategy in place to finance the PPP. This relies on a combination of council tax increases to be set aside along with capital receipts transferred to the capital fund to finance the unitary payments and debt charges. At 31 March 2007, the balance in the capital fund was £1.826 million. Further investment to the fund will continue throughout the life of the PPP with the first payments from the fund commencing during financial year 2007/08. This funding strategy is vulnerable to significant fluctuations from capital receipt forecasts as well as any possible council tax freezes which are currently expected of councils from 2008-09. The future funding of the PPP will require to be reviewed at least annually when setting council budgets.

Key risk area 6

185. In March 2007 the Chancellor announced that public sector financial statements will abide by international financial reporting standards (IFRS) from 2008/09. This is potentially a major change in the accounting treatment of all PPP projects in Scotland. The public sector standard setting bodies have yet to propose or determine the future rules that are to apply to the accounting treatment of PPP projects. There is a risk that this may change the treatment of virtually all Scottish PPP projects from 2008/09.

Legality

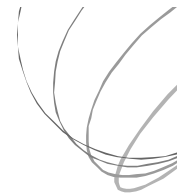
186. Each year we request written confirmation from the chief executive that the council's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The assistant chief executive has confirmed that, to the best of her knowledge and belief and having made appropriate enquiries of the chief executive and the CMT, the financial transactions of the council were in accordance with the relevant legislation and regulations governing its activities.



187. There has been continuing press coverage surrounding councils which have charged for the preparation of food which may contravene the terms of the Community Care and Health (Scotland) Act 2002 in relation to free personal care. The council has previously charged for food preparation but, in the absence of clear guidance becoming available, ceased charging in connection with food preparation in 2005. No provision for repayment has been included in the accounts as it is estimated that the sums already charged are not material and to date no claims for repayment have been received.
188. Local authorities with registered charitable bodies (i.e. registered trust funds) 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. Clearly, this is an onerous task for local authorities and discussions are ongoing between the CIPFA directors of finance section and the Office of the Scottish Charities Regulator to reach an acceptable solution.
189. There are no additional legality issues arising from our audit which require to be brought to members' attention.

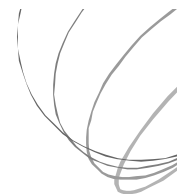
Financial reporting outlook

190. Overall the council is well placed to continue to prepare annual financial statements in accordance with accounting and statutory requirements. It has responded positively to audit issues and to changing accounting rules during 2006/07. Challenges ahead include a number of changes that have been made to the 2007 SORP.
191. Changes to the application of financial reporting standards (FRS) 25 and 26 are included in the 2007 SORP. Application of these standards to local authorities may require the premium on loans that have been re-scheduled to be charged to revenue in full in the year it is incurred rather than being written off over the period of the replacement loan, which can be up to 40 to 50 years. Such a change could have significant implications on council tax levels and directors of finance have been discussing with the Scottish Government how this risk can be avoided through the issue of regulations.



Final remarks

192. We have made a number of recommendations in the various reports we have issued during the course of the year and have obtained assurances from officials that action will be taken as appropriate.
193. Attached to this report is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issue and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks.
194. A mechanism should be considered and agreed by members for monitoring the effectiveness of planned action by officers. We will review the operation of the agreed mechanism as part of the 2007/08 audit.
195. The co-operation and assistance given to us by members and officers is gratefully acknowledged.



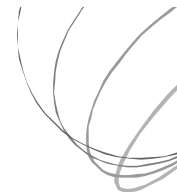
Appendix A: Action plan

Key Risk Areas and Planned Management Action

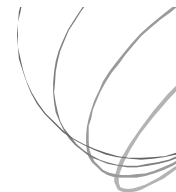
Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	12 34	<p>Corporate business plan and related service plans</p> <p>A new draft vision document has been prepared following agreement of the overall direction for the council. This is now in the process of being taken forward to review the business plan and then redirect and reprioritise service plans.</p> <p><i>Risk: business plan and service plan priorities may not be interlinked at present. Services may not be working towards corporate priorities.</i></p>	<p>Strategy for success (SfS) (2): Work is well advanced on developing a new vision document for the council, following on from the agreement to its overall direction by members at policy and resources Committee on 4 April 07. A draft document has been prepared by officers, their initial work being reviewed and refined by members at a special workshop on 10 Sept 07. The resultant draft document is currently being discussed with the council's partner organisations, and will be brought back to the leadership panel for formal approval in Dec 07. This will then be used to reshape and redirect the council's service plans, as appropriate, to reflect the agreed priorities of the new council.</p>	Chief Executive's strategic office, in conjunction with departments.	End of March 08
2	13	<p>Best value improvement plan</p> <p>The council improvement plan requires a significant amount of work and commitment to ensure all agreed actions are prioritised and fully implemented.</p> <p><i>Risk: the council does not make efficient use of its</i></p>	<p>CMT & HoS: The CMT and HoS have been actively managing the prioritisation and delivery of the strategy for success agenda / our best value improvement plan. The commissioning of work is regulated through the agreement of scoping papers. Regular update reports are prepared and considered at their monthly meetings.</p>	Chief Executive's strategic office, in conjunction with CMT, HoS and members.	On-going



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>resources in order to achieve corporate objectives.</i>	These in turn are shared with the leadership panel to ensure members are fully involved and are contributing to specific areas of work, as appropriate.		
3	16 32	<p>Performance management</p> <p>Performance monitoring is not based on outcomes for service users. Local performance indicators are not fed into an overall framework.</p> <p>Risk: it cannot be determined whether outputs and outcomes have maintained, improved or deteriorated and if best value is being achieved. Stakeholders cannot hold the council fully to account for performance.</p>	<p>SfS (13): A scoping paper has been prepared on the 'phased implementation of a performance framework' which was discussed and agreed by the CMT & HoS on 23 Oct 07. This will be taken forward in two steps:</p> <ul style="list-style-type: none"> (i) Agree a consistent and effective framework (ii) Implement in line with council decision 	Chief Executive's strategic office, in conjunction with performance management officers from departments	<p>(i) End Jan 08 (to allow 2008/9 resource implications to be budgeted for)</p> <p>(ii) Start implementation April 08</p>
4	19	<p>Public performance reporting</p> <p>The third tier of the public performance reporting strategy providing stakeholders with detailed performance reports has still to be developed.</p> <p>Risk: the public do not have access to performance information to allow them to hold the council to account.</p>	<p>SfS (Accountability):</p> <p>Work is progressing on delivering the 2007/8 PPRg strategy. The Update newspaper was issued at end of Jul 07 & the council's 2008 calendar will be available from mid November.</p> <p>The CMT & HoS reviewed the priority of turning specific attention to this 'theme' on the 23 Oct 07, it being previously rated as a '3'. They concluded that in relation to the other imperatives, no immediate action was appropriate at this point.</p>	N/A	N/A



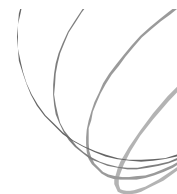
Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	30 62 117 - 126	Efficient government The council has more work to do to identify efficiency savings to meet the target set by the Scottish Government. <i>Risk: failure to achieve the efficiency savings will increase financial pressures.</i>	SfS (14): An officer group chaired by the assistant chief executive is progressing the plan & efficiency statement, the 2006/07 statement having been submitted to COSLA on 26 Aug 07. A scoping paper is being prepared to chart out how the group will take forward the remainder of its remit, which will include developing the efficiency statement for 2007/08 and ensuring that the efficiency agenda is addressed in undertaking the 2008/09 revenue budget exercise.	Assistant Chief Executive	Scoping paper Nov 07 (this will detail timescales for next steps).
6	37 45 77 80 184	Financial Pressures The council has severe financial pressures. However unlike many other councils, South Ayrshire Council does not have a general fund balance to allow it to meet unforeseen events. <i>Risk: the council may not be able to deliver on its corporate objectives if financial settlements and council tax rises do not reflect the council's expectations.</i>	The Council is committed to the creation of an uncommitted general reserve of £2.000m by March 2010. The level of uncommitted reserves will be reviewed as part of 2008/09 Revenue Budget exercise.	Assistant Chief Executive	February 2008



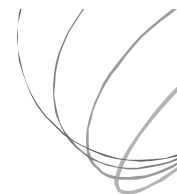
Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7	39 61 127 - 129	Asset management Further work is required to establish an asset management strategy across all council departments. Risk: assets may not be used in the most efficient manner.	SfS (7): CMT on 20 Aug 07 considered the South Ayrshire Council Asset Management Position Statement at 31 March 2007. This very detailed document is the first of three, being due to be followed by an Asset Management Plan and Options Appraisals Mechanism. Draft Asset Management Plan will be written and due go to CMT Nov 07, and thereafter will be submitted for political approval. Actions against plan to be reviewed annually and performance measures will be included as part of the process.	Directors of Development Safety & Regulation and Social Work Housing and Health.	End of March 08
8	40 55	Strategic workforce plan The strategic workforce plan has still to be agreed. Succession planning, which has traditionally been weak, was also planned to be addressed as part of the implementation of the workforce plan. Risk: the council does not have the right number and mix of staff to deliver corporate objectives.	SfS (6): HR strategist due to take up post on 26 Nov 07. In the meantime, the director of SWHH is acting as a 'champion' for this area, and has made recommendations on the way forward in a report to the CMT & HoS on 19 Sept 07. The new HR strategist will require to review the position, and a report and scoping paper will be prepared to agree how this will be progressed.	HR strategist	End of March 08



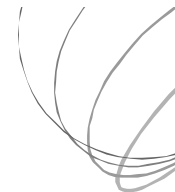
Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
9	44 147	Risk registers Work is required to develop departmental risk registers and integrate risk methodology into working practices. <i>Risk: the council is unable to identify the risks facing it and take appropriate action where applicable.</i>	Code of corporate governance improvement actions (2007-8): The three departments that require to address this issue have committed to improvement actions to ensure departmental risk registers are in place by end of March 08, and work is currently in hand to ensure that this is delivered.	Director of SWHH, Director of ECLL, Assistant Chief Executive.	End of March 08
10	48-52	Community planning partnership A self assessment exercise has resulted in an improvement plan being drawn up to address issues over governance, structures performance measures and risk registers. <i>Risk: the improvement plan is not diligently addressed and the partnership does not work effectively to meet their objectives.</i>	The improvement plan has been agreed by the community planning partnership and is being progressed as a series of discrete actions. One very significant action that will help to address the risk identified by our auditors, will be the appointment of a community planning co-ordinator. Currently it is anticipated that the co-ordinator will prepare an annual report on the operation of the partnership in 2007-08 by September 08.	Community Planning Co-ordinator.	September 08
11	54	Corporate appraisal scheme A senior officer appraisal scheme is expected to be in place by the end of 2007. Work is then required to introduce a corporate wide scheme. <i>Risk: an appraisal scheme is not put in place which holds</i>	Training on chief officer appraisal scheme has been undertaken and the details of the scheme will be finalised by the leadership panel. The council are committed to the roll out of PDR across all departments. This	Chief Executive Assistant Chief	December 2007 December 2007



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>officers to account for their performance and is able to address areas of both good and poor performance adequately. SMART objectives linking into the corporate objectives may not be set.</i>	scheme will be revised following finalisation of the chief officer appraisal scheme.	Executive	
12	57-60	Oracle eFinancials The system has been in the process of being implemented since 2003 with the latest final completion deadline having been set for April 2008. Risk: sufficient resources may not be applied to the project with the result that the system may not be fully implemented by April 2008. This may result in financial and operational issues for the council.	Accept that project management at the outset was poor – this is not the case as managed by assistant chief executive. Accept that lack of ICT expertise in technical and functional aspects of Oracle has had major impact. The officer who left was a temporary appointment. A new permanent member of staff has been appointed and discussions are ongoing with South Lanarkshire Council to provide ICT support. Steps are being taken to address the lack of ICT resources available and regular updates on progress are being provided to the leadership panel.	Assistant Chief Executive	Ongoing
13	91-93	Capital programme Significant slippage in completing the capital programme has been evident during 2007/08. Risk: We understand there may be a number of reasons for this slippage. However failure to complete projects may result in assets required for service delivery either not	In light of the significant slippage during 2006/07 there will be greater focus on the project monitoring of the capital programme and this will be reported to the leadership panel on a regular basis.	Assistant Chief Executive/ Director of social work, housing and health.	Ongoing



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		being in place or of being of an insufficient standard to allow quality services to be provided.			
14	105	Statutory trading organisations The council requires to revisit services to establish potential trading activities and to then carry out an assessment based on LASAAC guidance. <i>Risk: the council is not discharging its statutory obligations in relation to best value.</i>	A review will be undertaken and any required changes remitted to the leadership panel for approval.	CMT	December 2007
15	109 - 116	Single status/equal pay A new pay and grading model and new terms and conditions have been drawn up and are being put forward for discussion with employees and trade unions with the hope that agreement can be reached in the near future. In addition some employees have not accepted compromise agreements offered to them. <i>Risk: agreement cannot be reached with employees and trade unions resulting in the financial risk being unable to be accurately estimated.</i>	Negotiations with the trade unions are being progressed through Job Evaluation Project Board. Provision for implementation of the proposed pay model has been made within 2007/08 revenue budget.	Assistant Chief Executive/Depute Chief Executive and Director of development safety and regulation.	Ongoing



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
16	137-138	<p>Disaster recovery, business continuity and an ICT strategy</p> <p>There is a lack of business continuity and disaster recovery planning as well as the omission of an ICT strategy.</p> <p><i>Risk: front line services may be disrupted. Systems may not be working together to ensure efficient use of resources as well as working together to meet corporate priorities.</i></p>	<p>An officer has been appointed to progress business continuity within the council.</p> <p>A draft ICT strategy has been considered by the CMT and is now being discussed with departments. Finalised strategy to be submitted to leadership panel in January.</p>	<p>Depute Chief Executive and Director of Development Safety and Regulation.</p> <p>ICT strategy officer/CMT</p>	<p>Delivery over a two year programme from Nov 2007 to Nov 2009.</p> <p>January 2008</p>