

## **EAST AYRSHIRE COUNCIL**

### **CORPORATE GOVERNANCE COMMITTEE – 14 APRIL 2005**

#### **OVERVIEW OF THE LOCAL AUTHORITY AUDITS 2004**

##### **Report by Depute Chief Executive/Executive Director of Corporate Support**

### **1.0 PURPOSE OF REPORT**

- 1.1 To advise the Corporate Governance Committee of the findings highlighted in the Overview of the Local Authority Audits 2004, particularly in relation to those matters of relevance to East Ayrshire Council.

### **2.0 BACKGROUND**

- 2.1 The Controller of Audit's report and Accounts Commission's findings were published in the Overview of the Local Authority Audits 2004 on 30 March 2005. This publication provides an overview of the main issues arising from the audit of local authorities in 2004.

### **3.0 ISSUES**

- 3.1 There are three issues in the Overview Report which can be highlighted as being of particular interest to East Ayrshire Council:-
- Performance Management
  - Audit Committees
  - Revenue Balances

### **3.2 Performance Management**

The Overview Report notes that councils continue to rely heavily on statutory performance indicators when reporting their performance and suggests that more comparative analysis and use of benchmarking would help to demonstrate how well services are performing. The report also states that it may be however that further thought on this is needed. Simply increasing the number of statistics in public performance reports may serve to confuse rather than inform. Whilst a wide range of indicators may certainly be helpful for internal measurement and monitoring, a more focussed approach may be better for external consumption.

This is an issue that will be considered in the context of the Council's review of its Public Performance Reporting arrangements following the recent publication by the Scottish Executive of Statutory Guidance on this matter.

The Chief Executive has already established a comprehensive internal performance management framework, building on existing processes and

departmental mechanisms, which should stand up well to the test of any future audit scrutiny.

### **3.3 Audit Committees**

East Ayrshire Council is specifically mentioned within the Overview Report as having an audit comment on compliance with audit committee principles. The auditor's recommendation was that "*Council Members and Officers should review committee arrangements against the key Audit Committee Principles to ensure that they are meeting all requirements of the best practice guidance note.*"

A report to the Corporate Governance Committee of 16 November 2004 reviewed the Council's arrangements against the CIPFA in Scotland Directors of Finance Section guidance note on Audit Committee Principles in Local Authorities in Scotland. The report concluded that a degree of compliance with most of the good practice elements could be demonstrated. To strengthen these arrangements further, the Committee agreed to recommend to the Council the establishment of a Risk and Audit Scrutiny Group with the intention of complying with the CIPFA best practice guidance note. This proposal was subsequently agreed by the Meeting of the Council on 9 December 2004.

Additionally, it will be recalled that the Council has also agreed to establish a Performance Review Group, comprising of 8 Elected Members with a general remit to validate the Council's Best Value Review arrangements, on a systematic basis to ensure consistency, efficiency, continuing relevance and delivery of improvements.

Taken together, the Budget Scrutiny Group, the Risk and Audit Scrutiny Group and the Performance Review Group effectively ensure that a consistent approach is in place to cover all of the elements of the fundamental principles of the CIPFA best practice guidance note.

### **3.4 Revenue Balances**

The main headline which has been generated from the Overview Report and the Audit Scotland Press Release highlights the level of balances and reserves held by councils. This is not consistent across all councils and is not relevant in relation the situation locally within East Ayrshire Council.

The Overview Report notes that Scottish councils' General Fund Revenue Balances increased from £323m at 31 March 2003 to £377m at 31 March 2004. The figure highlighted in the press release of £1 billion includes Capital Reserves, Renewal and Repairs Funds and Insurance Funds which are all specifically ring fenced. To aggregate these sums could arguably present an unrepresentative picture.

As previously reported to Members, this Council's balances were as follows:-

Fund	31 March 2003	31 March 2004
Revenue Balance	£3.3m	£7.9m
Renewal and Repairs	£1.2m	£1.6m
Capital	£1.4m	£2.6m
Insurance	£1.1m	£1.3m

The Council's auditor has noted previously that £3.6m of the £7.9 m Revenue Balance represented committed funds for ringfenced projects and departmental balances and that the remaining uncommitted balance of £4.3m was not excessive.

The committed funds include provisions for Quality of Life projects not completed by 31 March (£0.3m), funding set aside to ensure that the Council can meet its obligations in respect of the hospital discharge and nursing homes programmes (£0.6m) and departmental balances (£2.3m).

The uncommitted balance has been accumulated from a range of areas including trading services surpluses arising from improved performance, underspends in loan charges as a result of sustained low interest rates and improved cash flows, unspent contingency funds due, for example, to milder winters, improved council tax collection and improved performance in housing benefits resulting in additional performance incentive payments.

Whilst successive external auditors have criticised the Council for not having a sufficient level of General Fund surplus to fall back on, there is no suggestion that these balances have been built up unreasonably.

The total surplus for this Council represents just under 4% of net spending or 2.3% of gross spending. The uncommitted balance is 2.1% of net and 1.3% of gross spending.

Current forecasts suggest that the Council's reserve balances will increase at 31 March 2005 and the Policy and Resources Committee of 8 February 2005, in setting the Council Tax for 2005/06, agreed that the option to use balances to reduce expenditure reduction targets be considered during the 2006/07 budget process taking into account the financial circumstances at that time.

#### **4.0 RECOMMENDATION**

**4.1** The Corporate Governance Committee is asked to:-

- (i) note receipt of the Overview of the Local Authority Audits 2004 published by Audit Scotland;
- (ii) note the issues highlighted within this report which are of particular relevance to East Ayrshire Council and endorse our current approaches to the matters raised;

- (iii) note further that the issues set out in the Overview Report will be addressed by the auditors in future audit work.

Elizabeth Morton  
Depute Chief Executive/Executive Director of Corporate Support

**Background Papers**

Overview Of The Local Authority Audits 2004 – Audit Scotland  
(Copy placed in Members' Information Point)