

# East Ayrshire Council

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

October 2009



 AUDIT SCOTLAND



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on the 2008/09 Audit**

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# Key Messages

## Background

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

## Financial statements

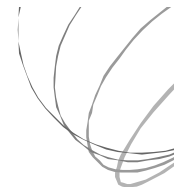
We have given an unqualified opinion on the financial statements of East Ayrshire Council. Our independent auditor's report includes an explanatory paragraph in respect of the Building and Works Significant Trading Operation (STO). This relates to the issues arising from the investigation into the operation of the Building and Works Service during 2008/09, as a consequence we are unable to form an opinion on whether the financial objective had been met due to a lack of reliable evidence supporting the income credited to this trading account.

In overall terms, the council made a deficit of some £5.8 million. This was, however, after making a charge to the accounts in respect of potential equal pay compensation claims. Principal variances from budget were in debt charges (£1.7m) and extra income (£1.1 million) in the form of council tax and benefit subsidy. Variances at service level were, in the main, not of great significance in the context of the budgets set. However, the Social Work Service, in particular children and elderly services, continue to present challenges to the council. The council approved a supplementary budget of some £0.975 million during 2008/09 and constituted a "sustainability board" to identify resource issues, address challenges and ensure sustainability into the future.

## Budget pressures

In his report to Cabinet in January 2009 the Executive Head of Finance and Asset Management confirmed that efficiency savings must be pursued by all services over the three year (2009/10 – 2011/12) budget period. The draft budgets for 2010/11 and 2011/12 assume annual efficiency savings of 2.5%, this equates to total savings of some £15.9 million over the three years. The Chancellor of the Exchequer's pre-budget report indicated that some £500 million in efficiency savings would be required from Scotland's block grant; this could add a further £4 million per annum to the 2010/11 and subsequent years' savings requirements.

In common with other UK councils the ultimate cost to the council of claims in respect of equal pay remains uncertain. It is likely that resolution of the issue will take some time. The picture will become clearer as tribunal claims are decided. It is known that at least one council is seeking to reach a negotiated settlement with claimants, however, even if this is successful the outlook for East Ayrshire Council will, at least in the short term, remain uncertain. What is probable, based on previously decided cases and advice we have



received from legal and human resource practitioners, is that East Ayrshire Council will be required to pay compensation to a proportion of claimants. The council has assessed the likelihood of success of claims made against it and provided a sum to cover this in the 2008/09 accounts.

During the year, two UK subsidiaries of Icelandic banks with which the council had made three short term investments totalling £5m, were placed in administration. Administrators have provided an indication of the likely final distribution to creditors. The council is likely to recover around 80% of its original investment but has set aside funds to meet the predicted shortfall in recovery.

## **Use of resources**

The council has procured a computerised corporate asset management system and created a dedicated asset management team under the Executive Head of Finance and Asset Management. The council reports that 90% of its buildings are in either good or satisfactory condition and its statutory performance indicator shows that 64.2% of the council's properties are assessed as being suitable for disabled access. This is a considerable improvement on the position in the previous three years. The council continues to perform strongly in the delivery of its capital programme.

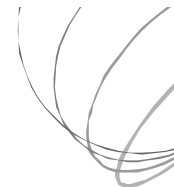
East Ayrshire Council's procurement arrangements are well developed. Key measures of the number of contracts let and the proportion of suppliers with which the council has contracts in place show the council in a strong position, with 1300 contracts let and over 30% of its suppliers covered. The most recent performance report from the council's procurement team reports that use of electronic procurement is increasing at a steady rate.

## **Governance**

The Cabinet have recently received two reports concerning issues of governance and control. The Chief Auditor of the council reported that there were some weaknesses in the council's funding of an external body, the Glaisnock Trust. A second report into malpractice in the council's Building and Works STO was highly critical of the management and supervision of the organisation. We acknowledge that the investigation was conducted in a robust and critical manner and that the council has taken uncompromising action to address the issues identified.

## **Performance management**

The council, in recognising the need to consolidate and streamline its performance management system, procured an IT based performance management system which went live on 1 April 2009. The introduction of this system should lead to improvements in the identification of service priorities and risks as well as the direction of resources needed to address these issues. Initial reaction from Executive Directors and Heads of Service has been positive.



The council's second strategic self-assessment was undertaken by the corporate management team supported by a 'critical friend'. Overall the results indicate that good performance is being sustained. The report by the critical friend did state, however, that more needed to be done to achieve the Scottish Quality Housing Standard by 2015 and that the shared services agenda between councils was not making much progress.

## **Economic downturn**

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

Subsequent to the balance sheet date the drinks company Diageo plc announced the proposed closure of its Kilmarnock bottling plant. Despite the efforts of the council and the Scottish Government to persuade Diageo to retain the Kilmarnock plant the decision now looks irrevocable. The scale of the jobs loss, some 700, is a significant blow to the local economy.

## **Outlook**

The recently published Scottish Government's draft budget of expenditure plans for Scotland in 2010-11 indicated that for the first time since devolution Scotland will see a real cut in spending of 0.9% to the national budget. This though, is only the start of a longer-term process of significant real cuts in public sector budgets, with predicted 2013-14 spending nearly 9% lower than in 2009-10. The council and its partners will inevitably, therefore, have to face difficult choices about what services they will deliver to their communities and how these services are to be resourced. Such decisions will be made even more difficult against a backdrop of rising demand for council services and increased unemployment. In light of such intractable issues the council will be obliged to give even greater emphasis to its efficiency drive, firm budgetary control and seek opportunities to reduce costs by sharing services.



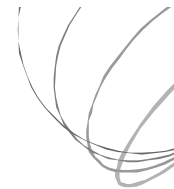
# Introduction

1. This report is the summary of our findings arising from the 2008/09 audit of East Ayrshire Council and other relevant work carried out by Audit Scotland. A number of detailed reports have already been issued in the course of the year in which we make recommendations for improvements (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.
2. The report uses the headings of the new corporate assessment framework, which is being developed for Best Value 2 (BV2) and for joint scrutiny work. Using evidence gathered in the course of the audit, supplemented by other work by Audit Scotland and other scrutiny bodies, we comment on the council's position this year. BV2 represents a new approach which will involve close cooperation between local audit teams and Best Value auditors as well as with the other inspectorates, for whom the Accounts Commission is now serving as scrutiny "gate keeper". The combined work will lead to a shared risk assessment for the council, from which an assurance and improvement plan will be tailored to support continuous improvement. East Ayrshire Council is one of five councils acting as "pathfinders" for the new approach and the BV2 assessment of the authority is well under way. We anticipate reporting our findings in early 2010.
3. It must be stressed that our comments are made on the basis of information made available in the course of the annual audit. We do not offer an overall best value judgement because we have not sought or examined enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time and for that to form the basis of a proportionate best value audit. This report is the first step towards that goal.
4. Audit Scotland carries out a national study programme on behalf of both the Accounts Commission and the Auditor General for Scotland. Reports published in the last year of direct interest to the council are:
  - The impact of the race equality duty on council services
  - Improving energy efficiency
  - Asset management in councils
  - Overview of drug and alcohol services
  - Mental health overview
  - Civil contingencies planning
  - Strategic procurement



5. We mention the key findings from these reports and the implications for East Ayrshire Council, where relevant, in the 'Performance and use of resources' section of this report. Full copies of the studies can be obtained from Audit Scotland's web page at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
6. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed *Planned Management Action*. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the council understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have arrangements in place to provide themselves with assurance that the planned action has been implemented.
7. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for her annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the Local Government and Communities Committee of the Scottish Parliament.
8. The co-operation and assistance provided by the members, officers and staff of East Ayrshire Council are gratefully acknowledged.





# Financial statements

## Introduction

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

## Audit Opinion

10. We have given an unqualified opinion that the financial statements of East Ayrshire Council for 2008/09 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
11. We have, however, drawn attention in an explanatory paragraph to a failure to comply with the Local Government in Scotland Act 2003. This is in respect of the Building and Works Significant Trading Operation (STO), which is required to break even over a three year period. Although the STO has reported significant surpluses over the past several years, events during 2008/09 have led us to conclude that elements of the underlying charging mechanism used by the STO may be unreliable. These events are explored further in the 'Governance and accountability' section of this report.
12. There was no necessity to qualify the council's accounts because the STO is an internal business unit which generates all its income from other council services. The surplus is recycled back into the general fund with no net impact on the council's overall position.
13. We were satisfied with disclosures made in the annual governance statement and the adequacy of the process put in place by the council to obtain assurances on systems of control.
14. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Working papers to support the 2008/09 accounts were of good quality and the finance team responded courteously and expeditiously to all audit queries.
15. The accounts were certified by the target date of 30 September 2009 and are now available for presentation to members and publication. The financial statements are the principal means by which the council accounts for its stewardship of the resources made available to it and its performance in the use of those resources.



## Accounting issues

16. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice* (the SORP). No major changes were introduced by the 2008 SORP. We were satisfied that the council prepared the accounts in accordance with the 2008 SORP.
17. The council has adjusted the financial statements to reflect audit findings. As is standard practice at East Ayrshire Council, this included adjusting for non-material errors, meaning that we have no such errors to report.

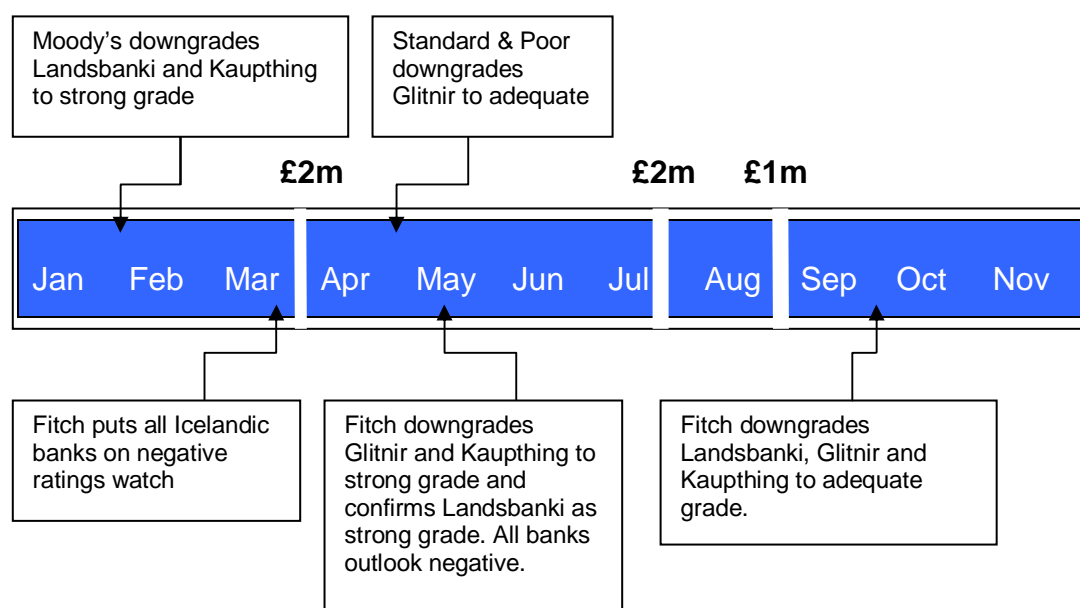
## Icelandic banks

18. In October 2008 Kaupthing, Singer & Friedlander Limited (a UK subsidiary of Kaupthing Bank hf, the largest bank in Iceland) and Heritable Bank plc (a UK subsidiary of Landsbanki Islands hf, the national bank of Iceland), two banks in which the council had placed three short term investments totalling £5m, were placed in administration. As the timeline at exhibit 1 shows, the council's investments were made before the ratings agencies downgraded the two banks below "strong grade", though both had been placed on negative ratings watch by the Fitch ratings agency before any of the investments were made.

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### Exhibit 1

#### Timeline – Icelandic bank ratings (*adapted from the Audit Commission report 'Risk and Return'*)





19. The investments were made in accordance with the council's treasury policy and with investment guidance which requires the council to take a balanced approach between risk and return in making its investments. The vertical white lines (exhibit 1) show the approximate point at which the three investments were made by the council. The detail of the three investments is set out in exhibit 2 below.

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## Exhibit 2

### Icelandic investments

Bank	Investment Date	Amount	Duration
Kaupthing	28/03/08	£2m	364 days
Heritable (Landsbanki)	09/07/08	£2m	364 days
Heritable (Landsbanki)	15/08/08	£1m	364 days

20. The 2008/09 accounts include impairments charged to the income and expenditure account in respect these investments. The impairments are explained in detail in the notes to the accounts, but can be summarised as equalling the amount of principal invested which the administrators do not expect to recover from their disposal of the bank's assets, together with the interest foregone on the investments.
21. The majority of the £2.145m impairment charge shown in the accounts relates to principal which the administrators estimate will not be recovered. Under regulations made by the Scottish Government in 2009, the loss related to investment principal can be deferred by transferring it to the financial instruments adjustment account. The council, in common with the other councils involved, has taken advantage of the regulations. Members should note that the £1.901m earmarked will need to be charged to the general fund by 31 March 2011.
22. The council took immediate action to amend its treasury management strategy to reduce the risk of similar exposure, by placing investments only in institutions which were covered by the UK Government's bank deposit guarantee scheme (announced shortly after the collapse of the banks). Previously the council had relied on its treasury advisors and ratings agencies. This change naturally reduces the opportunities to generate above average returns on the council's investments and had an impact on the income generated from this source in 2008/09. A consequence of the council's policy of accelerating capital spend in the recession is that a smaller amount of liquid resources will be available for investment, thereby limiting proportionately the opportunity cost of the lower interest paid.



## Related Parties

23. We noted last year that the council's related parties note within the accounts, while consistent with the SORP and with some other councils, was not in our view consistent with the underlying spirit of the disclosure requirement. In our view the purpose of this disclosure requirement is to provide assurance about any related parties with which decision makers within the council have concluded, or caused to be concluded, transactions on the council's behalf.
24. The council has a mechanism in place for deriving the assurances needed from officers for the statement on the system of internal financial control. This includes a positive assurance from Executive Directors and Heads of Service that they are not aware of any transactions having taken place in the year between themselves or their staff and any third parties in which they have a related interest. The council should establish a similar mechanism to enable it to make such a positive statement about elected members. The assurances obtained should then be included as a narrative element of the related parties note, in accordance with best practice.

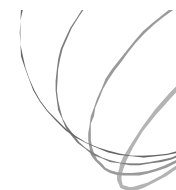
## Fixed Assets

25. A review of the properties listed as community assets on the asset register suggests that there are a number of them which could, at least partly, be re-classified as operational assets. Potential common good assets may also be found among the operational land and buildings.
26. We comment below on the ongoing review of the asset register to identify potential common good assets, but the council should use this as an opportunity to review the register more widely to ensure that all asset classifications are appropriate. Re-classification and transfer of assets to the common good are likely to lead to a number of changes which will impact on both the council's balance sheet and its income and expenditure account, though these are not expected to be significant in the context of the council as a whole.

**Action point 1**

## Payments in advance

27. During testing of the council's transactions we noted that payments in respect of supporting people were being made in advance, in accordance with contractual terms agreed between the council and its third party service providers. In some cases, these providers are small charities which rely on the quarterly payments in advance to sustain activity. In others the service providers are large registered charities and businesses which provide services either nationally or across the UK.

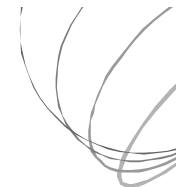


28. As a general principle the payment of suppliers in advance should be discouraged, since it exposes the council to the risk of financial loss in the event that a third party, having received a payment, ceases to trade. Where those third parties are small charities or local enterprises that are working in partnership with the council, the council may consider it appropriate to set this principle aside, subject to an understanding of the risk involved. Our testing, however, suggested that advance payments, established as standard terms in some pro forma council contracts, are being provided to some larger service providers. A review should be undertaken to establish whether all such service providers have contracts which are appropriate. The opportunity can then be taken to revise the contractual terms as the contracts come up for renewal in the years following the review. Guidelines setting out where payment in advance is permissible should also be produced so that officers are equipped to agree such terms only where necessary.

## **Action point 2**

### **Police and Fire pension schemes**

29. Members will be aware that the accounts are required to include various adjustments which ensure that council tax payers are only liable for expenses actually incurred by the council. These adjustments, included within the statement of movement on the general fund balance and its accompanying note, reverse out the effects of accounting adjustments which are included on the income and expenditure account (IEA) in accordance with proper accounting practice.
30. One such adjustment is the removal of pension charges calculated in accordance with actuarial assumptions about the current value of the underlying assets and liabilities of the council's pension schemes as at 31 March 2009. These charges are included within the IEA, in accordance with financial reporting standard 17, to ensure that it reflects the best available estimate of the cost of providing pensions for the council's current and former employees albeit on 31 March 2009. The council also adjusts within its group accounts for changes in the value of pension schemes operated by consolidated third parties, including Strathclyde Police and Strathclyde Fire and Rescue Joint Boards.
31. In September 2009 guidance was released advising that the statutory basis for local authorities to reverse out costs relating to pension schemes did not apply to the new schemes for fire and police which were set up from 6 April 2006. As a consequence there was no statutory override to the application of financial reporting standards. However, as the council consolidates the net worth of its associates within the group accounts, this does not impact on the council's financial statements.
32. At the time we reported the findings of the audit to the governance and scrutiny committee it appeared that the accounts of the joint boards would be qualified in respect of this issue. Since then the accounts of the Strathclyde Fire and Rescue Joint Board have been adjusted although the Treasurer of the Strathclyde Police Joint Board elected not to amend the accounts and a qualification to the



opinion was made. It was therefore agreed that a narrative note would be included within East Ayrshire Council's accounts concerning the qualification of the Strathclyde Police Joint Board's financial statements.

## Removal of ring fenced funding

33. The introduction of the Concordat with the Scottish Government resulted in the consolidation of some specific grant funding into the revenue support grant for 2008/09. When compared to the previous year, this has the effect of giving the appearance of a substantial increase in funding from revenue support grant and service net expenditure. This change in the structure of funding has a significant impact on the comparability of income and expenditure with that of the previous year.

## Equal pay

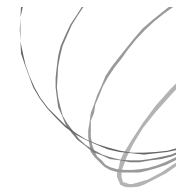
34. The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay can put forward claims to an employment tribunal. In common with other UK councils the ultimate cost to the council of claims in respect of equal pay remains uncertain. It is likely that resolution of the issue will take some time. The picture will become clearer as tribunal claims are decided. It is known that at least one council is seeking to reach a negotiated settlement with claimants, however, even if this is successful the outlook for East Ayrshire Council will, at least in the short term, remain uncertain. What is highly probable, based on previously decided cases and advice we have received from legal and human resource practitioners, is that East Ayrshire Council will be required to pay compensation to a proportion of claimants. The Executive Head of Finance and Asset Management has provided for a sum within the accounts in anticipation of a proportion of the claims being successful. This estimate has been prepared using information and assessments of likely outcomes provided by the council's Legal Service and Personnel Service. In addition a note to the accounts indicates the existence of a contingent liability in the event of further claims arising.

**Action point 3**

## Audit testing

35. As part of our work, we took assurance from a number of the council's main financial systems. During 2008/09 we conducted high level reviews of all the council's main financial systems, the significant findings from which were reported to management in June 2009. Specific comment was made in this report on the following systems:

- Main accounting system
- Loans and borrowing
- Accounts payable
- Accounts receivable



36. Nine issues were identified as a result of our review and an action plan was agreed to address them. We will monitor progress against the action plan in 2009/10. We were able to conclude that, overall, controls are operating satisfactorily in the systems reviewed.
37. We relied on internal audit's full systems reviews of the new Civica debtors and creditors systems to obtain assurance on their effective implementation and operation.

## **Prevention and detection of fraud and irregularities**

38. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a recently updated whistle blowing policy; codes of conduct for elected members and staff; and defined remits for committees. The council has taken the opportunity to strengthen, re-issue and re-emphasise the importance of its policies and procedures in this area in the wake of the investigation into the Building and Works Service.

## **NFI in Scotland**

39. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£40 million to 2008). If fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.
40. The most recent data matching exercise was carried out in October 2008 and national findings will be published by Audit Scotland in May 2010. East Ayrshire Council has participated in this 2008/09 exercise and has made significant savings as a result. Up to the middle of September 2009, the council reports that 8 frauds and 3 errors have been discovered giving a total reported saving of some £28,000. This exercise continues and further savings are expected.
41. In addition, two additional series of matches were offered to the council and were considered as part of the 2006/07 exercise. These consisted, firstly, of matching those receiving a single person discount (SPD) on their council tax against the electoral roll and, secondly, those people who are approaching 18 years of age (the rising 18s) and potentially becoming liable to council tax. Due to difficulties experienced by a number of councils, the exercise was not able to be commenced in the expected timescale and the council instead used a credit reference agency to give a risk rating for 21,000 people who received single person discount. Of these 8,000 were deemed worthy of further testing based on the agency risk rating.
42. The exercise resulted in 15% of cases having the discount removed. The exercise also had the added advantage of identifying cases where exemptions were not being fully claimed by those entitled to



them. The net reduction in the value of discounts given was around £100,000. This compares well with other councils that followed the NFI methodology.

43. It is the council's intention to take part in a further tranche of NFI matches to be run during the current financial year.

## Housing Benefit

44. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. Our specialist team are carrying out a programme of risk assessments of benefits services in all councils over a two year period. The risk assessment of East Ayrshire Council's benefits service will be undertaken during January – February 2010.

## Group accounts

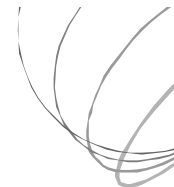
### Joint ventures and associates

45. The council has consolidated within the group accounts six associates, comprising one charitable trust and five joint boards, along with two joint venture companies. They have been included in group accounts in accordance with the SORP although, setting aside the impact of the police and fire pension schemes, they do not materially impact upon the accounts. Contingent liabilities are disclosed within the accounts in respect of the joint venture companies and the leisure trust.

### Trust funds

46. Councils with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. In effect, this means a full set of financial statements is required for each trust fund. However, the Office of the Scottish Charities Regulator (OSCR) has deferred the date of full implementation until 2010/11, meaning that the current disclosures remain satisfactory for the 2008/09 accounts.
47. In an April 2009 letter to the Chair of LASAAC (Local Authority Scotland Accounts Advisory Committee) from OSCR, the 2007/08 disclosures of 30 Scottish local authorities are assessed in terms of their compliance with the OSCR regulations. East Ayrshire Council is one of the ten councils judged "above average," which the letter considers a good standard to aim for in 2008/09. The council is aware of the requirement and is in a strong starting position to produce accounts which are fully compliant with the regulations for 2009/10.





## Common good fund

48. In December 2007, LASAAC issued a guidance note for practitioners. The guidance requires the common good fund to be disclosed within the financial statements and a separate common good asset register to be in place by March 2009.
49. A separate account for the common good is disclosed in East Ayrshire Council's financial statements and a separate fixed asset register is also maintained. Further work is being carried out to ensure the completeness of common good assets. During 2008/09, following a detailed review of specific title deeds, assets valued at £11 million were transferred from the council's fixed assets to the common good. Although the council is concerned about the time and cost involved, against the benefits to council tax payers, in reviewing title deeds, a process will be put in place to review significant assets over a reasonable period of time to determine if there are other potential common good assets.

**Action point 1**

## Legality

50. Through our planned audit work we consider the legality of the council's financial transactions. In addition the Executive Head of Finance and Asset Management confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## Financial reporting outlook

### IFRS adoption

51. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Because local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth. Indeed, the Corporate Finance team at East Ayrshire Council have been proactive in engaging with the transition and have applied Prince2 techniques to managing the council-wide action needed. This should ease the creation of a comparative balance sheet as at 1 April 2009, along with an IFRS compliant whole of government accounts pack, both of which will be required from 2009/10.

### European Union Emission Trading Directive

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



# Use of resources

## Financial results

53. The council's income and expenditure account shows a deficit of £50.019 million before statutory adjustments. After taking account of statutory adjustments totalling £44.499 million, the net effect at year end was a reduction in the general fund of £5.968 million. The reduction relates primarily to money set aside to provide against equal pay claims, rather than overspends within services. Indeed, the council's management accounts, which do not include the provision, show a net underspend against budget of £7.354 million. This is comparable to the underspends reported at the end 2007/08, where the net outturn was £8.177 million below budget.
54. East Ayrshire Council spent £468.202 million on the provision of public services, of which £429.187 million was spent on revenue services while the balance was spent on capital. The council's net operating expenditure in 2008/09 was £316.965 million, which was met by central government funding and local taxation amounting to £266.498 million. The budget set for 2008/09 was based on a Band D council tax level of £1,188 with planned expenditure of £1 million from the capital fund for the early repayment of debt.
55. Exhibit 3 shows the five largest underspends reported by services at year end. As was the case in 2007/08 each of the main services outturned under budget. Budgetary underspends over the last five years have allowed the council to accumulate significant unplanned reserves, as we have noted in our two previous reports.

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### Exhibit 3

#### Significant Underspends 2008/09

Service	Underspend £million
Education and Social Services	1.782
Neighbourhood Services	0.714
Corporate Support	1.630
Finance and Asset Management	1.282
Debt Charges	1.704



56. The main elements of the £1.782 million (1.1%) underspend reported by Educational and Social Services are PPP funding carried forward, schools delegated budgets carried forward and savings of some £0.668 million in employee costs in the Community Support Service , largely as a result of unfilled posts pending a review of the service.
57. The underspend in Social Services of £0.213 million includes the use of £0.975 million balances brought forward to support current year service provision. In addition earmarked balances of some £2.361 million were allocated in year for pre-existing commitments. The council has established a Social Work Sustainability Board, led by the Executive Director of Educational and Social Services, which is reviewing how social work services are configured and delivered, with the aim of balancing resources available with services provided by the end of 2009/10. The Cabinet has received regular progress update reports.
58. Neighbourhood Services shows an underspend of £0.714 million (1.0%). This is in the main attributable to private sector improvement grants allocated as at 31 March 2009 but awaiting confirmation of completed work before disbursement. The remainder is largely attributable to staff turnover vacancies offset by an overspend in winter roads maintenance following an unexpectedly severe winter.
59. Corporate support underspent by £1.630 million. Planning and building warrant income was £0.716 million under budget reflecting the economic downturn. Much of the underspend was due to the timing of spend of ringfenced funding in respect of the Fairer Scotland Fund and on European funded projects. Savings in employee costs were made as a result of delaying filling vacancies following best value service reviews of the Information Technology and Personnel services. An underspend in the Planning and Economic Development Service is a consequence of action taken to reduce employee costs given the decline in planning income. It is pertinent to note the significant deterioration in the council's statutory performance indicators for dealing with planning applications. The position in Legal, Procurement and Regulatory Services does not reflect underspends so much as increased income generated principally through Licensing Board fee charges.
60. Finance and Asset Management report an underspend of £1.282 million, £1.068 million of which relates to the Asset Management Service. This has arisen from a mixture of staff vacancies, incomplete property maintenance work (ordered but not completed by the year end) and higher than expected income from agency charges. It should be borne in mind that this is a recently reconstituted service, established following the council's best value service review in 2007/08.
61. In the past two years considerable efforts have been made by the Executive Head of Finance and Asset Management to enhance the type and quality of information provided to members in the regular revenue and capital monitoring reports. These were amalgamated at the start of 2008/09 into a comprehensive 'Financial Strategy' report, which supplements high level analysis of service financial performance with key qualitative indicators. Also included is a table showing how this performance picture linked in to the achievement of single outcome agreement objectives. Despite the many

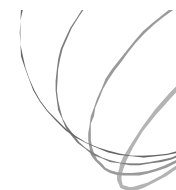


improvements in reporting, the council continues to describe underspends as “favourable variances”, a description which is not, in our view, helpful given that unspent budget could mean undelivered services or unrealistic service programmes. From period 6 (2009/10), the reports have been further enhanced by the inclusion of relevant performance information from the council’s new computer-based performance management system.

## Housing revenue account

62. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. The council’s strategy on rent levels was set by the Housing Committee in April 2005. In order to fund the achievement of the Scottish Housing Quality Standard by the target date of 2015 the Committee agreed that rents should increase annually by retail price index plus 1%.
63. The budget for 2008/09 was approved by the Cabinet in February 2008. The budget approved estimated income and expenditure at £35.682 million. This budget was set based on a rent increase of 3.9%.
64. Before statutory adjustments the housing revenue account shows a deficit of £18.023 million for 2008/09. Following adjustment to the statutory basis this becomes a surplus of £0.171. Significant to this outturn was a £0.744 million underspend on debt charges which was approved to fund an additional £0.792 million on housing repairs.
65. The Building and Works STO has reported a surplus of £2.268 million (£2.322 million 2007/08). This surplus is transferred to the general fund. The HRA contribution to the surplus, based on a simple pro-rata turnover calculation, is around £1.4 million (£1.366 million estimated in 2007/08). This is a significant transfer of resource from the HRA into the general fund: it could be viewed as a subsidy to the general fund from council house rents. Over the last five years, as a consequence of the surpluses being made by the Building and Works STO there is a risk that up to £7.5 million may have been lost to the HRA through this transfer mechanism. Following previous comment on this area the council introduced a rebate scheme. For 2008/09 some £0.300 million was rebated to the HRA through this scheme.
66. The council’s second strategic self assessment (see also the ‘Performance and management of resources’ section of this report) stated that “Housing Services are far short of the Scottish Quality Housing Standards required by 2015 and a significant injection of finance at some stage will be the only way to tackle the shortfall”. The council should continue to review and re-formulate its strategy as necessary, including the sourcing of finance if it is to achieve the 2015 deadline.

**Action point 4**



## Reserves and balances

67. Exhibit 4 shows the balance on the council's cash-backed funds at 31 March 2009 compared to the previous year. At 31 March 2009, these funds totalled £51.367 million, a decrease of £6.864 million on the previous year.

### Exhibit 4

#### Cash-backed funds at 31 March 2009

Description	2008/09 £ million	2007/08 £ million
General Fund	26.859	32.827
General Fund – HRA balance	2.226	2.055
Capital Fund	15.713	16.984
Renewals and Repair Fund	6.569	6.355
<b>Total cash-backed funds</b>	<b>51.367</b>	<b>58.221</b>

68. Of the £26.859 million general fund balance carried forward, £20.258 million (75%) is specifically earmarked by departments for what are described as future known commitments. A total of £26.630 million was brought forward as earmarked by departments from the prior year, of which a net total of £5.968 million was actually used in 2008/09. A comparison of earmarked balances brought forward and net amounts applied over the last three years is shown at exhibit 5.

### Exhibit 5

#### Earmarked balances applied 2006/07 – 2008/09

Balance at 31 March	Earmarked balances b/fwd £ million	Net amount applied in year £ million	Percentage Applied %
2008/09	26.630	5.968	22.4
2007/08	14.771	4.020	27.2
2006/07	8.565	1.609	18.8

69. We recognise that included within the earmarked balances are specific sums, like the PPP sinking fund, which it is prudent to set aside. The amounts earmarked by departments equates to some 6.2% of the gross cost of services for 2008/09. In our 2007/08 report we were critical of the lack of review of



services' earmarked balances carried forward. To address this the Executive Head of Finance and Asset Management was mandated to undertake a review of service balances and report back to Cabinet immediately following the conclusion of the audit of the 2007/08 financial statements. As a result of this exercise some £1.983 million was re-allocated to uncommitted balances. This exercise will now be an annual feature of the council's budgetary processes.

## Group balances and going concern

70. The overall effect of inclusion of the council's associates and joint ventures on the group balance sheet is to reduce net assets by £155.636 million, mainly because of associates' pension liabilities. However, all group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.

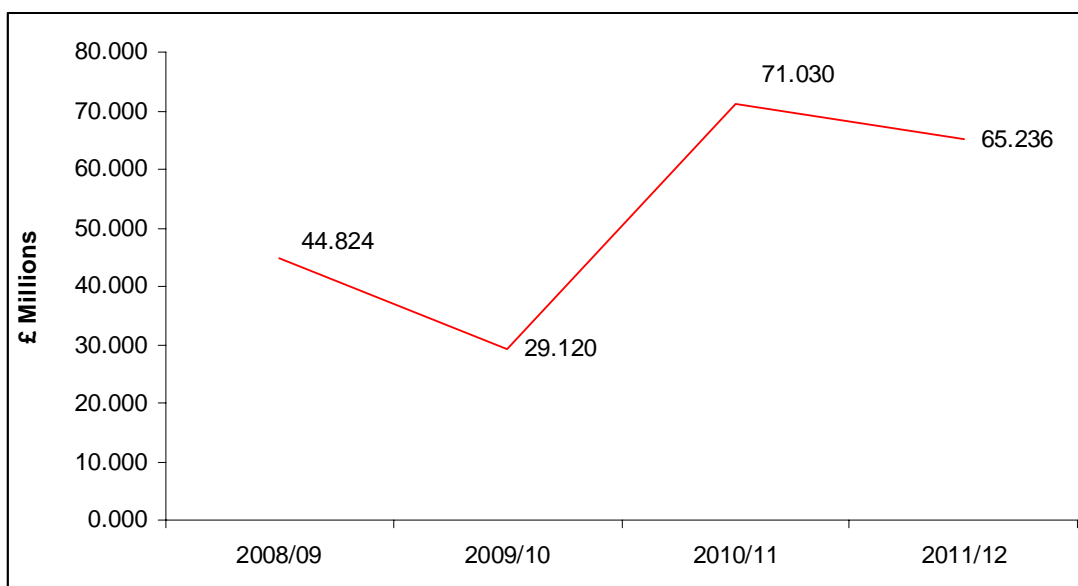
## Capital performance 2008/09

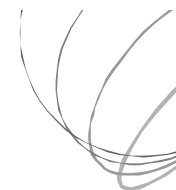
71. The council's prudential indicators for 2008/09 were set in March 2008. Estimated expenditure at that point was set at £41.185 million, of which £12.061 million was to be funded internally through capital receipts and revenue funding. The balance was to be met through borrowing externally, for which a cumulative capital financing requirement indicator of £234.369 million was approved. Long term debts outstanding at 31 March 2009 totalled £204.305 million, some £30 million less than planned. The council should consider whether the current indicators adequately reflect its capital financing strategy.
72. The council's Treasury Management Strategy for 2009/10, presented to Cabinet in March 2009, sets out the planned capital expenditure programme between 2008/09 and 2011/12. The total planned spend for each year (HRA and general fund) is summarised at exhibit 6.

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### Exhibit 6

#### Summarised capital expenditure 2008/09 – 2011/12





73. The expenditure in 2008/09 totalled £39.026 million, a drop of £15.935 million (29%) from 2007/08 and £4.934 million less than budget. The programme delivered overall 93.3% of the planned budget (100% HRA and 90% general fund), which is a good performance. The underspends were significant in Education and Social Services (£1.196 million), Neighbourhood Services (£1.227 million) and Regeneration, Efficiency and Asset Management (£1.075m). Unlike some councils, East Ayrshire Council has not depended on the disposal of nominally high value assets to support its ongoing investment programme. This means that the council's capital plan has not been seriously affected by the decline in the value of such assets, a notable feature of the recession to date.
74. The shortfalls reported in capital spend are due to various slippages and do not appear to share any common factor. There have been delays across Education Service, with equipment for PPP schools and refurbishment programmes elsewhere being delayed. Neighbourhood Service's delays are similarly diverse, with traffic and road safety spend, like that for several bridge projects, being carried forward to 2009/10. The reported delays in regeneration relate primarily to the Kilmarnock town centre project which did not progress as expected. These developments, being inextricably linked to private sector activity, are more vulnerable to the volatility of uncertain markets.
75. As exhibit 6 makes clear, the capital programme anticipates a significant increase in expenditure to £71.030 million in 2010/11. This is considerably in excess of the £54.710 million delivered in 2007/08 and it represents a very ambitious target. It is to be hoped that the relatively quiet year planned in 2009/10 will allow the recently established Asset Management Service to acquire sufficient capacity to reach this goal.
76. The trend in capital investment and sources of funds is reflected in exhibit 7.

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## Exhibit 7

### Sources of finance for capital expenditure 2004/05 – 2008/09

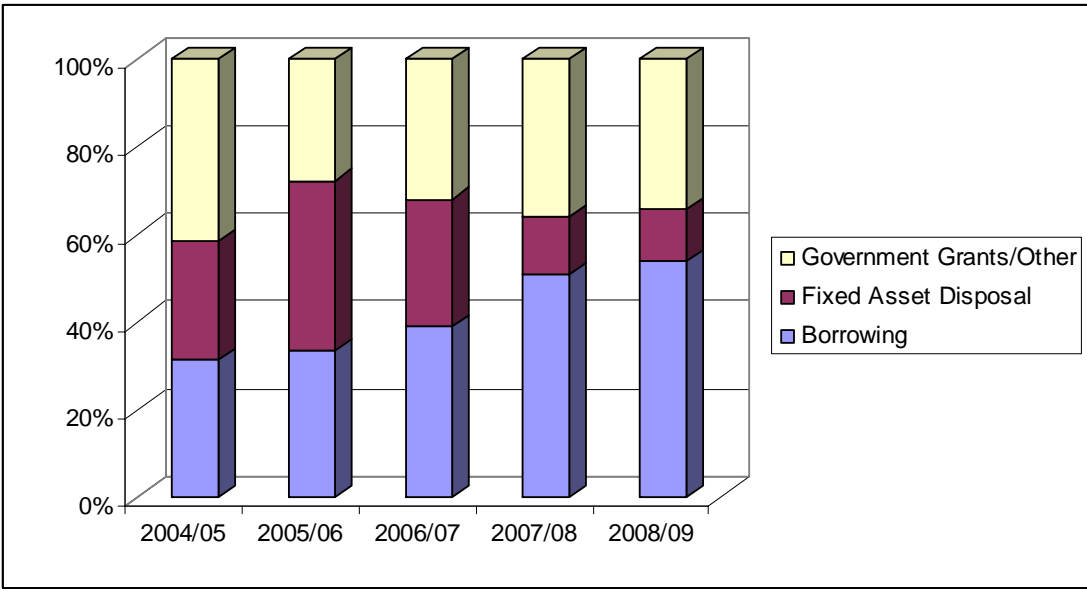
Description	2004/05 Actual £M	2005/06 Actual £M	2006/07 Actual £M	2007/08 Actual £M	2008/09 Actual £M
<b>Borrowing</b>	8.859	8.153	12.840	27.906	21.034
<b>Fixed Asset Disposal</b>	7.656	9.464	9.556	7.246	4.621
<b>Government Grants/Other</b>	11.687	6.793	10.529	19.809	13.371
<b>Total</b>	<b>28.202</b>	<b>24.410</b>	<b>32.925</b>	<b>54.961</b>	<b>39.026</b>

77. As can be seen, the actual expenditure on the capital programme, year by year, has fluctuated widely. Following the restructure of the Asset Management Service during 2007/08 good progress was made in addressing several areas of slippage and it is to be hoped that the new arrangements continue to



support capital delivery. Exhibit 8 makes the underlying increase in borrowing and decline in receipts more apparent.

**Exhibit 8**  
**Capital expenditure – analysis of funding**



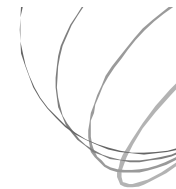
78. Exhibit 8 indicates that government grants and revenue funding of capital has represented between 35-45% of total expenditure, the remainder consisting of borrowing and receipts. Since 2004/05 the amount borrowed as a proportion of the expenditure for the year has steadily increased.

79. One area where capital receipts have significantly declined is in housing. While the decline in house sales has reduced housing capital receipts, this is not necessarily due solely to the general economy, though restricted credit makes it harder to obtain mortgages and many people feel less secure in their employment. Council house sales have declined across the UK in the years leading up to the recession and do not represent a reliable source of high value capital receipts. The reduction in receipts is anyway offset by the long-term benefit of rental income earned from unsold houses, though it is observed that each retained house must comply with the 2015 Scottish Quality Housing Standard, thereby potentially increasing the council's costs.

### Treasury management

80. As at 31 March 2009, East Ayrshire Council held cash and temporary investments totalling £40.273 million. We are assured that any borrowing in advance of immediate need was made for legitimate purposes in accordance with legislation and was invested in the interests of prudent cash management.

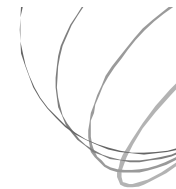




81. The current economic climate means that interest rates on investments are low – the council received £2.447 million in investment income this year compared to £3.126 million last year. Borrowing rates are also low, but the council has a significant proportion of its debt at fixed rates and its average cost of borrowing over the year was 5.79%.
82. The crisis in the banking sector and the collapse of Icelandic banks in particular, prompted the council to review its treasury management practices, as noted in the 'Financial statements' section of this report. The main change was to take advantage of the protection afforded by the UK Government's bank deposit guarantee scheme. The contract to provide treasury management advice to the council also came up for renewal in 2008/09. The contract was put out to tender during the year and Arlingclose have succeeded Butlers as the council's treasury advisors.

## Financial planning

83. The council continues to face difficult financial pressures in 2009/10. Energy prices have been monitored closely to ensure that the budget reflects the most up to date information about the volatile cost of energy. Pay has been budgeted at 2008 levels plus 2.5% to address inflation, with adjustments also being made for known changes in pension and national insurance contributions. In addition, a contingency of £0.500 million has been included within the budget to address issues arising as a result of the economic climate. Although the impact of this is uncertain, specific attention is being paid to fluctuations in planning income, council tax collection, lease income, leisure income and expenditure on homelessness and benefits.
84. The council is party to the Concordat with Scottish Government which means, among other things, that it receives additional funding for complying with the national policy of freezing council tax at 2006/07 levels. The 2009/10 budget analysed the amount available to the council and calculated that raising £1.471 million locally would in itself require an increase in council tax of more than 3%. Given the potential local impact of increasing council tax by this amount, not to mention the national impact of quitting the Concordat, the council has budgeted to leave council tax unchanged. As a consequence the council has had to look at other sources of income and reductions in expenditure to balance its budget.
85. Rather than increasing income by, for example, raising charges above the agreed strategy, the council's strategy to sustain services has been to require efficiency savings across all areas of service activity. In 2009/10 the housing revenue account has been set an efficiency savings target of 2.45%, equating to a cost reduction of £0.394 million. It is possible that the major restructuring of housing which is taking place in 2009/10 will allow it readily to deliver these savings, but the year ahead will be challenging. Not only must the reconfigured service be established and set to run smoothly, it must also deliver an ambitious programme of housing refurbishment and identify efficiency savings.



86. The Scottish Government has made it clear that public expenditure will be constrained for the medium term. This means that councils need to plan now for a future where funding is constrained. Assuming that the council remains party to the Concordat, there will be no increase in council tax income for at least another year. East Ayrshire Council shows strong awareness of the change in the public finance context, drawing members' attention in its 2009/10 budget report to the potential impact in 2010/11 of the £500 million savings target for Scotland identified at the close of 2008 by the Chancellor of the Exchequer. It has also sought a total of £5.5 million in efficiency savings from across the council for 2009/10.

#### **Action point 5**

### **Budgetary Control**

87. The budgetary control system is a key source of assurance that the council's financial systems are operating effectively. Proper scrutiny of budgets allows the early identification of variances, while well designed monitoring reports allow decision makers to quickly identify emerging financial issues. We have found that the process for budget setting at East Ayrshire Council has elements of good practice. As with many councils, there are ongoing sustainability issues in relation to Social Work Services. The council has set up a Social Work Sustainability Board led by the Executive Director of Education and Social Services which reports progress to the Corporate Management Team and the Cabinet on a regular basis. Considerable work has been done to address the issue with a corporate lead being provided to co-ordinate activity between Social Work Services and Corporate Finance. The council has also taken an innovative and proactive approach to the broader sustainability of its budgeting, having undertaken a strategic review of the revenue budget in 2006/07 which resulted in the shift of resources to priority areas. We are advised that a further strategic review of the revenue budget (SRRB2) will be undertaken next year to coincide with the Government's spending review.

#### **Action point 6**

88. The 2008/09 accounts refer to improved council tax collection generating higher than expected income for the council. The calculation of the "base" Band D council tax charge is done by dividing the total income which the council needs by the number of chargeable dwellings, adjusting for average discounts and exemptions. No council achieves a 100% collection rate and so an adjustment will also be included to ensure that any anticipated shortfall is spread among those accounts which are collected.

89. Between 2005/06 and 2008/09 the rate of council tax collection increased from 92.0% to 94.1%, this 2.1% improvement being achieved mainly in 2008/09. The council has consistently reported having collected more income than expected. Unanticipated income can be allocated in year, with proper approval, to areas of immediate need, but financial management is easier when accurate forecasting allows service expenditure to be planned. The council should review the assumptions made about council tax collection to ensure that it is not repeatedly underestimating the income recoverable.



Unanticipated income undoubtedly helps Corporate Finance manage the budget in year, but it also potentially limits the options of members at budget time.

## Asset Management

90. By effectively managing their assets councils are better able to achieve their objectives while obtaining best value from the investment which assets represent. Effective management benefits service delivery by making council buildings work better for staff and service users. It should also reduce the opportunity cost of money locked up in surplus property and can reduce the council's "carbon footprint" which will result in financial benefit under the carbon emissions trading scheme.
91. The council has procured a computerised corporate asset management system and created a dedicated asset management team under the Executive Head of Finance and Asset Management. This is in line with the asset management strategy which was presented to Cabinet in December 2007, and arose from a best value service review conducted by the Executive Head of Finance and Asset Management. The Asset Manager, appointed since the review, is currently developing a strategic asset management plan, which will replace the current strategy and provide the framework for the delivery of the detailed asset management programme currently envisioned.
92. In 2009, the Accounts Commission published '*Asset Management in Councils*'. The study found that strategic asset management was not well developed in most councils. For Scottish councils as a whole, over a quarter of all properties were in poor condition and slightly less than that were not suitable for the services being delivered from them. Although the national report was discussed at a meeting of the corporate management team, it was not formally submitted to council or any committee.
93. East Ayrshire Council's submission that 90% of its buildings were in either good or satisfactory condition was specifically mentioned in the report, since it was the highest level of any of the 32 councils. East Ayrshire is also singled out for its early work in co-location, with the Dalmellington Area Centre highlighted as a best practice case study. Work is still needed to improve the linkages between projects and outcomes in East Ayrshire, however, it is among only a few councils which are looking to develop outcome measures in the near future.
94. The 2008/09 statutory performance indicator shows that 64.2% of the council's properties are fully accessible to disabled people. This is a considerable improvement on the position in the previous three years which had seen the proportion of the council's property portfolio which is fully accessible gradually increase. In comparison to other councils East Ayrshire Council's performance has not been strong and this might reflect the relative disadvantage, in terms of older buildings, they bore following reorganisation and the allocation of the former region's property assets among the new unitary councils. In addition, it is acknowledged that councils use a variety of assessment frameworks. The Federation of Property Societies is working to develop a building assessment framework to assist the



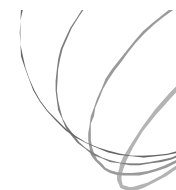
comparability of assessments. Management have informed us that the council has worked in partnership with DisabledGo and local businesses to deliver an access guide to ensure that the environment and delivery of services are inclusive and accessible to all.

## Procurement

95. East Ayrshire Council is actively engaging with the national procurement agenda, as embodied in Procurement Scotland and Scotland Excel. All three category A contracts let by the former have been signed off by the council and take up of category B contracts let by the latter has occurred wherever the council is not already tied into existing contractual arrangements.
96. The council's most recent procurement strategy review was approved by members in July 2009. This updates the previously approved procurement strategy 2007-10, and introduces a specific e-procurement strategy, to cover 2008-10. The review was prompted by developments in this fast moving and politically sensitive field, including the formation of National Centres for Expertise, the roll-out of PECOS and the recent launch of e-Tendering and Quick Quote systems. Importantly, the strategy also includes safeguards to support the engagement of local SMEs with council procurement.
97. During the summer of 2009 Audit Scotland performed a survey of all Scottish councils in order to gauge progress nationally. Results indicate that in comparison to other councils, East Ayrshire Council's procurement arrangements are well developed. In respect of the number of contracts let and the proportion of suppliers with which the council has contracts in place, East Ayrshire Council is in advance of its peers, with 1300 contracts let and over 30% of its suppliers covered. The most recent performance report from the council's procurement team show that use of electronic procurement is increasing at a steady rate, with monthly transaction volumes, for example, rising from 500 to 1500 between January and August 2009.
98. In July 2009, Audit Scotland published a report on procurement across the public sector '*Improving Public Sector Purchasing*'. This concluded that the public sector is improving its purchasing and has saved over £300m since 2006 but that further savings could be made with increased collaboration and better management. The council should ensure that recommendations made in the report are considered and built into its improvement agenda as appropriate.

## Managing People

99. The council has made good progress in developing workforce planning during the year. The council's workforce strategy was presented to Cabinet in May 2008. The plan included a template which was used in all service plans produced by April 2009. Services will also include a retrospective analysis of workforce planning in their 2008/09 annual reports. These reports will form the basis of a corporate action plan.



100. As we noted in our 'Governance and accountability' section, the council has a staff development and performance appraisal system called EAGER. Although EAGER reviews are taking place regularly across the council, a number of senior officers were unable to confirm that as at 31 March 2009 these reviews were up to date for all staff. Without properly tailored development, staff may not be equipped to deliver services to the best of their abilities. This could compromise best value, as well as reduce the engagement of staff with their roles. A good understanding of staff abilities is also key to effective deployment, especially where financial constraints necessitate flexibility in the workforce.

Management have provided assurances that action has been taken to bring the annual EAGER review process up to date.

101. The most recent staff survey was conducted in September 2008 and reported to cabinet in April 2009, with comparisons to the results in the 2005 survey provided. The headline results are generally positive: 86.9% of staff claim to enjoy the work they do; 60.3% describe their morale as high; and 73.2% express satisfaction with the council as an employer.

102. Several key concerns were identified from the survey which require further action from the council, including the completion of EAGER reviews, addressing stress and improving communications with staff. The results are being taken forward by several employee focus groups, which are due to report to the corporate management team with their findings and recommendations. It is to be hoped that these findings will subsequently be communicated to members as well, to inform their decision making.

## ICT

103. Information management impacts on all functions within the council as effective service delivery is dependent on accurate and readily available citizen information. The greater emphasis on the Data Protection Act principles and other statutory regulation in recent years has increased the importance of having robust procedures and processes in place to ensure the efficient and secure management of information.

104. The council is making good progress in establishing a sound information management environment by initiating a pilot for developing information asset registers in each service and by using the information security policy project to identify the policies and guidance needed to improve information governance.

## Data handling and security

105. Data handling and security has received increased public and media attention recently as a result of a number of high profile national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of controls could lead to



loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to litigation and criminal prosecution.

106. To ensure compliance with legislation related to the processing of personal information the council has a Data Protection Policy and Code of Practice, a Freedom of Information Policy and an Information Security Policy. A Freedom of Information Officer covers data protection and the internal audit function regularly monitor matters relating to information.
107. The council has created the position of Information Management Security Officer. This is intended to provide the service departments with a point of focus and reference when they need guidance in matters relating to data handling and data usage.
108. The council is in the process of developing information asset registers (IARs). This process is being overseen by the council's Records Management Working Group. The exercise of gathering information / evidence is being piloted in several diverse services. The initial investigation work is scheduled for completion in the autumn of 2009, with the full pilot likely to be concluded by the year end.

## Shared Services

109. The Accounts Commission commented on the general lack of progress in developing shared services in its report '*Overview of the local authority audits 2008*'. It recommended that councils should give this high priority in the light of financial pressures and the drive for efficiency.
110. The council's second strategic self assessment (see also the 'Performance and management of resources' section of this report) concluded that "While the CMT continues to pursue opportunities for the sharing of frontline and back office services across council departments there is little or no progress on shared services between authorities despite the national shared services diagnostic review."

### **Action point 7**

111. There are, however, a number of areas where the three Ayrshire councils are co-operating to provide an all Ayrshire service. A "pan-Ayrshire" out-of-hours noise control team has been operating for some time, a "pan-Ayrshire" emergency planning service is in operation and the council is a party to the feasibility study on a possible shared waste disposal facility. A report was submitted to Cabinet in August 2009 seeking approval to pursue shared services with the other Ayrshire councils for Building Standards, Environmental Health and Trading Standards Services.



## Outlook

112. Commentators are unanimously predicting real terms cuts in public sector expenditure well into the next decade. The impact of reduced revenue support grant allocations will start to bite in 2010/11. Difficult times are ahead as the council and its community planning partners seek to strike a balance between service demand and resource constraints. The efficient, effective and economic use of available resources will be a central theme in mitigating the impact on local communities.
113. The council is making progress in its use of resources on a number of fronts and the planned follow-up on the 2007 strategic review of revenue budgets will be undertaken for the new spending review period from 2011. There is still scope for further improvement, in particular, there has been limited progress on service sharing with other councils.



# Governance and accountability

## Introduction

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

## Structure and policies

115. Corporate governance is about the direction and control of organisations. Because councils are large complex organisations, good governance is critically important. The council assessed its own arrangements against the 2007 CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government* during 2007/08. It has since conducted its annual review of the local code of corporate governance which was reported to members in June 2009.

116. The council's review identified progress against most of the actions included in the 2008/09 plan, including the development of service plans which are aligned to the Community Planning Single Outcome Agreement. Of the fifteen actions identified, four have been achieved and good progress has been recorded against the remaining eleven.

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

118. The wide ranging responsibilities of members of the committee require sufficient support, particularly in the form of training tailored to individual development needs. We note that the council has now produced a member training strategy, which should support the development of all members. We will review progress in the implementation of this strategy during our planning work for 2009/10. In the meantime we highlight the following matters as areas of work where more attention could usefully be focused:





- Over the last year council services have been inspected by several agencies, including the Scottish Housing Regulator and the Social Work Inspection Agency. Although the detail of these reports will be addressed by the relevant services and Cabinet, the Governance and Scrutiny Committee has a role in monitoring implementation of any agreed actions. The committee's role with regard to receiving full audit and inspection reports needs to be further developed.
- The Accounts Commission issue a range of national study reports and an overview of local government each year and these are noted by Cabinet. Recommendations are generally directed at all councils, making it appropriate for the Governance and Scrutiny Committee to consider the findings and ensure that significant matters are being addressed.

### **Action point 8**

119. The Chair of the Governance and Scrutiny Committee produced the first annual report of the committee's activities for the meeting of Council in June this year. We are pleased to note this development since it is important that all members are able both to take assurance from the governance arrangements in place and to hold to account those who are responsible for those arrangements. Further, it allows all stakeholders to assess the extent to which the council's system of checks and balances enables effective decision making while holding the executive to account.

## **Roles and relationships**

120. The Accounts Commission's *Overview of Local Authority Audits 2008* recommends that councils give priority to the continuous professional development of its members. The Scottish Local Authorities Remuneration Committee, in its September 2008 report, similarly recognised that members should have a role description and participate in a training needs assessment leading to a personal development plan.

121. The council has developed role profiles for office bearers and for members in general, as well as for members of the Governance and Scrutiny Committee, the Provost and the leader of the main opposition. These are to be circulated to the main political groups, through which learning and development activities will be tailored to individual members' needs. Once the political groups have considered the role profiles they will be presented to Council for approval prior to their incorporation within the Elected Member Learning and Development Strategy documentation.

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

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



123. The action plan for 2009/10 which accompanies the draft strategy anticipates the submission of the development programme to Council for approval by mid December 2009, by which point the role descriptions and individual development plans will also have been agreed. During 2010 the council will then consult on and develop an induction package and programme for new members, with the goal of approving this and reviewing the programme for 2010/11 by December 2010.

## Partnership Working

124. East Ayrshire Council shows evidence of good partnership working, having been an early enthusiast for viewing corporate activity as contributing to community based service delivery. Community planning structures are well developed at council and local levels with appropriate political, partner and community representation on each.

125. The council's first SOA was produced, a year ahead of schedule, on a community planning basis. This is consistent with the council's use of the community plan as its "sovereign planning document". The SOA links strategically to the community plan and the priorities and measures within it were derived from the thematic action plans, strategic priorities and current reporting requirements of the council and its partners.

126. During 2008/09 the Community Planning Partnership (CPP) took the opportunity afforded by the introduction of the SOA to review its own thematic approach and associated action plans. As a consequence of the review, what had been six community planning themes were reduced to four, to better align the CPP's themes with those identified by the Scottish Government for the SOA. The necessary revisions to the associated action plans were made during the year and the CPP was able to report, in its 2008/09 annual performance report, that all community planning tasks due to be addressed during the year had been actioned.

127. In August 2009 Audit Scotland published a study examining how public sector bodies were responding to the duties placed on them by the Civil Contingencies Act 2004. This study, '*Improving civil contingencies planning*', found that the act has reinforced multi-agency working and that organisations are generally co-operating well with each other.

128. East Ayrshire is specifically mentioned as being a council which does not provide general advice and assistance to local voluntary groups, though it does provide such information to local businesses. The study suggests that a broader and more integrated approach should be taken to planning for civil contingencies and provides a self assessment checklist which the council should consider employing. One of the key messages which the council may wish to consider acting upon is:

*"We found limited evidence of engagement with elected members in civil contingencies planning. Only 14 councils reported that any elected members had undertaken formal training in preparing for, responding to and recovering from emergencies within the last two years."*

***Improving civil contingencies planning: Audit Scotland/Accounts Commission August 2009***



Management have informed us that the first members' seminar has been scheduled for late November.

## Community engagement

129. East Ayrshire Council has a number of well established mechanisms to support community engagement. During 2008/09 the Community Planning Partnership (CPP) conducted four rounds of Local Community Planning Forums, alongside developing and implementing systems that are designed to make the forums more effective. These include:

- a development programme for forum members
- priorities established together with an annual plan to deliver them
- links developed with the Children and Young People's Forum.

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

131. In addition, the council has established a Community Planning Residents' Panel, comprising over 900 East Ayrshire Residents, to gain an increased understanding of residents' views and increase community consultation in relation to the planning and development of services. The panel members represent a pool of residents with particular interests and concerns who are then contacted for consultation about developments in those areas. Four residents' panel consultation exercises were undertaken during 2008/09 as follows:

- The Scottish Government's "national conversation"
- Leisure strategy
- Libraries
- Child protection.

132. Each of these consultations was conducted through surveys, and the results were collated to assist officers in the development of action plans, which are available on the community planning website. Alongside the formal reports produced for the council and its main partners, the CPP unit also produces a newsletter which summarises activity in this area.

## Public performance reporting

133. The council produces an annual performance report which is distributed to each household within East Ayrshire, as well as being made available online. The report is structured around the main community planning themes, and is thereby able to record progress during the year in delivering key outcomes. The November 2008 report is a reasonably well balanced and informative account of the council's activity over the year, combining key service developments and items of local or general



interest. The report also includes a corporate governance statement of assurance and summarised information from the financial statements.

## Following the public pound

134. Glaisnock Trust, a company limited by guarantee, was set up in 2002 by Kilmarnock College to manage the conversion of Glaisnock House, Cumnock and to develop a residential facility to “support and nurture cultural creativity, the arts and enterprise”. East Ayrshire Council along with several other bodies made various capital and revenue grants to the trust over a period of five years. The trust ceased trading in October 2007 and a liquidator was appointed. As far as we are aware Strathclyde Police are continuing to investigate aspects of the trust’s operation. The following comments relate only to East Ayrshire Council’s financial dealings with the trust.

135. In total some £0.368 million was paid to the trust, mainly in the form of grants. An Internal Audit Service investigation into the circumstances surrounding the payments to the trust was reported to the Governance and Scrutiny Committee in August 2009. This report raised a number of concerns which have general application to the funding of external bodies. These included:

- the need for members and officers to be aware of potential conflicts of interest
- the need for appropriate project appraisal
- the importance of regular monitoring and evaluation of projects
- the appropriateness of payments in advance for services
- the need to ensure that audited annual accounts are obtained and examined.

136. The Internal Audit Service report made a number of recommendations to address the shortcomings identified from the investigation. Management have accepted these and an action plan has been put in place to ensure that controls over the funding of external bodies are tightened up.

## Annual governance statement

137. The statement on the system of internal financial control (SSIFC) is a requirement of the SORP. It provides an overview of the arrangements that the council has established to manage its resources alongside comment on any areas where the system of internal control has not operated effectively. This statement is accompanied in East Ayrshire Council’s accounts by a voluntarily provided Corporate Governance Assurance Statement, signed by the Chief Executive and Council Leader, which provides assurance about the wider governance framework within the council.

138. Local authorities in England and Wales are required to include a single Annual Governance Statement which is a wider ranging statement that must be underpinned by mechanisms able to assess on an annual basis the assurance provided by the range of governance arrangements in place. The council has taken an important step in this direction through the report issued for the first time in 2009 by the Chair of the Governance and Scrutiny Committee. Produced on an annual basis this report will



significantly contribute to the assessment of the council's governance arrangements. We encourage the council to continue this development and to consider producing an Annual Governance Statement.

## Building and Works

139. During September and October 2008 a contractor made a number of serious allegations against the Head of Building and Works. The allegations were made at meetings attended by the Solicitor to the Council (the appointed Monitoring Officer) and the Executive Director of Neighbourhood Services. The complainer made 15 specific allegations. The complainer was later to withdraw some of his allegations. Despite this a full investigation of all allegations originally made was carried out. The Chief Executive informed external audit of the allegations and the suspension of the Head of Building and Works immediately. We have been kept informed through both formal and informal channels throughout the investigations.
140. A wide ranging and thorough investigation was conducted by a retired senior officer of the council, supervised by the Solicitor to the Council who is also the council's Monitoring Officer. The Internal Audit Service was also used to perform specific exercises on stocks, supplier payments and bonuses. Subsequently as the investigation was widened further two ex-police officers employed by the council were seconded to assist.
141. The Solicitor to the Council presented a report on the investigation to both the Cabinet and the Governance and Scrutiny Committee in June 2009. The report leaves little doubt that the Head of Building and Works used council resources for his own benefit; the only question is the true extent and value of this. The Head of Building and Works resigned prior to completion of the investigation.
142. The initial findings of the investigation into the original allegations prompted a widening of the scope of the investigation. The Solicitor to the Council's report described a widespread culture of poor management, poor governance, abuse of trust, poor working practices, misuse of council equipment, facilities and materials, poor value for money and a failure to act on audit reports. The report indicated that individual and collective management failure by the Head of Building & Works, by the Building and Works Senior Management Team and by the Executive Director contributed to the creation of an environment which saw abuses become systemic. Significant issues raised in the report included:
- A lack of accountabilities and absence of clear job descriptions.
  - Poor judgement, poor standards and misconduct.
  - Failure to comply with the council's tendering procedures and questionable post tender negotiations.
  - Manipulation and possibly falsification of charges to other council services.
  - Failure to control payments to sub-contactors.



- A lack of first line supervisory controls over working time, quality, overtime and bonus.
- Employees doing private work in council time using council materials and selling salvaged materials.

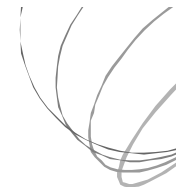
143. The investigation highlighted failures in both governance and in internal control. While there would appear to be a strong possibility of low level corruption much of the evidence is circumstantial. Where the council have identified any specific evidence of criminal activity the individual has been reported to the police. The absence of appropriately benchmarked performance information, in our view, contributed to the failure to detect and deal with internal control, cost and productivity issues.

144. Arising from the investigation, disciplinary proceedings have so far been taken in respect of 21 employees. Eight individuals, including the Head of Building and Works, resigned prior to disciplinary hearings being held, three have been dismissed and in nine instances formal disciplinary action short of dismissal has been taken. There are also a further 12 cases pending.

145. We acknowledge that the investigation has been conducted in a robust and critical manner and that the council has taken uncompromising action to address the issues identified through the related improvement agenda. This sets out 14 high level improvement topics, underpinned by 34 specific improvement actions around governance, performance management, people management, and the new single business unit. At the time of writing, we are advised that, around 85% of the actions have been fully implemented, with the remaining few issues due to be completed by the end of December 2009. Specific significant improvement actions included:

- The Chief Executive wrote to all employees re-emphasising the requirement to abide by the council's Code of Conduct and placing specific prohibitions on practices deemed incompatible with the code. (See also paragraph 38 of this report.)
- A fleet utilisation review including an end to the practice of employees taking vans home where this was not necessitated by an operational requirement.
- Enhanced timekeeping and attendance regime including cross checking of time sheets with the Masternaut vehicle tracking system.
- Embedding team briefings and service communication arrangements

146. The Building and Works Service is to be merged with the Housing Service to form a single business unit and for practical purposes this should be effective before the end of the calendar year. A contract for the maintenance work on non-council housing has been let to a private sector provider as of October this year.



## EAGER reviews

147. East Ayrshire Council uses a staff development and appraisal system called EAGER (East Ayrshire General Employee Review), which council policy states all employees should be reviewed against on at least an annual basis. For the first time in 2008/09, each Head of Service and Executive Director was required to confirm that all reviews had been carried out. We examined the assurance statements provided by officers and were concerned to note that they reported widespread slippage in conducting these reviews. Although during a period of increasing financial stress staff development will often take on secondary importance compared to the delivery of services, ensuring that staff are fully equipped to carry out their roles is vital. The requirement for senior officers to declare the extent to which EAGER reviews have been conducted serves to focus attention in this area, and we will assess progress during 2009/10.

## Housing rent policy

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

149. East Ayrshire Council's approach to rental charges is set out in a report approved by the Housing Committee in 2005. This report defined the amount which rent should increase each year to meet the Scottish Housing Quality Standard by 2015, RPI +1%. The report does not include any indication of how rents are set for individual houses.

150. The Policy and Resources Committee had agreed in 1996 that a programme of rent harmonisation was needed to allow for the establishment of an East Ayrshire-wide basis for rent charging. Although the local adjustments necessary in each former district were approved in 1996, no evidence has been provided that the harmonisation of rent was followed by the establishment of a specific rent setting policy. The council should establish a common policy for setting council house rents at the earliest opportunity.

**Action point 9**

## Internal audit

151. Internal audit provides an independent appraisal service to management, by reviewing and evaluating the effectiveness of the internal control system. We carry out an annual review of the council's internal audit arrangements against the CIPFA Code of Practice for Internal Audit in Local Government 2006. We found that the function continues to deliver quality work in accordance with a risk based framework. Despite some long term absence and maternity leave in the year, internal audit were able to deliver 98% of planned work across the range of its activities.



## Outlook

152. The council and its community planning partners have in place good governance arrangements to review the delivery of the Community Planning Single Outcome Agreement. It will be important that the regular progress reports on the thematic action plans underpinning the SOA are pro-actively monitored to ensure delivery of local outcomes in an economic environment where all partners are subject to continuing budgetary pressures.
153. The council have taken robust action to address governance issues in its Building and Works Service and the way in which funding to external bodies is monitored. These two areas are traditionally areas of high risk to councils in general and only by exercising constant oversight at the highest levels and using good quality performance information will the council be able to gain adequate assurances on the contributions such expenditure is making to its priorities.





# Performance management and improvement

## Introduction

154. We believe that an effective council has a clear and ambitious vision for what it wants to achieve for its locality and communities and deliver high quality services and effective outcomes for local people. The vision is effectively promoted by the member and officer leadership of the council and supported by staff and partners. It is backed up by clear plans and strategies to secure improvement, with resources aligned to support their delivery. An effective council has a performance management culture which is embedded throughout the organisation. The council's performance management framework is comprehensive and integrated with service planning and delivery. Staff have a customer first culture. The council is able to demonstrate significantly improved outcomes for citizens and more effective and efficient services because of its performance management arrangements.

## Vision and Strategic Direction

155. East Ayrshire Council has a vision statement, shared with its community planning partners, which seeks to ensure that East Ayrshire will be a place with strong, vibrant communities where everyone has a good quality of life and access to opportunities, choices and high quality services which are sustainable, accessible and meet people's needs. This statement is the foundation to the council's "sovereign planning document", the community plan.

156. The community plan was, and continues to be, developed in conjunction with the council's planning partners and identifies and prioritises what actions need to be taken to achieve its vision. In order to ensure that the community planning process is consistent, the community plan highlights a number of guiding principles which the council must work towards in order to achieve its goals, which are:

- to promote social justice and social inclusion
- to build sustainability
- to succeed in joint working and involving people
- to ensure quality and accessibility
- to deliver continuous improvement and best value.

157. Underpinning these guiding principles are thematic action plans each having a number of planned actions and outputs and each working towards securing the community plan objectives. During 2008/09 a mid term review of the community Plan was undertaken. As a result the community



planning core partners approved a shift from the original six thematic action plans to four, in order to better align the community plan's goals with national developments and changing and emerging priorities. The opportunity was also taken to better align the council's performance management framework with the Scottish Government's three national drivers and the SOA.

## Exhibit 9

### East Ayrshire Council Thematic Action Plans

Prior years	From 1 April 2009	Lead partner
Improving community learning	Promoting lifelong learning	East Ayrshire Council
Improving opportunities	Delivering community regeneration	East Ayrshire Council
Improving health	Improving health and wellbeing	Community Health Partnership
Improving community safety	Improving community safety	Strathclyde Police
Eliminating poverty		
Improving the environment		

158. The first three of the new thematic action plans merge aspects of four of the original six, while the last, improving community safety, has been carried over directly from the original action plan. The council intends to keep to the monitoring timetable for these plans which is already in place.

## Performance management

159. Recognising the need to consolidate and streamline its performance management system and move away from the previous manual processes, the council has committed to an IT based performance management system. CorVu, a web-based system, was procured and went live on 1 April 2009. The introduction of this system should lead to improvements in the identification of service priorities and risks as well as the direction of resources needed to address these issues. Initial reaction from Executive Directors and Heads of Service has been positive.

160. The system will undergo further refinement over the coming months as the CMT and Heads of Service become increasingly familiar with the system's capabilities and how service specific needs can be met from the system. It is the council's intention that the system will, ultimately, be rolled out to all community planning partners, to allow for consistent reporting against community plan objectives. The procurement process incorporated consideration of each partner system's capacity to manage reporting against the SOA objectives. The council plans to provide public access, principally through its website, to much of the information that will be compiled on the new system, including, we are



advised, detailed information on how all services are performing in key areas and progress towards SOA outcomes.

161. The introduction of CorVu and the development of internal reporting framework coincided with the introduction of a new statutory performance indicator regime. As well as the 25 statutory performance indicators the council intends to publish six local indicators for each of the four executive directorates. The council has also established a further 122 SOA indicators. In addition, a further 600+ key indicators for internal reporting purposes are available.

## Overview of performance in 2008/09

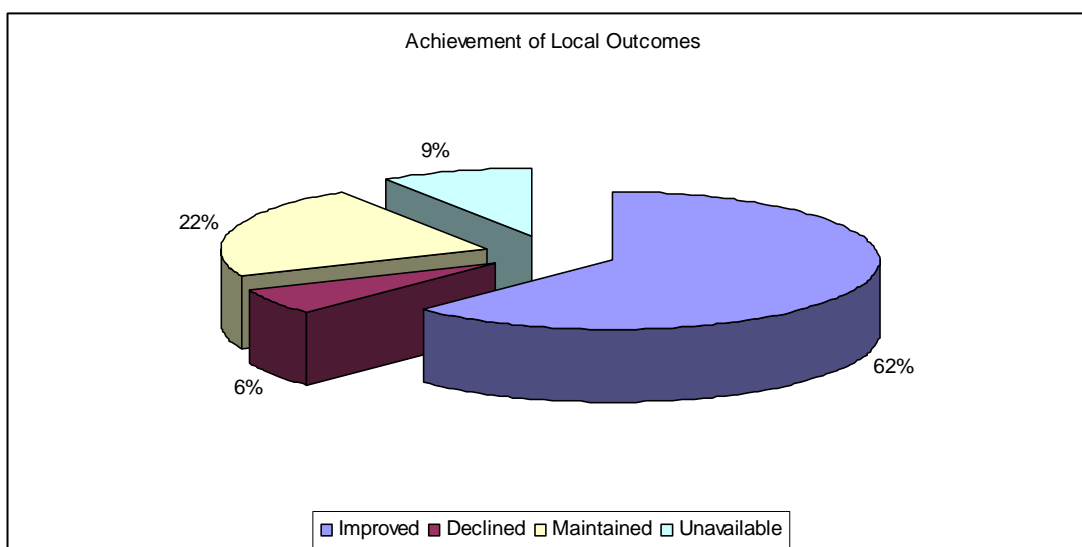
### Single Outcome Agreement 2008-2011 Annual Performance Report 2008/09

162. The first Community Planning Single Outcome Agreement annual performance report was submitted to cabinet on 30 September 2009. East Ayrshire Council has identified 140 local outcomes. Exhibit 10 summarises progress in 2008/09 against these 140 outcomes.

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#### Exhibit 10

#### Achievement of Community Planning SOA outcomes 2008/09



163. The council is achieving success in improving outcomes in a number of areas, including national outcomes addressing the development of children and young people, crime, community development, the environment and the quality of public services, where improvement has been recorded against at least 75% of local outcomes.

164. For the national outcomes which address employment, health, inequality, the quality of communities and national identity, improvement has been recorded against only a maximum of 50% of local



outcomes. The partnership have significant work to do for national outcome 6 (“We live longer, healthier lives.”) with only 4 out of 12 local outcomes showing improvement and national outcome 7 (“We have tackled the significant inequalities in Scottish society.”) with only 6 out of 14 outcomes showing improvement.

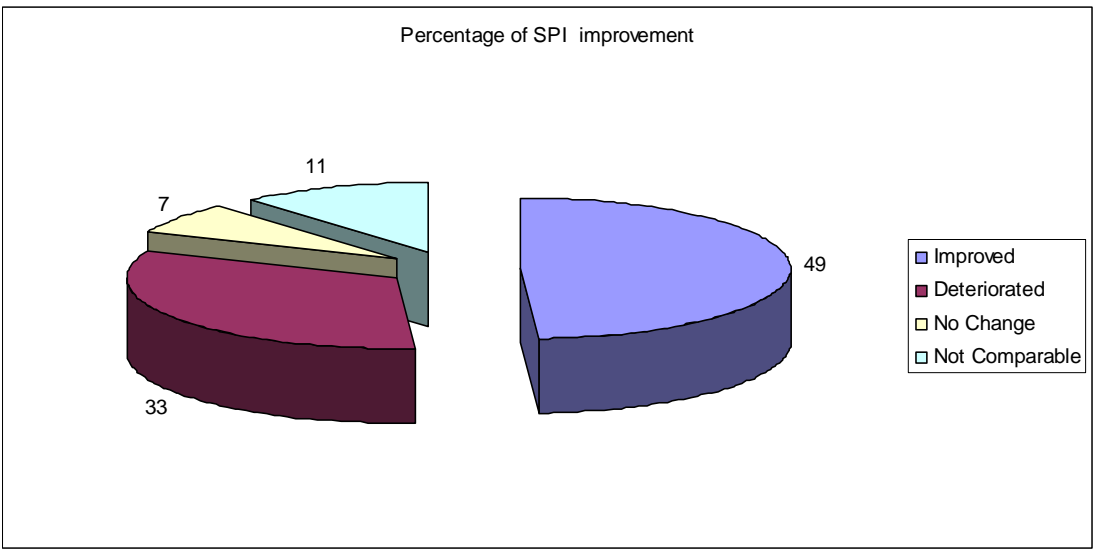
**Action point 10**

165. The annual performance report records some of the partnership’s significant achievements during the year. These include increased tonnage of waste diverted from landfill, decrease in violent crime and progress on the regeneration of town centres. Of particular note is the reported progress made in educational attainment in primary schools. The council has now identified educational attainment as one of its three strategic priorities.

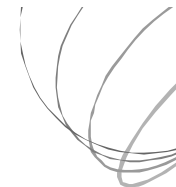
**Statutory performance indicators**

166. One of the ways of measuring the council’s comparative performance is by using statutory performance indicators (SPIs). Historically, the council has been well placed in national comparisons for a range of indicators, however, it also recognises that for other indicators, such as those for development services, improvements can be made and has placed emphasis in using targets to improve performance in these areas. In 2008/09, the council reported continued improvement and high performance for a proportion of its SPIs and has set itself targets in areas where improvement is required. Exhibit 11 illustrates that the council has made improvement in a number of areas.

**Exhibit 11**  
**Percentage of SPIs improving declining**



167. Each year we review the reliability of the council’s arrangements to prepare SPIs. The council’s Internal Audit Service provide invaluable assistance in completing this task. Overall, the quality of



working papers provided to support the SPIs continued to be of good quality. As for previous years no indicators were classified as unreliable.

168. Examples of SPIs displaying a sustained improvement trend are:

- the percentage of operational buildings that are suitable for their current use
- the net cost of refuse collection per premise
- the percentage of waste recycled or composted.

Of particular note, however, is the improvement of the collection of council tax in year from 92.4% to 94.1%. This indicator had plateaued at around 92% over the past few years and the council's efforts in introducing best practice from other councils is commended.

169. Reported performance in 2008/09 has, however, declined in a number of areas, including:

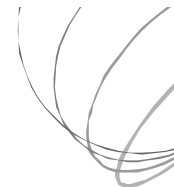
- all planning SPIs show a marked deterioration in performance
- the percentage of social background reports submitted to the children's reporter within target time.

#### **Action point 11**

170. Historically, the council's performance on response repairs has been very poor. In an effort to improve quality and responsiveness the council have been re-designing service delivery. The year 2008/09 was the first full year of the new "repairs by appointment system", as a result the figures for 2008/09 are not comparable to those for previous years. Initial results are encouraging, with 82% of repairs completed within the appointed time.

171. 2009/10 sees a significant change in the mechanisms in place for reporting on council performance nationally. The Accounts Commission has now aligned SPI arrangements with the responsibility authorities have under Best Value for selecting and using performance information to drive continuous improvement in services, and for reporting on those aspects of performance that are of most importance to local communities, to service users and to citizens. The current list of more than 60 SPIs has been reduced to 25.

172. Despite significantly reducing the number of indicators the Accounts Commission wants to see councils, as part of their performance management and reporting activities, using a greater range of information on corporate issues, such as equalities and asset management and how these impact on overall service delivery. The Accounts Commission is also interested in service cost overhead management and how this drives more efficient performance, as well as the impact made by front line services and how this relates to the service user and local communities.



## Equality and diversity

173. In November 2008 the Accounts Commission published its report *The impact of the race equality duty on council services*. The main focus of the study examined how councils' corporate commitments and the processes required by race equality duties translated into positive outcomes for services users and to establish if there was a 'policy to practice' gap and what the reasons for this might be. The report found that while councils had developed policies on race equality and many have taken a range of initiatives, the duty has not yet had significant impact on the delivery of services or on people from minority ethnic communities. The report also identified a need for councils to build a better understanding of the needs of their ethnic minority communities, mainstream their approach to race equality and give priority to race equality in delivering council services.

174. East Ayrshire Council, recognising some gaps in their current practice, has taken actions which allow existing practice to be strengthened. It has recognised a need:

- to improve the impact and outcomes of service delivery on minority ethnic communities
- for tangible outcomes for all equality strands within its Equality Scheme action plans
- to set specific outcomes which will allow the council to track and monitor the effectiveness of service delivery to minority ethnic communities
- to integrate equality schemes into mainstream policy, management, service delivery and processes.

175. The council has developed a training programme for the implementation of equality impact assessments and this is currently in the process of being rolled-out across services. In addition, specific training awareness sessions on equality impact assessments are to be delivered to elected members. The council has developed new engagement structures to consult and involve local minority ethnic communities as well as other groups covered by the gender and disability equality schemes. The development of the Race Network and the Equality Forum has allowed the council to improve engagement with members from the minority ethnic community to help ensure effective delivery of services by tapping the expertise available within these groups.

176. The key messages and recommendations highlighted in the Accounts Commission report are to be monitored through an Equality Strategy Group and integrated into the Race Equality Scheme progress report which will be submitted to Cabinet in November 2009.

## Efficiency

177. Each year, the council submits an Efficient Government Statement to CoSLA for incorporation into a Scotland-wide report for the Scottish Government. The statement is not certified by external audit,



however, we are advised by management that it was prepared in accordance with guidance provided by CoSLA and the Improvement Service. The 2008/09 statement was submitted to Cabinet in August 2009 and states that the council achieved £3.028 million of cash releasing efficiencies and £0.945 million of non-cash releasing efficiency savings.

178. East Ayrshire Council was one of five local authorities participating in Audit Scotland's review '*Delivering Efficiencies within the Public Sector*'. The objective of this review was to assess how prepared public sector bodies are to deliver the 2% efficiency target set out in the Scottish Government's 2007 spending review, highlighting good practice and areas for improvement. This exercise was performed using an efficiency toolkit which provided a number of prompts against which the council's practice was benchmarked. The council scored 20 out of 25 "advanced practice" ratings with the remaining 5 criteria rated as "better practice".
179. In determining the three year budget for 2009/10 to 2011/12 the Cabinet agreed that a series of 22 business reviews should be undertaken, tasked with achieving efficiency savings in anticipation of reduced annual revenue support.
180. In December 2008, Audit Scotland published a report, '*Improving Energy Efficiency*'. The report concluded that the public sector in Scotland has made progress in using energy more efficiently, recording a 5% decrease in energy consumption in councils for the three years to March 2007. However, the amount spent on energy, over the same period, increased by 47% due to price increases. Public bodies are recommended to develop and implement robust energy strategies and to encourage the necessary changes to culture and behaviour.
181. East Ayrshire Council is currently updating its energy efficiency strategy and the Audit Scotland report is being used to inform this process. The updated energy efficiency strategy will include an improvement action plan and the intention is to present this to Cabinet for approval in the latter part of 2009.

## Strategic self-assessment

182. The council's second strategic self-assessment was undertaken by the corporate management team during the second half of 2008/09. The exercise was supported by a 'critical friend' who facilitated the conduct of the review and provided an external challenge to the process. This role was undertaken by Alastair MacNish OBE, former Chairman of the Accounts Commission. Exhibit 12 sets out the results of the strategic self assessment compared to the original self-assessment prepared as part of the council's preparation for the audit of Best Value carried out during 2006. Overall the results indicate that performance is being sustained with four scores improving and two showing deterioration. All measures were graded at four or above on a six point scale



## Exhibit 12

### Results of the East Ayrshire Council's second strategic self-assessment

Best Value criteria	Elements	Score	Score
		2005	2009
	Strategic direction	5	5
Commitment and leadership	Scrutiny	5	5
	Conduct	5	5
	Openness	5	5
Responsiveness and consultation	Responsiveness	5	4
	Consultation	5	5
Sound governance	Planning and budgeting	5	5
	Performance management	5	4+
	Risk management	4	5
	Employees	5	5
Sound management	Fixed assets	3	4
	Procurement	4	5
	Financial stewardship	6	6
Review and option appraisal	Best value review	5	5
	Option appraisal	4	4
Competitiveness and trading	Competitiveness	4	4
	Trading	5	5
Sustainable development	Sustainability	4	4+
Equal opportunities	Equalities	5	5
Joint working	Partnership working	6	6
Accountability	Public performance reporting	5	6

#### Note -

The outcome of the second council strategic self-assessment process was considered by Cabinet in May 2009. Cabinet agreed the improvement agenda arising from the self-assessment exercise and subsequently agreed a high level improvement action plan to address the areas for improvement. Exhibit 13 reproduces the improvement agenda agreed by Cabinet.





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## Exhibit 13

### East Ayrshire Council improvement agenda

**“Performance management:** To take the Council’s performance management arrangements to the next level, through the review of all performance indicators and the introduction of an IT-based performance management reporting system.

**Responsiveness:** To review and further develop our customer interface and feedback arrangements, all with the intention of improving further our services.

**Sustainability:** To further develop the mainstreaming of sustainable development in its widest sense across all Council services, and specifically in the fields of Regeneration, Social Services and Waste Management.

**Effective use of resources:** To further develop arrangements designed to achieve the most effective deployment of finance, property and human resources in support of the Council’s three key priority areas: Improving Educational Attainment, Town Centre Regeneration and New Council Housing.

**Partnership working:** To further develop partnership working including resource alignment to deliver more integrated services.”

East Ayrshire Council improvement agenda May 2009

## Progress on delivery of the council’s Best Value improvement plan

183. 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. The last Best Value audit to be completed on the 32 Scottish councils was reported in April 2009.

184. The Best Value audit of East Ayrshire Council was carried out in 2006 and the findings published in September 2006. Overall conclusions from the audit are set out in Exhibit 14.



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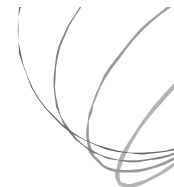
## Exhibit 14

### Extract from East Ayrshire Council Best Value and Community Planning audit report

- *“East Ayrshire Council can demonstrate a clear commitment to Best Value. It is focused on meeting the diverse needs of its communities, and is enthusiastic and innovative in working with a range of partners through Community Planning.*
- *The council is characterised by strong and effective leadership from its senior management, which is developing a culture of continuous improvement throughout the organisation.*
- *Progress has been made in performance management and other essential elements of Best Value, but further development is required, such as in linking service and budget planning and more balanced reporting on service performance.*
- *The available evidence suggests there are good services in community care, housing, finance and education, although attainment levels remain a challenge in many schools. Statutory Performance Indicators (SPIs) could improve in a number of areas. The council also needs to ensure that it encourages a positive approach to challenging and discussing areas in need of improvement”*

185. As a consequence of the Best Value audit an improvement agenda, underpinned by detailed improvement action plans, was put in place. The improvement plan was incorporated into the council's ongoing performance management arrangements. The council has largely implemented the priorities set out in its improvement agenda. The rationalisation of the council's repairs service following recommendations of the cross-cutting Best Value service review of property maintenance is to be fully implemented by April 2010.

186. During 2007, the Accounts Commission commissioned an independent review of the Best Value audit. It also met councils and other stakeholders like the Scottish Consumer Council and the Scottish Government. The independent report, by Cardiff and Edinburgh Universities, was published in May 2007. The report, '*Decisive Moment*', was largely positive, but highlighted areas where the audit could be strengthened. In the wake of the Crerar report the Scottish Government has also requested that the Accounts Commission lead on the introduction of a single corporate assessment framework for local government in Scotland drawing on the best elements of existing inspections.



187. The second round of Best Value audits (BV2) is being designed in response to the lessons learnt from experience to date, the improvement areas identified in '*Decisive Moment*' and changes in the environment within which councils plan and deliver their services. Some of the key developments and changes from BV1 are:

- more proportionate and risk-based
- the focus for more streamlined scrutiny
- clearer judgements of council performance
- clearer assessment of how council services perform
- stronger focus on partnership working.

188. Based on a range of criteria (size, geography, level of past and planned scrutiny activity and previous experience) five councils were selected by the Accounts Commission as potential BV2 pathfinder sites. East Ayrshire Council was one of the councils invited to participate and accepted the invitation with some enthusiasm. A BV2 team has been working with the council since May this year and have recently concluded the two week on-site phase of the review. The team intend to report to the Accounts Commission early in 2010.

## Risk management

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

190. The council approved an updated risk management strategy in August 2008. The strategy is based on the Accounts Commission's report '*Shorten the odds: a guide to understanding and managing risks*', published in 1999. During 2008/09 the Internal Audit Service carried out a review of risk management and identified a number of actions needed to ensure that strong risk management arrangements were being followed in all areas. Since then, a follow up report has confirmed that all actions have been fully implemented.

191. The council has developed its own risk management database on which each of its service, department and corporate risk registers are maintained. The new performance management system will, we are advised, eventually include an integrated risk management module and this should greatly assist in further embedding risk management into operational and strategic decision making. In pursuit of this goal the council has approved the inclusion of a separate "risk management" section within the implications to be noted on the standard reporting template. Although not all report writers are consistently stating the risk management implications of their recommendations, use of this section is increasing and can only, in our view, lead to better informed decision making.



192. In 2007/08 the council's arrangements won them the European Strategic Risk Management Award for "Best risk management approach in the public sector". They were particularly commended for the extent to which risk management was embedded within the organisation. The quality of the council's risk management arrangements were, we are advised, also recognised by its insurers, contributing to a reduction of the council's insurance premium by £1.2 million.

193. Regular review of the corporate risk register is a means of overseeing, at a strategic level, the risks to the achievement of the council's objectives. It should include details of all significant risks across the organisation at a particular point in time. Some risks which appear on the corporate risk register are time limited and can be safely removed when the risk has expired. Other risks are not time limited and always present. Some of these risks may, if crystallising, have extreme consequences, for example, where life is lost. Where such risks exist they should remain on the register to allow the corporate management team to maintain oversight.

#### **Action point 12**

194. Our review of the council's risk management arrangements suggested that the departmental and service level risk registers were being well managed and were being kept up to date. The corporate risk register was reviewed by the corporate management team in April and June 2009.

195. During 2008/09 the council's Risk Management Centre was formally opened by the Scottish Government's Cabinet Secretary for Justice. This state of the art facility provides a range of services for East Ayrshire communities, including CCTV surveillance and emergency response. The centre manages the community alarms system and telecare equipment which provides assistance to vulnerable people. Clients signed up to the system can place requests for home help visits or request assistance if, for example, they suffer a fall in their home. Smoke detection within a property can also be reported to the centre for action. The Risk Management Centre works closely with the council's Emergency Planning Unit to provide additional support during emergency situations, for example flooding incidents, which can be remotely monitored and directed by senior personnel using the CCTV system.

## **Outlook**

196. The Accounts Commission acknowledges that SOAs are still at an early stage of development and it is clear that demonstrating performance against wide ranging and ambitious aspirations will prove challenging for all councils. Our primary interest at present is in the processes that the council is developing to deliver and assess the outcomes, rather than on concluding on the extent of delivery itself. The council was proactive in establishing a community planning based SOA a year ahead of schedule and it has recently revised its service plans to align with its SOA. This should provide a firm



base from which the council's new performance management system will be able effectively to assess how service activity supports the delivery of agreed outcomes.

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



# Appendix A

## External audit reports and audit opinions issued for 2008/09

Title of report or opinion	Target date	Date of issue
Annual Audit Plan	30/1/09	30/1/09
Strategic Audit Risk Analysis	31/3/09	31/3/09
Internal Audit Review	30/4/09	29/4/09
Governance and Internal Control	30/6/09	30/6/09
Review of data handling and security arrangements	31/8/09	31/8/09
Statutory performance indicators	31/8/09	31/8/09
Report on financial statements to those charged with governance	30/9/09	25/9/09
Audit opinion on the 2008/09 financial statements	30/9/09	25/9/09

# Appendix B: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	26/49	<p><b>Common good fund assets</b></p> <p>The classification of common good fund assets is as yet incomplete.</p> <p><b>Risk: Assets inadvertently disposed off. Challenge by local residents.</b></p>	The review of all title deeds is now underway.	The Solicitor to the Council	September 2010
2	28	<p><b>Payments in advance</b></p> <p>Payments in advance made routinely to some social care providers.</p> <p><b>Risk: Financial loss through supplier failure. Cash flow costs.</b></p>	A review of all payments to Social Care providers which are made in advance will be carried out and arrangements amended where this is not appropriate.	Executive Head of Finance and Asset Management	January 2010
3	34	<p><b>Equal pay</b></p> <p>The full cost of the compensation liability is unknown. There are a number of claims pending and latent.</p> <p><b>Risk: Liabilities could be in excess of the amount provided.</b></p>	The Head of Human Resources will continue to monitor developments and Employment Tribunal decisions and advise the Executive Head of Finance accordingly.	Head of Human Resources	Ongoing
4	66	<p><b>Scottish Quality Housing Standards</b></p> <p>Progress to achieve Scottish Quality Housing Standards by 2015 is uncertain.</p> <p><b>Risk: The council fails to meet the standard by the due date.</b></p>	Progress against performance indicators set out in the DTZ report will be monitored on a quarterly basis and any adverse deviation reported. Progress on capital projects will continue to be monitored by the CMT, Cabinet and Governance & Scrutiny Committee	Executive Director Neighbourhood Services	Quarterly

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	86	<p><b>Future revenue budgets</b></p> <p>Predicted real reductions in RSG and demand pressures as a consequence of the recession and demographic factors will present the council with difficult challenges in the coming years.</p> <p><b>Risk: The council cannot reconcile service demand and available resources.</b></p>	An updated three year budget, taking into account the impact of funding constraints, will be prepared during the 2010/11 budget setting process.	Executive Head of Finance and Asset Management	February 2010
6	87	<p><b>Social Work Services expenditure</b></p> <p>The service faces significant challenges in respect of elderly and children's care costs.</p> <p><b>Risk: Present levels of service are not sustainable.</b></p>	Sustainability Board will continue to examine resource allocation and service delivery.	Executive Director of Educational and Social Services	February 2010
7	110	<p><b>Shared services</b></p> <p>There is little or no progress on shared services between the council and other authorities.</p> <p><b>Risk: The council is not taking advantage of potential savings by sharing services.</b></p>	Opportunities to reduce costs through shared services will continue to be examined with proposals for single regulatory service being taken forward in 2010.	Chief Executive	31 March 2011 /Ongoing
8	118	<p><b>National reports</b></p> <p>Not all reports by national scrutiny bodies are routinely submitted to Cabinet or the Governance and Scrutiny Committee for consideration.</p> <p><b>Risk: Members lack information to challenge officers in committee.</b></p>	In future all reports will be submitted to the Governance and Scrutiny Committee.	All Executive Directors	November 2009



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
9	150	<p><b>Rent setting policy</b></p> <p>The basis of the council's rent setting policy requires to be reviewed.</p> <p><b>Risk: There is no clear reference for rent setting of new housing. Rents for different property types are perceived to be lacking transparency.</b></p>	To be reviewed.	Executive Director Neighbourhood Services	2010/11
10	164	<p><b>SOA outcomes</b></p> <p>Reported progress on two national outcomes is limited.</p> <p><b>Risk: The CPP fails to deliver national outcomes.</b></p>	A SOA improvement plan has been prepared by CMT and is to be presented to CPP Board for approval.	Community Planning and Partnership Manager	December 2009
11	169	<p><b>SPIs</b></p> <p>The planning SPIs show significant deterioration on a low base performance. Swift planning decisions may of key importance in helping the local economy to recover.</p> <p><b>Risk: Economic activity and development is delayed because planning decisions are slow.</b></p>	A best value service review of the Planning and Economic Development Service is currently underway.	Head of Planning and Economic Development	March 2010
12	193	<p><b>Risk management</b></p> <p>Crucial and ongoing risks are downgraded from the corporate risk register which is overseen by the corporate management team.</p> <p><b>Risk: The absence of some long term risks from the register limits the management team's opportunity to assess corporate exposure to them.</b></p>	CMT will review how the risk register is maintained.	All Executive Directors	January 2010