East Ayrshire Council

Annual report on the 2011/12 audit

AUDIT SCOTLAND

Prepared for East Ayrshire Council

October 2012

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.

Contents

Key messages

2011/12 audit findings

This report summarises the findings from our 2011/12 audit of East Ayrshire Council. As part of the audit we assessed the key financial and strategic risks being faced by the council. We audited the financial statements and reviewed the council's financial position and aspects of governance, best value, the use of resources and performance. This report sets out our key findings.

We have given an unqualified opinion that the financial statements of East Ayrshire Council for 2011/12 give a true and fair view of the financial position and expenditure and income of the council and its group for the year. We have also certified that the accounts have been prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

The financial management arrangements have operated effectively during the year. The financial position is more favourable than was anticipated when the original 2011/12 budget was set by the council, with an increase in total usable reserves of £3.364 million reported. This continues a trend of increasing usable reserve balances over recent years and the total usable reserves balance at 31 March 2012 was £59.652 million. The council aims to ensure that its usable reserves strike a reasonable balance between meeting current service commitments and preparing for future commitments or reductions in funding.

The council has a robust financial review process which enables efficiency savings to be carried forward between financial years. The explanatory foreword in the accounts reports that a general fund revenue account surplus of £6.160 million was achieved in the year compared to a break even budget. The main reasons for the surplus was due to the mid year budget review which identified £4.535 million of savings following a mid year line by line review. This has become an established process within the council's budgetary control arrangements.

The £6.160 million surplus for 2011/12 increased the general fund balance to £34.658 million as at 31 March 2012. This balance includes earmarked commitments of £17.056 million and an unallocated general fund balance of £17.602 million. This is in excess of the council's reserves and balances strategy to maintain balances at between 2% and 4% of the council's annual budgeted expenditure. The council's 2012/13 budget strategy approved the use of £6.013 million from the uncommitted general fund. The balances held by the council are reviewed and approved by members as part of the regular budget monitoring processes. The use of balances for earmarked purposes has been agreed with members.

The council has a well managed and monitored capital programme. The council incurred capital expenditure of £69.960 million in 2011/12 in accordance with its general services 10 year capital plan to 2018/19 and its six year housing revenue account capital plan to 2015/16. Major investment is aligned to the council's corporate priorities.

The council demonstrates a strategic approach to its use of resources and has a mature corporate approach in place regarding asset management, procurement and workforce planning.

Overall, we are satisfied that the council's governance arrangements and internal controls have operated effectively during the year.

The council has well established performance management and self evaluation arrangements in place. All services carry out annual self assessments using accredited self-evaluation tools. The council recently completed its third council wide self evaluation of performance. This showed that the council had achieved measurable improvements in the quality and delivery of services. The council’s 2011/12 annual performance report has been enhanced so that it summarises the council’s performance in relation to achievements against actions in the community plan action plans and the associated single outcome agreement (SOA), as well as the statutory performance indicators (SPIs). The consolidated SOA/SPI annual report has been presented to members and will be published on the council’s website.

Outlook

Scotland's public bodies continue to face reduced funding while at the same time there is increasing demand and cost pressures for their services. This is likely to continue in the future. An ageing population, the effects of the recession and the heightened expectations of the public, all increase the demand for public services. These, together with cost pressures and existing financial commitments, place an additional burden on the capacity of public bodies to provide efficient and quality services at a time when government grant income is reducing in real terms.

The council approved a revenue budget of £342.921 million for 2012/13 which utilised £6.013 million from the uncommitted general fund balance and incorporated £5.493 million in savings in order to achieve a break even budget. Looking further forward, the council has identified a funding gap of £34.1 million for the period from 2013/14 to 2016/17.

The efficiencies attained to date and the relatively high level of usable reserves puts the council in a stable position when addressing these medium term financial challenges. Options to meet the funding gap are currently being considered. These will be identified through the work streams which form part of the council's Transformation Strategy, which is linked to the council's priorities.

In this environment, the Welfare Reform Act 2012 will bring about the biggest reform of the UK welfare system for 60 years. The introduction of the Universal Credit will have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer service. The council recognises this within its single outcome improvement plan 2012/13 and actions have been proposed to address this. It is essential that these actions are progressed.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of East Ayrshire Council. The nature and scope of the audit were outlined in the Audit Plan presented to the Governance & Scrutiny Committee on 16 March 2012 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the 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 we focus on the financial statements and any significant findings from our wider review of governance and performance arrangements within the 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. East Ayrshire Council should understand its risks and have arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

4. This report is addressed to the members and the Controller of Audit and should form a key part of discussions with the Governance & Scrutiny Committee as soon as possible after the formal completion of the audit of the financial statements. This report should also 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 Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

6. The management of East Ayrshire Council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their 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 by the Executive Director of Finance and Corporate Support, annual governance statement, and the remuneration report. Auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of East Ayrshire Council for 2011/12 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2012 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.

Accounting issues

13. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). We are satisfied that the council prepared the 2011/12 financial statements in accordance with the Code.

Accounts submission

14. 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 2012. The financial statements are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited accounts

15. Any adjustments required as a result of the audit process have been reflected in the accounts and therefore there are no unadjusted misstatements to bring to your attention. The audit adjustments had the effect of increasing creditors by £0.247 million, increasing the general fund balance by £0.029 million and reducing the HRA balance by £0.276 million.

16. In addition, there were a few presentational adjustments required to the unaudited accounts that the council have now amended. These were mainly minor adjustments that form part of the normal audit process. The most significant of the changes was to amend the remuneration report to include the total cost to the council of added years pension costs relating to teachers retiring early in 2011/12, following receipt of assurances that the information provided by the Scottish Public Pensions Agency can be relied upon. This is now reflected in the audited financial statements. Hence we are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and the Scottish Government finance circular 8/2011.

Prior year adjustments

17. To comply with revised requirements of the Code, heritage assets of £55.519 million have for the first time been included in the Balance Sheet asset valuations. As allowed by the Code, the basis of valuation is the declared valuation for insurance purposes or fair value. Since this is a change in accounting policy with a material impact, the previous years' comparisons in the financial statements have also been restated.

Pension costs

18. East Ayrshire Council is a member of Strathclyde Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 '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 2012 provided by the scheme's actuaries increased the council's share of the deficit from £76.951 million last year to £121.072 million this year.

19. The large increase in the pension liability in 2011/12 is largely due to the Actuary's assessment of the financial assumptions about the cost of pension payments being less favourable at March 2012 than they were at March 2011 which has the effect of increasing the overall cost of pensions. In addition, the level of assumptions applied by the Actuary to the expected return on pension fund assets was more favourable than actual returns in most cases. Both these factors have contributed to the increase in the net liability faced by the

council. Exhibit 1 below demonstrates the increased liability in 2011/12 together with the volatility in movement in the council's pension liability over the last five years.

Exhibit 1: Movement in the pension liability over the last 5 years

Financial Year	Liability (£Million)	Movement year on year
2011/12	£121.072	+57%
2010/11	£76.951	- (58%)
2009/10	£184.333	+222%
2008/09	£57.252	+2940%
2007/08	£1.883	

Source: East Ayrshire Council; Financial Statements

20. The additional liability in 2011/12 does not have any immediate impact on the council's financing requirements. The council will continue to make annual contributions to Strathclyde Pension Fund in accordance with triennial valuations carried out by the actuaries. The volatility over recent years is due to factors outwith the council's control such as changes in assumptions used by the Actuary regarding discount factors, life expectancy etc and due to future liabilities from 2010/11 being uprated on the basis of inflation using CPI rather than RPI.

Equal Pay Provision

21. 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.

22. The council's equal pay provision at 31 March 2012 is based on full provision for all known claims against the council. Actual settlements are subject to the outcome of several national test legal cases and could be settled at an amount that is significantly different from this. The council have disclosed a contingent liability for any additional future claims that may potentially arise pending the outcome of the test legal cases

23. The ultimate cost to the council remains uncertain and it is likely that resolution of the issue will take some time. As the tribunal process unfolds the extent of the council's eventual liability will become clearer.

Refer Action Point No 1

Componentisation of Council Dwellings

24. The asset register highlights approximately £49 million of additions to council dwellings over the last three years (such as central heating, kitchens, roofing and bathrooms) that it describes as components. These are depreciated over 10 years compared to the 20 year life

assigned to council dwellings. However, accounting for these components is a complex process given the high number of individual components that have to be reflected within the council's fixed asset register. Particular difficulties arise when council dwellings are revalued or when component parts of an asset are replaced e.g. a new kitchen is installed, when it is necessary to identify and remove the old component asset and reflect the new addition. Currently the council does not reflect any movements / disposals in components.

25. We have accepted the accounting treatment for the component element of the council dwellings in the 2011/12 financial statements on the basis that any potential adjustment would not be material and would not have any impact on the general fund balance. Given the complexity of the issues discussed during the year, the council has agreed to review its approach to the componentisation of council dwellings in 2012/13.

Sundry debtors/ bad debt provision

26. The council held sundry debtors balances at 31 March 2012 of £6.425m. This included balances totalling £2.858m (44.4%) that were over one year old. A provision of £2.675m (i.e. 93.5% of the balances over one year) has been set against the debts over one year old. Of the sundry debtors balance at 31 March 2012 (£6.425m), £2.088m (32.4%) are over two years old. A provision of £2.063m (98.6% of the balances over two years) has been set against these debts. These figures are included in the balances over one year noted above.

27. We are satisfied that a prudent provision has been set against these debts, however, the high level of debtor balances that are over one year old requires to be highlighted. Internal audit conducted analysis which demonstrated that the council's level of sundry debtors is amongst the highest for Scotland. This is partly due to the fact that no debtor balances have been written off since December 2010. Internal audit also identified that some of the debts marked in the Civica debtors system as being passed to legal for recovery had not yet been passed. Both of these issues have now been addressed.

Outlook

Charitable Trusts

28. 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.

29. OSCR assessed all Scottish local authorities 2010/11 disclosures in terms of their compliance with the regulations. East Ayrshire Council is one of 14 councils whose 2010/11 submission was judged to be "average" compared to its 2009/10 submission which was judged to be "above average". The lower assessment in 2010/11 was based on revised regulatory criteria operated by OSCR to determine compliance levels and not as a result of actions taken by the

council. The council is currently in correspondence with OSCR with regard to its 2010/11 submission and is working towards full compliance with the regulations by 2013/14.

Financial position

30. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

31. 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.

32. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

33. In 2011/12, East Ayrshire Council spent £444 million on the provision of public services. Its income totalled some £422 million, resulting in an income and expenditure account deficit on the provision of services of £21.837 million. However, this includes certain elements of income and expenditure that require to be adjusted to comply with the Code, which are then adjusted to show their impact on statutory council reserves. Following these adjustments there is an increase in usable reserves of £6.160 million. The budget for 2011/12 did not assume any use of the uncommitted general fund, although it was planned that the council would use £5.773 million of previous years' earmarked balances.

34. Capital expenditure of £69.960 million was incurred during the year financed through a combination of borrowing and capital grants. This is in line with the council's 10 year capital programme and is discussed in greater detail below.

Budgetary control

35. The annual budget is a key tool in delivering the council’s priorities while simultaneously planning a closing financial position which provides a sound basis for future years. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax charges, rents and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management. Overspends against the annual budget may indicate that the current level of services is not sustainable into the future. Underspent budgets could indicate structural problems in the underlying budget setting process, and this could have an impact on the quality of service delivery.

36. The council has a robust financial review process which enables efficiency savings and underspends within prescribed limits to be carried forward between financial years. The council set a balanced revenue budget for 2011/12 in February 2011 with £5.773 million of earmarked balances from the previous financial year available for departments to spend in 2011/12.

37. The net expenditure in 2011/12 was £335.218 million compared to a budget of £348.379 million. This underspend is made up of £7.388 million which is earmarked for carried forward into future financial years and additional savings of £5.772 million identified in 2011/12. These savings which will be used to help support the transformation strategy which is being developed by the council to ensure its services in the future are fit for purpose. After deducting reduced funding of £1.227 million compared to budget, these savings contributed to an overall underspend of £4.545 million against budget, as set out in the Exhibit 2 below.

Exhibit 2: 2011/12 Budget v Actual Outturn

	Budget	Actual
	£000	£000
Net expenditure by departments and central services	348.379	335.218
Earmarked funds c/f	0	7.388
Savings generated in year	0	(5.772)
Net expenditure	348.379	336.834
Funding (including reserve transfers)	(342.606)	(341.379
Earmarked funds b/f	(5.773)	0
Net Position - (Underspend) / Overspend	**0**	**(4.545)**

Source: East Ayrshire Council; Financial Statements 2011/12

38. Exhibit 2 shows that council departments generated £5.772 million of savings from their base budgets as part of the on-going efficiency reviews. The efficiency programme is derived from proposals developed by departments rather than centrally imposed arbitrary reductions in budgets across all departments. This demonstrates that the council has a well established process embedded in the culture of the organisation that promotes financial prudence and responsibility in the use of public funds.

39. The budgetary process allows for the carry forward of earmarked funds from one year to the next. In 2011/12 a total of £7.388 million was carried forward as earmarked reserves. These require to be identified for specific purposes either due to differences in the timing of expenditure, or there are plans for service delivery which will be delivered at a later date. The council allows departments to retain these earmarked balances within their budget allocation rather than recall underspends at the year end. This promotes good stewardship of public

funds provided balances brought forward and any earmarked balances are carefully managed and monitored. The council monitors the use of earmarked funds through regular finance reports to Cabinet and the Governance & Scrutiny Committee.

40. The outturn to 31 March 2012 recorded a general fund underspend against budget of some £11.933 million. This continues a trend of close management of the budget as noted in previous reports. Exhibit 3 sets out the historical data.

Exhibit 3: General fund underspends against budget

Year	Underspend £'000	Drawdown of earmarked balances included in the underspend £'000
2011/12	11,933	5,773
2010/11	13,497	6,156
2009/10	7,378	6,820
2008/09	8,349	14,001
2007/08	10,727	4,020
2006/07	9,891	4,180

Source: East Ayrshire Council Final Outturn Reports

41. The underspend on the net cost of services contributed to a surplus of £6.160 million in the usable General Fund, increasing the available funds in the usable reserve from £28.498 million to £34.658 million as illustrated in Exhibit 4.

Exhibit 4: Movement in Usable General Fund Reserve

	£000	£000
Opening balance on usable general fund reserve		28.498
Earmarked funds brought forward	(5.773)	
Underspend from net cost of services	4.545	
Earmarked funds carried forward	7.388	
Movement on usable reserves		6.160
Closing Balance on usable General Fund Reserve		**34.658**

Source: East Ayrshire Council; Financial Statements 2011/12

42. The main factors attributing to the savings and to the movement on usable reserve include:

- Savings from employee reductions
- Rationalisation of property and estate management
- Revised procurement strategy and reductions in overall spend on goods and services
- Benefits derived from the implementation of service reviews
- Mid year budget reviews gave rise to £4.535m of in year budget savings drawn from departments following a mid-year line by line review.

43. Overall the council has demonstrated a strong commitment to the fiscal responsibilities in the current year and has taken many steps to ensure that services are appropriately funded in future years.

Housing Revenue Account (HRA)

44. The HRA made a surplus of £0.928 million in 2012/13. This arose principally due to a legal provision carried forward from 2010/11 that was no longer required. In addition, changes to the housing capital programme due to asbestos related issues and reprioritisation of maintenance work resulted in less expenditure than planned. The HRA balance at 31 March 2012 is £2.325 million.

Financial position - reserves and balances

45. The balance sheet shows that the council had net assets of £540.466 million at 31 March 2012. As previously explained, the main reason for the reduction from the net asset balance at 31 March 2011 (£600.915 million) is due to the increase in pension fund liability.

46. As Exhibit 5 illustrates, usable reserves for the council have increased by £3.364 million in 2011/12. There has been an increase in the usable reserves for general fund and the housing revenue account balance as previously explained. Decreases in the repairs & renewals fund, capital grants unapplied and the capital fund demonstrate that the council is utilising these reserves to fund part of its capital programme.

Exhibit 5: Usable Reserves

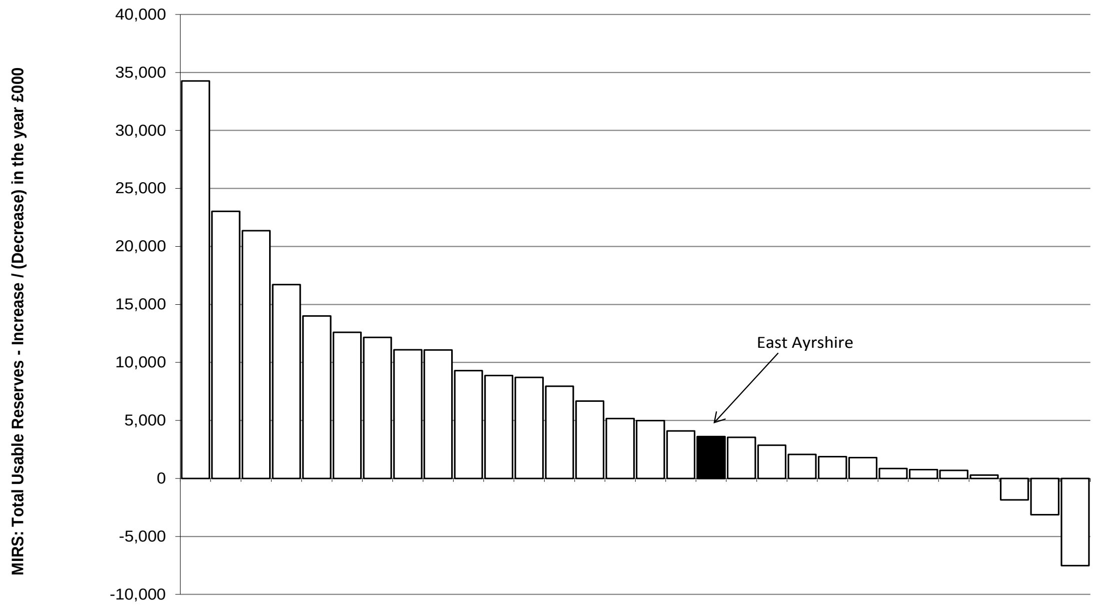
Description	31 March 2010 £ million	31 March 2011 £ million	31 March 2012 £ million	In year Movement £ million
General Fund	26.603	28.498	34.658	6.160
Housing Revenue	3.879	1.397	2.325	0.928
Repairs and Renewals	7.310	9.800	9.104	(0.696)
Capital Grants Unapplied		0.294	0.084	(0.210)
Capital Fund	16.279	16.299	13.481	(2.818)
TOTAL RESERVES	54.071	56.288	59.652	3.364

Source: East Ayrshire Council; MIRS 2011/12 financial statements

47. The general fund balance comprises of £17.056 million in committed balances (2010/11 £17.148m) and £17.602 in uncommitted balances (2010/11 £11.350m) This is in excess of the council's reserves and balances strategy, which requires a general fund uncommitted balance of between 2-4% of annual budgeted expenditure. The council approved the utilisation of £6.013 million of general fund uncommitted balances when setting the 2012/13 budget.

48. The increase in usable reserves, as reported in their unaudited accounts at Exhibit 6 is a pattern being seen in the majority of Scottish local authorities. Most local authorities are increasing their reserves to meet the challenges anticipated from future reductions in financing. The council's usable reserves have increased by 5.9% from last year, and lies around the median for all Scottish local authorities. This upward movement in reserves indicates a stable financial position going forward into 2012/13.

Exhibit 6: Movement in usable reserves in 2011/12

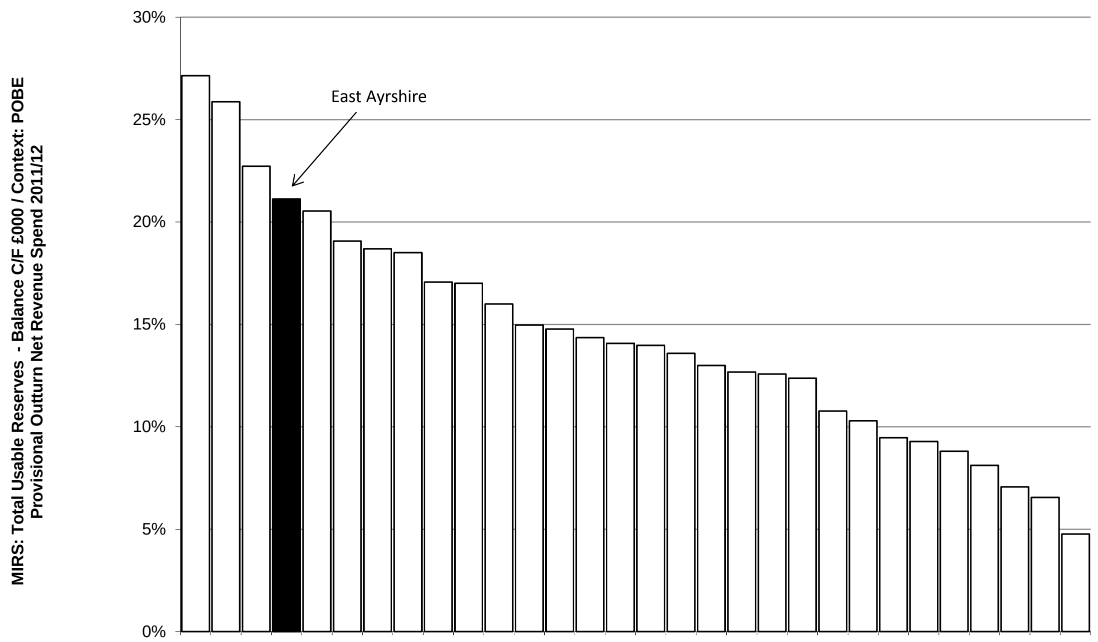


Source: Audit Scotland; Local Government in Scotland; Analytical Review 2012 (excludes Shetland and Orkney Councils)

49. Exhibit 7 considers the council's usable reserves as a proportion of net revenue spend on a provisional outturn and budget estimate (POBE) basis. This highlights that the council's total usable reserves, built up over time, relative to financing, are the fourth highest in Scotland excluding Orkney and Shetland island councils. The council has built up these reserves to help finance its transformation strategy. The strategy aims to help the council respond to and support the inevitable downsizing of the organisation over the next few years, and smooth the transition as spending reduces. Usable reserves represent the total amount held within committed and uncommitted reserves, including capital reserves. In accordance with the council's financial management strategy, part of these reserves will include funds to be released to departments in future years which have been earmarked for specific projects, and also include capital funds used to help finance future capital expenditure.

50. The Chief Executive and Executive Director of Finance and Corporate Support were 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. As part of the budget process, members should also ensure that they review the council's level of reserves so that they can make informed decisions about future service delivery options. This is facilitated by an annual review of the reserves strategy.

Exhibit 7: Total usable reserves carried forward as a proportion of net revenue spend



Source: Audit Scotland; Local Government in Scotland; Analytical Review 2012 (Excludes Shetland and Orkney Councils)

Capital investment and performance 2011/12

51. The 2011/12 financial statements include capital expenditure of £69.960 million incurred during the year split between the general services programme (£54.686 million) and the housing revenue account (HRA) capital programme (£15.274 million). The capital expenditure budget for 2011/12 was £73.261 million for general services and £14.961 million for HRA. This represented around 33% of the general services 10 year capital plan to 2018/19 and 25% of the HRA six year capital plan to 2015/16. The high capital expenditure planned for 2011/12 was due to several high profile items within the capital plan that are intended to stimulate the local economy by early investment in schools, local communities and relocation of council offices to town centres to stimulate further investment in town centres. The housing revenue account capital programme consisted of the construction of 40 new council dwellings, improving the standard of existing dwellings and progressing towards meeting the Scottish Housing Quality Standard.

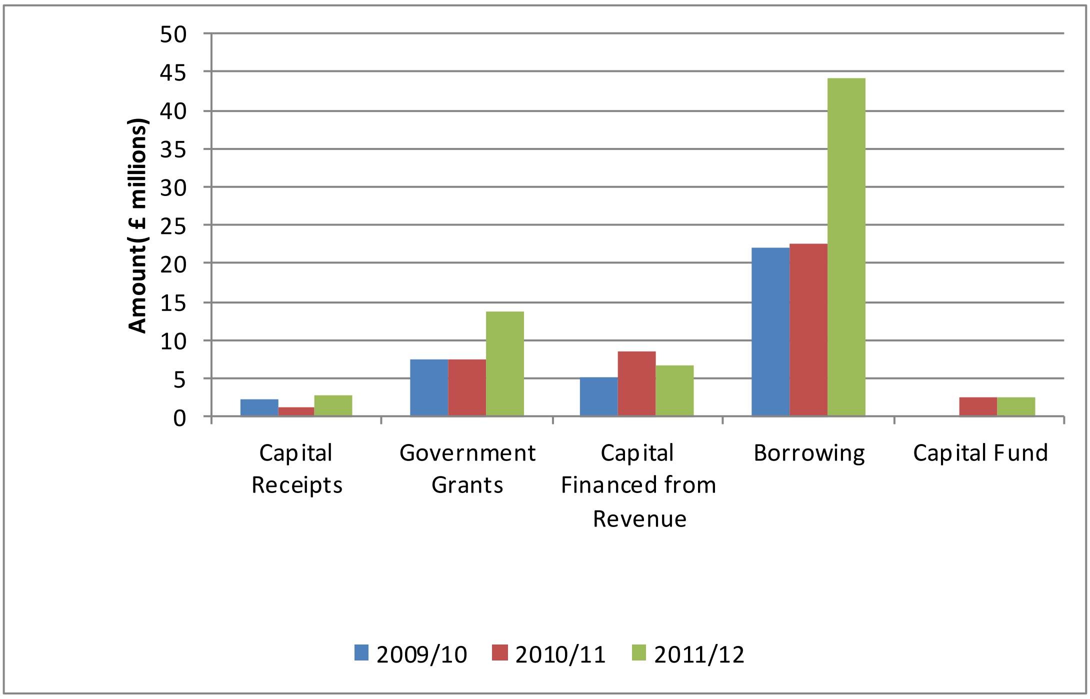
52. The council has a well managed and monitored capital programme, demonstrated by managed re-profiling of projects and low levels of overspends and underspends. Monitoring reports are provided to the Cabinet and Governance & Scrutiny Committee. The 10 year capital programme enables the council to bring contracts forward where necessary.

53. Spend on the general services capital programme was 75% of programmed expenditure. Willowbank school, New Cumnock primary school and Galston town centre regeneration, which were scheduled for completion in 2011/12, will now be completed in 2012/13. The opera house office development, which was originally scheduled for completion in April 2012, will be operational from October 2012. Management have assured us that there will be no significant additional costs as a result of these delays in completion.

54. Spend on the housing revenue account capital programme was 102% of budget. The council carried out a higher volume of window replacement than originally planned. This was offset by savings in other housing improvement work carried out during the year.

55. Exhibit 8 shows the sources of finance for capital expenditure in the three years to 2011/12.

Exhibit 8: Sources of Capital Finance



Source: East Ayrshire Council; Financial Statements; 2010/11 and 2011/12

56. Going forward, major general services capital expenditure planned by the council in the next couple of years includes a replacement school at Cumnock, Auchinleck area centre, improvements to roads and transportation and a new secondary school in Kilmarnock. The HRA capital programme continues to show commitment to the housing investment programme.

Treasury management

57. 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, any early borrowing must be justified in its own right as representing the best time for borrowing the amount required.

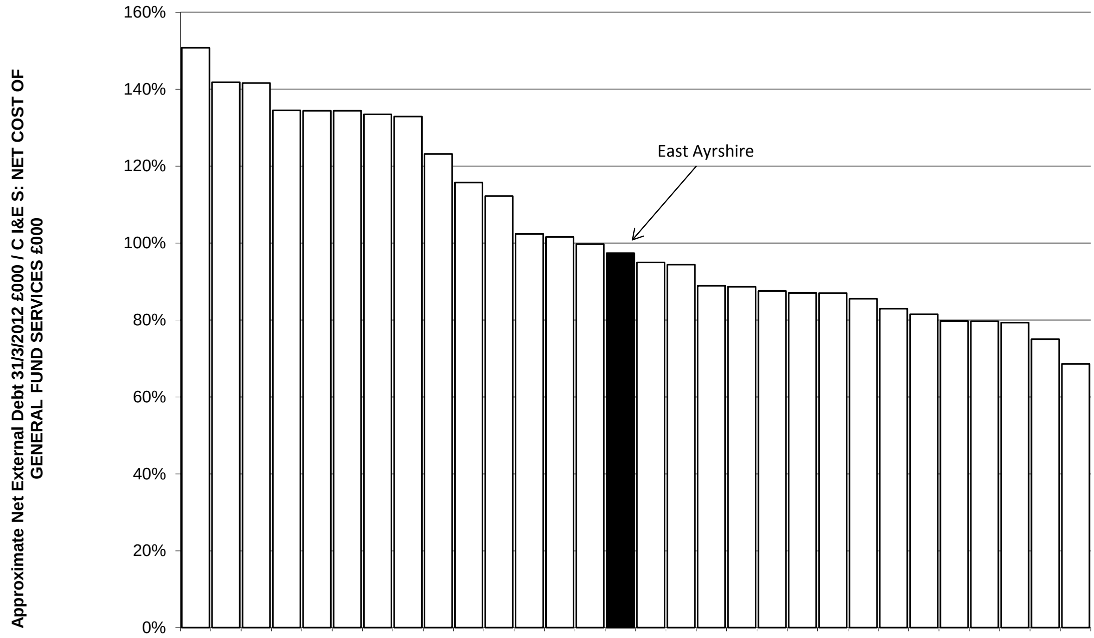
58. At 31 March 2012, the council held cash and temporary investments totalling £47.650 million (£35.289 million at 31 March 2011). This increase is in line with the council's authorised limit

and operational boundary for borrowing set within its prudential indicators and arose due to taking out loans at favourable interest rates to secure borrowing to finance the capital programme.

59. The council's borrowing, including PPP capital repayments due, increased by £42.573 million during the year from £277.893 million to £320.466 million at 31 March 2012. Four fixed term EIP loans totalling £45 million with maturity varying from 10 to 25 years were borrowed from the PWLB during 2011/12. Of the £45 million loans taken out in 2011/12, £29.549 million was used to finance the capital programme. Interest rates varied from 1.99% to 3.51%.

60. Total borrowing represents 33% of the total non current assets of £969.286 million included on the balance sheet. When compared to other Scottish local authorities, East Ayrshire Council is mid-range in terms of the level of borrowing as a proportion of its POBE net revenue spend. This is highlighted in Exhibit 9 below.

Exhibit 9: Net external debt as a proportion of net revenue spend



Source: Audit Scotland; Local Government in Scotland; Analytical Review 2012 (Excludes Shetland and Orkney Councils)

61. Interest rates on investments remain low. The council received £0.944 million in investment income in 2011/12, compared to the £0.509 million received in 2010/11. While long term borrowing rates are also low, the council has a significant proportion of its historical debt at fixed rates. The average loans pool rate at 31 March 2012 was 4.97% compared to 5.21 % at 31 March 2011.

62. East Ayrshire Council had three deposits totalling £5 million with Icelandic banks when their banking system collapsed in October 2008. The current situation with regard to the recovery of these sums varies between each bank and is subject to the respective administration

processes. Recovery of 88% of the investments in one of the banks is expected; and between 81p and 86p in the pound in the other. The outstanding expected recovery of £0.992 million is included in the council's balance sheet at 31 March 2012.

Financial planning to support priority setting and cost reductions

Transformation strategy

63. The councils transformation strategy is a significant review of the council's strategic and corporate direction, designed to address the financial challenges both economical and service demand led. The strategy, agreed by the council in June 2012, defines the council's three priorities to:

- Raise educational attainment and equip our young people for the world of work
- Support older people live independently in the community
- Promote town centre living.

64. The council recognises these changes require to be governed by a clear framework which is approved by the council. Ten strategic imperatives have been identified to ensure that the transformation strategy is in line with the council's vision of how it will look by 2017. These include:

- Outcomes Based
- Services Built around People and Communities
- Preventative Spend and Early Intervention
- Equality
- Sustainability
- Alternative Delivery Models
- Shared Services
- Organisational Development
- Asset Management
- Engagement

65. These imperatives will be used to ensure spending and savings proposals can be tested against pre-agreed criteria and will ensure that proposals being presented for consideration by Members are in line with expectations.

66. A Transformation Board has been formed and comprises members of the corporate management team and is chaired by the Chief Executive. The Transformation Board is currently identifying and examining a range of areas where change may be proposed as part of the transformation strategy. The work of the board will be brought forward to members in due course.

67. This is a significant business transformation process which will influence the shape and delivery of services within East Ayrshire over the medium to longer term. This approach

illustrates the council's managed response to the future financial environment facing the council. We will continue to monitor the implementation and development of the strategy in future years.

Asset management

68. The council has a strategic approach to capital planning, which is integrated with asset management planning. The council's asset management strategy 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.

69. As part of the transformation strategy, the council has recognised that property assets must be employed to maximum effect and surplus and underperforming assets disposed of. A total school occupancy target of 85% has been set and incorporated into the schools estate management plan. The Scottish Futures Trust target reduction of 25% of the national estate has been adopted by the council for other properties. Good progress has already been made in respect of office accommodation with large numbers of staff being consolidated into a smaller number of town centre offices.

Procurement

70. 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 three rounds of PCA assessment have been completed. Local authorities need to achieve a PCA score of 25% or above in order to achieve a 'conformance' rating. In the first assessment in October 2009, East Ayrshire Council achieved a conforming score of 25%. The council was reassessed in 2010 and achieved an overall score of 34%. This was against a national average of 32%. In November 2011 the council was re-assessed at 44%. This placed the council 9th amongst the 32 Scottish councils.

71. The Scottish Government has now set an expectation that councils will achieve a 50% "Improved Performance" rating in the 2012/13 PCA. The council participated in this assessment during October 2012, and achieved a PCA score of 52%.

72. The council's procurement transformation programme, an 18 month implementation plan, brings together the actions, outcomes and outputs detailed in the Corporate Procurement Strategy 2011-13 and the related PCA action plan generated after the 2010 PCA. It aims to deliver high level improvement areas led by corporate procurement, and conducted in

partnership with services throughout the council as a means to improve efficiency and levels of service. A key measure of the objectives within the programme will be the attainment of an improved performance status in the 2012/13 PCA. The council stresses, however, that the overall aim of its procurement transformation programme is not simply to achieve improved compliance in the PCA but to establish best practice in order to maximise best value for all council expenditure.

Workforce reduction

73. Council employee numbers reduced during the year. This was partly due to the implementation of the rolling programme of management reviews, across all council services, which identified opportunities for a reduction in the numbers of staff as part of the redesign of service delivery models. A total of 83 employees left under exit package arrangements in 2011/12 (225 employees in 2010/11).

74. The council continues to minimise the impact of workforce reduction on council services through the planned implementation of re-organised services and structures identified in best value service reviews, monitoring of overtime levels and absence levels and other performance management data against service delivery targets.

Partnership working

75. 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 seven co-location facilities operational throughout the East Ayrshire area.

76. 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. The council is involved in the delivery of shared services in a number of areas.

77. A joint committee is being established. This will include 4 members from each council and will establish appropriate governance arrangements for pan Ayrshire councils service areas. This has been approved by each council and will be used to govern future joint arrangements.

78. In August 2009, the Cabinet agreed in principle, to the development of a Joint Ayrshire Regulatory Service, the "Pan Ayrshire Regulatory Service (PARS). This focussed on Building Standards, Environmental Health and Trading Standards and envisaged all three services managed by one lead council. A shared service's project manager was appointed jointly by the three Ayrshire councils in May 2011 to support the shared services agenda. Significant work has been carried out to consider the business case, structure, costs, service benefits and governance arrangements in a joint PARS.

79. In June 2012 the council concluded that there was no overwhelming incentive for the PARS project to proceed. The council consider that many lessons have been learned from this project, particularly the need, in the current climate, to undertake an initial assessment to determine the likely scope for financial savings. Other lessons leaned include the importance of good project management, governance arrangements, costs analysis, business case construction and employee communication; all of which will be useful in moving ahead with other shared service projects.

80. The council has demonstrated that it is striving to maximise value for money from its road maintenance service by participating in a variety of activities in partnership, notably the joint procurement framework for minor civil works. More significantly, North, South and East Ayrshire Councils have developed a detailed business case for a shared service delivery model using the joint committee for all the roads and transportation services in Ayrshire. The proposal for an All Ayrshire Roads Service is progressing but has legal and re-deployment issues that require to be settled and the detailed business case still requires agreement by all three councils.

81. East Ayrshire Council is also the lead authority for an out-of-hours social work service which covers all three Ayrshire council areas.

Outlook

2012/13 budget

82. In December 2011 the council set a revenue budget of £342.921 million for 2012/13. At the time of approving the budget, there was a funding gap of £11.506 million. In order to fund this gap, budget holders identified £5.493 million savings, which are now reflected in each service's base line budgets and the council approved the use of £6.013 million from the uncommitted general fund to meet the balance. This was designed to ensure that the new council elected in May 2012 would have the scope to determine its own priorities and strategies for spending and saving.

83. At July 2012, the general fund budget is projected to underspend by £2.931 million for 2012/13. This mainly relates to Educational & Social Services, with a projected underspend of £1.940 million. Most of this underspend is due to savings from the timing of filling vacancies, savings on secure accommodation placements, and slippage on the internal foster care service re-design costs. The Housing Revenue Account is forecast to achieve an underspend of £0.683 million.

Financial forecasts beyond 2012/13

84. The current economic climate is resulting in significant pressures on the overall level of public sector spending. This is likely to lead to reductions in funding for all local government bodies meaning that recurring savings in overall net expenditure will need to be found either from base budget allocations or reserves. The use of reserves in the short term may stem the gap but will only push saving solutions into future years.

85. The council forecasts a funding gap between the cost of services and the available funding for future years as shown in Exhibit 10.

Exhibit 10: Indicative Budget Gap

	2012/13	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m	£m
Expenditure	342.9	349.8	354.6	362.3	370.1
Income	336.9	337.6	337.5	336.0	336.0
Balances	6.0	0	0	0	0
Funds Available	342.9	337.6	337.5	336.0	336.0
Budget Gap	**0**	**12.2**	**17.1**	**26.3**	**34.1**

Source: East Ayrshire Council, Transformation Strategy; 2012

86. The council has approved financial plans and is in the process of identifying savings to address the budget gaps. The Cabinet approved transformation strategy will govern the council's best value review strategy over the next four years. This programme of transformational change aims to reduce these budget gaps. This sets out to identify £34.1 million of sustainable savings by 2017.

Refer Action Point No 2

Governance and accountability

87. 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.

88. 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.

89. 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.

90. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

91. Following the local government election in May 2012, the council chose to retain the executive/ scrutiny structure.

92. The meetings of the Council, Cabinet, and Governance & Scrutiny Committees are well attended by members, executive directors and heads of service. The Governance & Scrutiny Committee operates in accordance with CIPFA's guidance, *Audit Committee Principles in Local Authorities in Scotland* in that it is not chaired by a member of the ruling administration.

Member training

93. 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.

94. The training and development needs of elected members are supported by the Elected Member Development Strategy. This programme is delivered in partnership between Democratic Services and the Human Resource Service with a range of events and activities being provided throughout the year.

Internal control

95. 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.

96. 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.

97. As part of our audit work, we obtained assurance from key controls within the council's financial systems. The controls within the treasury management system were satisfactorily tested by internal audit. The results of our review of key controls were reported to the Governance and Scrutiny Committee in September 2012. 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

98. 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.

Review of new payroll system

99. We carried out an application system review of the council's project management arrangements for the implementation of the new Chris21 payroll system which replaced the Accero Cyborg HR/Payroll system.

100. The audit examined key aspects of the project management arrangements as they impacted on the delivery of the council's new integrated human resources (HR) / payroll system as specified in the business case. The key areas examined were project management/planning, user involvement including acceptance testing, functional and data integrity confirmation and the plans in place to complete a close project review and post project review.

101. We concluded that, overall, the project was well based and adopted sound project management principles. It followed the seven principles of Prince2: i.e. it had a business case; organisational structure; plans; quality control; risk management; and recognised the need for change management and progress monitoring. We noted the slippage encountered during the implementation of the new system; and the high but reducing number of processing errors that were highlighted by the parallel running of both systems between November 2011 and March 2012. We also identified a few areas where lessons can be learned for the implementation of future ICT projects.

Prevention and detection of fraud and irregularities

102. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

103. The council's 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. We have concluded that these arrangements are satisfactory and we are not aware of any specific issues that we should identify in this report.

NFI in Scotland

104. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in October 2010 and was reported upon in May 2012. NFI 2012/13 is due to commence and the council is making preparations for data transfer in accordance with the NFI timetable.

105. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations

106. During the year, Internal Audit conducted a review of the council's response to the 2010/11 NFI exercise and considered the progress made against earlier improvement recommendations. The Chief Auditor concluded that sound assurance can be taken from the controls in operation, however some areas of improvement have been identified. It is anticipated that these improvements will increase the effectiveness of future data matching work.

107. Within East Ayrshire Council, the 2010/11 NFI exercise identified £0.024 million of fraud or error, bringing the cumulative total to £0.444 million since the first exercise in 2004/05.

Housing and council tax benefits performance audit

108. A risk assessment was previously carried out on East Ayrshire Council's benefits service in March 2010. At that time, a Best Value service review had just been completed and its recommendations had still to be implemented. Since then, the service has extended its performance reporting to include all operational areas and has reported continuous improvement in the speed and quality in its appeals activity.

109. A second review of the council's benefits service was carried out during spring 2012 as part of Audit Scotland's housing benefit/council tax benefit risk assessment programme. The key objective of the risk assessment was to determine the extent to which the benefits service is meeting its obligations to achieve continuous improvement in all its activities. The review focussed on the service's business planning, performance reporting, how it meets the needs of users and the community, and the extent to which it is delivering outcomes.

110. The council highlighted to us that the service's mission is to deliver an efficient, effective and economic service, meet agreed standards and values; and focus on quality, service delivery and overall customer satisfaction. To that end, it has focused its reduced resources on processing and paying benefits promptly and accurately. However, its speed of processing performance has been declining and the performance information published by DWP for quarter two of 2011/12 showed the council's new claims performance as 30 days, which is below the Scottish average of 26 days, and in position 23 of 32 when compared to all other Scottish councils. Having said that, at the same time the council reduced processing costs and improved satisfaction levels to a new high of 72% in the 2011 residents' survey.

111. The focus on core service provisions has led to a reduced focus on identifying fraud and minimising error in the caseload. Fraud sanctions have reduced following the move to address standard intervention activity in line with the benefit regulations. A more robust process for determining overpayment figures is being established.

112. We issued a report to management in May 2012. Its main purpose was to assist the benefits service to improve its delivery of outcomes and help meet the needs of the community and its customers.

113. Our report identified 17 risks to continuous improvement and noted that some of the improvement actions identified in the 2010 risk assessment had still to be fully implemented. Following this, management submitted an action plan that sets out how the service will address the risks identified and the timescale for achieving this. Given the amount of change that the service will be going through in the coming months, we agreed to defer our review of progress on the action plan until summer 2013.

Refer Action Point No 3

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

114. 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 instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in East Ayrshire Council are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Complaints Handling Procedures

115. The Public Services Reform (Scotland) Act 2010 gave the Scottish Public Services Ombudsman (SPSO) the authority to lead the development of simplified and standardised complaints handling procedures across the public sector. The SPSO established a statement of complaint handling principles that have been approved by Parliament and developed a

model Complaints Handling Procedure which introduces a two stage complaints procedure. The statement of principles is designed to provide broad direction and support to public service providers in improving their complaints handling procedures.

116. The SPSO's expectation is that all local authorities will adopt the model Complaints Handling Procedure from 2012/13 and should confirm compliance with the new arrangements by 14 September 2012. The council met this specific milestone.

Outlook

117. The Welfare Reform Act 2012 received royal assent in March 2012. The Act provides a range of changes including the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. Councils will face challenges in understanding and acting upon welfare reform changes, and communicating these accurately and effectively to local residents. The introduction of Universal Credit will also have a significant impact on councils' strategies and plans in areas such as housing, asset management, finance, ICT and customer service. Councils will be challenged during this period of change to maintain service delivery and performance around housing benefit claims.

118. As part of the review process of the Single Outcome Agreement and in discussion with Members in August 2012, the council has identified the introduction of the Welfare Reform Act 2012 as one of the issues for consideration in the Single Outcome Improvement Plan for 2012/13. The actions proposed include the review and implementation of redesigned financial inclusion service delivery arrangements to ensure a co-ordinated approach to the delivery of welfare benefits and money advice services for vulnerable people. In addition it will consider the development of a financial inclusion strategy within Community Planning and Community Health Partnership arrangements to maximise the partnership approach.

119. As part of our work on the 2012/13 audit, we will consider the council's preparedness for introduction of these changes, and how it is developing and taking forward its strategies and plans to address the risks arising from these changes.

Refer Action Point No 4

Best Value, use of resources and performance

120. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.

121. 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 specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

122. As part of their statutory responsibilities, the Auditor General and 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.

123. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments

124. 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.

125. This section includes a commentary on the Best Value/ performance management arrangements within the council. We also note any headline performance outcomes/ measures used by the council comment on any relevant national reports and the body's response to them.

Management arrangements

Best Value

126. 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.

127. The arrangements for ensuring best value are co-ordinated by the Policy, Planning and Performance division. This service was re-organised during the year and facilitated the co-ordination of a variety of linked functions to support the management and reporting of key performance activities. The division has responsibility for co-ordinating arrangements for the production and review of the community plan, which is the key strategic document for the delivery of public services in East Ayrshire.

128. The division co-ordinates and participates in the identification and conduct of best value service reviews across all council departments. The service reviews are an integral part of the redesign of council services in recent years. These reviews have contributed to the council's financial efficiency savings whilst ensuring that services are capable of meeting the needs of users within available resources. The role performed by the Policy, Planning and Performance Division is a key element in the achievement of the council's strategic objectives set out in its Transformation Strategy for 2012 - 2017.

Self-evaluation arrangements

129. All services of East Ayrshire Council undertake annual EFQM assessments. There are two exceptions that 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.

130. The council completed its third "council-wide strategic self-assessment of performance". This process, led by the Chief Executive and executive directors, scored the council's performance against Audit Scotland's ten Best Value criteria. Alastair MacNish, a former Chair of the Accounts Commission, was appointed as a "critical friend" to provide independent challenge to the process and scoring.

131. The key results of the exercise showed that positive improvements had been made in 4 areas whilst other assessments retained a score between 4+ to 6, indicating improvement had been made where considered necessary, whilst performance had been sustained in other areas which are "working for us". The council scored a 6 "We're excellent" in 2 categories: Financial Management and Partnership Working. This indicates that the council is working at a sophisticated level and consistently doing the right things. The exercise demonstrated that the council has achieved measurable improvement in the quality and delivery of services which exceed targets and could be considered best in class. The assessment also includes a number of actions that the council plans to implement to sustain or improve its practices.

132. The Governance and Scrutiny Committee's work programme includes a number of reviews of aspects of specific service provision. Topics suggested this year include a review of independent advice and advocacy organisations, including financial inclusion, provided by the independent sector on behalf of East Ayrshire Council.

133. Overall, we consider that the council has robust self-evaluation arrangements in place.

Performance management

134. The Policy, Planning and Performance division co-ordinates the council wide performance management system and reporting arrangements. The council uses an electronic performance management system (EPMS) to monitor performance over all services and which feeds the corporate management team's assessment of performance and risk. This is used across the council for the monitoring of performance against local and national indicators and plays a key role in measuring the council's success against its corporate plans.

135. The system currently holds around 600 indicators. Scorecards for all executive directors and heads 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 "East Ayrshire Performs". This is regularly reported to Cabinet and the Governance and Scrutiny committee and contains selected performance indicators as well as the periodic monitoring information for revenue and capital budgets, treasury management, health and safety and the corporate risk register.

Community/user engagement

136. The council and its community planning partners sought the views of the community about service users' needs through a residents' survey, which was undertaken in 2011 and reported to the Cabinet in February 2012. Further surveys are planned on a 3 yearly cycle.

137. In addition, the council's annual budget consultation is now well developed. The council implemented an enhanced budget consultation process to support the development of its 2011/12 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.

138. Employee engagement events and 'Ideas for Change' have both continued throughout the year. A number of areas have been raised, including shared services, community involvement, better use and amended opening hours of facilities, charging for services, and use of contractors. Each of these areas will be considered in more detail as part of the wider review that will influence the medium term financial strategy being prepared.

Overview of performance in 2011/12

East Ayrshire Council performance measurement outcomes

139. East Ayrshire Council publishes an annual performance report. From 2011/12 the council has included additional indicators/actions to demonstrate performance in relation to the single outcome agreement and the community plan annual report. The performance outcomes were presented to members over the summer months, and following consideration by members of the Governance & Scrutiny Committee, the annual report will be published on the council's website.

140. 119 indicators measuring performance against the 16 National Outcomes contained in the single outcome agreement/ community plan were reported. Of the 109 indicators reported this year, approximately 67% of indicators demonstrated improvement compared to 2010/11, 25% demonstrated improvement required, and 8% demonstrated broadly similar performance. 10 indicators were not published where there was no comparable data or the information is no longer collected.

141. The council reported 69 statutory performance indicators, comprising 25 national performance indicators and 44 local indicators. A total of 122 individual measures were covered by these indicators. Compared to performance in 2010/11, the council reported that 48% of indicators demonstrated improvement, 44% demonstrated improvement required, and 8% demonstrated broadly similar performance.

142. Some of the local and SPI measures of performance in 2011/12 include:

- Council housing standards - Proportion of the council's housing stock which meets the Scottish Housing Quality Standard - 78.1%. This represents a 20% increase since 2009/10.
- Waste recycling - percentage of municipal waste collected that was recycled and composted - 46.2%. This represents a 3% increase since 2009/10.
- Pools and leisure facilities - Number of attendances per 1,000 population for pools increased to 2,722, up from 2,393 in 2009/10.
- Homecare - number of homecare hours per 1,000 population aged 65 and over - 571.1 hours. This reverses 2010/11 decline and represents an overall increase of approximately 13 hours per 1,000 populations since 2009/10.

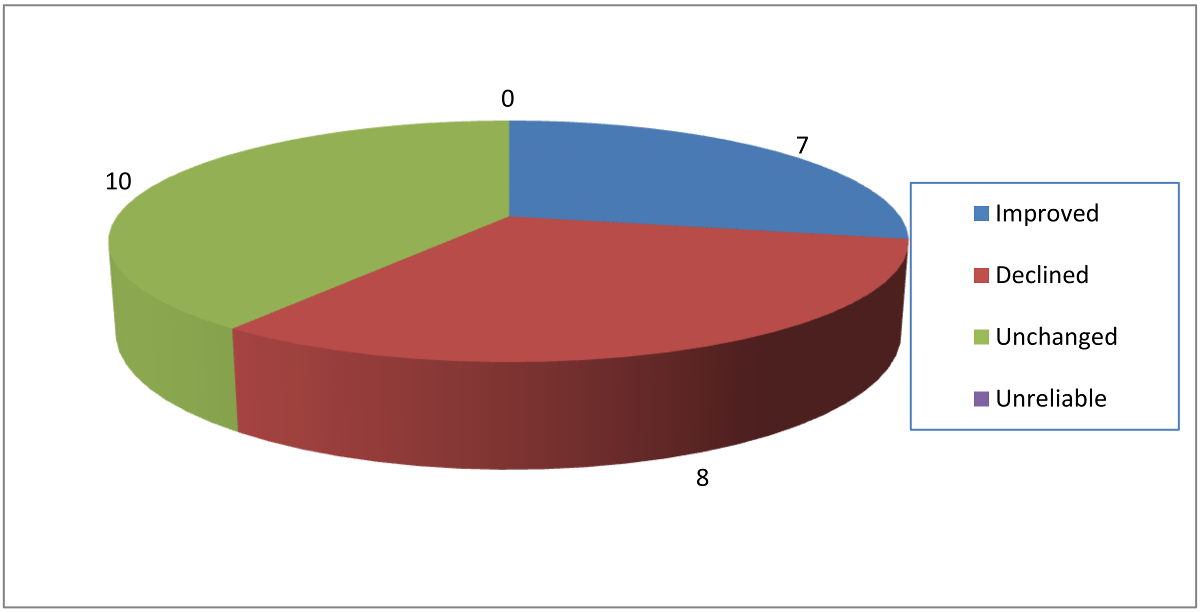
143. Overall the council continues to provide a steady level of performance in most areas with a number of local indicators showing a positive trend or remaining at a comparative level to previous years. There are a few indicators where performance is declining e.g. planning applications (see below).

144. The range of performance information provided regularly to Cabinet and the Governance & Scrutiny Committee covers performance in relation to revenue, the capital programme, people, health and safety, business briefings and the key risks. Action taken to address areas identified for improvement is outlined in these reports. Progress in relation to all council indicators is included on the members' portal.

Statutory National Performance Indicators

145. In 2011/12, a total of 25 SPIs were required and these demonstrated the performance as summarised in Exhibit 11 below: (*Source: East Ayrshire Council SPI data returns)*

Exhibit 11: Improvements demonstrated by SPIs (Total 25 indicators)



146. The improved indicators include sickness absence levels, refuse recycling and equal opportunities policy. The declines were observed in use of libraries, managing tenancy changes and processing time of planning applications.

147. The most significant of these was the decline in the processing time for planning applications, which saw a return to the lower levels reported in 2008/9. 41.8% of all planning applications were processed within two months in 2011/12. This compares with a median of 71.8% for Scotland and places the council 31st out of the 32 Scottish councils.

148. Management has carried out a review of this performance and identified a number of contributory factors, including a large number of cases where the service sought additional information from applicants rather than rejecting the applications as defective which meant these ran over time, receipt of more applications for coal extraction than any other authority in Scotland and a significant increase in the number of wind farm applications. Both of these types of application involve disproportionate effort to determine.

149. Changes to processes to improve performance against targets have been identified and their implementation and impact is being monitored by the Depute Chief Executive/Executive Director of Neighbourhood Services.

Refer Action Point No 5

Local performance reporting

Maintaining Scotland's Roads - A Targeted Follow Up Audit

150. During the year we conducted a detailed review on the council's response to "*Maintaining Scotland's roads: a follow-up report*" published by the Auditor General and the Accounts Commission in February 2011. The purpose of this review was to assess the progress the

council have made in improving their management of road maintenance, focusing on road asset management planning, performance management and maximising value for money.

151. There have been a number of initiatives undertaken in the last few years which have improved the effectiveness of the roads maintenance service within East Ayrshire. These include the implementation of a revised departmental structure following a Best Value Service review and the development of joint initiatives with neighbouring councils in Ayrshire. Work is also on-going regarding an Ayrshire shared roads service.

152. We concluded that the council has also responded positively to the Audit Scotland report and approved an action plan which addressed the recommendations in the report which were relevant to councils. This demonstrates that there is member support for the implementation of actions proposed by the roads service.

153. The council's Road Asset Management Plan (RAMP) currently being developed is at an advanced stage. The information collated as part of the development process and the application of analytical models has provided a useful foundation for future assessment and allocation of scare resources. This has been aided by the approval of a ranking system for scheme prioritisation to aid decision making. However, it is too early for a meaningful assessment to be made about demonstrating satisfactory progress against the RAMP.

154. Figures reported for 2011/12 demonstrate that 43% of the roads network in East Ayrshire was in need of maintenance. While this is a slight improvement on previous years and is broadly comparable to neighbouring councils, it places the council 23rd of the 32 councils in Scotland. The council is committed to investing £44.5 million from its capital programme over the period 2009/10 to 2018/19 to maintain the local road network. Of this, approximately £22.9 million relates to planned expenditure on the carriageway structural programme. However, this investment is considered insufficient to meet the expected level of expenditure required to maintain the roads network at 'steady state'. The Society of Chief Officers of Transportation in Scotland (SCOTS) analytical model estimates that annual investment of £5 million (excluding inflation factors) is required to maintain the condition of roads in a steady state. This suggests that the council is currently under investing in its road maintenance activity and the condition of the road network will deteriorate over time.

Refer Action Point No 6

National performance reports

155. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. The Council routinely considers the findings and recommendations contained in national reports and instigates appropriate action as necessary. Reports in the last year of direct interest are detailed in Exhibit 12.

Exhibit 12: A selection of National performance reports

- Commissioning social care
- The National Fraud Initiative in Scotland
- An overview of local government in Scotland - challenges and change in 2012
- Transport for Health and Social Care
- Reducing greenhouse gas emissions
- The role of community planning partnerships in economic development
- Modernising the planning system
- Managing performance: are you getting it right?

Source: www.audit-scotland.gov.uk

Managing performance: are you getting it right?

156. The report is the fourth in the 'How Councils Work' series and was published in October 2012. This series draws on audit work in all councils to highlight concerns, issues and good practice. The report offers practical pointers and support to help councillors and officials with performance management. Effective management of performance is everyone's business and in well-run councils it is embedded throughout the organisation as part of the day job and not seen as a burden. A key element is getting the culture right with councillors and officials sharing a common purpose and vision and setting clear priorities.

157. The previous three reports in this series have been discussed with members and this one will be in due course as it was only recently published. We will consider any impact and influence the report has on the council as part of our on-going review of its performance management.

Scotland Public Finances - Addressing the challenges

158. The 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.

159. The issues highlighted in the report in terms of the financial context, demand pressures, etc are integral to the council's budget strategy. The context of the challenges is well understood by senior managers and elected members. The council intend to incorporate the key questions contained in the self assessment checklist within this report into their work on developing the council's transformation strategy which has a number of distinct work streams that will be presented to members in due course.

Transport for Health and Social Care

160. Older people, those with long-term health or social care needs and people who live in remote and rural areas may need support to get to a hospital appointment or to access services such as their local day centre. This includes help with paying for transport or getting to their appointment in transport provided by the ambulance service, councils, NHS boards or the voluntary sector. If transport is not well planned it can result in unnecessary journeys, missed

or late appointments, people staying in hospital longer than they need to and reliance on unplanned options such as taxis.

161. This report deals with issues that are of direct interest to East Ayrshire Council but which also have a bearing on partnership arrangements. The council consider that the measures identified in the report are in place but could be improved.

Community Health Partnerships (CHPs)

162. The report examined whether CHPs are achieving what they were set up to deliver, including their contribution to moving care from hospital settings to the community and improving the health and quality of life of local people. The report also assessed CHPs' governance and accountability arrangements and whether CHPs are using resources efficiently. Given the move to integrate services, the report highlights issues for both NHS boards and councils to address.

163. This report was considered locally by the East Ayrshire Community Health Partnership. NHS Ayrshire and Arran is co-ordinating a board-wide self-assessment exercise for all CHPs in conjunction with representatives from the three Ayrshire councils.

Modernising the Planning System

164. The planning system provides the framework for deciding how land is used, how communities take shape and how new developments look and work. It has to balance economic, environmental and community priorities and is central to achieving the Scottish Government's goal of sustainable economic growth and to Scotland's economic recovery.

165. The report assessed whether recent reform and modernisation of the planning system is making it more economic, efficient and effective. The report evaluated the overall progress made by the public sector in modernising the planning system and the impact that modernisation is having on councils' performance in managing planning applications.

166. As reported above the council's performance in processing planning applications has declined. Actions to improve performance in terms of planning applications have been considered by the Depute Chief Executive / Executive Director Neighbourhood Services.

Progress against audit risks identified in the SRA

167. The Local Area Network (LAN), consisting of the principal scrutiny bodies in Scotland (i.e. Audit Scotland, the Care Inspectorate, the Scottish Housing Regulator, and Education Scotland) completed its third shared risk assessment (SRA) in Spring 2012. The LAN's assessments were published in the latest Assurance and Improvement Plan (AIP) in May 2012 The risk assessment considered the audit and scrutiny risks in relation to the council's strategic priorities, service delivery, and corporate governance framework. This drew on evidence from a number of sources including:

- The annual report to the Controller of Audit and elected members for 2010/11 from the council's appointed external auditors.

- The council's own self-evaluation, performance reporting and supporting evidence.
- Evidence gathered from Education Scotland, the Care Inspectorate and the Scottish Housing Regulator (SHR) (including published inspection reports and other supporting evidence).

168. The LAN concluded that there were no significant scrutiny risks in the council's services, outcomes and corporate governance framework that would warrant specific additional scrutiny. Areas of uncertainty identified by the LAN were the challenging financial environment, discussed earlier in this report and two areas of uncertainty relating to: the councils objective to improving health and wellbeing outcomes; and aspects of the social work service regarding outcomes for looked after children and care leavers, aspects of the assessment and management of risk of vulnerable people and aspects of strategic commissioning and planning. These areas will continue to be monitored by the LAN and an updated position reflected in the next AIP.

Outlook

169. As a result of the LAN's risk assessment, there are currently no plans for any specific best value audit work in East Ayrshire Council over the next three years.

170. The Accounts Commission has developed an audit approach for the audit of Community Planning Partnerships. This approach is currently being piloted and will be rolled out across the sector thereafter.

171. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of 'Specific Duties' which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013. Progress made by the council in implementing these requirements will be considered in 2012/13.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	24 February 2012	16 March 2012
Review of Internal Audit	28 February 2012	16 March 2012
Shared Risk Assessment/Assurance and Improvement Plan	19 April 2012	15 June 2012
Internal controls management letter	27 August 2012	14 September 2012
Application System Review - Payroll System CHRIS21	16 July 2012	14 September 2012
Maintaining Scotland's roads - follow-up review	20 June 2012	26 October 2012
Report on financial statements to those charged with governance	14 September 2012	14 September 2012
Audit opinion on the 2011/12 financial statements	14 September 2012	14 September 2012
Audit opinion on the 2011/12 Whole of Government accounts consolidation pack	3 October 2012	n/a
Report to Members on the 2011/12 audit	October 2012	30 November 2012

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	23	**Equal Pay Provision** The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases. **Risk:** The ultimate cost to the council is significantly different from that anticipated.	The equal pay provision will continue to be reviewed regularly as part of the council's established risk management arrangements.	Executive Director Finance & Corporate Support	June 2013
2	86	**Financial Forecasts Beyond 2012/13** Continuing to deliver vital public services with a reducing budget will be a significant challenge for the council. The council has identified a total funding gap of £34.1million for the period 2012 - 2017. **Risk:** There is a risk to the sustainability of the council's services.	The transformation strategy 2012- 2017, sets out a range of work-streams designed to address an estimated budget gap of £34.1 million in the period to 2016/17.	Executive Director Finance & Corporate Support	On-going
3	113	**Housing and Council Tax Benefits Performance Audit** We identified 17 risks to continuous improvement and noted that some of the improvement actions identified in our previous review of the benefits	The council have agreed an action plan that sets out how the benefits service will address the risks identified.	Revenues and Benefits Manager Head of Finance	December 2012.

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		service had not been fully implemented. **Risk:** The benefits service may not be fully meeting user requirements.			
4	119	**Welfare reform** Councils will face challenges in understanding and acting upon welfare reform changes, and communicating these accurately and effectively to local residents. **Risk:** The impact on councils' strategies and services could be underestimated.	The impact of the Welfare Reform Act 2012 is incorporated in the council's Single Outcome Improvement Plan 2012/13. A comprehensive assessment of the impact on benefits, money advice, and housing services is being developed in consultation with the council's community planning partners.	Head of Finance	December 2012
5	149	**Statutory Performance Indicators - Planning Service** The council has declining performance in the time it takes to process planning applications. **Risk:** This could have an impact on some income streams available to the council and increases the risk of reputation loss to the council.	Processes are being reviewed and changed with a focus on improving performance against targets. Progress will be monitored by the Depute Chief Executive/Executive Director of Neighbourhood Services	Head of Planning and Economic Development	March 2013
6	154	**Maintaining Scotland's Roads** The roads condition index, as measured in 2011/12, indicated that 43% of the	Following finalisation of a report on the road asset management plan, the council will give consideration to	Head of Roads and Transportation	October 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		road network in East Ayrshire should be considered for maintenance treatment. **Risk:** At the current level investment the roads network will deteriorate.	how a steady state in the condition of the roads network could be achieved. .		