

# East Ayrshire Council Annual report on the 2010/11 audit



Prepared for the members of East Ayrshire Council and the Controller of Audit  
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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Key messages

## Background

Scotland's public bodies are facing major spending cuts and must focus on their long term financial sustainability to ensure effective public services in the future, with clear priorities, budgets and workforce plans. Councils have responded to reductions in funding in 2011-12 and are making significant savings, however there is a risk that cost pressures will be greater than expected due to unforeseen events.

Pay restraint and reducing workforces are the most common approaches being taken by public bodies to reduce costs over the next few years. Most councils have already reduced staff numbers through recruitment freezes and voluntary redundancy schemes. The key issues for members include the leadership and governance of public service reform, financial sustainability, and workforce planning to deliver effective public services.

## Financial statements and financial position

We have given an unqualified opinion on the financial statements of East Ayrshire Council for 2010/11.

The council approved its 2010/11 budget in February 2010 based on a Band D council tax level of £1,189. The actual net expenditure for the year was an underspend against budget of some £7.341 million.

The council set a balanced housing revenue account budget for 2010/11. The financial statements show a deficit on the account of £2.482 million for the year. The deficit was principally due to year-end provisions in respect of the buy-out of cash conservation payments to craft operatives as a result of changes to their terms and conditions and a potential legal settlement in respect of contaminated land.

Planned capital expenditure for 2010/11 was £40,526 million. The programme was supplemented during the year and the final spend was £42.285 million.

No net new borrowing or debt rescheduling was undertaken in the year. The required financing of capital expenditure was met from internal reserves and balances on a short-term basis. The use of internal resources in lieu of borrowing was judged the most cost effective means of funding £22.479m of capital expenditure. Borrowing to fund the required capital investment was effectively deferred.

The council has been proactive in preparing financial plans and identifying savings in anticipation of reduced local government settlements. The keystone of the council's response to the funding constraints is its Efficiency Strategy 2011/12-2013/14. This approach is well embedded at the council and includes a number of strands formulated to achieve the re-design and transformational change necessary to deliver the cost reductions forecast whilst continuing to provide statutory services and address key priorities.

## Best Value, use of resources and performance

The council has robust self-evaluation arrangements in place and uses a variety of tools to evaluate and monitor the quality of its services, including:

- annual EFQM assessments
- a rolling programme of Best Value service reviews
- Governance and Scrutiny Committee review of aspects of specific service provision
- an electronic performance management system
- a corporate risk register.

Presently the council is making preparations for its third externally facilitated "council-wide strategic self-assessment of performance" which scores the council performance against Audit Scotland's ten Best Value criteria and identifies opportunities for improvement and change.

The council has made progress in its procurement performance since the initial capability assessment in 2009. The council's overall PCA score (34%) is above the national average for Scottish councils (32%).

The council planned (February 2011) to shed some 260 posts. The council's revised redundancy policy and procedures were approved by Cabinet in February 2011. For 2010/11 the total cost to the council of severances was some £5 million.

The council set its 2011/12 budget in February 2011 incorporating a reduction some £8.3 million. The most recent budget monitoring report to 18 September 2011 forecasts a general fund underspend against budget of £4.721 million and a housing revenue account underspend of £1.677 million.

## Outlook

In September 2011 the Scottish Government published its spending review and budget for the three years to 2014/15. The spending cuts allocated to the local government portfolio are (in 2011/12 prices) 4.2% for 2012/13, 9.0% for 2013/14 and 11.3% for 2014/15. The review also recognised that continuing to realise efficiencies will become more challenging in all councils over the longer term.

In 2012-13, the Scottish Government will provide a total baseline package of revenue and capital funding of £11.478 billion in support of local authorities' services, a reduction in cash terms of £70m. Although the resource allocations for individual councils will not be announced for some time yet the three year budget largely reflects the council's expectations.

Receiving no real terms increase in grant funding for the next three years, while maintaining the freeze on council tax and meeting a number of additional expenditure commitments will undoubtedly present further challenges at a time when resources are already under severe pressure. Difficult decisions will need to be made about prioritising resources towards the council's key strategic objectives.

The council has, over the past two years, been delivering a programme of significant budget reductions to ensure it was in a strong position to respond to the financial challenges ahead. The council set its 2011/12 budget in February 2011 incorporating a reduction some £8.3 million. Presently the council's budget for 2012/13 is being prepared. Although the local government finance settlement won't be know for some time yet, it is likely that a further reduction in expenditure, at a similar level to that of 2011/12, will be required for 2012/13.and 2013/14.

## Closing remarks

The courteous cooperation and assistance extended to us over the past five years by members and staff of the East Ayrshire Council is gratefully acknowledged.

# Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of East Ayrshire Council. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements), conclusions and any significant issues arising. The report is divided into sections which reflects the structure of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead focus on the financial statements and any significant findings from our wider review of East Ayrshire Council.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management actions and have a mechanism in place to assess progress.
4. This report is addressed to the members of East Ayrshire Council and the Controller of Audit and should form a key part of discussions with the Governance and Scrutiny Committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the council. The information in this report may be used for the annual overview of local authority audits prepared on behalf of the Accounts Commission. The annual overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.
6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

# Financial statements

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

## Audit opinion

10. We have given an unqualified opinion that the financial statements of East Ayrshire Council for 2010/11 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2011 and of the income and expenditure for the year then ended.

## Legality

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

## Annual governance statement

12. In accordance with good practice the council presented an annual governance statement as part of its financial statements. We are satisfied with the disclosures made in the annual governance statement and the adequacy of the process put in place by the council to obtain the necessary assurances.

## Remuneration report

13. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible



remuneration for the relevant council officers and elected members. The council is commended for its decision to disclose the remuneration of all heads of service in the remuneration report.

14. Scottish Government finance circular 8/2011 explicitly states that "The Remuneration Report is a statement in its own right and not a note to the accounts. There is no statutory prescription as to where the report should be placed in the local authority accounts but we suggest a suitable placement would be to include it after the Governance Statement." The council should reconsider the positioning of the remuneration report within the financial statements in future years.

**Refer Action Plan No. 1**

## Accounting issues

15. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code). We are satisfied that the council prepared the 2010/11 financial statements in accordance with the Code.

## Accounts submission

16. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2011. The financial statements are now available for presentation to members and publication.
17. The council's Corporate Finance section devoted a considerable amount of time to preparation for the introduction of IFRS based financial statements. The preparation ensured that transition was smooth and first time compliance in all material respects is acknowledged. The format of the council's financial statements will evolve over the coming years building on what has already been achieved.

## Presentational and monetary adjustments to the unaudited financial statements

18. A number of adjustments have been made to the 2010/11 unaudited financial statements in accordance with normal audit practice. These adjustments related, in the main, to supplementary information being included in the notes to the accounts and reclassifications in the cash flow statement and did not have any impact on the general fund balance of the council. A number of presentational amendments have also been processed to improve the disclosures within the financial statements.

## Prior year adjustments

19. The 2010/11 financial statements have been prepared, for the first time, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 which is based on International Financial Reporting Standards (IFRS). Prior to 2010/11 financial statements were prepared under UK Generally Accepted Accounting Practice (GAAP). This

transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The main areas that required restatement include the treatment of capital grants, the inclusion of an accrual for employee benefits such as annual leave and the classification of leases. These changes resulted in the net asset position of the council, as at 31 March 2010, changing from £337.315 million to £448.169 million. The accounting nature of these adjustments means that there has been no change to the usable reserves of the council.

20. In previous years the actuary for Strathclyde Police Joint Board and Strathclyde Fire and Rescue Joint Board calculated the pension liability associated with injury benefits on the basis of current payments. In 2010/11 the actuary has adjusted the calculation to include an estimate of active scheme members who may receive injury benefit payments in the future. This is a change in accounting policy which required a prior year adjustment. This adjustment affects only the group accounts.

### Pension costs

21. East Ayrshire Council is a member of Strathclyde Pension Scheme which is a multi-employer defined benefit scheme. In accordance with International Accounting Standard 19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2011 provided by the scheme's actuaries reduced the council's share of the deficit from £184.333 million last year to £76.951 million this year. The decrease is primarily due to future pension increases now being linked to the consumer prices index (CPI) rather than the retail prices index (RPI).

### Equal pay

22. 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. 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, East Ayrshire Council faces a substantial number of equal pay compensation claims. The ultimate cost to the council remains uncertain. It is likely that resolution of the issue will take some time. What is highly probable, based on previously decided cases and advice we have received from legal and human resource practitioners, is that the council will be required to pay compensation to a proportion of claimants. The Executive Director of Finance and Corporate Support has retained a provision within the accounts in anticipation of a proportion of the claims being successful. The estimate was reviewed for 2010/11 using the latest information and assessments of likely outcomes provided by the council's Legal Service and Human Resource Service. In addition a note to the accounts indicates the existence of a contingent liability in the event of further claims arising.

## Provision for Icelandic bank losses

23. 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. Administrators have made a series of announcements over the past two years updating the expected quantum of recovery. Of the initial deposit of £5 million, and based on the mid point range of percentages indicated by the administrator, the expected recovery is some £4.088 million (£3.890 million estimated in 2009/10) of which £3.032 million has already been received.
24. A balance in respect of anticipated losses of £2.145 million, based on the estimated recovery provided by the banks' administrators, was set aside in previous years. Further information from the administrators during 2010/11 indicated that a revised estimate of recovery was £4.088 million. The council reduced its set aside balance to £1.545, however, this is some £0.633 million in excess of the loss anticipated by the administrator.

**Refer Action Plan No. 2**

## Council tax bad debt provision

25. The council tax bad debt provision was the subject of comment in 2006/07 and 2007/08. Officers revised the calculation in 2008/09 which brought it into line with comparable councils. The provision was restored to previous levels in 2009/10. The provision for 2010/11 remains at the 2009/10 level (93.4% of the gross debtor outstanding). In our view, this is an over estimate of the provision required, is greater than the Scottish average and greater than provisions made in the other two Ayrshire councils (both circa 89%). We note that the council had, by the end of July, already collected some £0.200 million in excess of the net debtor outstanding in the 2009/10 financial statements.

**Refer Action Plan No. 3**

## Sundry debtor bad debt provision

26. The sundry debtors bad debt provision is calculated on the basis of an age analysis, which is a well-established methodology. However, no account is taken of the status of individual debtors. For example, central government and other public bodies are unlikely to default on a debt which is a legitimate charge against them. We consider that the sundry debtors bad debt provision should be subject to review and amendment dependent on the status of the individual debtors.

**Refer Action Plan No. 4**

## Trust funds

27. East Ayrshire Council has 14 charitable trusts. Registered charities are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006, meaning a full set of financial statements is required for each trust fund. However the Office of the Scottish Charities Regulator (OSCR) has deferred full implementation until 2013/14, allowing the

council to rely on its existing disclosures for trust funds in the council's financial statements, supplemented with additional working papers.

28. In a July 2011 letter to the Executive Director of Finance and Corporate Support from OSCR, the 2009/10 disclosures of 30 Scottish local authorities are assessed in terms of their compliance with the regulations. East Ayrshire Council is one of only two councils judged "above average".

### Common good fund

29. In December 2007, the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners on accounting for Common Good. In previous years we commented on the progress of the implementation of the accounting requirements, principally on the absence of a register of Common Good assets. The council has now completed its review of the asset register, has identified Common Good assets and is accounting for them in the financial statements in accordance with guidance.
30. Arising from the council's review of titles some residual issues in relation to a small number of properties now remain to be resolved. Management have advised that resources within the Legal Service have been allocated to complete the work outstanding and move the remaining issues to resolution.

**Refer Action Plan No. 5**

### Group financial statements

31. To enable the preparation of group financial statements councils are required to consider their interests in all entities, including subsidiary companies, associates and joint ventures. East Ayrshire Council does not have any subsidiaries. The council has consolidated within the group accounts five associates, comprising five joint boards, and one joint venture company. The overall effect of inclusion of these group entities is to reduce net worth by £211.343 million. The impact of the on the group net worth derives mainly from police and fire pension scheme deficits. A contingent liability is disclosed within the single entity accounts in respect of the joint venture company.

### Whole of government accounts

32. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The council submitted its consolidation pack to the Scottish Government by the deadline of 29 July. The audited return was completed by the audit deadline of 30 September.

## Outlook

### Audit appointment for 2011/12

33. The appointment of auditors to Scottish local authorities is the duty of the Accounts Commission. The Commission appoints auditors from either Audit Scotland staff or private

firms of accountants for a five year term. The financial year 2010/11 is the last year of the current audit appointment and we would like to thank members and officers for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Audit Scotland will again be the appointed auditor for East Ayrshire Council but a different audit team will be in place.

# Financial position

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

## Financial results

37. In 2010/11, East Ayrshire Council spent some £397 million on the provision of public services. Its income totalled some £422 million, resulting in an income and expenditure account surplus of £25 million. After adjustment to a statutory basis the increase in usable reserves is £2.217 million. The budget for 2010/11 was based on Band D Council Tax of £1,189 and within the year the council used £6.156 million of previous years' earmarked balances.

## General fund

38. The Finance and Service Strategy report outturn to 31 March 2011 recorded a general fund underspend against budget of some £13.497 million. This continues a trend of underspending against budget noted in previous reports. Exhibit 1 sets out the historical data.

### Exhibit 1: General fund underspends against budget

Year	Underspend	Drawdown of earmarked balances included in the underspend
2010/11	£13.497 million	£6.156 million
2009/10	£7.378 million	£6.820 million
2008/09	£8.349 million	£14.001 million
2007/08	£10.727 million	£4.020 million
2006/07	£9.891 million	£4.180 million

Source: East Ayrshire Council Final Outturn Reports

39. A number of significant variances from budget are noted below:

- write back of equal pay provision £1.828m
- an underspend of £1.366 million in the central repairs budget
- debt charges £0.871 million less than budget
- unbudgeted housing/council tax benefit overpayment recoveries of £0.735 million
- write back of Icelandic banks provision £0.600 million
- underspend in aids and adaptations budget £0.557 million.

40. The underspend of £1.366 million in the central repairs budget is a continuation of a trend of carrying forward part of the previous year's budget to cover work ordered but not done at the year-end. Management should consider what the underlying reasons for the consistent position is and whether the practice should continue or the balance used on a one-off basis.

**Refer Action Plan No. 6**

41. In constructing the annual budget no account is taken of the recovery of housing/council tax benefit overpayments. For 2010/11 recoveries amounted to some £0.527 million with associated DWP overpayment subsidy being £0.208 million. Management should consider building an amount for housing/council tax benefit overpayment recoveries into the annual budget and monitoring and reporting performance as normal.

**Refer Action Plan No. 7**

42. The council provides aids and adaptations to enable people with a physical disability to live as independently as possible. This can involve the provision of special equipment such as stairlifts or making modifications such as widening doorways. Local authority aids and adaptations budgets are normally oversubscribed. It is therefore unusual to find that East Ayrshire Council have underspent this budget by a considerable margin. Notwithstanding the underlying reasons for the underspend it is of concern that, as far as we can determine, members were not specifically advised of the underspending in any of the Finance and Service Strategy reports submitted during 2010/11. Management should investigate the underlying reasons for the underspend and ensure that in future members are furnished with adequate information on potentially significant areas of underspending.

**Refer Action Plan No. 8**

43. There are a number of budget variations in individual budget lines over all services which, although insignificant by themselves, add up to significant sums. The council has been actively seeking to constrain costs over all budget lines and expenditure reduction targets against departmental controllable expenditure were agreed as part of the 2010/11 budget process. Underspends are noted across most summary budget lines. Premises costs (£1.152 million) and supplies and services (£1.438 million) are two of the most notable underspends.

### **Housing revenue account (HRA)**

44. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to, as a minimum, cover the costs of its social housing provision. The council's strategy on rent levels was set by the Housing Committee in April 2005 as a

means of funding expenditure to achieve the Scottish Quality Housing Standard within the specified timescale. In February 2010 the Cabinet agreed to modify the strategy on rent levels and resolved that rents be increased annually by the greater of RPI plus 1% or 3.5% plus the additional costs for new house building.

45. The HRA budget for 2010/11 was approved by the Cabinet in February 2010. The budget approved estimated income and expenditure at £37.257 million. This budget was set based on the rent setting strategy alleviated by a package of cost reductions which limited the rent increase to 3.01%.
46. Before statutory adjustments the HRA shows a deficit of £15.146 million for 2010/11. Following adjustment to the statutory basis this becomes a deficit of £2.482 million for the year. This deficit was incurred largely as a result of two provisions; one in respect of the compensation for the buy-out of the Housing Asset Service bonus scheme and an estimation decontamination costs in respect of land previously sold by the HRA.
47. There was an underspend of some £3 million on the HRA repairs and maintenance budget. The unused budget was used to increase the capital contribution from revenue (CFCR) to fund the housing improvement programme. The provision of repairs and maintenance is now delivered directly by the Housing Asset Service. Direct delivery of the service significantly reduces the cost of repairs to the HRA through the retention of the "profit" element previously transferred to the general fund and through operating efficiencies in the delivery of the new service.
48. Management should review the HRA repair and maintenance budget and ensure that it is in line with forecast repairs demand and capacity to deliver the service.

**Refer Action Plan No. 9**

## Reserves and balances

49. Exhibit 2 shows the balances in the council's funds at 31 March 2011 compared to the previous year. Funds include a capital fund which may be used to defray capital expenditure or repay loan principal, and a repair and renewal fund to finance expenditure incurred in repairing, maintaining, replacing and renewing assets. The council's funds at 31 March 2011 totalled £56.288 million, an increase of £2.217 million on the previous year.



**Exhibit 2: Reserves**

Description	31 March 2011	31 March 2010
	£ million	£ million
General Fund: Uncommitted	11.350	8.987
Committed	17.148	17.616
<b>Total</b>	<b>28.498</b>	<b>26.603</b>
Housing Revenue Account	1.397	3.879
Repair and Renewal Fund:		
General fund element	7.102	4.637
Housing revenue account element	2.698	2.673
<b>Total</b>	<b>9.800</b>	<b>7.310</b>
Capital Fund	16.593	16.279
<b>Total</b>	<b>56.288</b>	<b>54.071</b>

Source: East Ayrshire Council 2010/11 financial statements

50. Of the £28.498 million general fund balance carried forward, £17.148 million (60%) is specifically earmarked by services for what are described as "future known commitments". A total of £17.616 million was brought forward as earmarked by services from the prior year of which £1.384 million was re-designated as uncommitted reserves during the year.
51. In respect of the £7.102million general fund repair and renewal fund balance, there are currently commitments of £3.564million for roads maintenance and essential repairs work. Commitments of £7.9m for specific projects have been made against the capital fund and the council anticipates that a further drawdown of £8.3m, to repay an element of debt charges each year to 2016/17, in order to smooth the impact on the revenue budget arising from the current profile of the capital expenditure programme.
52. The Executive Director of Finance and Corporate Support was previously mandated by Cabinet to undertake a review of service balances immediately following the conclusion of the annual financial statements audit. This exercise is now an annual feature of the council's budget process.

**Financial ratios**

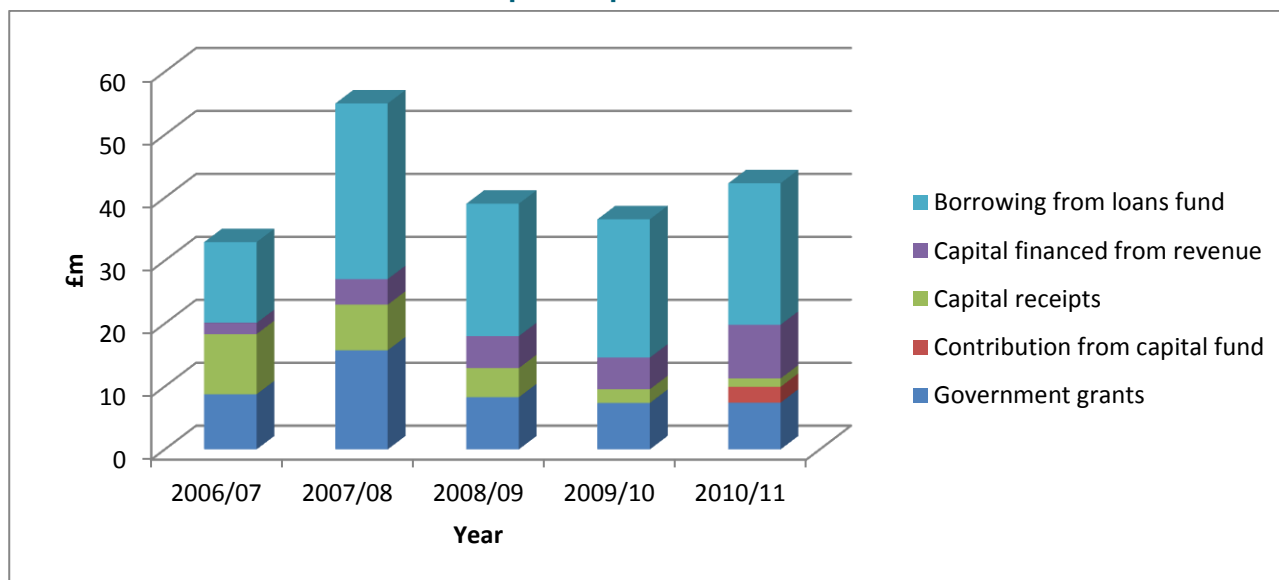
53. A suite of financial ratios has been developed by the CIPFA Directors of Finance working group. The ratios are intended to assist stakeholders in evaluating the council's financial sustainability and the affordability of financial plans. The ratios will also provide stakeholders with a means of appraising the effectiveness of councils' financial management arrangements. The Executive Director of Finance and Corporate Support has agreed to consider incorporating the ratios into future years' financial statements.

54. For 2010/11 Audit Scotland is compiling the financial ratios, and they may be published in the Local Government Overview report for 2010/11. However, they are not yet available to include within this report. The financial ratios compilation will be issued to the council for consideration in due course.

## Capital investment and performance

55. Capital expenditure for 2010/11 totalled £42.285 million. Spend on housing programme was some £14.379 million and on the non-housing programme was £27.906 million. The housing programme focused on improving the standard of existing dwellings and meeting the Scottish Housing Quality Standard with a modest amount spent on the new build programme. The general services programme includes significant investment in replacing and improving primary schools, sports facilities and town centre regeneration projects.
56. Spend on the non-housing capital programme was 97% of programmed expenditure. Slippage was noted in a number of projects including the Cumnock Town Centre Re-generation project, sports and athletic facilities and the Stewarton park and ride scheme.
57. Spend on the housing capital programme was 122% of programmed expenditure This represents a diversion of savings in the revenue repairs budget into the housing improvement programme.
58. Exhibit 3 shows the sources of finance for capital expenditure in 2010/11.

**Exhibit 3: Sources of finance for capital expenditure 2007/08 - 2010/11**



Source: East Ayrshire Council 2010/11 financial statements

## Treasury management

59. In recent years, some councils have held significant amounts of cash and temporary investments to take advantage of favourable interest rates for planned capital programmes. In these circumstances, the early borrowing must be justified in its own right as representing the

best time for borrowing the amount required. This must be assessed without regard to temporary investment gains; otherwise the action may be unlawful. As at 31 March 2011, East Ayrshire Council held cash and temporary investments totalling £32.365 million. We reviewed the position as part of our audit of the financial statements and concluded that the current level of investment is largely attributable to the usable reserves held on the balance sheet.

60. No new borrowing or debt rescheduling was undertaken in the year. The required financing of capital expenditure was met from internal reserves and balances on a short-term basis. The council elected to use internal resources as the most cost effective means of funding £22.479m of capital expenditure. Borrowing to fund the required capital investment was effectively deferred.
61. Interest rates on investments remain low – the council received £0.509 million in investment income in 2010/11, comparable to the £0.519 million received in 2009/10. While long term borrowing rates are also low, the council has a significant proportion of its historical debt at fixed rates with an average cost of borrowing over the year of 5.21% compared to 5.4% for 2009/10.

## Financial planning to support priority setting and cost reductions

62. The Executive Director of Finance and Corporate Support has presented a number of papers to cabinet clearly setting out the impact of the anticipated changes in central funding to the council. The council has responded to the new funding climate by formulating its forward financial strategy to address constraints to funding. In 2010/11 the council again froze the council tax in accordance with the concordat with the Scottish Government, in doing so some £7 million of savings were factored into the year's revenue budget. The council has undertaken wide consultation with key service users, community representatives and employees. In doing so management also recognise that it is the council's responsibility to lead the process and take difficult decisions on how to allocate available resources.
63. The keystone of the council's response to the funding constraints is its Efficiency Strategy 20011/12-2013/14. This approach is well embedded in the council and includes a reprise of the council's previous Strategic Review of the Revenue Budget (SRRB).
64. Efficiency Strategy consists of a series of six distinct but interrelated strands, as follows:
  - Business review programme – a substantial programme of reviews of specific service provision, including some arising from the budget consultation process.
  - Budget management and review – a line by line, service by service examination of budgets to ensure that spend is geared towards key themes and priorities.
  - Fairer Scotland Fund review – a review of projects to ensure that they remain the most efficient and effective way to achieve specific outcomes.
  - Budget and performance working group – comprising East Ayrshire Council and seven other councils, the group is exploring comparative spend and performance to identify best practice.

- Workforce planning review – the development of plans to manage a reduction in headcount and support and encourage more flexible ways of working.
  - Continuing engagement arrangements – further enhance communication with key partners, stakeholders and the public.
65. The council recognises that to deliver the cost reductions forecast, whilst continuing to provide statutory services and address key priorities, will inevitably require service re-design and transformational change. The steps it has put in place thus far will provide a sound foundation to achieve the necessary operating cost reductions.

## Asset management

66. The council has in place a strategic approach to capital planning, which is integrated with asset management planning. In November 2009 the council approved an updated Asset Management Strategy. The strategy also formalises a framework of responsibility for the management of both operational and non-operational property assets. The key objectives which the strategy is designed to achieve are to ensure that:
- the property portfolio is suitable for current use and supports the council's objectives
  - the performance of assets are monitored and reported
  - comprehensive asset management data to support decision making is collected
  - property is managed as a corporate resource
  - future investment decisions are based on robust options appraisal
67. As we reported last year, the council has an office rationalisation strategy aimed at reducing the number of council office buildings which will result in lower overall running costs. A number of new developments are underway, the purpose being to rationalise the office space available to the council. Once these developments have been completed it is anticipated that there will be a reduction in office space of some 64,000 square feet.

## Procurement

68. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. So far two rounds of PCA assessment have been completed. Local authorities need to achieve a PCA score of 25% or above in order to obtain a 'conformance' rating. East Ayrshire Council was subject to its first PCA in October 2009 and achieved a conforming score of 25%. This score ranked the council 9th out of the 32 Scottish councils.
69. The council was reassessed in 2010 and achieved an overall score of 34%. This was against a national average of 32%. Exhibit 4 sets out the council's 2010 PCA improvements in six out of the eight assessed areas.

70. Of the remaining two assessed categories, “contract and supplier management”, remained static at 19%. One further category, “procurement strategy and objectives”, was evaluated at 42%; a marginal decline on the figure of 43% reported in the previous year.
71. To drive further improvements, the council has prepared an improvement action plan based on the 2010 PCA results. Each action has an assigned responsible officer and timeframe against which performance against the action plan can be measured. The action plan and procurement strategy have been reviewed and approved by the Corporate Management Team, Cabinet and the Governance and Scrutiny Committee. Progress against the action plan will be reported on a quarterly basis to the Corporate Management Team; six monthly to the Governance and Scrutiny committee and annually to Cabinet.

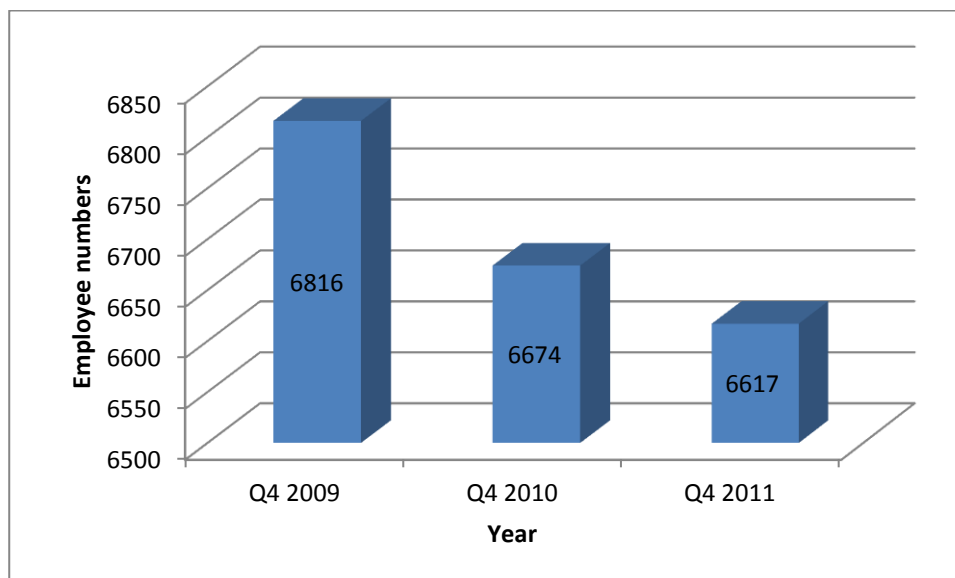
#### Exhibit 4: PCA by category

Category	Score 2010	Score 2009
People	52%	30%
Procurement leadership and governance	48%	33%
Key purchasing processes and systems	39%	26%
Procurement strategies and collaborative procurement	33%	26%
Defining the supply need	27%	20%
Performance measurement	13%	6%

Source: East Ayrshire Council 2010 PCA

#### Workforce reduction

72. As part of its financial planning for the future, the council updated its figures for staffing reductions as part of the 2011/12 budget proposals. The council plans to shed some 260 posts. It was estimated that this would entail up to 167 compulsory redundancies, however, the actual number of compulsory redundancies was only two. Most of the reduction in the council’s workforce can be attributed to voluntary redundancies and natural wastage. The council's revised redundancy policy and procedures was approved by Cabinet in February 2011. Cabinet is updated at every meeting on the latest approvals for voluntary redundancy including the costs falling on the council. For 2010/11 the total cost to the council of severances was some £5 million.
73. Exhibit 5 presents a graphical representation of the reduction in staffing numbers over the previous three years.

**Exhibit 5: EAC staff numbers 2009-2011**

Source: East Ayrshire Council employee statistical reports

**Shared services**

74. The Accounts Commission commented on the limited progress in developing shared services in its report 'Overview of the local authority audits 2009'. It recommended that councils should give this high priority in the light of financial pressures and the drive for efficiency. This topic was given renewed impetus by the publication of the Clyde Valley Review by Sir John Arbuthnott which again made the case for accelerated joint working between councils and other public sector partners. A report to Cabinet on 15 September 2010 set out the council's position in respect of the Clyde Valley Review recommendations.
75. Management consider that the council has worked collaboratively with North and South Ayrshire Councils and other public sector partners since re-organisation took place in 1996 and that a significant set of joint arrangements is in place. In April 2006, a "pan-Ayrshire Group" was formalised with the neighbouring Ayrshire councils, NHS Ayrshire and Arran, Strathclyde Police and Scottish Enterprise.
76. The council is involved in the delivery of shared services in a number of areas. The pan-Ayrshire Civil Contingencies Team has been in operation for some time providing emergency planning services. Since October 2005 an Ayrshire environmental health out of hours noise team has been operating to tackle noise nuisance throughout Ayrshire.
77. In August 2009, following an initial option appraisal, the three Ayrshire councils approved the implementation of a "Pan Ayrshire Regulatory Service" (PARS). The legislation conferring powers and duties on councils to operate the services concerned (building standards, trading standards and environmental health) derives from a number of different source Acts and specifies authorisation attaching only to officers of individual councils. An uncertain legal position entails the risk of challenges to the competency of actions undertaken by officers employed by a joint agency. Obtaining clarity on the legal position from the outset is crucial to

the success of the project. As we understand it, the project board has over the past two years considered different structural options for PARS but have failed to agree on the legal competency of the options examined. We are advised that, in order to gain absolute certainty on what is clearly a fundamentally important point, the three chief legal officers of each council agreed in June 2011 to obtain counsel's opinion. The opinion is now under consideration and should provide the councils with a clear rationale to move the project forward.

78. The three councils are progressing a number of other shared service initiatives, including:
  - Roads
  - Social work stand-by arrangements
  - Strategic waste management
79. The Ayrshire Joint Strategic Waste Management Project Group was established to procure a residual waste management solution to comply with the EU Waste Directives and the Scottish Government's Zero Waste agenda as they apply to the three Ayrshire councils. Whilst much preparatory work has been done, the outline business case has can only be produced once the Scottish Government's Zero Waste Regulations are available.
80. The council's strategic direction for community based public services is to work closely with its community planning partners in providing fully integrated public services, co-located in shared premises. The co-location facilities bring together under one roof, police, health and council services. There are now six co-location facilities operational throughout the East Ayrshire area.

## Outlook

81. The financial challenges facing the Scottish public sector are well documented. Public bodies face deep and prolonged cuts in funding. In September 2011 the Scottish Government published its spending review for the three years to 2014/15. The spending cuts allocated to the local government portfolio are (in 2011/12 prices) 4.2% for 2012/13, 9.0% for 2013/14 and 11.3% for 2014/15.
82. The council set its 2011/12 budget in February 2011 incorporating a reduction some £8.3 million. Presently the council's budget for 2012/13 is being prepared. Although the local government finance settlement won't be know for some time yet, it is likely that a further reduction in expenditure, at a similar level that of 2011/12, will be required for 2012/13 and 2012/14. Continuing to deliver vital public services with a reducing budget will be a significant challenge for the council.

# Governance and accountability

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

## Corporate governance

### Processes and committees

87. The council operates an executive/scrutiny committee structure. The primary decision making body is the Cabinet, comprising of 11 elected members (9 SNP, 2 Labour) and chaired by the Leader of the Council. The Cabinet, under powers delegated by the full Council, takes all key strategic and service delivery decisions including the review and approval of annual revenue and capital budgets.
88. Effective scrutiny is central to good governance and members have a critical role in challenging policy, scrutinising performance, holding management to account and supporting the improvement agenda. At East Ayrshire Council the scrutiny remit falls to the Governance and Scrutiny Committee, comprising of 11 elected members (1 Conservative, 5 Labour, 5 SNP). The committee operates in accordance with CIPFA's guidance, Audit Committee Principles in Local Authorities in Scotland, notably in that it is chaired by a Conservative member.
89. We regularly attend meetings of Council, Cabinet and Governance and Scrutiny Committee. The three bodies are well attended by members, executive directors and heads of service.



## Member training

90. The council has developed role profiles for office bearers and for members in general, as well as for members of the Governance and Scrutiny Committee, the Provost and the leader of the main opposition. These have been incorporated into the Elected Member Development Strategy documentation.
91. The Elected Member Development Strategy is delivered in partnership between Democratic Services and the Human Resource Service. Individual training needs analyses were undertaken and completed in June 2010 for all members and personal development plans (PDP) put in place as required. PDP activity is delivered either on a one to one basis or in groups.
92. Analysis of member training records indicate that members take up of formal training and development courses was very high; some 78% of members attended at least four training events during 20/11. In addition, training opportunities were provided on a variety of topics in support of individual members PDP objectives.

## Internal control

93. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
94. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
95. As part of our work, we took assurance from key controls within the council's financial systems, with the controls of three key systems being tested by internal audit. The results of our review of key controls were reported to the Governance and Scrutiny Committee in August 2011. Areas where key control improvements could be made have been discussed with officers and have either already been implemented or will be implemented in due course.

## Internal audit

96. 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.

## Housing Asset Service (HAS)

97. Following the shared risk assessment undertaken during the year 2009/10, the council's repair and maintenance service was identified as an area of risk. The risks identified related primarily

to governance arrangements, the robustness of performance information and the risk of failure to achieve a best value service to tenants. It was determined through discussion with the Local Area Network that we should conduct a joint review, with the Scottish Housing Regulator, of the Housing Asset Service as part of our 2010/11 audit activity. The review was conducted during June to August 2011 and a report was presented to the Governance and Scrutiny Committee on 23 September 2011.

98. Our overall conclusion was that, in the main, there are adequate governance arrangements and internal controls operating over the Housing Asset Service. We also concluded that the council is making sound progress in delivering improvements to its responsive repairs service and its reported performance has improved. It has made good progress over the past two years in establishing a best value oriented housing repairs and maintenance service. The review did, however, draw to management's attention some important areas where improvements could be made to enhance existing arrangements, these included:
- greater emphasis on HAS specific planning
  - an improved range of information to senior managers and members
  - independent assurance of the quality of repairs
  - benchmarking of performance with similar organisations.

Management have agreed an action plan to address the issues raised.

### ICT data handling and security

99. The council continues to maintain good progress in establishing a sound information management environment. Sound management is being achieved through the implementation of policies, guidance, standards and training needed to improve information governance. The information security policy is the subject of regular review to ensure the maintenance of the security and confidentiality of information, information systems, applications and networks owned by the council.
100. The council makes good use of Information Communication Technology (ICT) to support and deliver services. It also recognises the need for continuing capital investment in its ICT infrastructure to ensure its continued effective operation and has a rolling 3 year programme in place to allow for the delivery of current plans. As part of that investment the council has built new state of the art data centres and is developing the council website to improve service provision and accessibility.
101. The council recognises that Disaster Recovery / Business Continuity (DR / BC) planning, including IT services, is a continuous process. A scenario day was completed recently testing DR / BC plans for Civil Contingencies, although this did not specifically encompass IT services at this time.
102. Data handling and security continues to receive public and media attention as a result of a number of national incidents relating to lost data. The council shares data with a number of organisations such as the Department for Work and Pensions and other government departments. Information security is now a service delivery issue where a significant failure of

controls could lead to loss of stakeholder confidence and opt out from services, higher compliance costs due to enforcement action, withdrawal of third party services such as payment card processing and legal fees relating to civil litigation and criminal prosecution. The Information Commissioner's Office has the power to fine organisations up to £0.500 million for information security breaches.

- 103.** While the council's information management regime is being used in the provision of reliable data security within the council, after an initial slow start, considerable effort has gone in to the revision of policies, procedures and work practices. The project was wide ranging including the creation of the Corporate Information Governance Group (CIGG). The main tasks of the CIGG are to create an information asset register (IAR), identify asset owners, carry out risk assessments to support the corporate risk register and ensure the importance of security awareness is understood by all staff.
- 104.** The council has also been giving consideration to using the Audit Scotland online survey YourBusiness@Risk (YB@R) to help assess the effectiveness of the new policies after CIGG have launched the information security policies, procedures and awareness campaign across departments and services.

## Prevention and detection of fraud and irregularities

- 105.** Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
- 106.** East Ayrshire Council has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: an anti-fraud and corruption policy and response plan; a whistleblowing policy; codes of conduct for elected members and staff; and defined remits for committees.

## National Fraud Initiative in Scotland

- 107.** 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. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant outcomes for Scottish public bodies (£21 million during the 2008/09 NFI cycle and £58 million cumulatively up to end March 2010). If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
- 108.** The council has made good progress in reviewing the NFI reports and taking appropriate action. The most recent matched NFI data set produced a total of 4125 matches, of which 706 were classed as matches recommended for investigation. The council has processed 659 matches with nine currently in progress. From the matches processed to date, a total of eight frauds and nine errors have been confirmed. To date £0.024 million in overpayments have been identified as a result of the most recent NFI exercise.

## Housing benefit inspections

109. Audit Scotland took over the inspection responsibilities of the Benefit Fraud Inspectorate in Scotland in April 2008. The risks to East Ayrshire Council's Benefits Service were assessed in January 2010 and a detailed report was issued. The council has responded to the risks identified with an action plan which was approved by the Governance and Scrutiny Committee in May 2010. We consider that implementing the actions will make a positive contribution to improving the Benefits Service. A follow-up inspection will be undertaken in due course.

## Standards of conduct and arrangements for the prevention/detection of bribery and corruption

110. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial regulations. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in East Ayrshire Council are satisfactory and there are no specific issues that we need to report.
111. The council has adopted a local Code of Corporate Governance and assessed its own arrangements against the CIPFA/SOLACE guidance: Delivering Good Governance in Local Government. The council reviews its local Code of Corporate Governance annually and the last review concluded that the council continues to have effective arrangements in place to protect its interests and promote good governance.

## Roles and relationships

112. In August 2010 the Accounts Commission published a report: How councils work: an improvement series for councillors and officers - Roles and working relationships: are you getting it right? The report explored the respective responsibilities of councillors and officers in governance and how they work together to lead and manage their councils to deliver public services. The report found that in successful councils, councillors and senior managers share a strong public sector ethos and work well together to put their plans for the council area into action. Common features include clearly understood political and managerial structures, professional and constructive relationships between councillors and between councillors and officers, a shared commitment to council priorities, and constructive debate at council and committee meetings.
113. A report to Governance and Scrutiny Committee on 14 January 2011 outlined the council's response to the recommendations arising from the report.
114. The Scottish Government issued a revised Councillors' Code of Conduct in December 2010. The main changes included clarification of the rules on registering and declaring interests, and the new decision-making procedures for planning applications. The Head of Democratic Services and Head of Legal, Procurement and Regulatory Services issued guidelines to

members on the revisions to the Code of Conduct highlighting the revised procedures for registering and declaring interests. To support the revised procedures the council delivered an in-house training course.

## Outlook

115. The next local government elections will take place on 3 May 2012. Revisions to the council's induction programme for new members joining the council in 2012 have already been agreed. The council are augmenting this with reference to good practice documented by the Improvement Service. Refreshers will also be provided to continuing members.

# Best Value, use of resources and performance

116. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
117. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that audited bodies have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
118. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
  - an examination of the implications of a particular topic or performance audit for an audited body at local level
  - a review of a body's response to national recommendations.
119. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
120. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
121. This section includes a commentary on the Best Value / performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports.

## Management arrangements

### Best Value

122. The Best Value 2 Pathfinder Audit on East Ayrshire Council was published in April 2010. The report found that East Ayrshire Council was 'improving well' in relation to its statutory duties on Best Value and Community Planning, and that the council was "well placed" to deliver improvement.

## Self-evaluation arrangements

123. The council has robust self-evaluation arrangements in place. All services of East Ayrshire Council undertake annual EFQM assessments. There are two exceptions which use more service specific self-evaluation tools. The Education Service uses the Quality Management in Education 2 (QMIE2) framework to self-assess. Similarly the council has adopted the Care Inspectorate's Self Evaluation Model in Social Services. Subsequent to the assessment each service is required to create an improvement action plan for implementation during the following year.
124. A rolling programme of Best Value service reviews is undertaken. The Governance and Scrutiny Committee's work programme includes a number of reviews of aspects of specific service provision, for example, winter road maintenance. The council has an electronic performance management system which feeds the corporate management team's assessment of performance and risk.
125. Presently the council is making preparations for its third "council-wide strategic self-assessment of performance". This process, led by the Chief Executive and executive directors, scores the council's performance against Audit Scotland's ten Best Value criteria. As part of the previous two exercises a "critical friend" was appointed to provide independent challenge to the process and scoring. Professor Arthur Midwinter performed the office of critical friend in the first exercise and Mr Alastair MacNish in the second.

## Community/user engagement

126. The Community Planning Partnership (CPP) has a track record of listening and responding to the things that matter to local people. Community representatives are involved at a strategic level of community planning, as well as being closely involved in specific local initiatives.
127. The importance of councils having good information about service users' needs was emphasised in the Accounts Commission's report "An overview of local government in Scotland 2010". The council and its community planning partners sought the views of the community through a 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. It is planned to undertake another such exercise later in 2011.
128. The council's annual budget consultation is now well developed. The council implemented an enhanced budget consultation process to support the development of its 2010/11 budget. Consultation took place with a range of representative groups, including tenants and residents associations, leisure groups, community council's youth groups, business representatives, parent and equalities groups. In addition a dedicated "budgetline" telephone contact number was made available to the public as was a dedicated budget email address. The council's budget mailbox received 277 responses. A similar consultation process was undertaken in the setting of the Council's 2011/12 budget and attracted a significant increase in responses: over

1,500 messages were received through the budget mailbox and over 600 people attended a range of budget consultation meetings between November 2010 and January 2011.

## Overview of performance in 2010/11

### Performance management

129. The council uses an electronic performance management system (EPMS) to monitor performance over all services. The system currently holds around 600 indicators. Scorecards for all executive director and head of service have been developed and are in use. The scorecards, which can be accessed electronically at any time, are updated on a monthly basis. The council recently refreshed its periodic performance reporting to committee. The new style report is entitled “East Ayrshire Performs” and contains a small number of performance indicators as well as the periodic budget monitoring information.
130. The EPMS is still being developed to provide information to managers and scorecards for health and safety and economic development will be rolled out over the coming year. In addition the council is working in co-operation with NHS Ayrshire and Arran and the other two Ayrshire councils to develop a set of indicators for the re-shaping care initiative.

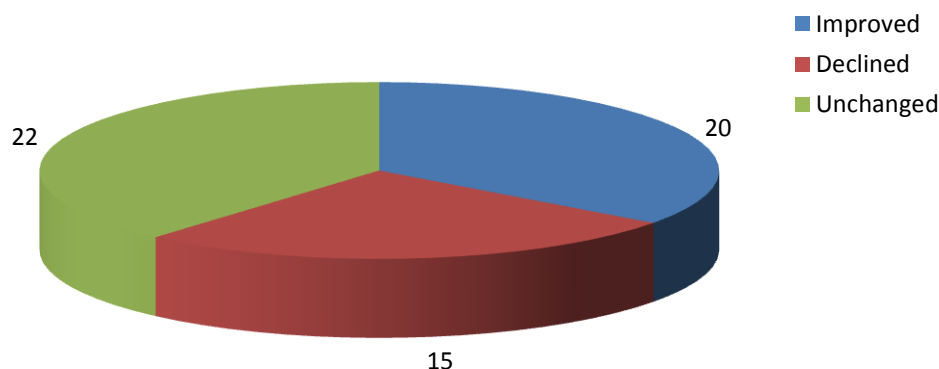
### Community planning Single Outcome Agreement (SOA)

131. The second Community Planning Single Outcome Agreement annual performance report was submitted to the Scottish Government in September 2010. The Community Planning Partnership prepared and issued its annual report in September 2011.
132. The council reported improvements during 2010/11 across a number indicators including:
- the percentage of school leavers in positive and sustained destinations
  - the proportion of residents of working age with recognised qualifications
  - the rate of reconviction.
133. As a consequence of current recessionary pressures there were, however, a number of indicators where no progress, or deterioration was noted. Those outcomes most affected were those relating to economic growth.

### Statutory performance indicators

134. One of the ways of measuring council performance is through the statutory performance indicators (SPIs). Each year we review the reliability of the council’s arrangements to prepare SPIs. Overall, we concluded that the arrangements were satisfactory.
135. East Ayrshire Council published an Annual Performance Report 2010/11 which included 76 performance indicators many of which had multiple parts. The published indicators included the 25 statutory performance indicators designated by the Accounts Commission. SPIs provide a consistent form of measurement for councils to review their performance over time and to make comparisons with other councils. Exhibit 6 provides an overall analysis of movement on SPIs as compared with 2009/10:



**Exhibit 6: Movement on SPIs**

Source: East Ayrshire Council SPI data returns

**136.** The analysis at exhibit 6 is based on all 57 components of each of the 25 SPIs. Some indicators show a marginal increase or decrease in performance. The above analysis assumes a +/- 5% tolerance margin in determining whether an indicator has improved, declined or remained unchanged. Without the applying the tolerance margin the results show that performance increased in 33 indicators and declined in 24. The CMT should be alert to the possibility that the marginal declines do not represent the start of downward trends.

**137.** Examples of indicators of improving performance are:

- sickness days lost per non-teaching staff has improved from 12 days in 2009/10 to 10.9 days in 2010/11
- gross administration costs per benefits case has decreased from £42.60 in 2009/10 to £39.74 in 2010/11
- planning indicators show a marked improvement in performance.

**138.** Examples of indicators of declining performance are:

- the cost per dwelling of collecting council tax has increased from £11.45 in 2009/10 to £12.89 in 2010/1.
- the percentage of operational buildings suitable for purpose has decreased from 96.6% reported in 2009/10 to 80.1% reported in 2010/11
- the percentage of the road network considered for maintenance treatment has increased over all five road classifications.

**National performance reports**

**139.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in exhibit 7.

### Exhibit 7: A selection of National performance reports 2010/11

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>• The cost of public sector pensions in Scotland</li><li>• How councils work: an improvement series for councillors and officers - Arms-length external organisations</li><li>• Scotland's public finances: responding to the challenges</li><li>• Maintaining Scotland's roads: a follow-up report</li></ul> | <ul style="list-style-type: none"><li>• Physical recreation services in local government</li><li>• An overview of local government in Scotland 2010</li><li>• Community Health Partnerships</li><li>• Improving energy efficiency: a follow-up report</li><li>• Transport for health and social care</li></ul> |
|---|--|

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

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### Scotland's public finances: responding to challenges

**140.** This report provides an overview of the financial environment facing the public sector in Scotland and the cost pressures currently faced. It outlines what the public sector is doing to respond to current and future budget reductions, and highlights a number of key risks and issues that the public sector needs to manage in responding to the challenges. Key messages in the report include the following:

- The budget reductions affect revenue and capital expenditure differently with the capital budget taking the largest cut in percentage terms.
- Public bodies are finding it difficult to plan beyond 2011/12, as they do not have a clear view of their budgets beyond 2011/12. The Scottish Government plans to publish detailed spending plans for years 2012/13 to 2014/15 in September 2011, which should establish a framework that bodies can use to make future spending plans.
- The need to reduce costs provides public bodies with an opportunity to reform and streamline public service delivery. However, in doing so, bodies must focus on long-term financial sustainability.
- Pay restraint and reducing workforce levels are the most common approaches being taken by public bodies to reduce costs over the next few years. Good workforce planning is necessary to ensure that the right people and skills are available to deliver effective public services in the future.
- Public bodies are considering how they can work better together to reduce costs. While a number of initiatives are being planned to increase working together, sharing resources and involving voluntary and private organisations, progress to date has been limited.

**141.** The council holds some £56.288 million in reserves after fully providing for anticipated equal pay compensation claims. The Executive Director of Finance and Corporate Support has presented a number of papers to cabinet clearly setting out the impact of the anticipated changes in central funding to the council. The council has responded to the new funding climate by formulating its forward financial strategy to address constraints to funding.

142. The 2011/12 the council met all of the conditions, including a freeze on council tax, set out by the Scottish Government to limit the central grant reduction to 2.8%. The Scottish Government spending review confirmed that significant savings will be required from the council's budgets over the next three years. The scale of the proposed real terms reductions in expenditure inevitably creates a degree of uncertainty. The council has prepared and is implementing its Efficiency Strategy to mitigate the impact of reduced central funding, an example of this being a reduction in headcount. While this remains an area of uncertainty we consider that the council's financial position and its track record provide a sound basis to meet the challenging financial environment.

### **Maintaining Scotland's roads: a follow-up report**

This report examines the progress on implementing the recommendations contained in the initial report published in November 2004, with particular emphasis on the change in condition of the road network, current expenditure on road maintenance and management arrangements. Key messages in the report include:

- Limited progress has been made to improve the road networks based on an assessment against the recommendations from the 2004 report.
- The condition of Scotland's roads has worsened since the 2004 report despite public spending rising by around 25 per cent. Only 63 per cent of roads are now in an acceptable condition.
- The present levels of spending are insufficient to maintain Scotland's roads, even in their current condition.

143. As part of its ten year capital programme, approved in 2009, the council has committed some £44 million in capital expenditure on its road network over the next ten years.

### **Progress against audit risks identified in the Shared Risk Assessment**

144. The Shared Risk Assessment (SRA) includes areas of scrutiny uncertainty, where associated audit and scrutiny activity was identified. In the Assurance and Improvement Plan (AIP) update 2011 - 14 we said that we would monitor key service developments and further evidence of performance during the annual audit process and comment within this report. The following paragraphs note the position against the areas of uncertainty identified.

### **Improving community regeneration**

145. The council has clearly articulated objectives to achieve this outcome; however, external factors will inevitably have an influence on whether they can be fully realized. The area has some complex structural socio-economic issues and the council faces some intractable challenges. Given the current economic climate, the council faces a level of uncertainty in achieving its objectives.

146. Developing the economy and achieving sustainable economic growth is a key priority for the council and its partners. In particular, the focus is on inward investment, nurture of local businesses and wider economic regeneration.
147. An Experian resilience survey reported in January 2011 ranked the council in the bottom third of all Scottish councils. The prevailing economic conditions continue to present challenges for East Ayrshire as indicated by the following key statistics:
- The unemployment rate has risen from 5.5% to 6.1%. In addition, the gap between East Ayrshire and the national average has slightly widened since the baseline position at April 2007.
  - The business start-up rate has declined to the rate of 2.1 per 1,000 adult population, below the baseline of 2.5 recorded in 2006/07. The national rate also declined during 2010/11 from 3.8 to 3.4.

The council is, however, making considerable progress with its plans for physical regeneration of its towns. Major regeneration projects are progressing in Kilmarnock, Cumnock, Galston and Newmilns.

## Improving health and wellbeing

148. The AIP update noted that, as the effectiveness of the council and its partners' strategies can only be judged in the longer term, a level of uncertainty on progress remains. The most recent CHP Health and Wellbeing profile (2010) published by the NHS indicates that although 8 out of 59 (14%) health and wellbeing indicators indicates are statistically significantly better than the Scottish average, 27 (46%) are statistically significantly worse, including all cause mortality rates.

## Social Work Service

149. The Social Work Service had been assessed as an area of uncertainty in our first SRA/AIP issued in June 2010. The SRA/AIP update issued in May 2011 recorded a revised assessment of "no significant scrutiny risks".
150. The service had fully met eight of the 15 recommendations and made substantial progress in four areas for improvement identified in the Social Work Inspection Agency (SWIA) performance inspection. No significant concerns had been identified within services to children or adults.
151. SWIA did note, however, some aspects of the service where further progress is required. For example, in the use of management and performance information about outcomes for people who use services and their carers and improving the quality and consistency of assessments and care plans, including assessing and managing risk, for children and families.

## Building and works

152. As a consequence of a trend of poor performance this service had been assessed as an "area of uncertainty". The council had made radical changes to how it managed and delivered its response repairs service. The maintenance of council housing was brought under housing management and work on other council buildings was let to a private sector provider. A joint review of the service was carried out by the local audit team and the Scottish Housing Regulator. A summary of the findings is included at paragraph 97 above. Following the conclusion of the review the service can now, in our view, be re-assessed as entailing "no significant scrutiny risks".

## How councils are responding to the challenging financial environment

153. Our AIP update stated that no scrutiny risks were identified with the council's financial management processes. The council has been proactive in preparing financial plans and identifying savings to reflect the reduced level of central funding.

## Outlook

154. The council was proactive in establishing a community planning based SOA from the outset. The impact of budget cuts and prevailing economic conditions will inevitably affect the partnership's ability to deliver some of the outcomes articulated in the SOA. Implementation of the council's efficiency strategy will be crucial in ensuring that available resources are directed towards the partnership's key priorities. The council has previously revised its service plans to align with the single outcome agreement and this should provide a firm base from which the council will be able effectively to assess the impact of budget cuts on service activity and the delivery of agreed outcomes.

155. The long term and complex nature of many of the outcome targets, pose many challenges for performance management. We recognise the challenges and whilst we have no plans to audit the outcome progress reports, we will pay attention to the systems the council has in place to monitor progress and take any necessary corrective action.

156. The Assurance and Improvement Plan update 2011 - 14 includes activity by scrutiny bodies over the next three years including:

- Care Inspectorate - Initial Scrutiny Level Assessment (ISLA) review in 2012.
- Care Inspectorate, SHR, Audit Scotland, HIS - Possible multi-agency inspection of substance services.

The AIP for 2011/12 will update the scrutiny plans of the participating inspectorates.

# Appendix A: Audit reports

## External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue
Annual Audit Plan	3 March 2011
Review of IFRS shadow financial statements	31 March 2011
Review of adequacy of internal audit	14 April 2011
Shared Risk Assessment / Assurance and Improvement Plan	31 May 2011
Corporate governance letter	3 August 2011
Follow-up Information Management Audit	5 September 2011
Improving public sector purchasing follow-up	12 September 2011
Review of Housing Asset Service	14 September 2011
Report to those charged with governance on the 2010/11 audit	23 September 2011
Audit opinion on the 2010/11 financial statements	28 September 2011

# Appendix B: Action plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Issue	Planned Management Action	Responsible Officer	Target Date
1	14	The council should reconsider the positioning of the remuneration report within the financial statements in future years.	Placement after the statements setting out the Council's financial position was considered appropriate. This will be reviewed for 2011/12 taking account of relevant guidance and practice elsewhere.	Executive Director of Finance and Corporate Support	June 2012
2	24	The council retains a balance £0.633 million in excess of the loss on Icelandic bank deposits anticipated by the administrator.	This balance will be reviewed in line with the latest Local Authority Accounting Panel (LAAP) Bulletin 82 received in September 2011. This Bulletin once again increases the recovery rates for the Council. The balance of £0.633m will be released to the General Fund and the HRA as part of the 2011 Balances Review Process.	Head of Finance	November 2011
3	25	Management should review that council tax bad debt provision to bring it into line with historic collection rates.	The rate is continually reviewed to ensure that it continues to relate to the actual Council Tax payment profile while also taking account of the difficulties in the wider financial environment and the potential for a reduction in payments rates. We will continue to review the position on an annual basis.	Head of Finance	June 2012

Action Point	Refer Para No	Issue	Planned Management Action	Responsible Officer	Target Date
4	26	The sundry debtors bad debt provision should be subject to review and amendment dependent on the status of the individual debtors.	A review of the sundry debtors bad debt provision focussing on type of debtor, and in particular public sector debtors, will be undertaken. However a bad debt provision is likely to still be required for some of these debtors.	Head of Finance	June 2012
5	30	Management should ensure the resolution of outstanding common good/trust issues.	Dedicated resources within Legal Services will continue to review the residual matters and work to resolve all outstanding issues arising.	Head of Legal, Procurement and Regulatory Services	March 2012
6	40	Management should consider what the underlying reasons for the consistent underspending on central repairs and consider whether the current budget levels are justified.	The consistent underspend principally is due to the timing of work and arises from the Council's compliance with relevant accounting principles. Where work has been ordered but not yet started at 31 March the Council cannot accrue the costs as the physical work has not taken place. As a result the Central Repairs budget will show an commitment and a budget underspend until the works have commenced and been charged. The position will be reviewed.	Executive Director of Finance and Corporate Support	March 2012
7	41	Management should consider building an amount for housing/council tax benefit overpayment	This will be reviewed as national issues relating to Welfare Benefits Reform become clearer.	Executive Director of Finance and Corporate Support	March 2012



Action Point	Refer Para No	Issue	Planned Management Action	Responsible Officer	Target Date
		recovers into the annual budget and monitoring and reporting performance as normal.			
8	42	Management should investigate the underlying reasons for the underspend on aids and adaptations and ensure that in future members are furnished with adequate information on potential significant areas of underspending.	This arose as a result of staff absences within the relevant part of Social Services. Management within the service believed that the budget would be spent and their assumptions were reflected in budgetary reports. Management has taken action to resolve the issue through the appointment of additional occupational therapists.	Head of Community Care / Head of Finance	November 2011
9	48	Management should review the HRA repair and maintenance budget and ensure that it is in line with the cost and capacity to deliver the service.	A review will take place and be informed by the work already carried out reviewing capacity and on performance management.	Head of Housing	March 2012

